CORPORATE SPENDING INNOVATIONS | Edenred

# White Paper

## Accounts Payable: The Present & Future of Automation

August 28,2020 | Mary Brandon

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# Introduction

As the country begins the slow process of reopening offices, schools, and public venues, it's a good time to reflect on the lessons learned over the past few months. The pandemic deeply affected businesses and identified significant operational gaps that made employees scramble to complete day-to-day responsibilities, especially in a remote environment.

Finance departments, specifically Accounts Payable, struggled with checks going to empty offices, payments being delayed or not paid, and risked damaging long-standing vendor relationships. In addition, the same manual, costly, and time-consuming processes that existed pre-pandemic continue to be on-going pain points for AP personnel.

In a time when businesses are trying to recoup lost revenue, any improvement that can save or make them money should be thoughtfully considered. Most businesses were not prepared for the effects of a global pandemic, but if there is a silver lining, many are now reprioritizing projects that were placed on the back burner for years. They are allocating investments and assigning resources to ensure they will be thoroughly prepared for whatever the future holds.

Organizations can better prepare for the future by implementing an automated payment solution, eliminating tedious, manual processes. These solutions give companies the ability to complete AP tasks from anywhere and provide finance departments with the tools and flexibility they need to work securely in a remote environment. In addition, an automated solution creates efficiencies within the organization, saving both time and money, while not compromising any internal controls.

# What's happening in B2B payments?

## Electronic Payment Volume Is Increasing

- Currently, the global payment volume for the B2B market is estimated at $120 trillion with the US market estimated at $25 trillion. Digital payments are growing, and card payments are increasingly part of the B2B mix with a 2 percent card penetration globally and 4 percent card penetration in the US.[1]
- Compared to the 67 percent of B2C electronic payments penetration, B2B is only at 36 percent, offering an immense opportunity. [1]

| | B2C | B2B |
|---|---|---|
| Global Payment Volume | $42 trillion | **$120 trillion** |
| Global Card Penetration | 48% | **2%** |
| US Payment Volume | $9 trillion | **$25 trillion** |
| US Card Penetration | 56% | **4%** |
| US Electronic Payments Penetration | 67% | **36%** |

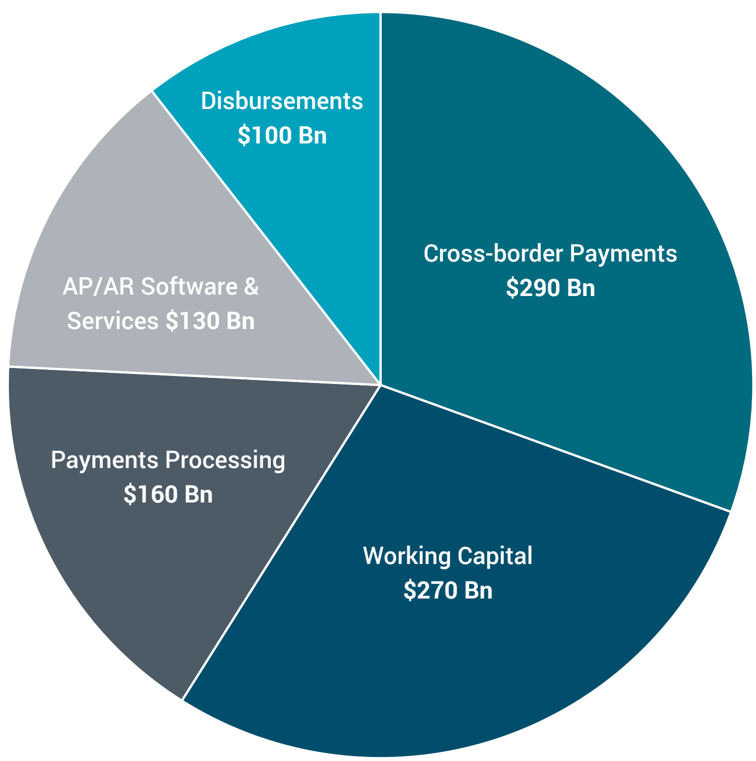
[1] *Mastercard*

**An excerpt from a Medium.com article:**

B2B Payments Automation Is Finally Having Its Moment

*"B2B Payments automation is complex, but it offers innovative payments services companies an attractive Total Addressable Market (TAM). There are 5 sub-segments in US B2B Payments space, each offering over $100 billion of revenue to both large incumbents and fintechs."*

