

# **The E-Payables Benchmark Series:**

Electronic Payments and Fraud Prevention

June 2008

## Executive Summary

Payments and settlements are the final processing pieces in the Accounts Payable (A/P) puzzle. And while there are a myriad of options for payment such as checks, Automated Clearing House (ACH), commercial cards, and wire transfers - no single option is a one-size-fits-all solution. This second study on e-payables (in a set of three) is focused on the payment and settlement aspects of the A/P process, an area that is often mired in manual procedures and the overarching threat of financial loss from fraud. With all of the effort and energy funneled into the initial stages of the A/P framework (receipt, approval and inquiry, and validation and reconciliation), the last thing an enterprise is interested in experiencing is the failure to fully realize the exchanging of payments.

### Best-in-Class Performance

Aberdeen evaluated over 300 enterprises between April and June of 2008 and distinguished Best-in-Class enterprises by the following key performance criteria: percentage of payments processed electronically (and its resulting financial impact of cost savings per transaction). Best-in-Class enterprises in this study are notable for their superior performance, and report the following benefits:

- 80% of overall payments processed by electronic payment methods
- 38% on average per transaction savings by electronic payment methods over paper-based checks

### Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics. Best-in-Class enterprises:

- Display cross-functional coordination amongst procurement, finance, treasury, and IT 1.4-times more frequently than their peers
- Have standardized payment processes 67% more frequently than all other firms
- Conduct daily reconciliation of payments 54% more frequently than all other enterprises

### Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Conduct spend analysis for supplier segmentation
- Integrate ACH, commercial cards, and wire transfer with their accounting systems
- Build a case for electronic payments to secure executive support

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#### Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

#### E-Payables

Aberdeen utilizes the term, "e-payables" as the all-encompassing term to refer to the automated processes associated with the Accounts Payable (A/P) function including invoice receipt and handling, reconciliation and approvals, disbursement scheduling, settlement (including confirmation and reporting), and internal and external service support

"By utilizing electronic payments, we have been able to reduce costs and re-assign employees to other duties such as spend analysis."

~ CFO, Hardware Provider in  
North America

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## Chapter One: Benchmarking the Best-in-Class

Payments and settlements are the final processing pieces in the accounts payable (A/P) puzzle. And while there are a myriad of options for payment such as checks, Automated Clearing House (ACH), commercial cards, and wire transfers - no single option is a one-size-fits-all solution. This second study on e-payables (in a set of three) is focused on the payment and settlement aspects of the A/P process, an area that is often mired in manual procedures and the overarching threat of financial loss from fraud. With all of the effort and energy funneled into the initial stages of the A/P framework (receipt, approval and inquiry, and validation and reconciliation), the last thing an enterprise is interested in experiencing is the failure to fully realize the exchanging of payments.

### Business Context

Electronic payments, much like other facets of the source-to-settle process, are sought-after forms of exchange due to their speed, quality, and depth - all factors which trump the old-school mindset of manual and paper-based systems of payment processing (i.e., checks). Electronic payment methods have historically evolved into three key systems:

- **Automated Clearing House (ACH)** is designed for bulk payment services, such as direct debit or credit, and payroll
- **Commercial card systems** are programs that support usage of credit and debit card products and are available in various "flavors," such as p-cards (purchasing cards), travel and entertainment (T&E) cards, and fleet cards
- **Wire transfer** is often considered the most expedient method for transferring funds between accounts, wire transfer is typically used for high dollar-value and immediate settlement transactions for enterprises

The [E-Payables Benchmark Series: Imaging and Workflow](#) report, the first in the series of Aberdeen benchmark reports published in March 2008, found that nearly 70% of enterprises believe that electronic payments are either critical or very important for the success of an A/P department. As Figure 1 shows, usage of the various formats of electronic payments has increased over the past two years, while paper-based checks are on a decline.

