billtrust

WHITE PAPER

Payments on your terms

The financial professional's guide to the modern payments landscape

billtrust.com/products/payments/

Contents

Executive summary

Your buyers have reasons to rejoice.

Adoption of both accounts payable software and 3rd party A/P providers is increasing — and they're making paying bills both easier and a source of revenue generation for buyers. But suppliers are getting squeezed.

A/P providers issue credit cards to buyers and offer rebates on payments, then they pressure suppliers to accept them. The high interchange fees associated with cards increase the cost of acceptance for suppliers. The payments themselves take 5.5 minutes to apply on average and A/P providers frequently contact suppliers attempting to gain acceptance of their card payments, and suppliers must retain adequate staff to handle these contacts.

With Gartner predicting that, by 2025, 50% of buyers will use A/P providers to handle their payments and Accenture projecting that B2B card spend will be $355 billion by 2022 (2), suppliers are facing a major challenge in the coming decade.

But advanced accounts receivable practices can optimize the benefits of card (quicker invoice-to-cash time) and rebalance payments agency in favor of suppliers.

- Negotiating with financial institutions at the onset of the card onboarding process can help get supplier payment preferences honored.
- Calculating the cost of acceptance of all payment channels can help suppliers be more strategic in setting their payment preferences.
- A customer segmentation strategy allows suppliers to better meet each buyer's needs and nurture unique business relationships.

These smart A/R practices can be best achieved by utilizing **accounts receivable automation** and **supplier-driven payments solutions**.

Introduction

We at Billtrust have spent almost 20 years striving to perfect accounts receivable through software, services and automation. The greatest challenge of accounts receivable as we see it today is optimizing cash flow while accommodating customer payment preferences.

The emergence of electronic payments has multiplied the ways suppliers can be paid, and it has also exponentially increased the problems associated with those payments. For businesses accepting hundreds or thousands of payments from unique buyers paying at different times, through different channels and with varying levels of remittance data, fees and processing times – advocating for their own interests can be a major challenge. And suppliers in highly-competitive or commodified industries may feel that they have little choice over how they accept payment from buyers and their representatives.

In this paper, we will explore the current B2B payment landscape across paper checks, credit cards and ACH and unpack the powerful dynamics between buyers, suppliers and A/P providers. We will describe A/R best practices that suppliers can employ to get their payment preferences honored while still satisfying their customer's needs, and conduct an overview of the role accounts receivable automation and new payments technology can play in leveling the playing field.

The ever-widening payment landscape

More money – more problems

Today, there are more ways to get paid than ever.

Paper check

The tried and true. Check is relatively inexpensive for buyers and A/P providers, but beyond the remittance data and payment arriving together in a single envelope, there isn't much reason to advocate for it as a supplier. The bank lockbox fees charged to suppliers are not insignificant. And check is both the most prone to fraud and the slowest form of payment. While a check is in the mail, the supplier's working capital is depleting and the buyer's credit line with a supplier awaits replenishment, suspending new orders. The extended time between transmission of cash and cash application reduces both the buyer's buying power and hampers the supplier's sales potential.

And yet, 42% of B2B payments are still sent via paper checks (1) – which is a testament to the challenges of the rest of the payments landscape.

ACH

Cheap, quick – what's not to love? Answer: the lack of remittance data. Suppliers get their money faster with ACH than they do with check, but they have to hunt for remittance data in emails or A/P portals, and sometimes the data is never sent at all.

Without remittance data, payment amounts that can include deductions, overpays or are meant to satisfy multiple invoices are difficult or impossible to resolve. And the supplier is left dealing with a pile of cash on account that needs to be laboriously sorted through.

Or left with no cash at all. ACH payments initiated through debits by suppliers can be clawed back by buyers, or be unfunded (subject to Non-Sufficient Funds), so payments transmitted are not always guaranteed.

And suppliers must share their bank info with every buyer that wants to push ACH payments to them. While most business accounts have safeguards in place, they are not free of security risks.

