

The CFO's Guide to Choosing an Electronic Payment Solution

Finexio

Every Supplier Is an Opportunity



For CFOs considering an electronic payment program, this buyer's guide outlines the benefits, assesses the technology, and offers expert advice.

Why Go Electronic?

There are significant advantages to leveraging a “smart” payment solution for B2B supplier payments of all sizes and importance.

Here are the primary benefits of delivering payments electronically, instead of sending them by paper check:

- Capturing missed savings opportunities;
- Reducing processes and back office labor;
- Generating sophisticated intelligence and analytics that allow payments to be routed more efficiently;
- Improving automation through closed-loop networks and straight-through processing.

Secondary improvements include a seamless payment experience for suppliers, quicker adoption of new payment methods, and the ability to allow for multiple payment options.

When engaging the most comprehensive automated payment solution, CFOs can optimize benefits by selecting the best way to pay suppliers that also generates cost savings for their accounts payable department.

Top performing companies and their CFOs recognize the benefits of these smart payment programs: as a result, the amount of B2B spend captured electronically has continued to increase over the past several years.

Why Should a Company Invest In Their Accounts Payable Function?

20 years ago, while the idea of investing in the accounts payable department was on the minds of most CFOs, they had no access to the technology that could facilitate automation and increase access to cash flow. CFOs wanted the accounts payables to process smoothly—but not too efficiently—so that working capital was optimized and costs were minimal. But without access to electronic tools, CFOs had no other choice but to rely on often-clunky manual processes, which included paper checks.

By 2021, AP professionals estimate that B2B payments made electronically will surpass those made via paper check, according to the Institute of Finance and Management's 2018 Future of Accounts Payable report.

The market has responded to service this efficiency gap by creating new products. There are now improvements that manage fraud (Positive Pay), the approval process (purchase management software), and the receipt of paper invoices (OCR).

But until recently, B2B payment processing has experienced less innovation, which is due to many reasons:

- Decentralization among the US payment system, leading to a lack of enforcement of unified payment standards;
- Interoperability issues across internal accounting and procurement software, ERPs, and banking platforms;
- Broad, complicated workflows involving many touches by multiple departments and organizations.

The sheer complexity of payment systems and process created a general resistance to technological change, so until recently, check, ACH, and wire remained the de facto payment types.

So Why Are Paper Checks Still Around?

A cascade of payments innovation started in the Great Recession with the introduction of commercial virtual cards. Unlike the non-revenue generating payment types of check, ACH, and wire, virtual cards provided a large incentive in the form of rebates back to the buyer for every purchase.

Even though B2B payments technology has exploded, paper checks still exist—nearly two decades into the 21st century—because they are perceived as safe, simple, and slow.

But the facts tell a different tale.

According to AFP's 2017 Payments Fraud and Control Survey, 75% of organizations experienced check fraud in 2016, "an increase from 71 percent in 2015 and a reversal of the declining trend in check fraud since 2010."

Paying by checks is a mature process but one that is expensive, with research indicating \$8 per check.* This reflects the rudimentary technology, all-in costs of printing and mailing, lack of correct mailing data, impact of returns, and salaries of process-driven employees that must manage the manual labor of this accounts payable function.

The leisurely pace of a check benefits the buyer's side of the equation, allowing buyers to hold on to their outbound payments for as long as possible to maximize working capital.

Even though the check might be in the mail, suppliers want payment choice, which means offering products like virtual card, straight-through processing, and dynamic discounting that will enable them to receive their payments more conveniently. Especially in certain industries, suppliers are often willing to accept a small discount on their invoice in exchange for faster remittance.

* <https://acom.com/the-true-cost-of-ap-automation/>

Check fraud is on the rise

Check costs are exorbitantly high compared to other methods of payment

Checks don't deliver payment quickly enough for suppliers

Beyond Checks, The Options Are Complex

As the payments landscape evolves, keeping up with the technology and process changes created by new B2B payment types becomes more challenging for CFOs and AP departments.

ACH

Although ACH is technically an electronic method of payment and processing more volume each day, it provides limited financial benefit to the buyer and opens both sides up to risk. The payments require the exchange of sensitive bank account information, which then needs to be securely stored. There is also no built-in security, which makes it harder to verify that the money is being sent to the correct supplier.