#### Fast Facts

- √ 65% of B2B payments are via paper-based checks
- √ Usage of checks declined by over 5% in the last two years
- √ Usage of commercial cards and ACH increased by over 8% and 9% in the last two years, respectively

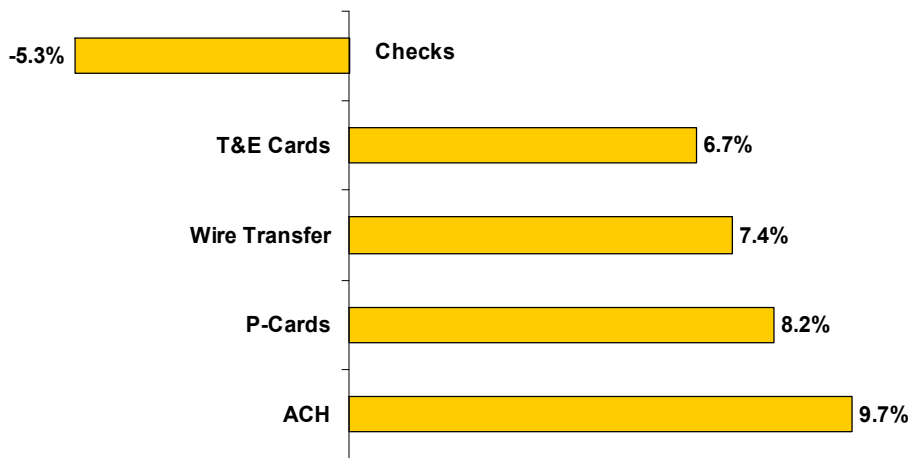
"Our payment processes are all seamless, fully integrated to finance system and banking system. We don't experience any payment-related fraud."

~ VP of Finance, Software Supplier in the UK

"It takes too long to process a check. Electronic payments have reduced the time the A/P team spends making payments."

~ Manager of Finance, Large Distributions Firm in North America

**Figure 1: Increase in Utilization of Electronic Payment Methods**



Source: Aberdeen Group, June 2008

ACH has seen the highest increase (9.7% increase in use) mainly due to its ability to more quickly transfer funds across a bulk of payments. As we will see later in this report, there are a plethora of additional benefits to utilizing electronic payments.

**Pressures: Reducing Payment Costs and Fraud Risk**

As with many of Aberdeen's GSM benchmark studies, enterprises are focused on reducing costs more than any other factor. The vast majority (82%) of enterprises cite the reduction of overall payment costs as their top driving factor for focusing on electronic payments.

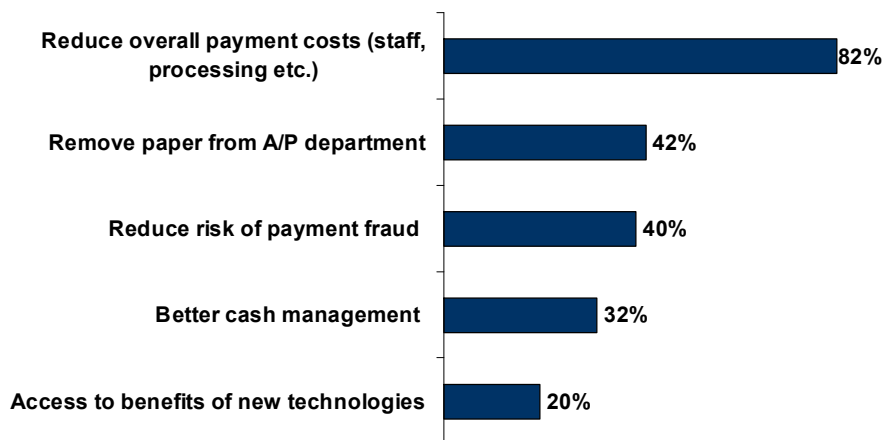
“Our goal is to reduce the number of check payments and encourage suppliers to provide bank details in order to expand ACH payments. Also, we are assisting small and medium-size vendors to accept p-cards as a payment tool.”

~ Manager of Procurement, University in South Africa

“We are trying to harmonize electronic payment processes and systems as much as possible on a global basis. Wire transfers and ACH have given us the ability to pay more frequently and almost eliminate checks.”