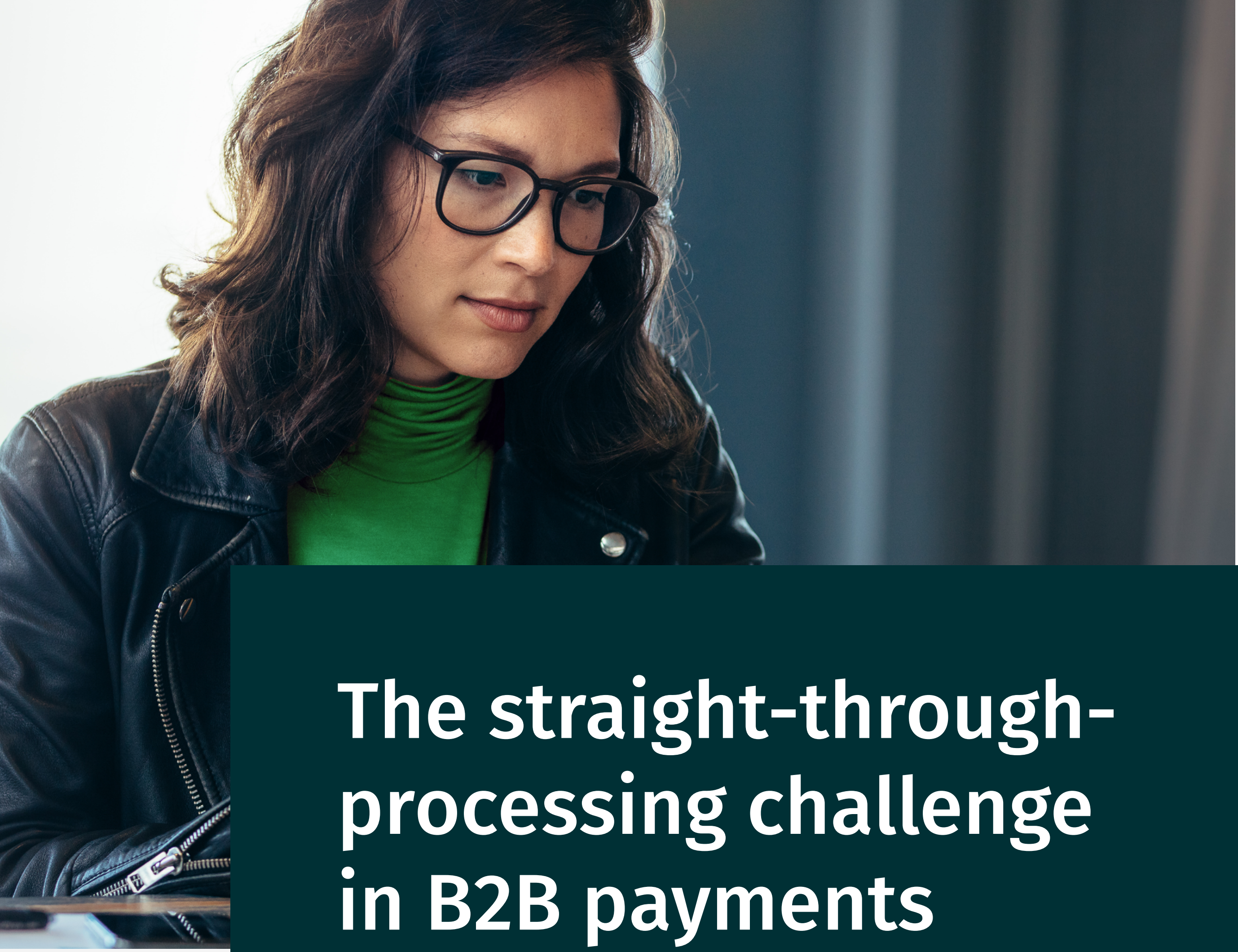
Once a supplier's bank info is stored with all of their payers, changing banks is a major undertaking as they now have to wrangle every payer into updating their bank info in order to avoid misdirected payments.

Credit cards

Buyers love them. Who doesn't like rebates and points back when you pay? But they create conflicts for suppliers. They are the fastest mode of payment, funds are guaranteed and remittance is often included with the payment instruction, though payments still take 5.5 minutes to process on average when sent via card (according to proprietary Billtrust data).

But remember those rebates that buyers love? They're funded by high interchange fees. Payment acceptance technology allows suppliers to optimize their card acceptance and take advantage of Level 2 and Level 3 interchange rates, while providing line item reporting to their buyers. But not every supplier has optimized their payment acceptance processes, and many are simply rejecting card payments as a way of controlling costs.

