» E-BOOK

Making the business case for a virtual card program

When considering the introduction of a new program it's helpful to articulate the business case with the investment, the upside, the risks and the strategic value of the program. Virtual card programs are no different.

Virtual credit cards are one of the more flexible electronic payment methods available today. With the business use of these cards expected to increase from $568 million in 2019 to pass $1 trillion by the year 2022, we expect to see a growth rate of 90% percent over three years.

The cost of your investment in virtual cards depends greatly on the solution you choose and the resources you invest in it. Some virtual card programs require external consultants and long implementation cycles for customization. Others provide open APIs to help you build and tailor your card solution in-house quickly, and in many cases, more cost-efficiently.

The payback period is dependent on how fast you can start issuing and using your virtual cards in the field. Virtual cards, unlike their physical counterparts, do not require manufacturing, order fulfillment, or shipping, and can often be issued and used instantly.

However, in order to operate a card program, you or your card issuer/processor need to have established relationships and integrations with card networks (e.g., Visa and Mastercard) to process transactions, as well as with digital wallets (e.g., Apple Pay and Google Pay). As part of your business case, it's important to examine the experience of the issuer/processor, as your program depends on their expertise and the negotiated constructs that the issuer has designed with networks.

The financial return of virtual cards

These 16-digit credit card numbers are created for single or multi-use purchases at set amounts and have taken hold in the payments space — providing convenience, security, and speed along the way. As the world continues its steady march toward greater digital payment use, we have found a few ways in which virtual cards provide the most return on investment when compared to their physical counterparts (checks, ACH, wire transfer, or other traditional payments).

1. **Lower production costs**
   With no physical fulfillment requirements such as printing or manufacturing, there is no cost of goods sold (COGS) associated with virtual cards. With shipping, delivery, and logistics out of the picture as well, the incremental cost of producing a virtual card is zero. Calculating this saving is pretty straightforward: Multiply the volume of your card holders by the average cost of each card production and shipment.

2. **Protection against fraud**
   With tight controls around spend — such as the exact amount, the time of day or day of the week, the merchant ID, or merchant categories where the card is accepted — virtual cards allow you to take preemptive measures to combat fraud.

   Take corporate expense management, for instance. A company can enforce its travel and expense policies by issuing its employees virtual cards with specific spend controls, (e.g., limit per diem spend to $100 or prevent merchandise from non-approved merchants).

   In business-to-business payments, virtual cards can prevent fraud as they can be issued for a one-time payment for a specific amount.

   Compare this to the use of credit cards for corporate expenses, where you are exposing sensitive card information to data breach every time you use it.

   Calculating the financial return from a fraud angle requires some assumptions. If you have been subject to fraud in the past, you can use those benchmarks, and bake that in as a percentage factor towards the number of cards you have at play today. There are also industry benchmarks that provide estimates on the average cost of fraud per cardholder. For example, according to *The Nilson Report*, U.S. fraud losses amounted to 10.83¢ for every $100 in cardholder spending in 2018.

3. **Minimizing chargebacks**
   Chargebacks are disputed transactions at the request of a cardholder. Common reasons for initiating a chargeback dispute are when the cardholder did not receive a product or service or was subject to fraudulent activity.

   In chargebacks, the retailer not only has to pay back the funds that were credited to the consumer, but also pay a fee to cover the auditing and investigation. Contesting a chargeback requires bank evidence and proof that the charge was authorized. Customer identity, purchase history, and shipping details need to be collected. Resolution takes time and revenue is withheld during the process.

   With virtual cards, you can limit the card number for use at a single merchant, or specify a spending limit, or set a particular expiration date.

   Given the flexibility and control you gain with virtual cards, you can reduce the number of cases submitted because of fraudulent purchases.

   To calculate the financial gain of chargebacks, you can start by analyzing the average cost of a chargeback per transaction in your database. You can also use industry averages.

   According to a recent LexisNexus report, every $1 of fraud now costs these (Financial Services and Lending Firms) firms $2.92 and $3.05 respectively[2].

   Assume that with virtual cards, you are able to reduce these costs by 10–20% and estimate the total savings you would gain.

4. **On demand sales/payments**

   Generating revenue instantly is one of the primary benefits of virtual cards. Since these cards take no time to issue, they can instantaneously generate results for the business.

   In a cashless society, virtual cards make payments possible without carrying cash — and therefore more purchases occur. Imagine a consumer purchasing an appliance, sports equipment, or a designer item at a retailer, and being presented with an on-the-spot installment loan. Instead of paying the high-ticket price at once, this installment plan is a much more appealing option, and a very convincing one. Calculate the return here: the average sales price per item multiplied by the average sales volumes per month (off course, subtracting the fees and underwriting costs).

   Besides point of sales lending, virtual cards enable new revenue possibilities across different industries.

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In on-demand services, virtual cards are the lifeblood for companies who thrive on the gig economy. By being able to attract those who demand immediate access to their earnings, these companies are able to quickly onboard and employ new staff. The financial return of scaling a high-speed operation is pretty clear. Virtual cards enable an on-demand delivery company to hire and onboard new drivers to pick up orders and respond to demand as it comes. Having to do this with a formal hiring, onboarding, and payroll process would take time — leaving revenue on the table. With virtual cards, calculating the financial upside is easy: calculate the daily revenue that is generated from orders that gig workers fulfill.

5. Cash flow

Virtual cards with $0 balance and enabled for Just-in-Time Funding help companies optimize working capital as well.

Funds are moved in real time when the card is used (not when it is issued).

This allows accounts payable teams to pay their suppliers and vendors, yet hold on to cash for longer periods of time, optimizing *days payable outstanding*.