Dynamic Discounting

Dynamic discounting is a great concept that places the “time value of money” on a payment, but it can be difficult to understand and manage on a wide-scale basis. As a result, supplier adoption is often limited. Other challenges:

- It requires the buyer excess cash on their balance sheet, which is uncommon for many middle market companies;
- It creates a lack of predictability on what suppliers might choose to do on an invoice-to-invoice basis.

Commercial Purchasing Card

These card-based transactions are based on consumer models and are bound by physical plastic and manual processes that make them less favorable. The drawbacks:

- Physical cards must be stored in the office;
- Cards can be compromised, and if the number is stolen, valuable staff time must be spent resolving the issue.

Virtual Commercial Card

The virtual commercial card provides a healthy rebate back to the buyer and adds additional value by borrowing the float of a short-term credit facility.

Prepaid commercial virtual cards provide even more simplicity, as they do not require credit underwriting nor do they impact balance sheet debt levels.

While virtual cards can provide sizable financial benefit, not every supplier will accept card payment. Based on our data, we estimate that at least 20-30% of suppliers can receive payment this way. In addition, the process to enroll and support suppliers is labor-intensive.

Commercial Card
Estimated/Projected Volume By Year
(in Billions)



Source: The Strawhecker Group, Visa, Mastercard

An All-In-One Solution

As companies have recognized the investment involved in using new methods of payment, they have looked to 3rd parties to execute these solutions for them. Banks offer electronic payment programs, but they only focus on providing virtual cards and enrolling the top tier of suppliers while ignoring 90% of supplier spend and other electronic methods of payment.

Customers want more than a virtual card solution that addresses just a handful of suppliers. They want a comprehensive solution to manage all outbound payments, which is rarely available in the market due to the complexity and experience required in developing, deploying, and administering a program that offers varied payment types and terms.

These comprehensive solutions (also known as intelligent payment networks) incorporate virtual card payments, but they expend more effort around maximizing their benefits for customers. They also provide payment options for the other 70-80% of suppliers that include prompt payment discounts, closed-loop processing, dynamic discounting, straight-through processing, enhanced ACH, as well as digital and paper checks, understanding that a broader menu presented to suppliers increases the likelihood of a non-check payment.

How To Evaluate Intelligent Payment Networks

How can a CFO evaluate these new solutions to ensure they are a viable option today and in the future? Here is a checklist of questions to ask.

◆ Do they provide a holistic solution?

Intelligent payment networks engage in numerous payment methods and continue to expand their product offerings. This includes human readable and EDI-formatted remittances for all payments and complete visibility into the outbound payment cycle. The best payment networks will include all payment types available with a variety of speeds, methods of delivery, and price points—even offering paper checks as a fall-back method.

◆ Do they capture 100% of the payments?

Intelligent payment networks enable their customers to capture all of the payments by reaching out to 100% of their supplier database. Because these campaigns are ongoing, new suppliers are onboarded regularly. Intelligent payment networks will

also communicate with suppliers about new electronic options and methods of payment so no opportunities are missed.

◆ How expansive is their network of suppliers?

Intelligent payment networks are continuously working to build out supplier network and increase supplier participation. Over 30 million merchant locations in the US are currently accepting electronic payment, a number that is growing each day.

◆ How will this impact AP staff?

Intelligent payment networks reduce the burden on a company AP department. Their resources streamline processes and reduce day-to-day operations, extending internal teams through their technology.

◆ Who oversees the payment process?

Intelligent payment networks manage the payment process, but also provide unlimited access, visibility, security, and control for a company to review and approve all payments.

◆ Who sets the rules?

Intelligent payment networks provide governance around payments, but the buyer sets the rules. These networks do not force certain types of payments on suppliers, because they understand that supplier satisfaction is a top priority.