Credit card payment rejection is a major conflict in the B2B payments landscape. Both buyers and suppliers are trying to optimize their side of the transaction, but each are harmed in the process. Buyers outsource the recruitment of suppliers to third parties which can affect the delicate balance of interests between buyers and suppliers. And when suppliers reject card payments, they elongate their DSO, shrink their working capital and may be required to take on financing to fill the gaps in their cash cycle. Additionally, buyers aren't usually informed that their payment was rejected or why. They are generally only contacted once their account goes to collections and they then tend to remedy the situation with a paper check.



The straight-through-processing challenge in B2B payments

In the field of accounts receivable, straight-through-processing refers to any step of the order-to-cash cycle proceeding without the need of manual handling by A/R professionals. For example, a system that receives payment and remittance data from a buyer, settles funds and automatically applies the cash to the correct invoice would be said to have achieved straight-thru-processing (STP).

STP increases security by keeping payment data out of human hands, speeds accounts through the order-to-cash cycle and lowers overhead costs. Achieving STP of, at least, some parts of the O2C cycle should be the goal of every A/R organization.

But according to The Association for Financial Professionals 2016 survey, only about 40% of featured companies had "any" level of STP, and only 8% were able to straight-through-process more than 4/5s of their receivables. (2)

The problem is complexity.

Every A/P provider is different. They all have their own specifications and requirements for a STP integration. Most suppliers don't have the IT resources to service each individual A/P provider's requirements. Additionally, changes in suppliers ERPs would necessitate A/P providers updating the integration. And smart technology solutions are necessary to prevent payments and remittance data being accepted and applied without validation.

Financial technology companies are working hard to securely, accurately and economically automate B2B payments in order to finally put straight-through-processing in reach.

Summarizing the challenges

Unfortunately, there's no such thing as a perfect payment. Here's a summary of what the modern A/R professional has to contend with:

CASH FLOW DELAYS

As DSO and other indicators of unapplied receivables rise, working capital drops and sometimes necessitates financing for suppliers.

COSTS OF PCI COMPLIANCE

PCI compliance can sometimes require a major overhaul of A/R systems and processes. The costs of these changes can discourage businesses from even opening credit cards as a payment channel.

HIGH COSTS OF PAYMENT PROCESSING

Manual cash application processes require expensive overhead and level 1 credit card processing comes with high fees.

VISIBILITY

The order-to-cash cycle spans multiple A/R professionals at even very small firms. Manual processes lead to siloed working styles that foster inefficiencies because they can't flag problems until they become major challenges.

SUPPLIER PREFERENCES NOT HONORED

Suppliers have difficulty influencing the paying behavior of their buyers and often must accept suboptimal payments in order to maintain cash flow and keep buyers happy.

FRAUD

The manual processes most firms use to process card payments expose numbers to human eyes and ears - and even attempts at fraud can damage a company's reputation. 77% of respondents to a Forrester survey said they were ready to invest in combating fraud challenges brought by new technology.

Rebalancing the A/P to A/R power dynamic

Setting the table for success

It is difficult to be strategic when you're struggling. And unfortunately, that's how many suppliers today feel about their payments acceptance processes. Suppliers are inundated with requests to accept card payments regardless of the interchange fees, security challenges and overhead requirements to receive card numbers by email and phone.

But there are proven methods to get out from under the ocean of difficulties posed by cards and to maximize the benefits of this growing payment channel.

