PayStream
A LEVVEL COMPANY

2017 Electronic Payments Report

Confirming the Value and ROI of Electronic Payments (ePayments) Program Adoption

Q1 2017 | Featuring insights on...

- » Current Market Trends in Payment Management
- » The Benefits of ePayments Software
- » Features and Functionalities of Leading ePayments Tools
- » A Guide to Gaining RIO with Commercial Cards
- » A Leading ePayments Software Provider

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Introduction

When managing B2B operations, one of the top goals for many organizations is to make safe and secure supplier payments with minimal effort and maximum speed. However, many organizations spend more effort and time overseeing the process than they would like. While many different options are available to streamline payments, organizations typically end up using the tools with which they are most comfortable, and that they perceive to be the simplest and safest. In most cases, these commonly-used tools are check and ACH payments.

In reality, check and ACH payments are not the most efficient, safe, or affordable methods among available payments options today. In fact, PayStream's research has found that organizations relying heavily on checks or ACH typically experience more processing challenges than those that employ a more diverse mix of payment methods, like electronic payables (ePayables) platforms and commercial card programs.

Holistic electronic payments (ePayments) software streamlines the most tedious tasks of payments management. It typically consists of ePayables platforms that allow organizations to make secure local and global payments, as well as support for a wide array of commercial card programs. These tools enable organizations to reduce their reliance on manual methods that require heavy involvement and oversight, shifting much of the processing burden to the platform and solution provider. These solutions also speed up cycle times, improve discount capture, and produce savings through processing improvements and card-based rebates.

The 2017 ePayments report analyzes trends in payment management strategies among North American businesses, including their typical payment methods, perceptions, challenges, and goals. It also provides an overview of the tools and services offered by leading ePayments providers, highlights the value of adopting an electronic payments method, and offers a guide to increasing ROI with an optimized card program.
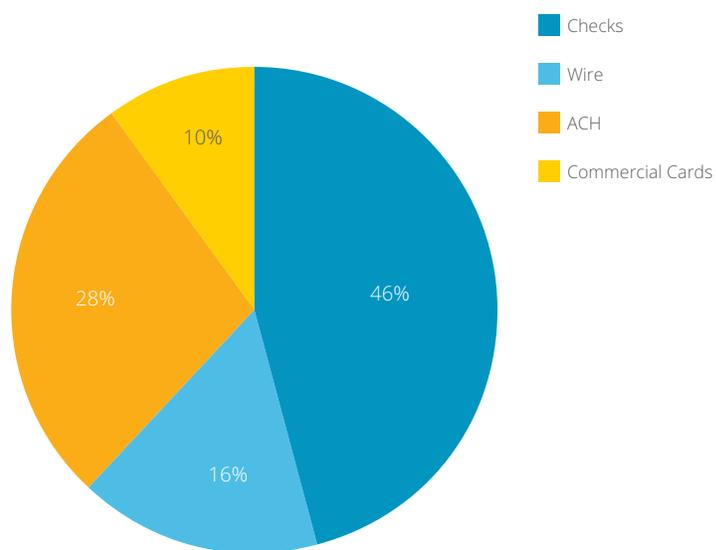
Payment Management Today

To determine the current state of electronic Business-to-Business (B2B) payments, PayStream Advisors surveyed over 300 individuals from a variety of industries and organization sizes. Research shows that most companies use checks and ACH for the majority of their supplier payments, see Figure 1.

Checks and ACH Are the Leading Payment Methods

"What percentage of your supplier-related payments (number of payments, not dollar value) is processed using the following methods?"

SUPPLIER PAYMENT PROCESSING METHODS

Legend:
- Checks
- Wire
- ACH
- Commercial Cards

- 46% (Checks)
- 16% (Wire)
- 28% (ACH)
- 10% (Commercial Cards)

Check payments have been a prominent B2B payment method for several decades, and it is the preferred method for many companies, followed by ACH payments. However, manually-driven payment methods like check and ACH lead to a variety of challenges for organizations, including high processing costs, late payments, and missed discounts—which can cost organizations millions each year.

