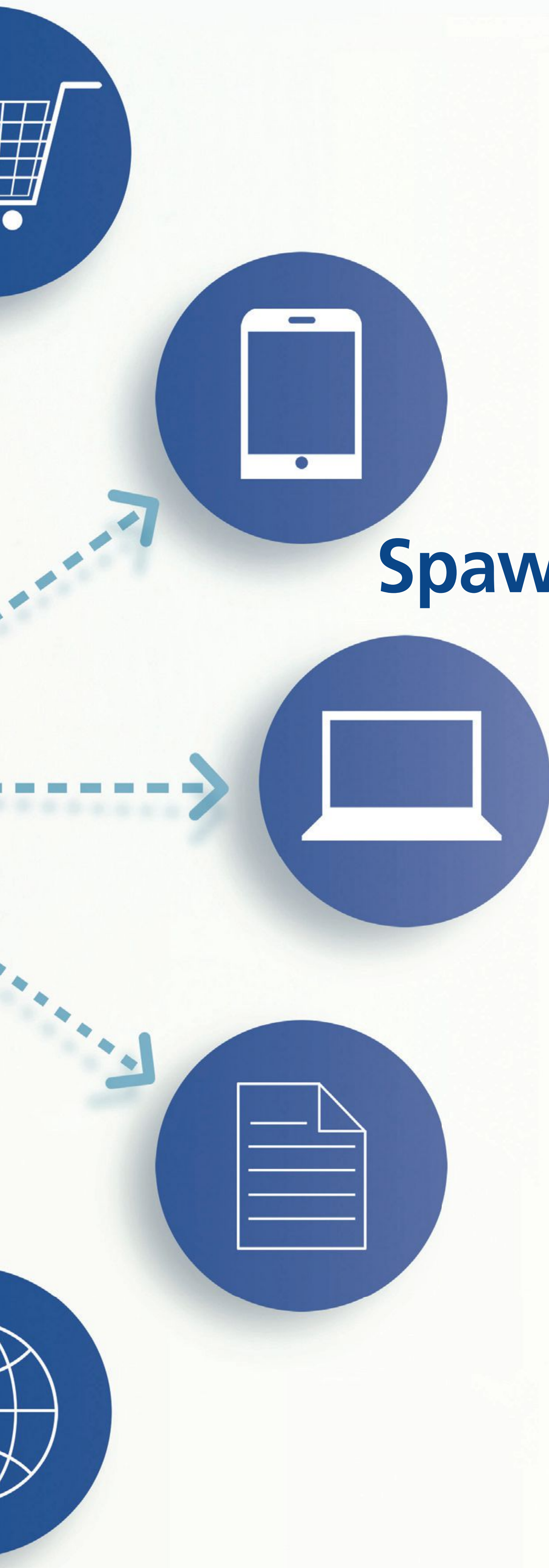


Innovation in B2B Payments Spawns New Potential

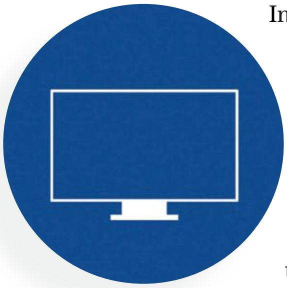
BY CHRIS RAUEN

In a digital marketplace, connectivity offers a competitive advantage. By connecting with suppliers over a business network to buy, sell, and manage cash, you eliminate paper and create a hyper-efficient business that improves your bottom line.

Businesses in the United States still pay half of their bills by check, according to a September 2014 survey by the Association for Financial Professionals. In neighboring Canada, the value of commercial check transactions is on the rise. Today, 52% of the value of commercial transactions in Canada is attributed to paper checks. For sellers, paper checks offer no visibility into when they will be paid—or often, for what they are being paid—making it difficult to effectively manage cash and reconcile payments.

For buyers, it means lots of paper and inefficiencies that can cost companies billions each year. A recent report from Ardent Partners, *The State of B2B Payments: Emerging Business Value*, states that cost per payment for best-in-class companies came to just $0.89, compared to $10.65 for all others—a substantial delta that would justify an e-payment initiative.

The time is right for innovation in business-to-business (B2B) electronic payments to make it easier for suppliers to receive and reconcile payments, while helping buyers improve on-time payment performance and reduce the risks associated with business payments. In addition, when B2B innovation includes e-invoicing over a business network, organizations get new opportunities to manage cash and working capital.



Recent payment innovations now combine the B2B e-commerce capabilities of business networks with trusted payment infrastructures. These strategic partnerships link two critical components of B2B payments: the timely settlement of funds at maturity with the rich remittance needed to reconcile and easily apply those funds.

Next-generation B2B payment solutions connect electronic payments to pre-payment transaction documents such as purchase orders, contracts, and invoices. This is a natural extension to the procure-to-pay (P2P) process and helps suppliers view payment flows from scheduling to execution to settlement, something not possible with paper checks or traditional electronic payment solutions.

Chris Rauen helps to educate procurement, finance, and shared services professionals on the business value of accounts payable automation, procure-to-pay transformation, and collaboration via business networks at SAP Ariba. Rauen brings more than 15 years of experience in ePayables and AP automation.