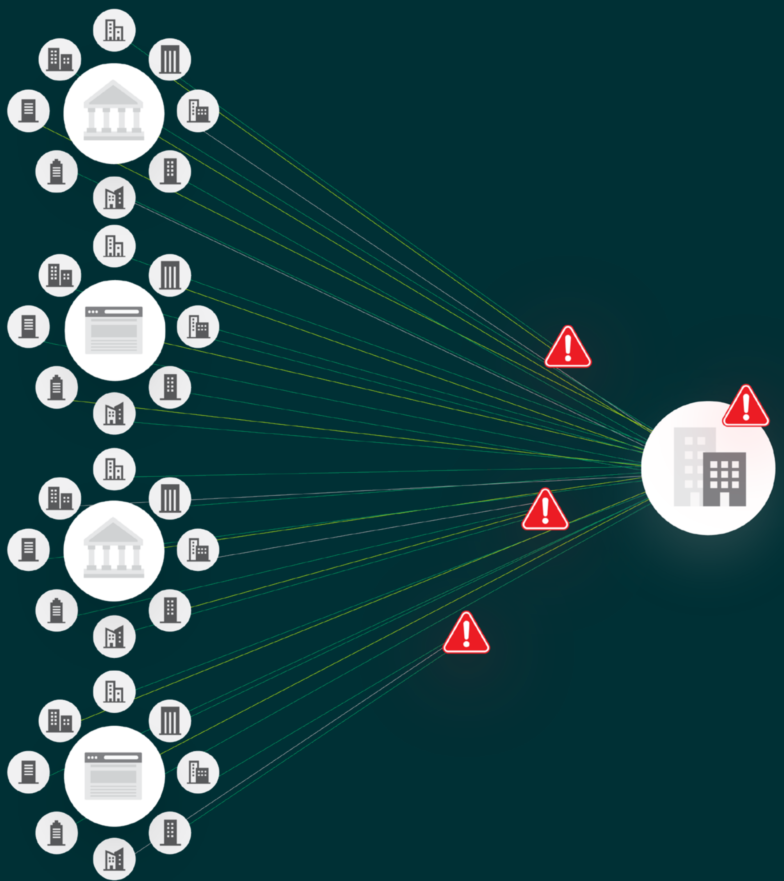
One is to start strong. The first contact many suppliers have with a particular buyer's card payment program is often a phone call from the buyer's financial institution or A/P provider. The third-party's goal is to enroll suppliers into their program so they can begin accepting card payments. This is an important moment. This call is essentially a negotiation and the supplier must be prepared.

This is the moment when a supplier can ask to have their payment preferences honored in exchange for accepting the A/P provider's card on behalf of the buyer. The supplier needs to do some work here. First of all, the supplier must have a dedicated professional to answer the phone or email contact. Secondly, the supplier must understand its own costs of payment acceptance across channels. And finally, the supplier needs a payment preferences strategy that they can apply to all of their buyers or to this buyer in particular. Now is the time for them to set the terms of payment.

Deciding on your terms

There is a harmful misconception that the accounts receivable department is more functional than strategic. It's so wide-spread that many A/R professionals may find themselves believing it.

But in A/R, strategic challenges abound.



BALANCING PAYMENT CHANNELS WITH MARGINS

Margins become thinner as competition grows, and no business wants the costs of payment acceptance to contribute to that challenge. So, many businesses attempt to influence their buyers to utilize a preferred payment channel, or shut off some channels completely.

Some reflection is required when developing a payments acceptance strategy, as card fees are not the only cost to consider. Additional costs include bank lockbox and value-added keying fees, overhead for in-house cash application and the risks of lowered working capital due to poor cash flow.

The strategic A/R professional must balance these costs against the benefits of meeting customer payment preferences, especially in highly competitive or commoditized industries where payment channel acceptance can be a major competitive advantage.

ALIGNING WITH THE NEEDS OF THE WHOLE BUSINESS

Do you remember the famous parable about the moving company called FAST, CHEAP or GOOD? They had three tiers of service: 1. Fast and cheap, but not good. 2. Good and cheap, but not fast. And 3. Fast and Good, but (and here was the punchline) NOT CHEAP.

The modern A/R professional is faced with a similar trilemma when negotiating terms with customers. They must decide what to prioritize: **Fast** cash (ACH or card meet this requirement), **cheap** cost of acceptance (ACH and paper check can apply here, but overhead costs must be considered) or **good** data (card and paper check meet this requirement – card's processing costs can be lowered with good data, as good data enables level 2 or level 3 settlement).

A/R professionals must take the needs of their whole business (and their customers) into account when developing their payment acceptance strategies.

RECOGNIZING THE BENEFITS OF CARD FOR SUPPLIERS

In 2018, Billtrust analyzed 212,000 online payments across 335 B2B enterprises who paid 791,000 invoices in order to understand how fast they made online payments. To do this, we compared the payment date to the invoice date.

The analysis clearly showed that credit card payments are paid faster than ACH payments. This is attributable to the supplier's ability to set attractive incentives for buyers like only being allowed to pay via card (and collect rebates) for x number of days post invoice. The average invoice paid online with a credit card took only 21 days to pay vs. 30 days for an ACH payment.

In many organizations, reducing DSO across one payment channel by 9 days, and its associated cash flow and working capital benefits, may make the interchange fees worth paying, even without considering the customer experience benefits.