While payment challenges can arise with all payment types, they are more prominent among organizations that are heavy check and ACH users. In the ePayments survey, PayStream Advisors asked organizations whether they have decreased, increased, or maintained their current payment method usage. Figure 2 shows the responses from organizations PayStream has identified as "strong proponents" of each type of payment—those that indicated they have tried to increase usage of that payment type in the last two years.
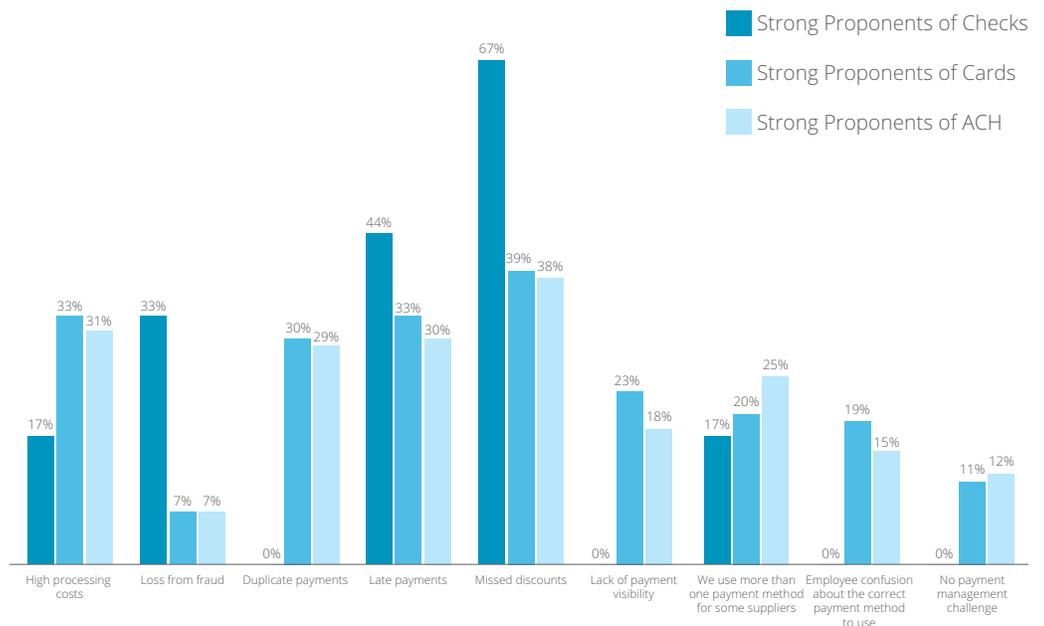
Figure 2

Strong Proponents of Checks Experience the Most Missed Discounts and Late Payments

"What are the top three biggest challenges your organization faces in the payment management process?"

&

"In the past two years, has your organization taken actions to purposely increase or decrease usage of the following payment types?"

CURRENT PAYMENTS CHALLENGES

Legend:
- Strong Proponents of Checks
- Strong Proponents of Cards
- Strong Proponents of ACH

Challenge	Checks	Cards	ACH
High processing costs	17%	33%	31%
Loss from fraud	33%	7%	7%
Duplicate payments	0%	30%	29%
Late payments	44%	33%	30%
Missed discounts	67%	39%	38%
Lack of payment visibility	0%	23%	18%
We use more than one payment method for some suppliers	17%	20%	25%
Employee confusion about the correct payment method to use	0%	19%	15%
No payment management challenge	0%	11%	12%

Strong proponents of checks are much more likely to experience payment fraud than proponents of other payment methods. They also experience more late payments and miss the greatest amount of early payment discounts. Processing issues are not limited to checks, however—strong proponents for commercial card and ACH users alike report higher processing costs than strong check proponents, and they tend to experience more duplicate payments. However, challenges are still more common for organizations using mostly checks. Among respondents who claimed they did not experience any payment challenges, none were strong proponents of checks.

PayStream found that some payments challenges are also related to an organization's market segment and their industry. For example, while high processing cost and poor visibility into payments affects organizations of all sizes, larger organizations are more likely to experience high volumes of missed discounts and more duplicate

payments. This is partly because larger enterprises have lengthier and more complicated process flows and longer cycle times. Some problems are not that prominent for any market segment—such as loss from fraud—and late payments are only a prominent problem for 30-40 percent of organizations.