Still wondering if an intelligent payment network makes sense? Consider these questions for your organization:

- How much is our annual AP spend? These intelligent payment solutions are particularly valuable for companies with at least 30 million dollars in outbound annual payables.
- What percentage of our payments are today still being made by paper check? Intelligent payment networks can make many of these payments electronic, and handle distribution of any checks that are left.
- How much time are we spending managing the AP payment process and engaging with suppliers? Intelligent payment networks take on or reduce this labor via their service, freeing up customer staff time for more critical tasks.
- How often are checks mailed to the wrong place and returned? The best intelligent payment networks use a sophisticated, communicative team to cleanse address and phone numbers on a recurring basis so supplier data is up-to-date.
- What is our cost per check? Many institutions underestimate the human capital involved in sending checks over and above the hard costs of paper, ink, and postage.
- How many times per year are we hit with payment fraud? Among other elements of fraud protection, intelligent payment networks use bank account information that is validated by third party data sources and does not need to be stored on institutional databases.
- How often are we paying our suppliers early or late and not potentially capturing discounts or cash flow benefits? Intelligent payment networks analyze your last 12 months of spend to determine patterns and identify opportunities that they can capitalize on.
- If suppliers are on ACH, have we tried to offer them other payment types or terms that might be more beneficial to our company? Re-campaigning suppliers on ACH to educate them on the benefits of other electronic payment methods results in 5-10% of suppliers switching to rebate-generating forms of payment that offer more control and security.
- How much are we being charged by our service providers for various payment tools and types we use today? Intelligent payment networks operate at no cost to you: they make money by sharing in discounts and rebates when they successfully execute payments electronically.

Types of Commercial Cards

Issuing banks provide two options to meet the market demands, and both have their strengths and weaknesses.

Supplier Preference – The Lodged or Static Card

Issuing the same card number every time eliminates the repeated entry steps—16 digits and expiration date—and allows the easy storage of the card number in the web portal/payment gateway for one-click payment. The open credit limit allows the supplier to charge the card for many approved invoices and not a “one card to one invoice” payment model.

The buyer, more specifically the issuing bank, does not prefer lodged cards since it has a higher risk of fraud, the credit limit is bigger for the card, and there is the ability to charge more than what is approved (full invoice amount versus approved invoice amount). The less visible issue is the unused credit line: the bank provides the full amount of credit, whether it is currently in use or not. The buyer is charged for it, and the bank needs to account for it.

Buyer Preference – The Single Use Account (SUA)

The SUA is a less risky product for issuing banks and buyers. The card number is used for a single payment, specific payment amount, and for a limited amount of time. The credit limit is set to the approved payment amount—so there are lower unused credit amounts.

The supplier dislikes the single-use account because of limits on timing and amount, as well as the need to key the numbers for every transaction.

Finexio – The Smart B2B Payment Network

There are many choices when it comes to accounts payable payment solutions, but Finexio has built a solution with a breadth of participating suppliers and a depth of experience in B2B payments that is unmatched.

Finexio provides a comprehensive suite of payment types

While banks and other payment companies prefer one or two methods, Finexio supports over nine different payment methods, including virtual card, straight-through processing, enhanced ACH, dynamic discounting, closed-loop network, and even paper check.

Finexio is continually expanding their network of suppliers

Every supplier is an opportunity. Finexio has invested years of efforts to create a proprietary supplier database that is rich and expansive, including several proprietary processor integrations and closed-loop network connections that expand the scope of the offering for easy, automated payment.

Finexio continuously engages suppliers to 100% participation

Every campaign takes numerous steps to make sure no supplier is left behind. First comes analysis of the supplier data to determine if they are already a member of the network, then an email, next a phone call—all with the professionalism and congeniality that each supplier deserves.

Finexio has the data analytics to deliver the best overall results to every customer

Although most banks identify virtual card acceptance eligibility, they cannot predict the likelihood of B2B card acceptance and velocity. Finexio uses a proprietary database assembled from several sources and machine learning to determine the best payment type for every supplier, including discount terms, extended payment terms, and cash discounts.

Finexio provides the dedicated resources to work with every customer

Each customer is assigned a dedicated relationship manager, who is a constant and consistent resource to ensure that every supplier is engaged and every payment is processed to the satisfaction of each customer.

Finexio supports customers and suppliers 24/7

This level of dedicated payment experts to answer questions and address issues is premium service that many AP automation companies, particularly banks, do not offer.

If you are looking to never send another paper check, modernize the accounts payable process, and maximize discounts and rebates, Finexio will provide a 21st century, comprehensive solution to optimize payments for middle market and enterprise-level organizations and their suppliers.

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