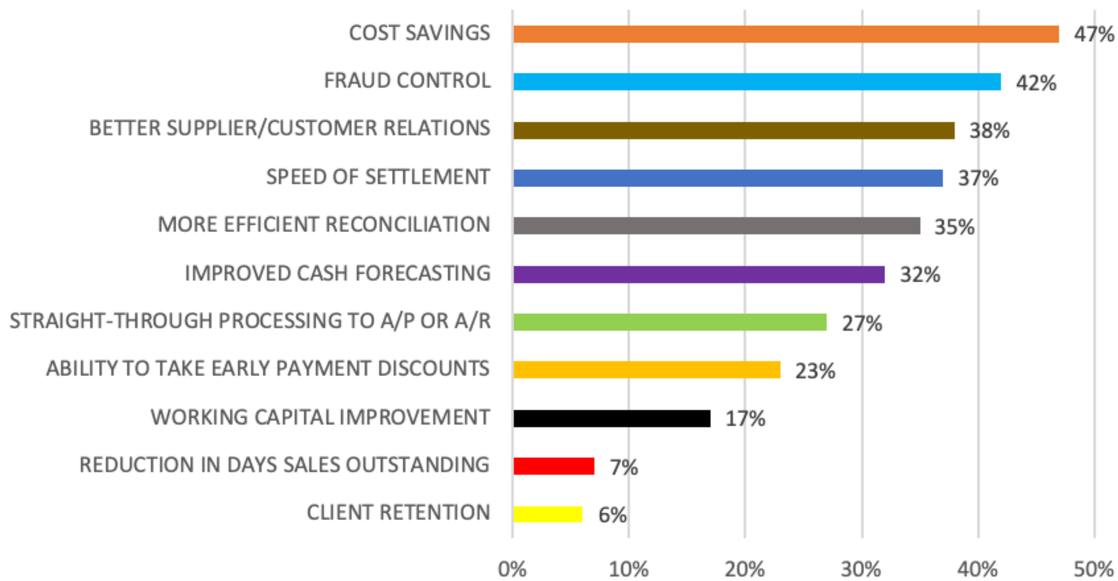
*"According to Goldman Sachs,* ***B2B Payments represent a $1 Trillion revenue opportunity****, broken down by Cross-border payments and Domestic B2B Payments."*



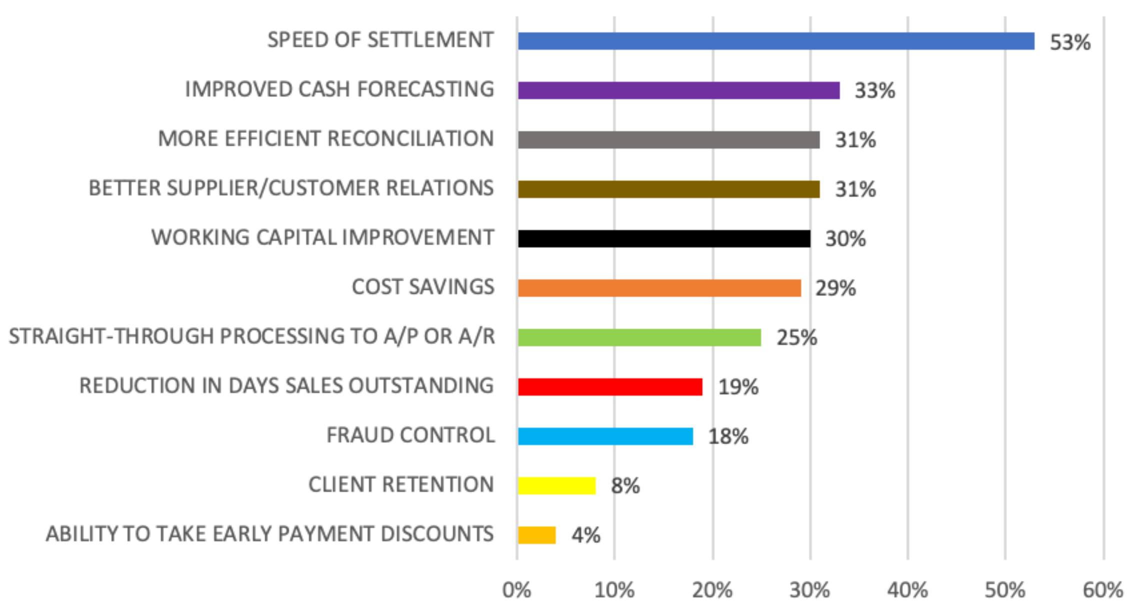
## Businesses are Realizing the Benefits of ePayments

Developing an ePayments strategy doesn't have to be complicated. From a financial standpoint, it's well worth the effort and is an integral part of operating in today's technology-driven and competitive environment. In a 2019 AFP Electronic payment survey, finance professionals listed the prioritized benefits of ***sending*** and ***receiving*** ePayments in the charts below.