When it comes to industry-related challenges, organizations in retail and higher education miss more early payment discounts than those in other industries, primarily because of the typically widespread nature of their business structure, and the resulting lengthy process flows. Late payments are a significant challenge for real estate organizations, which can be attributed to these companies' lengthy sales cycles, and the healthcare industry experiences higher payment costs than most others. This is likely due to the complex process flows, regulatory requirements, and approval hierarchies that lengthen and complicate healthcare's payment cycles.
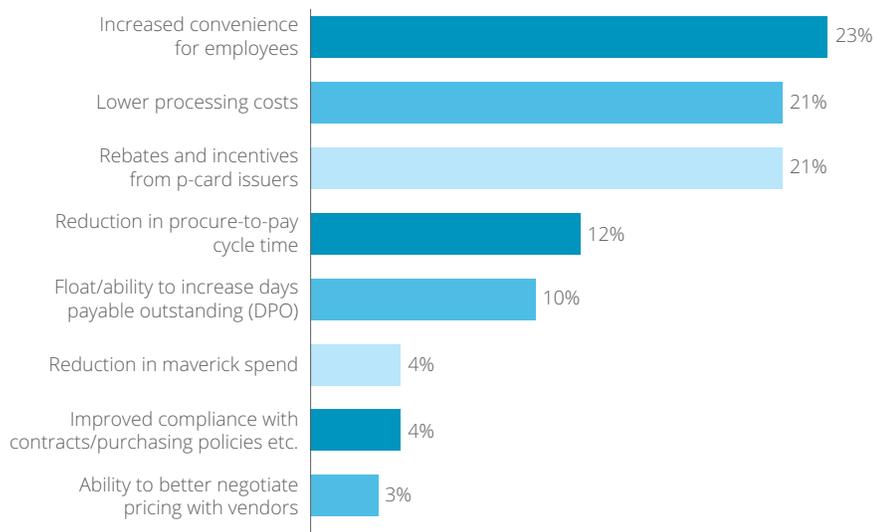
Whether payment challenges are the result of high check volume, company size, or industry, these problems can be greatly reduced through the adoption of ePayments solutions. For example, when organizations were asked about the benefits they received from using commercial cards, respondents reported improvements in convenience, costs, and rebate capture, see Figure 3. ePayments solutions also speed up payment times and help organizations control payment security and compliance. Additionally, these tools assist organizations with capturing early payment discounts, bringing in savings through those discounts as well as through card-based rebates.

Figure 3

ePayments Leads to Increased Employee Convenience, Lower Processing Costs, and Rebates

"Which of the following benefits have you achieved from commercial card programs?"

TOP BENEFITS OF EPAYMENTS

Benefit	Percent
Increased convenience for employees	23%
Lower processing costs	21%
Rebates and incentives from p-card issuers	21%
Reduction in procure-to-pay cycle time	12%
Float/ability to increase days payable outstanding (DPO)	10%
Reduction in maverick spend	4%
Improved compliance with contracts/purchasing policies etc.	4%
Ability to better negotiate pricing with vendors	3%

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To give organizations a clearer picture of the range of available ePayments solutions, the following section outlines the usage and benefits of today's leading ePayments tools.

The Answers to Payment Problems

There are two main forms of ePayments—ePayables (advanced ACH) and commercial card programs. Some providers offer these as standalone items, while others offer both or a unique mix of services and features.
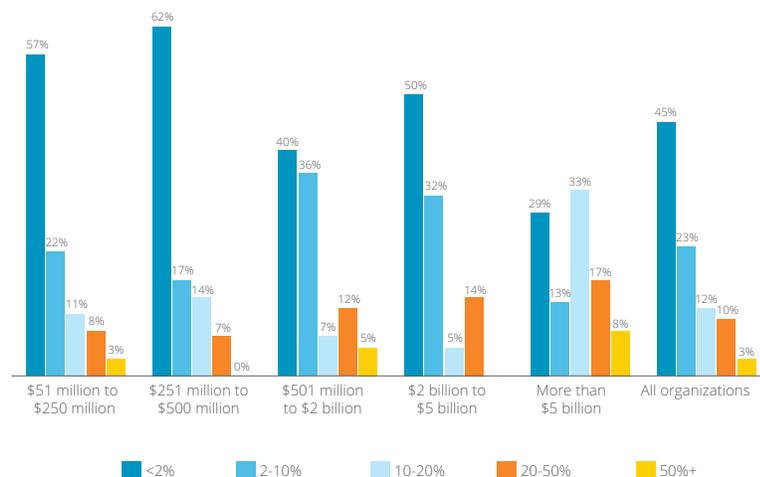
ePayables

An ePayables solution helps organizations automate the invoice-to-payment process through an electronic platform. ePayables completes payments through ACH rails, but it offers rich remittance detail and other functionality that traditional ACH does not. This software streamlines many tedious aspects of payment management. An ePayables provider often offers a variety of payment methods, either in-house or through a partner. These methods include traditional purchasing card support and ACH payments, and in some cases, check-writing services for customers who still require a check payment option.

