

## “Working the Connections” A Look at SunGard’s PayNetExchange

By CAROL COYE BENSON on MARCH XX 2011



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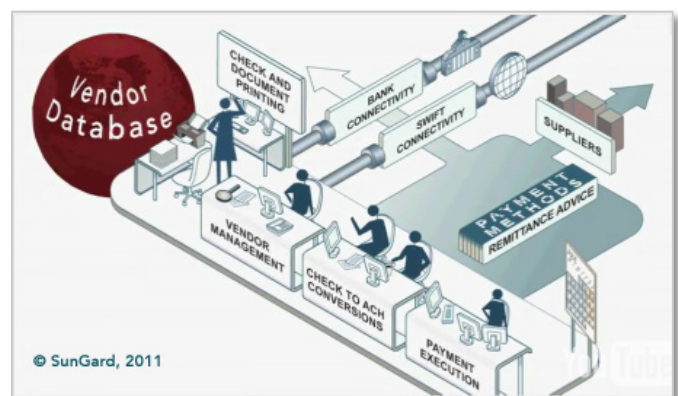
Glenbrook Partners [Erin McCune](#) and [Carol Coye Benson](#) are on a mission to discover if the long-awaited “tipping point” in B2B payments, signaling a world in which electronic payments are the norm, has finally arrived. In pursuit of this, we’ll be interviewing solution providers over the coming months – [let us know](#) if you’d like to talk to us. Interested in the B2B payments problem? [Read](#) why we think the tipping point may be now, and see our target list of company interview targets. And look at [“The Problem with B2B”](#) to learn our thoughts on the myths – and realities – of why progress has been slow.

I spoke last week with [Mike Kresse](#), SVP of Payment Services at [SunGard Data Systems](#). Mike runs [PayNetExchange](#), a product of SunGard’s AvantGard division. SunGard AvantGard’s history and sweet spot has been in enterprise treasury management – the complex systems that a large company runs to track and manage working capital and liquidity. Several years ago, the company decided to broaden this to include some of the “feeder functions” (my term) that impact working capital – and payments was an obvious candidate. A series of acquisitions and internal development projects led to the PayNetExchange product which is now in the marketplace.

### What PayNetExchange Does

Kresse described PayNetExchange as “a B2B payments platform supporting check, ACH, wire and card payment types”. PayNetExchange can be thought of as front-end support: SunGard also has a product, called AvantGard Trax, which helps companies automate and centralize back-end payments processes.

SunGard sells direct to enterprises, or through banks as a white labelled product. The product is buyer, or payer-centric – SunGard’s target customer is really the Accounts Payable director. SunGard will take the entire “approve to pay” file, and execute the payments – including printing and mailing checks, sending out ACH payments and wires, and handling card payments (more on that last bit later). Their goal, according to Kresse, is to “help corporations move from paper based to electronic payments, allowing them to shed the burden of managing paper, and allowing them to reach huge cost savings”.



Of course, as many enterprise payments managers, bankers, and B2B payments companies know, the problem with B2B payments is the difficulty in accomplishing that transition. Reaching the “long tail” of the supplier list is the hard part – and this is where SunGard has chosen to invest resources. Their product website says it all: the headline is “**Supplier Connectivity via PayNetExchange**”.

## Connecting Suppliers

Like most B2B payments companies, SunGard has teams that will help their customers contact suppliers to solicit conversion to electronic payments. But they have some additional, innovative approaches that are worth noting.



Mike Kresse

First of all, they are all about **optimizing conversion to cards** as the first option offered to suppliers. Card payments drive rebate revenue to SunGard’s customer – the payer. (As background, the economic model of corporate card products takes some of the interchange received by the card issuer and “rebates” this back to the paying corporation – the B2B equivalent of consumer rewards.) SunGard starts by taking the payer’s supplier list and matching it to the card network databases of vendors accepting cards. They then go first after those vendors, trying to get card acceptance for payments from their client.

Kresse said that in a typical implementation for a new payer, this process can result in 20% to 30% of suppliers saying “yes” to accepting cards from their payer – without “terms compression”. By that, he means that the paying company doesn’t need to promise earlier payment to get card acceptance. That’s incredible! That means that those suppliers are anxious enough to get away from receiving paper checks that they will accept the merchant discount fee on a card payment.