### Key Benefits of *Sending* ePayments



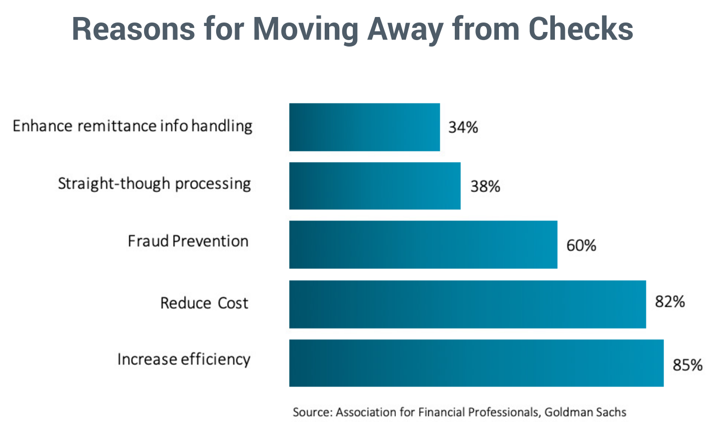

### Key Benefits of *Receiving* ePayments



## Payments by Check are Declining

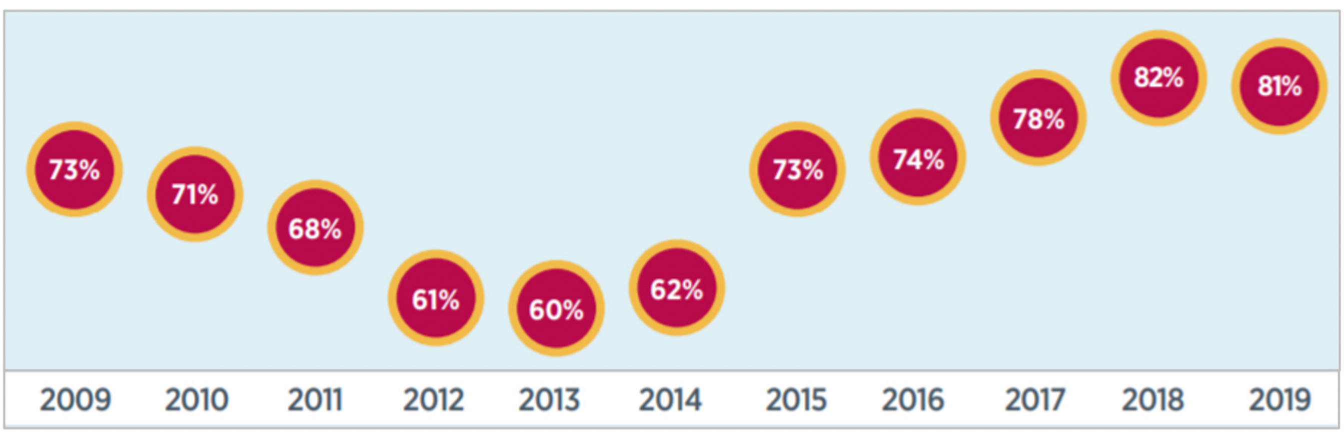
In the same AFP survey, it was stated that the percentage of organization's B2B payments made by check has been steadily declining from 81 percent in 2004 to 42 percent in 2019.

The survey results suggest companies in the U.S. are now more willing to shift their payment methods away from checks to electronic alternatives. One reason is the vast array of new solutions and providers available with offerings far more compelling than checks.



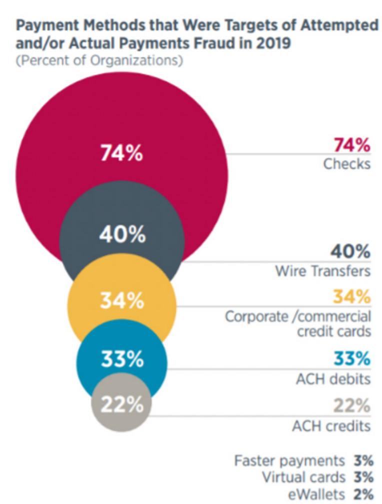

## Payments Fraud is Rising

According to the 2020 AFP Payment Fraud and Control Survey, losses from check fraud totals $18.7 billion annually and more than one million checks per day are forged in the US. This means businesses need to balance keeping payments secure while still delivering a seamless payment experience. The chart illustrates the percent of organizations that experience payments fraud through Corporate/Commercial/Debit Cards from 2009 through 2019.




Payments by check and wire transfers continued to be the payment methods most impacted by fraudulent activity in 2019. (74 percent and 40 percent respectively)

With the payments market estimated to grow substantially over the next 5 years, it's critical for businesses to institute solutions that will make payments more efficient and secure using the latest technologies.