Solving the Reconciliation Challenge

In the consumer world, payments are made at point of sale, but business payments typically occur weeks or months after goods and services have been delivered. This disconnect between a B2B payment and the information about that payment can be a source of problems for suppliers and for their customers. When limited remittance detail accompanies an electronic payment, suppliers can't easily reconcile their payments, which impacts their collection timing and receivables metrics. Suppliers must contact their customers for payment status, to clarify remittance data, or to resolve post-payment invoice disputes. Because of this, suppliers often resist being paid electronically, preferring paper checks and lockbox services that deliver better, yet limited, remittance—and no advance visibility into anticipated payments.

Marrying the data with the payment overcomes the reconciliation challenge, and is a key capability of today's B2B payment solutions. This is especially useful when a payment is made against multiple invoices, or when an invoice is not paid in full due to partial shipment, a dispute, or the taking of a discount.

Knowing when they will be paid is something all suppliers crave to assist in cash-flow forecasting. This is where electronic payment over a business network presents a major advantage. By connecting with their customers over the network, suppliers can have real-time "track and trace" visibility into payment status from the moment a payment is scheduled to when it is initiated and ultimately to posting into their bank accounts.

Electronic payments can eliminate another outdated business practice plaguing accounts payable: data entry. In the United States, a recent survey by the Federal Reserve of corporate finance professionals on electronic payments and remittance data found that 88% of respondents had to re-key remittance data.

Then there are the costs associated with paper checks: check stock, postage, handling, and check-related bank fees. Electronic payments eliminate those costs while adding fraud-prevention controls that improve

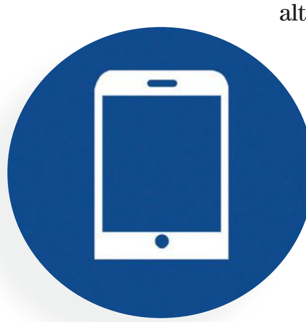
the security of the payment process.

One other challenge with business payments involves the management of supplier bank account information—a tedious and time-consuming effort that can also expose companies to risk. Solution providers that assume this responsibility on behalf of their customers, and allow suppliers to maintain their account information, eliminate this risk while freeing up accounts payable staff to focus on higher-value activities.

Potential to Manage Cash, Working Capital

The next generation of B2B payment solutions can serve another valuable function: motivate suppliers to move from manual, paper-based invoice submission to electronic invoicing over a business network. An integrated electronic invoice and payment solution can eliminate many processing errors, accelerating the invoice processing cycle as it reduces costs. But there's a more compelling reason to act: it can improve the way you manage cash and working capital.

Consider early payment discounts. With a manual, paper-based invoice process, it can take weeks to approve an invoice, so your finance team won't make early payment discounts a priority. An invoice just can't be processed fast enough. By enabling the processing of a valid invoice in a few days, or even the same day, electronic invoicing over a business network empowers you to capture all available early payment discounts.



Even more, you can capture dynamic discounts on a sliding scale up to the due date of the invoice and extend these discounts to new groups of suppliers that never offered them before. These suppliers can accept discount terms when they activate an account to transact with you electronically over a business network—requiring little to no involvement from your procurement or payables team. This approach also separates the financing decision from the buying decision.

Early-payment discounts are especially valuable to smaller suppliers interested in improving their cash flow. Meanwhile, for buyers, these discounts offer the best option for increasing cash returns, with no risk. Typical discounts range from a 10% to more than 30% annual percentage rate (APR). They can generate on average $2 million in discounts for every billion dollars of spend, according to industry studies. Buyers set the hurdle rate or minimum rate of return they are willing to accept for these discounts, control the amount of cash they are willing to use, and identify which suppliers or supplier groups to include in a program. In addition, the ability to programmatically manage a discount program across a wide supplier base is a strategic advantage.

While some may be concerned about the negative impact on days payable outstanding (DPO) from an early payment discount program, you can offset that with a payment terms standardization and extension program. Often, payment terms go unmanaged. When combined with an inefficient invoice process, many organizations may pay invoices upon receipt and discover that their DPO falls below the average for their industry. This presents an opportunity to extend payment terms in conjunction with an early payment discount program, maintaining or extending DPO in the process.

In cases where you may not want to use your own cash for discounts, supply chain finance programs offer an alternative. Here, third-party funders take the discount on your behalf, while you pay the full amount to the funder on the invoice due date. With this approach, you improve your suppliers' cash flow without increasing their debt.

New Era of B2B Payments

For organizations that have not kept pace with innovation in B2B payments, there is so much more to the value proposition than lowering costs and simplifying the process. Next-generation solutions allow you to precisely time payments and provide the security, accuracy, visibility, and flexibility you require for managing payments. In addition, with some solutions you can link payments to key transaction documents and provide suppliers with visibility into payment status at every stage.

As you build your business case, recognize that the cost savings cited earlier are just the start. Electronic B2B payments can serve as a catalyst to increasing earnings on cash, freeing up working capital and transforming payables into a strategic asset. That should make B2B payments a top priority for corporate finance. ■