Some companies also offer wire payments support, as well as global payment management services that enable organizations to streamline the complex tasks of international supplier payments. Sometimes these services include verifying suppliers' legal status and payment compliance by searching Do Not Pay lists. Given today's increased business globalization, this is very important—especially for large organizations. According to survey results shown in Figure 4,

Figure 4

Large Organizations Make the Highest Number of Foreign Supplier Payments

"Of your supplier payments, what percentage are cross-border?"

&

"What is your organization's annual revenue in the most recent 12-month reporting period?"

PERCENTAGE OF SUPPLIER PAYMENTS BY REVENUE

	$51 million to $250 million	$251 million to $500 million	$501 million to $2 billion	$2 billion to $5 billion	More than $5 billion	All organizations
<2%	57%	62%	40%	50%	29%	45%
2-10%	22%	17%	36%	32%	13%	23%
10-20%	11%	14%	7%	5%	33%	12%
20-50%	8%	7%	12%	14%	17%	10%
50%+	3%	0%	5%		8%	3%

ten percent of organizations make between 20 and 50 percent of their payments to foreign suppliers; organizations earning over 2 billion in revenue pay the largest percent of their payments to foreign suppliers.

Much of the value of an ePayables tool lies in its integration with existing AP functions, either through the company's ERP or its AP automation software. This enables organizations to truly automate the entire invoice-to-payment lifecycle, and in cases where a procurement tool is also involved, can automate the Purchase-to-Pay lifecycle as well.

With an ePayables platform, payments can be automatically approved based on invoice amount or type, or they can be sent through a configurable payments approval workflow. Once an invoice is approved, the invoice details are posted to the organization's financial system, and approvers can pay individual invoices or create payment batches. Many solutions also handle much of the remittance and reconciliation process, and some solutions post remittance data within clients' bank accounts for better transparency. Some solutions also include discounting functionality that allows organizations to manage payments and cash flow according to available early payment discounts.

Commercial Card Programs

"Commercial cards" is the umbrella term for payment cards used in B2B payments (as opposed to consumer cards). Commercial cards referenced in the survey include:

» **Traditional Purchasing Cards** – Organizations provide purchasing cards (p-cards) to individual employees for the purchase of business goods and services. P-cards are ideal for purchases in which the traditional invoice approval prior to payment does not add value (e.g., low-dollar purchases). Some p-card programs are known as "One Card" programs when they also allow for T&E expenses, eliminating the need for an employee to carry two cards.

» **Corporate Cards** – Employees use these cards for business travel and expense (T&E) purchasing.

» **Fleet/Vehicle Cards** – Organizations implement this type of card to pay for fuel and vehicle maintenance. The cards allow for reporting and tracking by vehicle, providing controls specific to this expense category.

» **Ghost Cards/Accounts** – Traditional ghost cards function like p-cards, with reusable account numbers and spend limits that refresh each month. One common scenario is providing a ghost

account number to a supplier, who retains the number and processes charges to it as employees make purchases.

» **Single-Use Cards** – This is a common type of Virtual Account (VA)—also called Virtual Card Accounts, Virtual Account Numbers, or ePayables. After an organization approves a supplier's invoice(s), AP initiates the payment process. The supplier receives a one-time-use virtual account number to process the charge. The spend limit is equal to the approved invoice(s) and does not refresh.

» **Other Virtual Card Programs** – Like single-use cards, other Virtual Accounts programs center around an organization's approval of supplier invoices. One VA option is a straight-through payment where a supplier receives a direct payment through the card network or issuer, rather than having to process a charge transaction. Overall, organizations tend to target Virtual Accounts for higher dollar purchases and/or complex purchases warranting invoice review prior to payment. VA cards are one of the fastest-growing tools offered today, and are offered by leading ePayments providers.

» **Declining Balance Cards** – These cards have a set limit and expiration date that does not refresh. Organizations may use such cards for special projects with a set budget, such as meetings or events, for relocation expenses, for infrequent travelers who do not warrant a corporate travel card, and more.