~ Manager of Business Process, Large Software Company in North America

**Figure 2: Top Factors Driving Enterprises to Focus on Electronic Payments**



Source: Aberdeen Group, June 2008

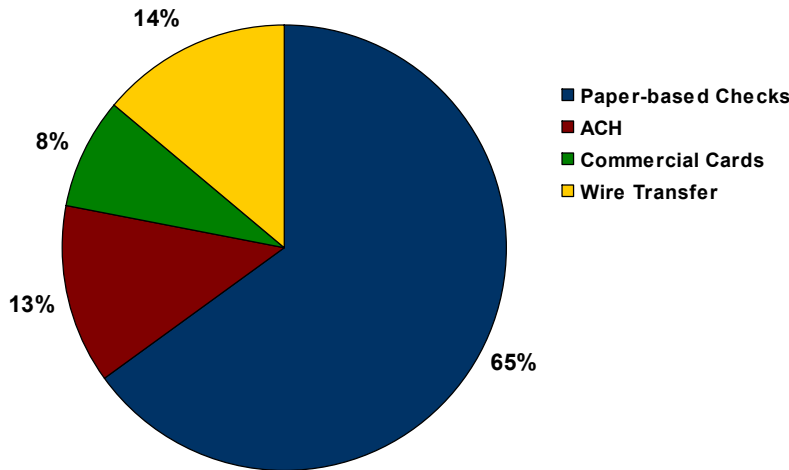
“99% of our payments are effected electronically which has resulted in huge time savings. Proper checks and balances are conducted before payments are effected to ensure that no fraud occurs.”

~ Manager of Finance, Large Food and Beverage Company in South Africa

Additionally, a key driving factor is the reduction of risk for payment fraud (40%). In fact, risk reduction and the spotlight on reducing costs go hand-in-hand. However, too *much* focus on preventing risk causes enterprises to apply overly severe protection measures on their payment methods, despite the fact that this can impact the cost (and ease) of conducting business with their suppliers.

Furthermore, another important driver in the adoption of electronic payments is the need to reduce paper, and its attendant processing bottleneck, in the A/P department. As Figure 3 displays, the majority of business-to-business payment activity is distributed via paper-based checks (65%), a method that not only leaves a gaping hole for fraud, but also mires the A/P department in a mess of paper-based methods that have proven to drive greater processing costs.

**Figure 3: Distribution of B2B Payments**



Source: Aberdeen Group, June 2008

### **Barriers to Electronic Payments Adoption**

The high percentage of B2B payments made via paper-based checks is a direct result of the barriers that enterprises face in the pursuit of automating payments. Figure 4 details the top barriers to implementing electronic payments, and the main culprit is the one that's on the receiving end of any enterprise's cash flow: the suppliers themselves.

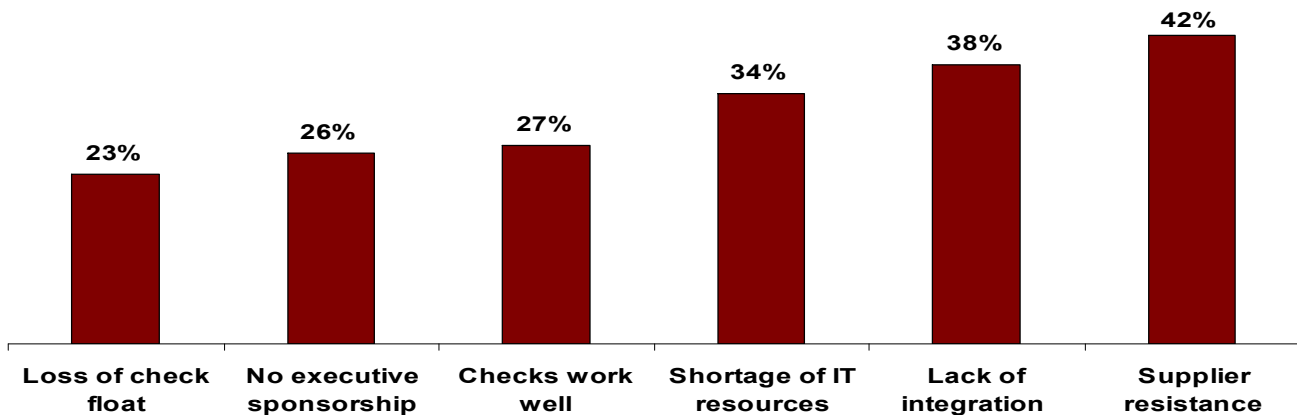
“Electronic payment methods have reduced staff time and effort to make payments. The biggest challenge is to make payments to small one-time vendors as cheaply and easily as possible.”