*This confirms several long-held beliefs of ours at Glenbrook. First, that there is a willing market of pairs of want-to-pay-electronically and want-to-be-paid electronically enterprises, just waiting to be “matched”. There may be complicated issues that some payers and some suppliers need to have accommodated – but it’s not necessarily complicated for all enterprises! Secondly, we think there is nothing like the prospect of revenue to give a payments implementation project the “energy” it needs to get going – and the enthusiasm of an Accounts Payables manager - who suddenly sees an opportunity for accounts payable to become a profit center – is not to be discounted.*

There’s another interesting twist to their card payments approach. Rather than simply implementing the buyer’s existing purchasing card program, they prefer to use one of their own issuing bank partners. Their experience has been that most purchasing card programs aren’t really optimally set up for accounts payable transactions. Part of SunGard’s pitch to the paying customer is that SunGard can help them get the optimal rebate on card transactions.

SunGard has issuing partners that can offer multiple flavors of the virtual card model. These include the “single use card number” model (supplier receives notice to initiate a card payment, goes to supplier portal and gets the single use number) and the “ghost card model” (each supplier receives their own permanent virtual card number and the balance of that card is manipulated based on the timing and the amount of each payment they receive). SunGard does not currently support the “buyer initiated” card payment model (in which the transaction is sent directly to the card network or to the supplier’s acquirer). According to Kresse, SunGard is concerned that the

requirement for Suppliers to obtain a new Merchant ID (which is typical in this model) may represent too much of an obstacle to broad adoption - which is what they are trying to help their clients achieve. They are keeping their minds open on this topic, however, as the industry evolves.

Their portal strategy is another clever bit of product design. They have, of course, both a supplier portal and a customer/payer portal. They link to a data warehouse, which is designed to hold full historical remittance data, made available to both parties. The clever part is the social network aspects they are building in. There are both supplier and payer lookup capabilities. For example, a payer can look up a new supplier, to see if they are on the system – and then send an in-system invitation to be paid electronically. A supplier can do the same thing with a new customer. SunGard will also do solicitation on behalf of their customer – for example, by printing a message directly on the check or remittance data, inviting the supplier to participate.

*I asked about the idea of a supplier checking an “anyone can pay me electronically” box. This idea has been kicked around for a while – after all, why should a supplier have to individually agree to each payer? But Kresse said that their research indicated that suppliers didn’t like this concept – that they wanted to evaluate each payer differently, and even configure options (payment deposit account, for example) differently for each customer.*

## What’s This Payment For?

SunGard follows the basic playbook with remittance data – offering multiple options for download formats, email notification, etc. Suppliers can ask that remittance data be included in an email (either as a primary or supplementary) method of receiving the data – Kresse indicated that this was a popular option.

## Revenue Model and Target Market

SunGard’s revenue model is transactional – with a “pay as you go - no up-front capital investment” pitch to customers. Part of their transaction model is a share of the card rebate revenue – an arrangement that keeps them properly motivated to convert those check payments to cards! Kresse said that last year, the network processed \$96 billion dollars and served over 350 payer customers.

Their target market is very broad – basically, all large and mid-sized enterprises and all banks. They are having particular success, according to Kresse, in healthcare, university, and municipality verticals – but also finding traction in manufacturing, chemical, technology, and other verticals. They white label to Tier 1, 2, and 3 banks.

## Future Directions

Of course, I had to ask the mobile question (what payments article can leave mobile out, these days?). Kresse said that mobile phones are an important consideration of the SunGard platform – particularly to enable remote second approvals of payments (or batches of payments) and as a method of delivering alerts if there is a problem transaction.

Finally, I asked Kresse if SunGard was supporting cross border payments. The answer was “not right now”, but he noted that SunGard does support cross border payments through its AvantGard Trax Payments product. Their direct corporate clients seem to be “reasonably happy with services provided by banks”. And their bank channel partners were emphatic in saying that they did not want help with this – that they (the banks) want to keep PayNetExchange separated from any cross border payment systems that they may have in place today.

Kresse closed by saying that he thinks the “giant” opportunity in the future will be to enable electronic B2B payments for SME’s. The question, he thinks, is how can you best get to a base of payers within these companies. He sees lots of supplier side, but relatively few payer side solutions. He’s clearly thinking about how the SunGard platform can be configured to meet these needs.

## About Payments Views

Payments Views is a companion to Glenbrook Partner’s popular Payments News blog, the go-to source for payments industry news as it happens. Payments Views provides Glenbrook's opinions and evaluations of key issues and trends in the industry. Our goal at Payments Views is to "connect the dots", analyze what is happening in the industry and draw conclusions. We welcome comments from our readers and suggestions for topics to be covered.