One of the lowest targets for fraud was virtual cards. A virtual credit card is a unique 16-digit computer generated number used to settle a specific vendor payment transaction issued for a specific dollar amount. Benefits include:

### Buyer Benefits

- Lower payment processing costs
- Significant rebate income potential
- Easier vendor onboarding and maintenance
- More secure disbursements with reduced exposure to fraud
- Manage working capital with potential to leverage float while accelerating supplier payments

### Supplier Benefits

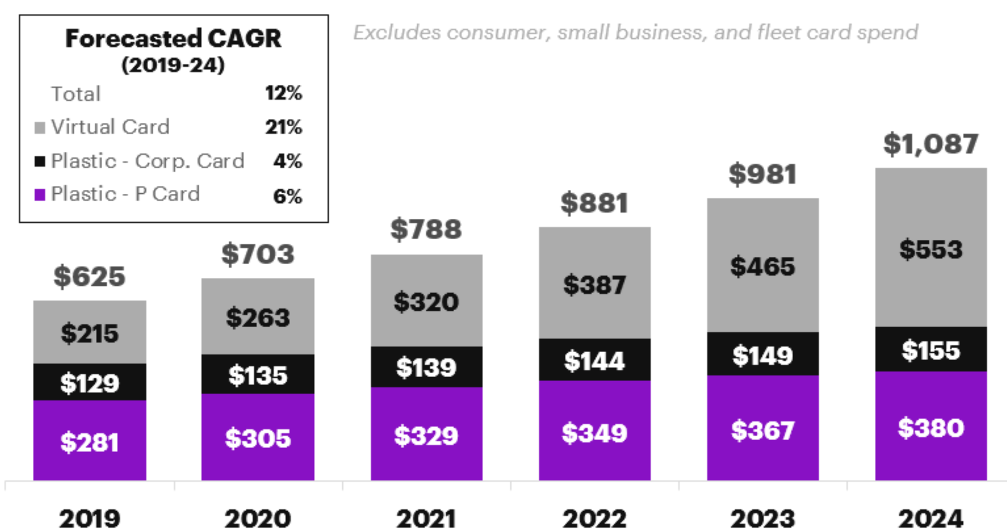
- Faster payment / reduce Days Sales Outstanding
- Preferred vendor status
- More secure payment, less fraud exposure
- Detailed remittance information provided for easy reconciliation
- Increased potential for straight- through processing of invoice payment receipt

## Virtual Card Innovation Remains Resilient

PYMNTS reported that 46.4 percent of AP professionals would like to implement electronic invoice solutions, and that 22.9 percent would like to integrate ePayables with virtual cards into their B2B operations. Such sentiments are fueling strong growth in the use of corporate credit and virtual cards, with virtual card spend ***projected*** to grow to $355 billion by 2022 — up from $136 billion in 2017, marking a 21 percent compound annual growth rate (CAGR).

Juniper Research, reported that B2B virtual cards will account for almost 80% of virtual card transactions by value, and that transaction value will double over the next 5 years.

According to Accenture, US commercial card spend grew an estimated 13 percent in 2019 and strong growth is expected to continue through 2024. Providers are developing innovative strategies to move more spend to card-based products, and broader B2B payment trends are anticipated to stir growth. Virtual cards, as shown in the chart below, show a significant opportunity for growth.

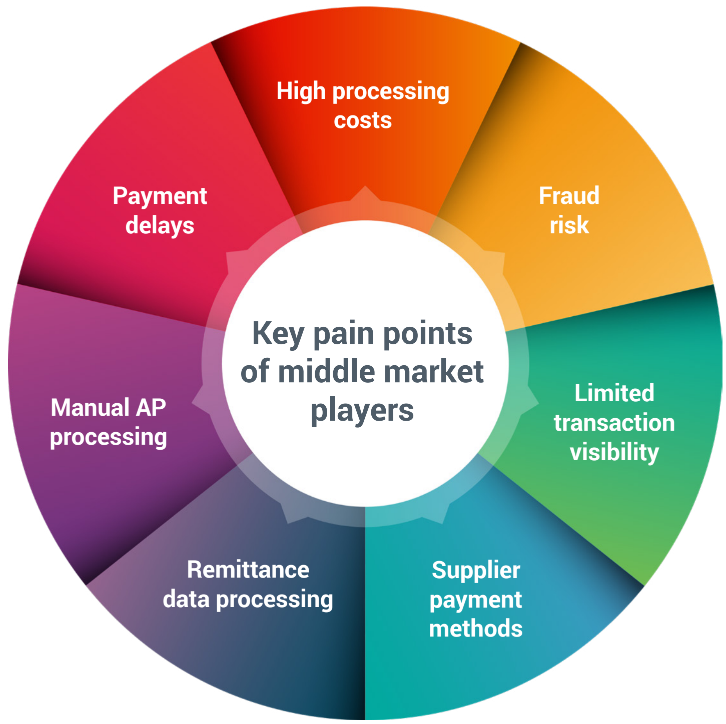



Source: Accenture

# Accounts Payable Pain Points

According to Deloitte, B2B payments processing in middle market hasn't received the same attention from financial institutions as consumer payments or corporate payments aimed at large companies.