~ Manager of Procurement, a University in UK

“The cost of setting up p-cards and integration of ACH with the current system are key barriers to adoption.”

~ CFO, Small Distribution firm in North America

**Figure 4: Top Barriers to Implementing Electronic Payments**



Source: Aberdeen Group, June 2008

In today's market where there is uncertainty regarding payment timing, many suppliers are forced to maintain excess cash or resort to high-cost financing methods like asset-based funding to fund their working capital needs. Since electronic payments expedite the payment process, it is surprising that some suppliers are unwilling to adopt faster electronic payment methods. One barrier may be a fear of an automated (and electronic) world in which digital crime is all too much a reality; with electronic payments as a main point of exchange, suppliers may be apprehensive about sharing private financial information over an electronic channel. Also, many suppliers are reluctant to pay the fee associated with commercial cards.

The lack of integration between electronic payment and existing A/P systems is also a top barrier for reaching this next level of automation. Misalignment and a lack of integration between corporate accounting and electronic payment systems are barriers that require multiple assaults to break through: executive support, willingness to learn and adapt to a new payment system, and the on boarding of suppliers to the electronic payments process. Interestingly, our study found that enterprises are more likely to integrate ACH and wire transfer with A/P systems than commercial cards.

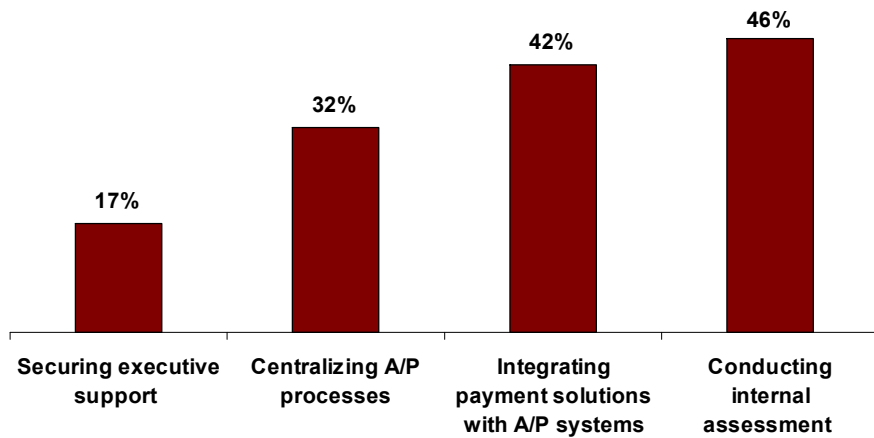
“We would like to reduce checks to a minimum. But many suppliers are not accepting ACH or there is internal pressure to issue a rush checks.”

~ Manager of Finance, Large Mining Company in North America

### **Actions: It's All about Internal Assessment and Integration**

To overcome the barriers to adoption of electronic payments, enterprises are employing a variety of strategic actions. Top for enterprises that participated in a recent study about *E-Payables: Electronic Payments and Fraud Protection* are conducting internal assessments of process and technological capabilities, and integrating payment solutions with existing A/P systems. These enterprises know that the integration of payments with accounting systems is the correct action to reduce costs and mitigate the risk of payment fraud (Figure 5).

**Figure 5: Top Strategic Actions**



“One of the biggest challenges is the lack of IT staffing to implement any payment systems. The lack of automation of the payment remittance information is another drawback.”

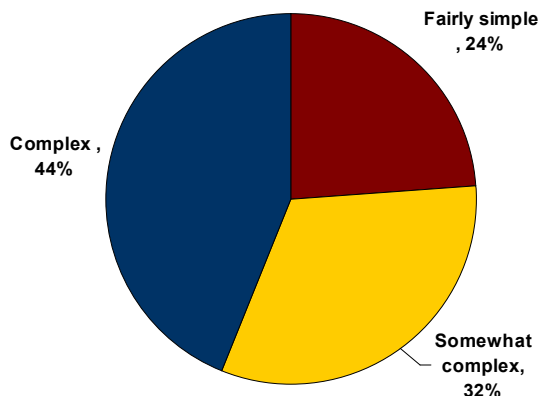
~ Manager of Finance,  
Medium-size Distribution Firm  
in North America

Source: Aberdeen Group, June 2008

Existing A/P systems are ripe with opportunity for improvement, especially those that are currently utilizing manual-based methods of payment. By conducting internal assessments in this regard, enterprises can fully plan for the most aligned electronic payment methods that will suit their enterprise (and their A/P system).