The Perfect Payment Mix

While organizations can leverage ePayables tools to streamline P2P and commercial cards to capture more rebates and handle diverse spend scenarios, leading ePayments providers offer customers a mix of payment management services and tools. Leading providers offer most of these attributes and features:

» Virtual card support
» Mobile payments support/applications
» Audit trail functionality
» Payments approval functionality
» Commercial card support
» Global ePayments support
» Vendor portal
» Discount capture and working capital tools

The Revenue Benefits

With ePayments solutions, the most obvious savings come from reducing processing costs from manual and paper payments. Savings can also be realized by removing steps from the P2P process. For example, Accounts Payable can make one monthly payment to the card issuer instead of hundreds of payments—most of which are small-dollar—to many different suppliers. In addition, organizations can configure their system to send non-PO invoices directly to payment, such as those connected to utility bills.

Another advantage of commercial cards is how organizations can use them to optimize cash flow. AP can leverage the commercial cards to increase Days Payable Outstanding (DPO)—rather than adhering to suppliers' typical 30-day invoice payment terms, paying via card can extend the float beyond 30 days.

Gaining ROI With Commercial Cards

Despite the benefits of ePayments and the prevailing problems for heavy check and ACH users, many organizations are still using—and even increasing—manual-based payments. This continued use results from a variety of factors, including wariness of electronic payments technology, satisfaction with current process, and a lack of knowledge of available ePayments tools. Many organizations know that checks are not the most efficient method for supplier payments, but feel that the resulting issues do not outweigh the hassle and perceived risk of switching to another method.

One of the most important ways to protect a technology investment is to ensure that the tools are properly used—otherwise, organizations receive much lower ROI. Commercial cards are appealing investments for the value they bring in reduced processing costs and monetary rebates. However, many organizations doubt they will be able to gain these savings; they are concerned about properly controlling usage, whether their suppliers will accept them, and whether they will use them enough that the rebates will offset the cost.

While these considerations have merit, commercial card programs can be implemented and leveraged in such a way that these issues are avoided. This section outlines the benefits of commercial card controls, and provides some actions organizations can take that will ensure a successful outcome.

» **Optimize controls and policies.** Supplier payments made through ePayables solutions are integrated into the P2P process and are initiated by AP, granting more control and accuracy. On the other hand, cards are issued directly to employees, allowing them to purchase items directly from suppliers. While this eliminates the need to process everything through Procurement to obtain a purchase order (PO), it does require more oversight to prevent maverick spend.

Organizations should set up proper controls when implementing a commercial card program. For example, they can allow employees to bypass approval for certain low-dollar items, while requiring multi-level approvals on certain spend types. An organization should structure controls and policies according to the complexity of its corporate infrastructure. It should also properly train its

employees on procedures for using cards and categorizing spend in order to avoid confusion or non-compliance. By implementing a card program using the correct guidelines, organizations can perform preemptive damage control and greatly increase the potential efficiency, savings, and employee satisfaction of commercial cards.
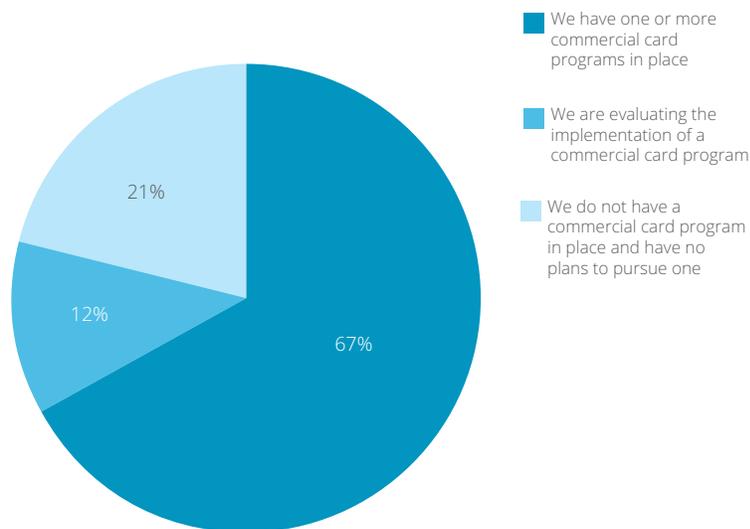
» **Take advantage of rebates and incentives.** PayStream's research has found that the majority of companies surveyed use at least one commercial card tool, see Figure 5. However, most companies use these cards on less than 25 percent of their payments, and checks and ACH payments are still the prominent method.