Financial Technology companies (Fintechs) are collaborating with financial institutions to bring advanced technology and value-added services to change the payments landscape and reduce and/or eliminate the common Accounts Payable challenges:




- **High processing costs:** It costs AP organizations nearly $8 to process a single supplier payment with 62 percent of the cost stemming from labor.
- **Payment delays:** It takes an average of 30 days to complete a payment, and around 47 percent of the suppliers are paid late for their products or services.
- **Manual AP processing:** Buyers lack adequate automation capabilities for AP processing due to limited back-office integration with electronic payments and invoices, lack of IT resources, and difficulty in convincing customers/suppliers to use ePayments.
- **Remittance data processing:** Reconciling multiple invoices and receiving and processing remittance data can be cumbersome due to missing data elements in the files, use of different file formats, and lack of back-office support for automated remittances.
- **Supplier payment methods:** A mismatch in the payment methods preferred by buyers and suppliers also poses challenges; buyer payment decisions are heavily dependent on the payment methods their suppliers use.
- **Limited transaction visibility:** A limited end-to-end view of the transaction associated with multiple payment methods results in extra costs, delays, chargebacks, and payment cycle disruption.
- **Fraud risk:** Risk of fraud is high, with limited authorization controls for each transaction. Existing payment methods don't always provide the right level of security for online payments.

# Automation…where to start?

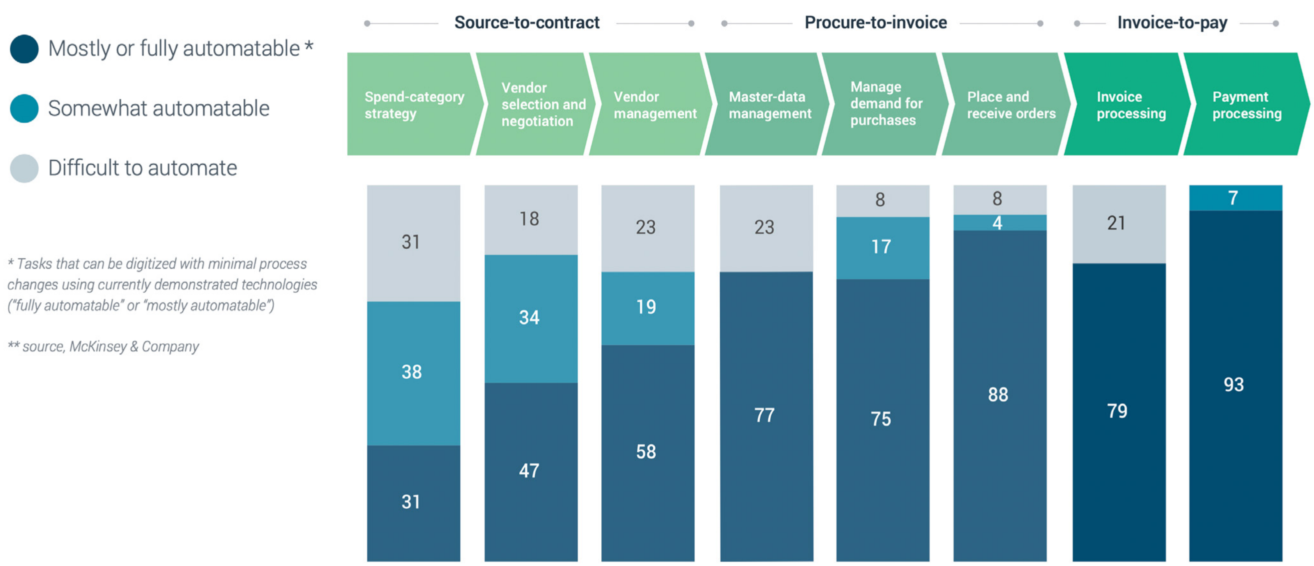
The thought of implementing an AP automation solution can be daunting, especially during a time of crisis. However, it doesn't have to be an arduous task. In an article published by , [A Roadmap for Digitizing Source to Pay](), they broke down the level of effort to automate each AP function.

McKinsey &Company

**An excerpt from the article:**

*"Our analysis shows that, overall, 56 percent of the tasks associated with the source-to-pay process are fully or largely automatable using existing technologies. That's a significant finding, suggesting that source-to-pay activities as a whole are more suitable for automation than is a typical US-based job.*

*Unsurprisingly, the automation opportunity is highest in the more transactional parts of the process: in placing and receiving orders, 88 percent of tasks can be automated, and the figure rises to 93 percent in payment processing. Moreover, even the strategic elements of source-to-pay show considerable automation potential. Our analysis shows that 47 percent of vendor-selection and negotiation activities can be automated." In the chart below, it illustrates the potential for automation using currently demonstrated technologies by process stage, % of task within process stage."*




## Highest Opportunity: Payments

In the United States, 64 percent of AP payment volume is still paid by check and the issuing and depositing of checks across the country costs businesses $26 billion annually. Add in losses from check fraud which total roughly $18.7 billion annually, the numbers tell a clear story that something needs to change, and it needs to happen fast.[1]

[1] *McKinsey & Company*

# Barriers to Automating Payments

Many CFOs struggle with when and how to automate AP because they may not be aware of the advances in technology that deliver simple and cost effective solutions. The innovation, technology, and automation available today makes automating payments fast, simple, and secure.