IT'S NOT YOU, IT'S ME

Suppliers shutting down payment channels with certain buyers is a growing phenomenon. Sometimes, it is because of unappealing buyer behavior, like consistently poor remittance data that is slowing down cash application along one payment channel, or high card rates on high ticket / low volume payments that could more profitably be accepted by check or ACH.

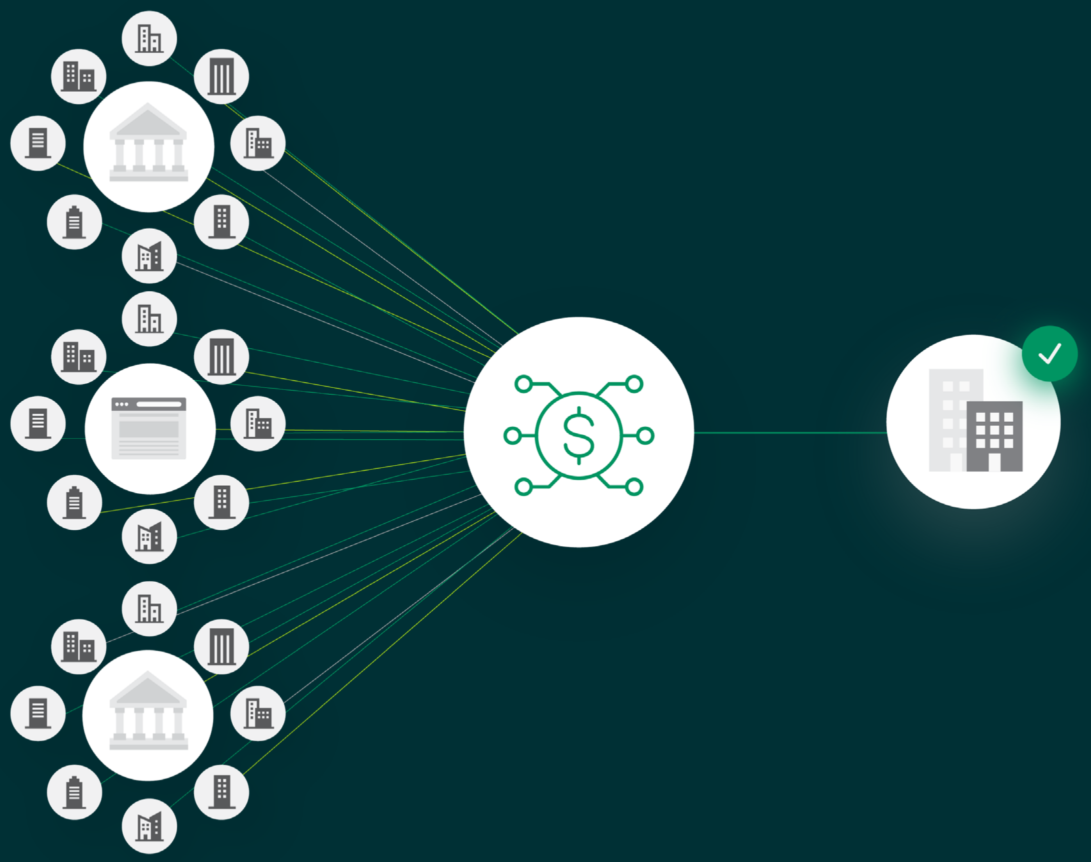
Sometimes the problems are on the supplier side, like a manual cash application process forcing an end to ACH payments, or an unsophisticated card settlement processes that can't process level 2 or 3 data leading to unnecessarily high interchange fees.

Embracing digitization across the order-to-cash process can help suppliers automate payments, reduce errors and enhance security.

The modern A/R professional needs to know when to work to influence buyer behavior and when it makes more sense to optimize internal processes with **accounts receivable automation** and **supplier-focused payments platforms**.

INTRODUCING

Business Payments Network: The end-to-end solution



Meet BPN

We've detailed the challenges of today's B2B payments environment, namely, the difficulty of applying cash across channels, controlling costs, security concerns and satisfying both buyer and supplier preferences.

With multiple powerful players in the financial system (banks, A/P providers, suppliers etc...) all with their own interests and preferences to protect, creating solutions that cater to each has proved difficult. Solutions providers have tried creating standards like EDI, consortiums and, most recently, buyer-driven solutions. All have failed to win wide-spread adoption.