COMMERCIAL CARD USAGE

- We have one or more commercial card programs in place
- We are evaluating the implementation of a commercial card program
- We do not have a commercial card program in place and have no plans to pursue one

21%

12%

67%

Many commercial card providers offer certain monetary rebates and incentives based on their clients spend. However, in some situations, such as when an organization's card program's spend is deemed too low by the issuer and they cannot meet the minimums of the contracted rebate terms, the organizations may not be offered monetary incentives at all. This means that organizations should make sure they are optimizing their card program and using it on as many applicable purchases as possible. Rebates can be large—up to hundreds of thousands of dollars. Using the correct policies, cards can be safely and beneficially used for a variety of spend types and high-dollar purchases, and organizations can achieve these large rebates.

One of the most effective ways to increase rebate capture is to adjust transaction limits. PayStream's research has found that purchase value is the top factor that impacts a company's

transaction limits, see Figure 6. Therefore, changing policies and encouraging higher-value purchases on cards can have great impact on usage.
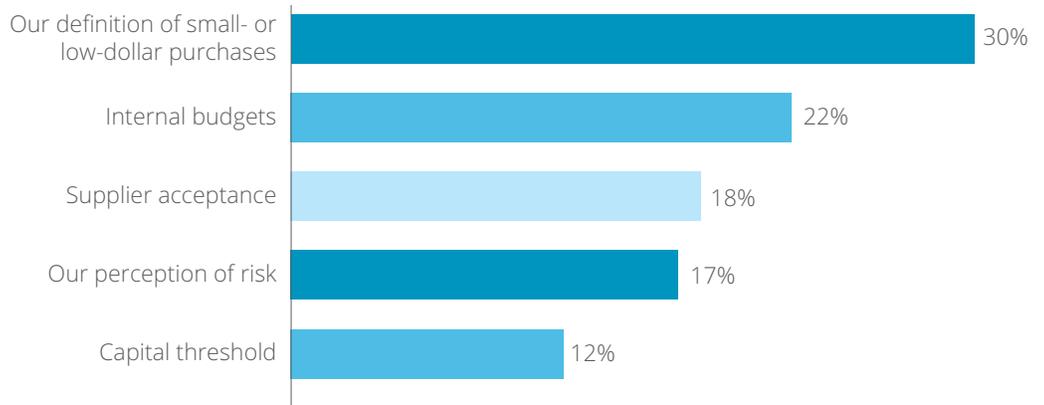
TOP FACTORS IMPACTING TRANSACTION LIMITS

» **Prepare suppliers.** Supplier preferences can have a significant impact on an organization's payment methods, and can be one of the greatest barriers to card adoption or card program expansion. Research shows that checks and ACH payments are the most popular supplier-requested payment methods, see Figure 7. Most organizations rarely receive requests for commercial cards from their suppliers, with the exception of those in the
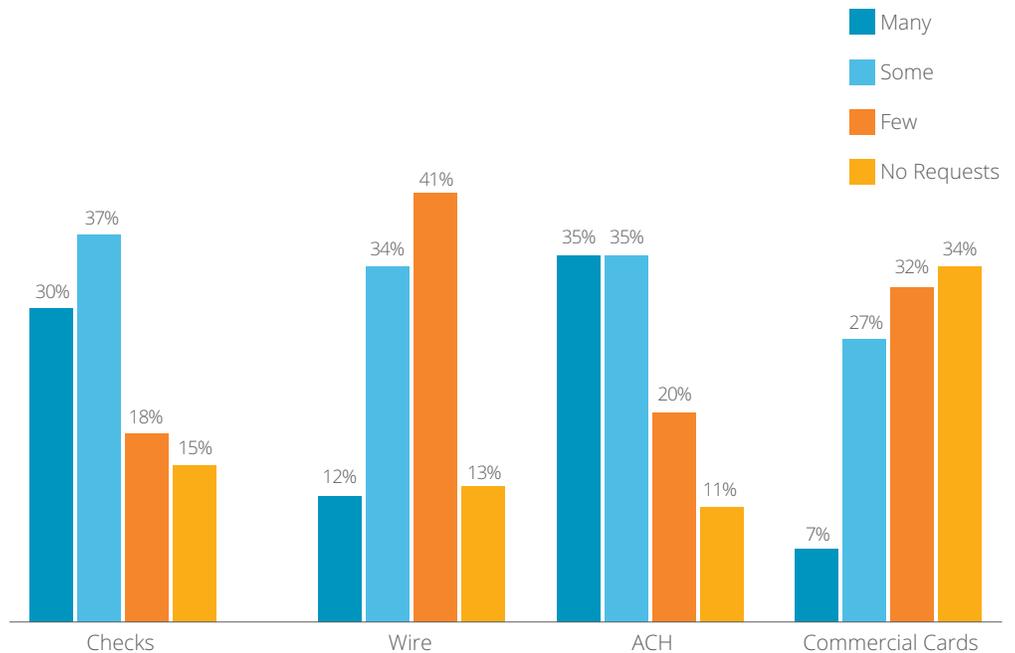
SUPPLIER PAYMENT TYPE REQUESTS