**Businesses have been automating Accounts Payable for years. In a Medius article, they shared the following:**

- **1955:** General Electric became the first business to purchase a computer for accounting
- **1960s:** EDI standards were developed to streamline AP processes
- **1979:** the first spreadsheet software was introduced to the market
- **1990s:** QuickBooks made technology accessible to the mainstream
- **2000s:** Advanced data capture, optical character recognition (OCR), and intelligent data capture (IDC) technology make AP automation a reality for a growing number of companies
- **Today:** Cloud automation and artificial intelligence (AI) are the wave of the future for optimum efficiency and speed

Automation is part of nearly every industry, from Media and Healthcare to Hospitality and Financial Services. Yet for some reason Accounts Payable continues to be one of the more manual segments of a business—and the criticality of moving toward automation has never been more important than it is right now. Payments are often referred to as the last mile of Accounts Payable and there are several common reasons why businesses are reluctant to automate:

***"Our current payment process works well..."***

...considering the high processing fees and fraud associated with paper checks, misplaced and lost invoices, time-consuming workflow approvals, and managing vendors' bank account information, automation is a smart solution to these and many other challenges.

***"Automating payments puts a strain on business resources..."***

...payments automation will simplify AP operations and enable staff to focus on more strategic, revenue generating activities.

***"We can't control vendors'/suppliers' payment methods..."***

...a valid point, however, most vendors/suppliers will accept virtual card payments especially if they are offered early payments, discounts, experience faster reconciliation, and can reduce fraud exposure.

***"Automating payments is too expensive..."***

...actually, automation can save and make businesses money. Many solution providers offer a cash back incentive with a virtual card payments program that offsets most, if not all costs.

The payments process for many businesses could use an upgrade and now is the right time to fully automate Accounts Payable from procurement to payment. In addition to the benefits of cost and time savings, along with increased efficiency and security, optimizing AP can prepare businesses for any future crisis.

With the latest technology, payables could be functioning at peak efficiency in 4-6 weeks, delivering no touch payments at any time, from any location. Manual processes and fraud risk can be substantially reduced, and the lives of finance professionals greatly enhanced. Businesses need to get on board with the shift in the industry towards digital/automated AP and act today to be more prepared for whatever the future holds.  So, what changes can be made now in preparation for whatever the future holds?

## Evaluating Current AP Processes

**Knowing where to start is half the battle. Identifying problem areas within current payment processes is the next step in preparing for the future. There are obvious pain points that can be used as indicators to determine specific AP automation needs.**


**Outdated Accounting Systems:** Systems that create more work than is necessary can slow cash flow to a trickle, which in turn can lead to inefficiencies, stunted growth, and lower profitability.

**Limited Transaction Visibility:** A limited end-to-end view of transactions associated with multiple payment methods results in extra costs, delays, chargebacks, and payment cycle disruption.

**High processing costs:** It costs Accounts Payable (AP) organizations nearly $8 to process a single supplier payment with 62 percent of costs stemming from labor.[1]

**Manual AP processing:** Manual tasks are time-consuming, which can cost hundreds of man-hours that could have been spent on other important tasks within the organization. It also leaves room for data entry errors and even the smallest error can cost hundreds of thousands of dollars.

**Low Productivity, High Error Rates:** Manual processes lead to low productivity and inevitably an increase in human errors. It takes an average of 30 days to complete a payment manually, and as such 47 percent of vendors are paid late for their products or services.[1]

**Poor Supplier Relationships:** Manual processes, human errors, late payments, and delays in billing approvals lead to an unhealthy relationship with vendors. This can result in unnecessary delays and cause excessive losses in the form of bad deals and bad service.

**Fraud Risk:** The risk of fraud is very high with checks, and manual processes have limited authorization controls for each transaction, leading to internal fraud.

**Loss of Early Pay Discount:** The long turn-around time in the processing of AP payments not only costs US companies through inefficiency, the potential loss of early pay discounts can be significant. Most of these discounts are based on the buyer electing to pay within 10 days, if it takes 30 days to process, approve and deliver a payment, up to 2% of the invoice value is off the table for the buyer.

*[1] Deloitte*

## Defining Your Payments Automation Requirements?

**As part of the evaluation process, AP organizations should define their specific automation requirements. These questions can help to kick start the process:**

- **What are the total costs associated with payments?**
- **What are the biggest concerns/issues with the current AP process?**
- **How much time is spent on processing check payments?**
- **How many invoices and payments are processed each month?**
- **Is the business experiencing payments fraud?**
- **What is the monthly card spend volume?**
- **Who is responsible for negotiating terms with vendors?**
- **How long is the average invoice to payment reconciliation process?**
- **What is the current payment mix and how can it be optimized?**
- **How will the company measure automation success?**


When weighing the pros and cons of payments automation partners, the decision should be based on the business value the solution will bring to the organization. That value should encapsulate efficiency, resources, cost and time savings, as well as on-going support, vendor administration, fraud risk, and the opportunity to drive new income.

