CORPORATE SPENDING INNOVATIONS

Automating Payments: How Virtual Cards Remove Barriers to Electronic Payment Adoption

Overview

In an era where innovation in technology has transformed the way we work and live, it's hard to believe that 50% of businesses continue to write paper checks. As businesses give up the paper and modernize their B2B payments, virtual cards are among the fastest growing means of electronic payments. The following document explores four case studies that demonstrate how virtual cards are enabling financial executives to overcome the barriers that have prevented more wide scale adoption of electronic payments, including security, acceptance and implementation.

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For CFOs, has the time come to ditch the paper or hit the road?

In an era shaped by technology innovations that have changed the way we live and work, it's hard to believe that 50% of businesses[i] are still writing checks to pay their suppliers. Although the majority of these businesses are expected to transition to electronic payment systems within the next several years, the best method remains a mystery for many CFOs.

In the meantime, companies continue to cling to paper checks, as reported in the WSJ CFO Journal[ii] – a dangerous vice considering the costs to American business, estimated by Bank of America to be between $4 and $20 *per check*, with an overall potential economic burden of up to $54B.

Here's a case where slow and steady is not going to win the race. CFOs that remain resistant to inevitable change may soon find themselves out of a job.

Success Stories

Often overlooked, the finance area is not immune to the need for innovation. The following examples showcase financial leaders who are successfully modernizing their company's payables with virtual card payments.

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> "We could no longer afford to stand at a fax machine to send paper invoices, or manually analyze daily charges. We had to find a fully automated system that would be scalable."

-Mim Davis, VP/CFO, Sq1

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$107,000

annual savings through CSI Paysystems.

Serge Laroche, Regional Financial Controller at the Fairmont Royal York in Toronto, transitioned from paper checks to electronic payments just one year ago.

"Change always brings about challenges, but CSI Paysystems has made it a smooth and easy transition. Executives that are stuck in old fashioned ways of doing business run the risk of being left behind as companies continually seek to progress through new technology."

Sonya Sawyer, CFO of regional service company Home-Tech, echoes Laroche's sentiment. "Writing checks is archaic. This is a new way to make payments that's easy, and the reporting is fantastic." Home-Tech is another example of a successful implementation of a modern, electronic payment system. Within the first few months of adopting CSI Paysystems, Home-Tech reduced the number of checks written by 40%.

Another company that has seen much success since transitioning to electronic payments is Square One Advertising (Sq1), a national digital ad agency based in Dallas, Texas. CFO Mim Davis recalls the dire situation that caused the agency to ditch the paper. "We could no longer afford to stand at a fax machine to send paper invoices, or manually analyze daily charges. We had to find a fully automated system that would be scalable." Sq1's new electronic payment system saves the agency over
$100,000 per year and countless hours of staff time.

Laroche, Sawyer and Davis are among hundreds of financial executives that have begun adopting CSI's virtual card payments over the past several years. Their success stories are highlighted throughout this paper and can be downloaded via the case study links provided.

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Within the first few months of adopting CSI Paysystems:

40%

reduction in the number of paper checks each month.

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"Writing checks is archaic. This is a new way to make payments that's easy, and the reporting is fantastic."

-Sonya Sawyer, CFO, Home-Tech

Barriers to electronic payment adoption

Security

Unlike credit cards - which leave a company highly vulnerable to security threats by hackers as recently experienced by Target, Neiman Marcus and others[iii] - virtual credit card numbers can be issued as a single-use payment for a specific purchase. Once the authorized transaction is complete, the card number becomes invalid, effectively eliminating the risk of a security breach. From an internal control standpoint, that single-use card number is easily tracked and reconciled within the accounting system.

While it seems like a win-win for businesses, success has been limited. A 2013 survey by the Association for Financial Professionals[iv] (AFP) identified three primary barriers that have prevented most electronic payment providers from gaining traction. However, the shared experiences of CSI's customers show promise that these barriers are being overcome.
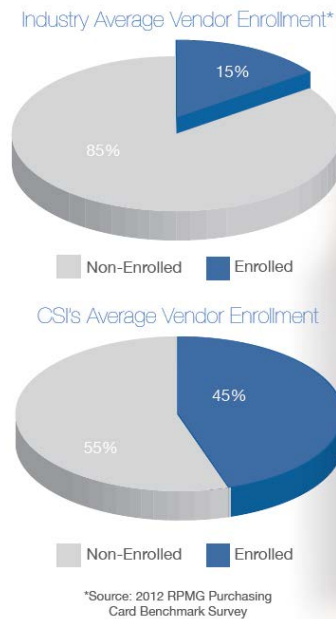
Acceptance

For suppliers accustomed to accepting checks, convincing them to make the change to electronic payments is a challenge. So challenging, in fact, that the industry sees an average 10-15% acceptance rate, which hardly makes a full system implementation worthwhile for most companies.