finance/banking/insurance industry—a segment that is consistently more willing to adopt finance technology.

If a buying company fears a lack of supplier acceptance of a new technology, they are much less likely to move from current processes. For example, research shows that supplier resistance is one of the top reasons organizations do not adopt a card program, see Figure 8.

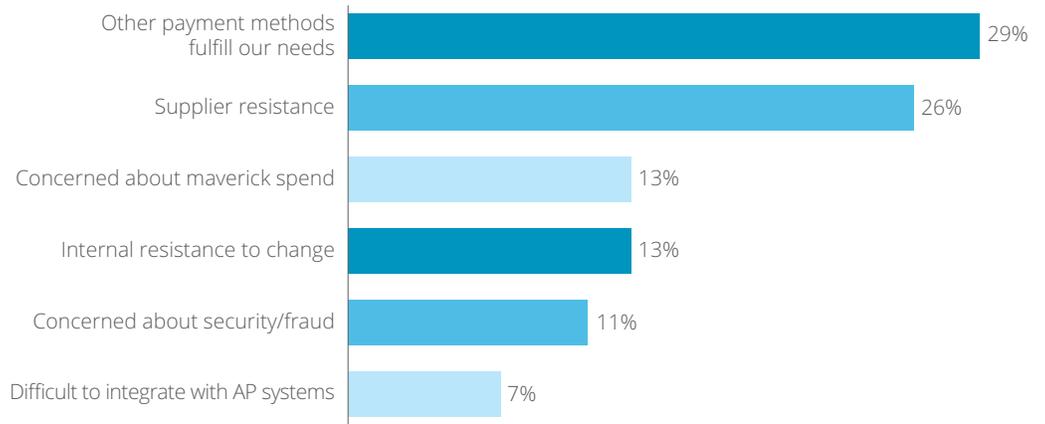**TOP OBSTACLES TO ELECTRONIC PAYMENTS ADOPTION**

Obstacle	Percentage
Other payment methods fulfill our needs	29%
Supplier resistance	26%
Concerned about maverick spend	13%
Internal resistance to change	13%
Concerned about security/fraud	11%
Difficult to integrate with AP systems	7%

Fortunately, organizations can use strategies to ensure that suppliers will be more open to accepting payments from commercial cards. One method is emphasizing the benefits of faster payment times and more secure and accurate payments. Another is engaging in a multi-stage phase-out program that gives suppliers the ability to gradually become accustomed to card payments. For buying organizations, another way to ensure that future payments are acceptable with commercial cards is to specify the electronic payment method within supplier contracts.

Conclusion

For many companies, changing their payments management processes can be a daunting task, particularly when they have used and been satisfied with the same methods for decades. However, PayStream believes that today's electronic payments options are too advantageous in terms of efficiency and savings to forego. Organizations should explore all available ePayments opportunities for the success of their back-office operations, their bottom line, and their long-run competitive advantage.

In order to help organizations explore ePayments, the following profile highlights the features and services of one of today's leading payment software providers.

Ariett

Ariett provides a unified cloud platform for purchasing, AP invoice automation, electronic payment processing, contract tracking, and expense reporting. The company primarily serves mid-market and mid-enterprise customers with 200-20,000 employees. Ariett's centralized P2P solution allows managers, users, and vendors to collaborate on spending decisions, and streamlines accounts payable and procurement with unified workflow, user management, and global visibility into spend. Ariett's secure payment processing, including ACH, Virtual Card payments, and checks, completes the Ariett procurement lifecycle by offering companies one solution for employees to use and manage all indirect spending.