Typically, payments automation providers fall into two categories: Financial Technology (fintech) companies and Banks/Financial Institutions.

The term "Fintech" has been around since 1866 starting with technologies such as the telegraph, railroads and steamships that allowed for the first time rapid transmission of financial information across borders. Innovation and advanced technology have reshaped the financial industry driving banks and fintechs to become collaborators, catering to the evolving customer needs and expectations.

Fintech provider's goals are to deliver the latest in financial innovation and technology and to improve the customer experience. They have flexibility and a primary focus on one solution. This enables them to provide value-added services and support. Banks have the same goals, however they have a vast array of products, services, and financial solutions and it may be difficult for them to provide the same level of service and support businesses require.

In an article published by Deloitte "Closing the gap in fintech collaboration" it mentions that financial institutions are realizing fintechs offer new tools, platforms, capabilities, and approaches to improve customer experience and bolster their operations. Fintechs are increasingly seen as an opportunity to differentiate—a critical source of innovation helping to infuse a more agile, entrepreneurial mind-set into what has traditionally been a conservative industry that's slow to change. Fintechs are often serving as the spark—and in some cases the engine—of true transformation within a growing number of financial institutions.

## Tips for Selecting a Partner

- **Trust and Transparency**
  Research the differences between working with a bank and a fintech. Banks have an inherit trust of their customers. When speaking with a fintech, ask if they are a card issuer and processor? Card issuers and processors must follow the same strict regulatory and compliance guidelines as banks, ensuring that funds and credit card information is safe and secure.

- **Vendor Analysis**
  Determine how many vendors will accept virtual card payments. A vendor analysis will identify vendors that already accept card payments, as well as the ones that can be converted from check and ACH to virtual card.

- **Vendor Enrollment and Enablement**
  Understand the resources and time needed to contact every vendor and ask if they will accept payments on cards and also the day-to-day vendor management. Select a partner that will do the heavy lifting and manage the enrollment and enablement of vendors. Verify the percentage of vendors the partner can convert to card and define their vendor management program.

- **New Income**
  Explore earning income for paying vendors/ suppliers. Converting checks and ACH to virtual card payments enables businesses with an opportunity to earn a cash rebate and can transform Accounts Payable from a cost to a profit center.

- **On-going Support**
  Speak with reference customers to better understand the level of service and support. Once the payments automation solution is implemented, a critical element is on-going customer service and support. Every partner will offer support, but is it reactive when there are issues to be resolved or is it proactive to avoid issues in the first place?

- **Ease of Integration and Implementation**
  Inquire about integrations to your ERP or accounting systems. Understand the automation process from implementation to on-going support. No matter how good an automated accounts payable solution is, if it doesn't seamlessly integrate with your existing finance systems, you may still experience some pain points.

- **Vertical Expertise**
  Explore the industry experience of the partner. Vertical markets tend to use similar accounting systems and vendors for their products and services. Partners that have experience in specific vertical markets you serve can provide value added services and support based on their deep understanding of the vertical.

- **Cloud-based Automated Workflows**
  Investigate workflow options. A majority of business processes require approvals from key positions in order to be completed. Partners solutions should include automated workflow options that sequentially lay out all the tasks involved to improve the efficiency of approvals.

- **Digital Payments Optimization**
  Ask the partner how they handle rules-based payments decisioning? Understand how manual and outstanding payments are managed. Inquire about the partner's straight-through processing and alternative payment method capabilities.

- **Data Analytics**
  Monitor how vendors are performing. For continuous improvement, it's imperative that the partner provide easy to use dashboards on spend, rebates, competitive information, and similar vendors that accept cards, to supplement business growth.

Finally, look for a partner that works with world-leading brands across all industries. A great partner will take on the heavy lifting from streamlining implementations to vendor enrollment and enablement. Partner goals and business goals should align to:

- **Covert payments by check and ACH to virtual card**
- **Handle all payments in one platform**
- **Gain analytical insight to support overall business growth**
- **Optimize payment mix in favor of more efficient and lower cost payment methods**
- **Transform accounts payable from a cost center to a profit center**

## Taking Automation to the Next Level

Businesses are realizing the benefits of automating Accounts Payable processes. They are rethinking strategies and making automation a top priority. Just how far can automation take a business?

In today's economy, reducing costs are just as important as driving new revenue streams. Innovative technology allows businesses to take automation to the next level with Straight-through Processing and Robotic Processing Automation that deliver workflow efficiency and lessening human effort and related expenses.