A lack of internal assessment correlates to a lack of understanding of the many technological capabilities and enablers that are available to the enterprise for payment process efficiency. Because a large percentage (72%) of enterprises believes their payment processes are either complex or semi-complex (Figure 6), there is a deficiency of internal payment knowledge that detracts an enterprise's ability to dig deep into the process and align parallel technologies to streamline payments.

**Figure 6: The Complexity of Payment Processes**



“Our major barriers to adoption are a shortage of resources to implement a p-card system and vendors unwilling to accept ACH payments.”

~ Manager of Finance, Large  
Construction Company in  
North America

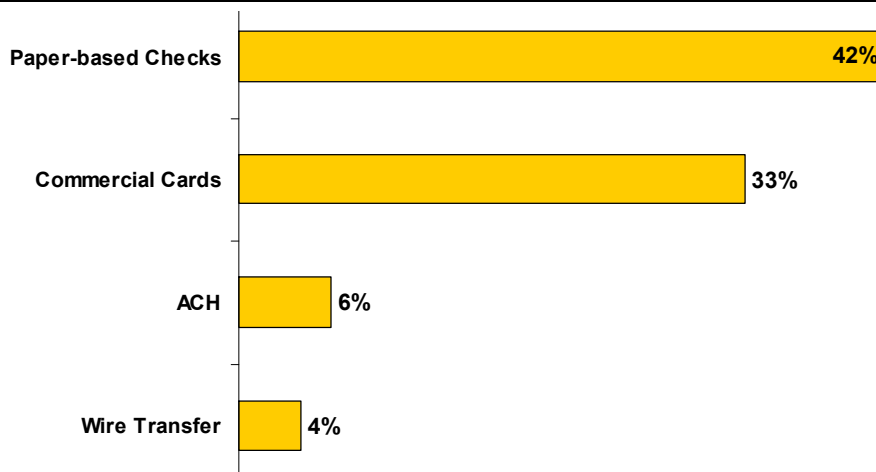
Source: Aberdeen Group, June 2008

In the survey, Aberdeen defined a complex payment process as one that involves two or more banks, more than three payment types, and may include international payments. In contrast, a fairly simple payment process involves one bank, one to two payment types, and no international payments.

## Fraud Associated with Payments

Nearly one third of the enterprises that participated in the study indicated experiencing fraud related to payment. Of them, nearly 56% reported that they experienced financial loss as a result of payment fraud. Fraud occurs most frequently within the only manual payment method utilized by enterprises: paper-based checks (Figure 7).

**Figure 7: Percentage of Enterprises Experiencing Payment Fraud**



Source: Aberdeen Group, June 2008

Although commercial cards are a superior method of payment as compared to checks, they still represent a large risk of fraud, with as many as 33% of the enterprises indicating commercial card-related fraud. This payment system can be infiltrated by unauthorized use both by individuals inside and outside of the enterprise. ACH (6%) and wire transfer (4%) provide less of a fraud risk than other payment methods; wire transfers require bank account numbers to be passed from legitimate customers and suppliers, a means that is not completely safe from fraud, but provides a stronger wall around the sensitive information that is involved with each and every payment.

“We are utilizing payment fraud protection from our corporate card provider and have built controls into our payment processing solutions.”

~ Manager of Business Process,  
Large Hardware Supplier in  
North America

## The Maturity Class Framework

Aberdeen used the percentage of electronic payments (and its resulting financial impact of cost savings per transaction) to distinguish the Best-in-Class from Industry Average and Laggard enterprises. Best-in-Class enterprises have demonstrated greater cost savings by utilizing electronic payment methods (electronic payment methods include ACH, commercial cards, and wire transfer) (Table I).