Billtrust, the leading innovator in accounts receivable automation, has taken a unique approach in collaboration with Visa.

Business Payments Network (BPN) is built for, and driven by, the needs of suppliers. Billtrust recognized that the overarching goal of any payments platform should be gaining supplier acceptance of payments. By allowing suppliers to guide their buyers and A/P providers toward delivering payments that match their preferences, electronic payment acceptance rises and overhead falls.

BPN couples payment and remittance data in real-time with flexible rates and helps suppliers overcome the traditional complexities of B2B payment transactions.

BPN automates third-party payments

One of the most powerful features of BPN is the way it handles credit card payments. Payment instructions are automatically extracted from email and A/P platforms without ever exposing card numbers to humans, vastly reducing the risk of fraud. Payments are then authorized and processed automatically. Payments can be settled using level 2 and level 3 data to optimize interchange fees.

And, finally, remittance data is processed without manual intervention into the supplier's ERP system(s).

B2B card spend is projected to grow to $355 billion by 2022 — up from $136 billion in 2017, marking a 21 percent compound annual growth rate (2). The BPN credit card solution allows suppliers to accept this oncoming tsunami of card payments with less manual effort, greater security and significantly lower interchange fees.

BPN Flex Pay puts suppliers in the driver's seat

The balance of power in payments has often favored the buyer. They've already received the product or service from the supplier, and though they have a legal obligation to pay, they are in possession of the funds and have outsized control over how they pay.

BPN Flex Pay is an entirely new method of B2B payment, unlike paper check, ACH or credit cards. And it's here to offer balance to the power dynamic between suppliers and buyers.

Any supplier participating in BPN who opts into BPN Flex Pay pays a much smaller fee than they would with a card transaction, but receives all the benefits of credit cards: fast payment, high security and remittance data attached. And buyers receive the rebates that they love from cards, albeit at a lower rate. A BPN Flex Pay is available quickly, just like a card payment, but because of the BPN rebate structure, buyers are incentivized to pay faster and with the necessary remittance to automate the cash application process for suppliers.

BPN helps put best practices in motion

Every supplier that receives payments through the Business Payments Network registers their preferences about how they want to get paid. Those preferences are then automatically transmitted to the financial institutions and A/P providers that are representing their buyers. The result? Fewer calls from buyers and their third-parties asking suppliers how they wish to be paid.

Business Payments Network takes care of the entire supplier side of the transaction, no logging in A/P Portals required. With Gartner predicting that, by 2025, 50% of buyers will use A/P providers to handle their payments — BPN is positioned to save suppliers time, money and headaches (3).

Conclusions and recommendations

The development of electronic payments in the B2B landscape has, up until now, heavily favored the buyer side of the transaction by lowering the costs of transmitting payment and providing rebate opportunities via credit cards. Much of the conflict in this space has been borne of supplier-side rebellion to unsatisfactory remittance data and high fees.

But new technologies are offering a way to balance the playing field and benefit the buyer and supplier equally. Accounts receivable automation provides both labor and cost savings that can offset the burden of payment acceptance fees and paves the way for straight-through-processing of accounts receivable.

The field of A/R automation has developed to the point that efficient solutions are now available for business of all sizes and for payment processes across all payment channels. The entire order-to-cash process has the potential to be automated economically.

Business Payments Network provides a platform for buyers and suppliers to pay and get paid on more equal footing by allowing suppliers to set the terms and then rewarding buyers for paying faster. Wide-spread adoption of both accounts receivable automation and payments platforms like BPN bring down the costs of payments for all players in the system.

New technology is bringing lower fees, quicker transmission of funds, fast settlement and greater cooperation between buyers and suppliers. The future of B2B payments is complexity made simple.

REFERENCES:

1. Association for Financial Professionals. (2019). 2019 AFP Electronic Payments Survey. Retreived from https://www.afponline.org/publications-data-tools/reports/survey-research-economic-data/Details/epayments-survey
2. Accenture. (2018) A Slice of $700+B in US Commercial Card Spend Up for Grabs. Retrieved from https://bankingblog.accenture.com/slice-700b-us-commercial-card-spend-up-for-grabs?lang=en_US
3. Gartner Research. (2018) Magic Quadrant for Procure-to-Pay Suites. Retrieved from https://www.gartner.com/en/documents/3876770/magic-quadrant-for-procure-to-pay-suites0

billtrust