Virtual cards with limited time-of-use help you prevent recurring charges. In paying suppliers and vendors, you can set up a separate virtual card with every vendor. When you stop payments with one vendor, you save yourself the hassle of tracking down and updating your recurring payments with all the other vendors, a task which often is overlooked and realized months later, leading to cash flow issues.

Calculating the financial upside for these scenarios depends on how cash flow is invested. The possibilities are endless — from moving cash to other investments to applying it to cover operational costs.

6. Streamlined reconciliations

Often a tedious, manual, and error-prone job done by an the accounting team, reconciliation of accounts payable with the general ledger ensures that the money leaving an account matches the actual money spent.

Every check, wire transfer, and ACH needs to be accounted for — along with who it was paid to, when, and for how much.

Use of virtual cards provides richer transaction data that makes this reconciliation work easier.

What's more, each single-use virtual card can be associated with a particular supplier for a particular payment. This will automatically tie the payment to the vendor, eliminating the manual reconciliation work. The financial gain: days and resources that it takes to close your books multiplied by the number of cycles you go through each year.

7. Interchange and rebates

Last but not least, let's not forget that cards — unlike checks and ACH that carry a cost — can actually generate revenue for the payer. This often takes the shape into an incentive or rebate by the issuer/processor.

For example, a company that earns 1% cash back on virtual card invoices payments, will get $10,000 back for every $1 million spent.

With small business credit card purchase volume set to expand from $493 billion in 2017 to $686 billion in 2022[3], use of virtual cards that provide rebates is a no brainer.

The Marqeta advantage:

Marqeta's modern card issuing platform and its open APIs help you design your virtual card programs in ways that meet your business requirements. Marqeta virtual cards feature Just-in-Time Funding and dynamic spend controls. Marqeta also makes it easier to control and track funds tied to each virtual card number to accelerate your reconciliation and accounting work.

With Marqeta virtual cards you can:

Customize spend controls to minimize fraud
With Marqeta you can specify card spend to an exact amount, time of day, day of the week, merchant ID, or merchant categories where the card is accepted. These controls are verified in real time at transaction processing to prevent attempts to misuse the card.

Instantly issue cards to create on-demand agility
With Marqeta, you can instantly issue virtual cards to support on-demand use cases such as point-of-sale (PoS) lending or on-demand delivery. This also helps you easily support use cases where a single order is tied to multiple supplier payments. For example, in e-commerce, when dropshipping across multiple fulfillment partners, Marqeta enables automatic creation of multiple virtual cards, each for payment to a different supplier and a specific amount to complete each order.

Issue single-use or reloadable, multi-use cards
Marqeta single-use cards are ideal for payout of claims and warranties, as well as on-demand delivery use cases — where the card is used once for a particular transaction and then revoked — to reduce fraud. Multi-use cards allow recurring payments (for example, associating each of your suppliers with a separate multi-use virtual card on file).

Optimize cash flow
Marqeta Just-in-Time Funding allows you to issue payment cards with $0 balance. The funds remain in your account until the card is processed. This provides a huge upside in accounts payable, ensuring payments are made on time while optimizing cash flow.

Accelerate reconciliations
With Marqeta, you can inject custom metadata into each transaction in real time. This creates richer transaction data to help you accelerate your reconciliations. For example, by inserting a "booking ID" into each transaction, you can easily correlate your records from your ordering or purchasing system with your general ledger.

Generate revenue from card interchange
Marqeta provides program incentives and rewards to help you earn cash as you make payments.

Closing thoughts

While we focused this ebook on the financial gains of creating a virtual card program, we want to acknowledge that building a business case should also consider and outline all potential solutions, and come up with a short list of options that includes a do-nothing option. The recommended solution then needs to be scoped and an implementation strategy should be outlined.

In creating a business case for virtual cards it's important to tie the business case to one or more top-level company goals: generating revenue, controlling costs, or improving customer experience. Meet early and often with your stakeholders — the business case should never be a surprise to anyone by the time it's rolled out. Finally, determine the success criteria throughout the implementation and launch of your virtual cards, and monitor and report on the progress early and often.

NOTES

1: Fulmer,Lori. (2019, November 21). Payment Card Fraud Losses Reach $27.85 Billion. PRNewswire.com
2: LexisNexis. (2018, August). LexisNexis Risk Solutions 2018 True Cost of Fraud Study.
3: Moeser, Michael. (n.d.) 5 key trends for small business and credit and debit cards in 2020. PaymentsSource.com

MARQETA

About Marqeta

Marqeta brings speed and efficiency to card issuing and payment processing with the world's first open API platform. Businesses have been limited by slow legacy platforms that did not allow for flexible new program set up & fraud control. Marqeta's platform allows customers to instantly issue cards with much needed flexibility, control & scale. Our modern platform was built from the ground up and our APIs power innovative payment experiences for many of the apps and services you enjoy daily. Highly configurable, secure and reliable, Marqeta's platform helps B2B and B2B2C companies compete in a constantly changing digital world.

Today Marqeta has 350+ employees and operates globally in the US, UK, EU, Canada, and soon APAC. We have extensive partnerships with multiple banks and card networks, including Visa, Mastercard & Discover. Our customizable solutions are used by innovators in Expense & Supplier Management, Digital Banking, Lending, E-Commerce, On-Demand Services, and Disbursements & Incentives.

Marqeta is backed by leading global investors including Visa, Iconiq, Goldman Sachs, and Coatue Management. In May 2019, we raised a Series E of $260 million raising the value of Marqeta to nearly $2 billion. Investors are excited about Marqeta's ability to capitalize on the estimated $45 trillion* global card issuing opportunity ahead.

***Source:** Edgar, Dunn & Company