Product Release	2010
Headquarters	Pembroke, MA
Number of Customers	2200+ companies
Target Verticals	Business Services, Software/Technology, Not-for-Profit, Healthcare, Education
Awards / Recognitions	Ariett Microsoft Gold Development Partner; Ariett Microsoft Azure Application Case Study; Ariett application certified as Microsoft Platform-Ready for Microsoft Azure, Leading software provider in PayStream Advisors' 2016 P2P for Indirect Spend report

Solution Overview

Ariett's Purchase-to-Pay solution is built on the Microsoft Azure Cloud platform, which gives it the benefits of Microsoft's cloud security and the Microsoft Global Foundation Services (GFS)—a program that offers worldwide data centers for storing and backing up data, as well as extensive annual audits. For user management security, Ariett's solution supports Azure Active Directory, allowing users to have one password and login for both Ariett and other Azure applications. Ariett's P2P solutions also integrate with a number of ERP and accounting systems. Ariett offers full solution functionality across all phone, tablet, laptop, and desktop devices, allowing users to submit and approve requisitions, invoices, and payments securely from anywhere.

Ariett's Purchase-to-Pay solution fully integrates purchasing and AP processes, giving finance team members simultaneous visibility into requisitions, purchase orders, invoices, and associated payments when approving payment batches. Ariett's solution also shows the details for each individual payment transaction in the clients' bank account, allowing the customer to review vendor payments from within the bank statement for quick reconciliation with payment transactions.

Once an AP invoice has been approved and posted in Ariett, it becomes available for the payment selection process. From their mobile device or desktop, users can use a variety of parameters to create a payment batch, searching by vendor, due date with available payment discounts, payment method, or bank account. Individual payments can be adjusted for partial payment or to pay in full. Approval workflow allows designated approvers the ability to further review and edit the batches prior to posting for payment. Ariett also captures an audit trail of each approval step and all dollar amount changes to the payment batch.

Ariett offers Virtual Card payment processing when accepted by its customers' vendors. Rebates are available to customers for payment made by Virtual Card. Ariett will automatically enroll customers' vendors into the Virtual Card payment program and work with vendors to increase participation in the program. Once payments have been approved and finalized, vendors receive notifications with the details of the remittance. To provide further security, the Virtual Card number expires after 30 days.

When an invoice is approved, the invoice is posted to the accounts payable system. After a payment has gone through the approval process and is marked as paid, the payment is associated with the invoice and moved to history.

To screen for fraudulent checks, Ariett offers bank Positive Pay. Customer demand deposit accounts are verified by test transactions. Ariett can enhance security by offering a two-step verification process called two-factor authentication with Microsoft Azure AD, which is used to confirm the identity of the payment approver.

Ariett's solution includes integrated search, query, and over 200 standard reports that are configurable and can be output to a file, MS Excel, or PDF formats. Ariett's out-of-the-box reports are designed to help customers analyze business spend, contract performance, and vendor performance. Ariett helps customers to forecast expenses and prepare for month-end closing with accrual, exception, and credit card reports. All Ariett reports can also be exported to Excel for further analysis.

Implementation and Pricing

A typical Ariett implementation takes 1-3 months. Each new customer is assigned a dedicated application trainer and business process specialist, who functions as the Project Manager. Customers are also assigned a Technical Specialist to assist with several implementations processes, such as integrations, vendor onboarding, and security configuration. Ariett customers receive both administrative and power-user application training, as well as access to end-user videos and training guides. Ariett also provides a customer community and help site for support, inquiry, add-on service requests, and access to additional product information, videos, and webinars.

Ariett offers both mid-market and enterprise SaaS agreements for an annual or multi-year contract. The transaction pricing model provides companies with the ability to pilot the application quickly and scale the application for larger corporate roll-outs. Unlimited support, bundled reporting, product updates, and a dedicated account manager are included in the transaction pricing in an Ariett Annual SaaS Contract.

About PayStream Advisors

PayStream Advisors is a technology research and consulting firm that improves the way companies plan, evaluate, and select emerging technologies to achieve their business objectives. PayStream Advisors assists clients in sorting through the growing complexities of IT applications related to business process automation with the goal of making objective, analytical, and actionable recommendations. Wherever business process automation technology is an issue, PayStream Advisors is there to help. For more information, call (704) 523-7357 or visit us on the web at www.paystreamadvisors.com