### What is Straight-through Processing?

Straight-through Processing (STP) is the end-to-end processing of financial transactions without manual data entry. The more human 'touch points' a transaction requires, the more cost there is in processing the transaction. By removing human touch, the natural benefits of STP automation include faster processing speeds, fewer errors, lower costs, and better service for customers.

STP is based on rules and conditions established by operational policy, and all of the steps are automated with back-end systems, to ensure a more consistent and accurate payment process. To set up STP, payment files must be in a standardized format that all buyers and suppliers use. Data fields must be the same on the initiating and receiving sides so they can be fed into the various accounting systems used by different businesses.

### Advantages of STP:

- Reduced error rates
- Improved data availability and accuracy
- Improved staff efficiency and productivity
- Less risk of fraud
- Faster transaction processing times

***STP adoption enables organizations to remain competitive as the technologies, conditions and expectations in the marketplace continue to evolve.***

# What is Robotic Process Automation?

Robotic Process Automation (RPA) is a program or software tool that automates manual, rule-based, and repetitive human activities, such as data entry. RPA is referred to as software robots or BOTS. RPA software robots work with business systems and applications to simplify processes and reduce the administrative burden on employees. BOTS can automatically perform the actions of a human faster and more accurately at a fraction of the cost and the time previously required. This minimizes the need for Accounts Payable staff to work on manual, repetitive tasks and enables them to work on higher value-added activities.


RPA tools do not replace business applications but automate repetitive data entry and other human processes. As an example, AP staff members record their keystrokes and screen activity as they enter data. The recorded activity is used by programmers to build scripts (robotic processes) that will mimic the staff member's keyboard and data entry activities.

Dependent upon the application, there may also be rules, logic, and artificial intelligence added to the scripts (i.e., amount of payments per cycle, limits on invoice amount, etc.).

The BOT pulls in relevant data from specific locations to perform the functions without human intervention, such as invoice number, date, amount, or payment type with the ability to add 'auto-validation'.

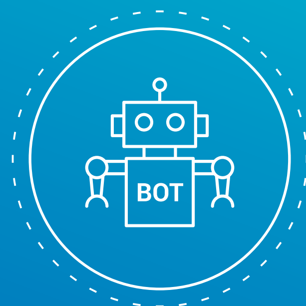
Although there is upfront developer time to write the scripts and associated rules, once up and running, RPA saves countless hours of work on the back end. In a recent study, it was determined that on average to enter one payment into the system, it took a staff member 3-5 minutes. With RPA, the time of data entry was reduced to 18 – 20 seconds. With multiple invoices (200+) included in one payment file, it took a staff member 2 hours to enter all of the invoices to be paid. RPA reduced that to under 5 minutes. In addition to saving time, the BOTS log the inputs and outputs at every step of the process and can take screenshots of the pages, providing a fully maintained audit trail for the strictest compliance. There are some limitations to RPA. The tool needs to perform the tasks of a skilled staff member. A staff member must record the data entry processes and a programmer needs to write scripts to mimic their actions.

RPA is associated with individual clients. Data sources must be structured and unchanged. If there are any changes by the client to the file formatting, the RPA tool will not run as originally programmed and will need to be reprogrammed. There are error reports created after each use for staff members to review and to make adjustments, where necessary.

## Even with these considerations, companies are seeing substantial benefits from robotic process automation.

**EFFICIENCY**
Free staff from repetitive processes for more value-added tasks

**MINIMAL PROGRAMMING**
After set-up and scripting, requirements for programming are minimal




**ACCURACY**
Automate processes to reduce manual errors

**RELIABILITY**
24/7/365 availability and reliability

**COMPLIANCE**
Fully maintained audit trails essential for regulatory compliance

**LOW RISK**
Non-invasion technology, can be overlaid on existing systems without disruption

RPA continues to advance, and its uses in Accounts Payable are widespread including ERP data entry, invoice processing, payments, and reconciliation. It enables businesses to revise their payments processes to reduce cost, increase speed, and improve accuracy. The cost of a BOT is estimated to be as low as one ninth of an FTE; and work as much as 20 times faster than a human resource.

RPA for B2B payments is a gamechanger. Businesses looking for a competitive advantage should be adding RPA to their strategy and plans for 2020/2021. The excitement around RPA will only continue to grow as more and more financial professionals embrace this technology.

# Closing Thoughts

## Partnerships for the Evolving needs of the Payments Ecosystem

As the B2B payments market continues to reinvent itself through advanced technologies, there is collaboration where there once was competition. Banks, Networks, and Fintechs are working together to explore the power and business value of automation. Their combined goals are helping businesses of all sizes, in all industries achieve greater efficiencies, reduce costs, increase security, and find new sources of revenue.

With the right partner, organizations can be up and running in 4-6 weeks sending ePayments more cost effectively and efficiently. AP departments are expanding beyond tactical execution centers, transforming cost centers into profit centers. This is due in large part to innovation, technology, and automation.

**For more information on payments automation, visit**
[www.corporatespending.com](www.corporatespending.com)