**Table 1: Top Performers Earn Best-in-Class Status**

Definition of Maturity Class	Mean Class Performance
<b>Best-in-Class:</b> Top 20% of aggregate performance scorers	80% of overall payments processed by electronic payment methods; 38% on-average per transaction savings by electronic payment methods over paper-based checks
<b>Industry Average:</b> Middle 50% of aggregate performance scorers	30% of overall payments processed by electronic payment methods; 33% on-average per transaction savings by electronic payment methods over paper-based checks
<b>Laggard:</b> Bottom 30% of aggregate performance scorers	7% of overall payments processed by electronic payment methods; 26% on-average per transaction savings by electronic payment methods over paper-based checks

Source: Aberdeen Group, June 2008

### The Best-in-Class PACE Model

Using electronic payments to achieve cost savings and reduce the risk of payment fraud requires a combination of strategic actions, organizational capabilities, and enabling technologies that can be summarized as shown in Table 2.

**Table 2: The Best-in-Class PACE Framework**

Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> <li>▪ Reduce payment processing costs (staff, processing etc.)</li> <li>▪ Reduce risk of payment fraud</li> </ul>	<ul style="list-style-type: none"> <li>▪ Conduct internal assessment of process and technological capabilities for A/P</li> <li>▪ Integrate payment solutions with A/P systems</li> <li>▪ Centralize A/P processes</li> </ul>	<ul style="list-style-type: none"> <li>▪ Payment processes standardized across the enterprise</li> <li>▪ Clearly defined executive sponsor or champion for electronic payments</li> <li>▪ Cross-functional coordination with procurement, finance, treasury, and IT</li> </ul>	<ul style="list-style-type: none"> <li>▪ Spend analysis to segment suppliers for electronic payments</li> <li>▪ Automate daily reconciliation of payments</li> <li>▪ Integrate ACH, commercial cards, and wire transfer with A/P systems</li> <li>▪ Utilize EDI or XML for exchanging remittance information</li> </ul>

Source: Aberdeen Group, June 2008

## Best-in-Class Performance and Strategies

While the cost of processing paper-based checks is approximately the same across the maturity class framework, Best-in-Class display lower cost for each of the electronic payment methods - ACH, commercial cards, and wire transfer (Table 3). Thus, Best-in-Class enterprises achieve higher per transaction savings by using electronic payment methods over paper-based checks. Additionally, the Best-in-Class display a lower average payment processing cost than Industry Average and Laggard enterprises (please note that the average costs displayed in the fifth and seventh row in Table 3 are the weighted average cost, and take into account the percent distribution of payment methods in each class of the maturity framework).

**Table 3: Average Payment Processing Cost by Maturity Class**

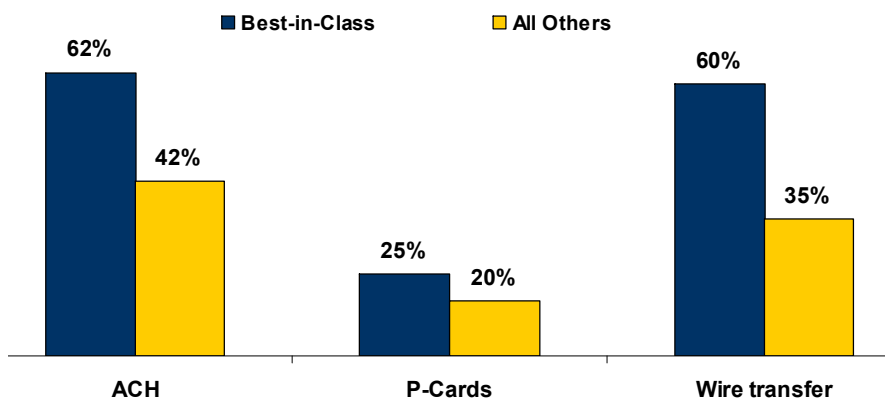
Average Payment Processing Cost	Best-in-Class	Industry Average	Laggards
Paper-based checks	\$10.84	\$11.03	\$11.33
ACH	\$5.29	\$6.10	\$7.21
Commercial cards	\$3.90	\$5.40	\$5.63
Wire transfer	\$9.62	\$10.08	\$13.22
Average electronic payment processing cost	\$6.71	\$7.40	\$8.42
Percent savings by electronic payment method over paper-based checks	38%	33%	26%
Average payment processing cost (including paper-based checks, ACH, commercial cards, and wire transfer)	\$7.55	\$9.94	\$11.12