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ABOUT CSI

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For 25 years, CSI has provided world leading brands with simpler, more secure payment solutions.

Combining technology and extraordinary customer service, our virtual payment solutions enable businesses to reduce costs and increase profits in all areas of B2B payments including AP, travel and mobile payments.

In sharp contrast, CSI achieves 40-50% acceptance for clients of CSI Paysystems. It's these results that are enabling customer success, and capturing the attention of prominent players in the space like Mastercard®v.

Industry Average Vendor Enrollment*

- 15% Enrolled
- 85% Non-Enrolled

CSI's Average Vendor Enrollment

- 45% Enrolled
- 55% Non-Enrolled

*Source: 2012 RPMG Purchasing Card Benchmark Survey

Laroche's expectations were admittedly low when going into CSI's program. While hotels are accustomed to receiving payments via credit cards, many suppliers are not. "Because of this, I was anticipating that 10% of our vendors would agree to accept virtual card payments. I was so surprised that CSI achieved 50% enrollment during the initial campaign."

Implementation

A shortage in IT resources needed for system implementation is a primary barrier cited in the AFP survey. Given the findings from a 2012 McKinsey studyvi, this barrier is not surprising: large IT projects were found to run 45% over budget and 7% over time, while delivering 56% less value than predicted.

50%

reduction in monthly check writing and associated costs.

"It was the easiest transition I've ever gone through with a system conversion."

-Michele Schneider, Director of Finance, Trump SoHo New York

One of the greatest strengths of the CSI Paysystems is its simplicity, which extends from implementation to the end user. The Software as a Service platform requires little to no IT support and is easily integrated into existing ERP or accounting systems – usually within weeks. With a flexible interface, payment files can be uploaded in any format via FTP, API or through a manual upload.

Integration

A lack of integration between the electronic payment system and existing accounting software bogs down an already resource constrained accounting department with additional tasks and margin of error. It's no wonder that financial executives are hanging on to those paper checks, hesitant to make the shift.

CSI again shows that the change does not have to be so cumbersome. Financial executives from Trump Hotels shared their success with CSI Paysystems during an interview with PYMNTS.com[vii]. Among the successes shared was the ease of integration with minimal disruption to the business. "It was the easiest transition I've ever gone through with a system conversion," shared Michele Schneider, Director of Finance at Trump SoHo New York.

Closing Thoughts

During the PYMNTS.com interview, Schneider's colleague Mike Straube, Corporate Director of Finance for Trump Hotel Collections, was quick to point out that the backend processes within the hospitality industry remain intensely manual. "We're trying to catch up with the rest of the business world in terms of automation."

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But according to the recent survey data, it's the rest of the business world that remains woefully behind in modernizing their payment systems. Those CFOs that are clinging to paper checks have a lot to learn from the success stories shared by these innovative financial executives who are leading change for their companies while CSI is paving the way for the next era in payments.

End Notes

[i] CFO Magazine, Vincent Ryan, November 19, 2013: Checks Ceding Ground to Electronic Payments http://ww2.cfo.com/cash-management/2013/11/checks-ceding-ground-electronic-payments/

[ii] WSJ CFO Journal, Vipal Monga, March 10, 2014: U.S. Companies Cling to Writing Paper Checks http://blogs.wsj.com/cfo/2014/03/10/u-s-companies-cling-to-writing-paper-checks/

[iii] Reuters, Jim Finkle and Mark Hosenball, January 23, 2014: Exclusive: FBI Warns Retailers to Expect More Credit Card Breaches http://www.reuters.com/article/2014/01/23/us-target-databreach-fbi-idUSBREA0M1UF20140123

[iv] 2013 AFP Electronic Payments Survey http://www.reuters.com/article/2014/01/23/us-target-databreach-fbi-idUSBREA0M1UF20140123

[v] Press Release, October 11, 2013: CSI Enterprises and MasterCard Position to Change Payments Landscape with Virtual Payment Solution for Issuers and End Corporates http://www.reuters.com/article/2014/01/23/us-target-databreach-fbi-idUSBREA0M1UF20140123

[vi] McKinsey & Company, October 2012, Delivering Large-Scale IT Projects On Time, On Budget, and On Value http://www.mckinsey.com/insights/business_technology/delivering_large-scale_it_projects_on_time_on_budget_and_on_value

[vii] PYMNTS.com, April 5, 2013: Does CSI "Trump" the Competition in the ePayments Industry? http://www.pymnts.com/briefing-room/commerce-3-0/Electronic-Payments/2013/Does-CSI-Trump-The-Competition-In-The-ePayments-Industry/