Source: Aberdeen Group, June 2008

Aberdeen's first benchmark in this series of e-payables reports on [Imaging & Workflow](#) focused on the process from invoice receipt to payment approval. This report, which is the second in the series, focuses on the payment and settlement aspects of A/P. Since it is common knowledge that the actual cost of an ACH transaction is typically less than 25 cents, it is important to realize that the costs listed in Table 3 include all the cost associated with payment and settlement after invoice approval. The steps include payment scheduling, preparation for posting, processing, submission to their financial institutions, and exchange of remittance information.

Best-in-Class enterprises have achieved higher on-average transaction cost savings by integrating a higher level of electronic payment methods into their existing accounts payable systems. As shown in Figure 8, the Best-in-Class are 48%, 25%, and 71% more likely to integrate ACH, commercial cards, and wire transfer with their A/P system than all other firms, respectively.

**Figure 8: Electronic Payment Method Integration with A/P System**



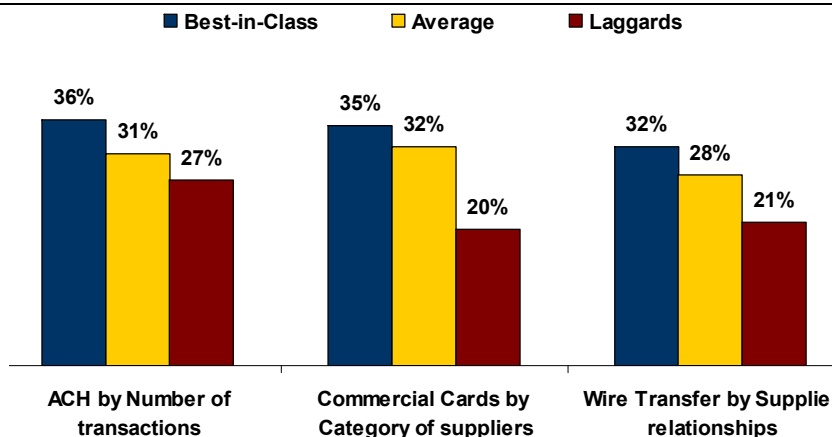
“Our key challenges are remittance delivery and getting the IT resources to integrate p-card with the ERP system.”

~ Manager of Procurement,  
Large Insurance Firm in North  
America

Source: Aberdeen Group, June 2008

Not only are top-performing enterprises integrating electronic payments with accounting systems to drive cost savings, they are also more likely to prioritize their supplier base than Industry Average and Laggard enterprises (Figure 9). Thus, the Best-in-Class are more likely to use the number of transactions as the top criteria to prioritize suppliers enabled by ACH. For commercial cards, the Best-in-Class are more likely to use the category of supplier as the top criteria to prioritize suppliers enabled by this payment method. For the suppliers where relationships matter the most, Best-in-Class companies are more likely to use wire transfer, a method that provides immediate settlement that would help suppliers with their immediate financing needs and mitigate working capital risk.

**Figure 9: Top Criteria Used to Prioritize Suppliers Enabled by Electronic Payment Types**



Source: Aberdeen Group, June 2008

By prioritizing their suppliers based on the number of transactions for ACH payment, commercials cards by category of suppliers, and wire transfer by supplier relationships, Best-in-Class enterprises are effectively streamlining their A/P process and ensuring that electronic payments are bringing more dollars to the bottom-line.

## Chapter Two: Benchmarking Requirements for Success

By leveraging electronic payment methods and integrating those methods within A/P systems, Best-in-Class enterprises are efficiently streamlining payments and driving transaction cost savings in the process. Not only are the cost benefits handily achieved by foregoing manual-based methods (checks), enterprises are also greatly reducing the risk of fraud within their payment systems by enabling electronic payments.

### A Critical Comparison of Electronic Payment Methods

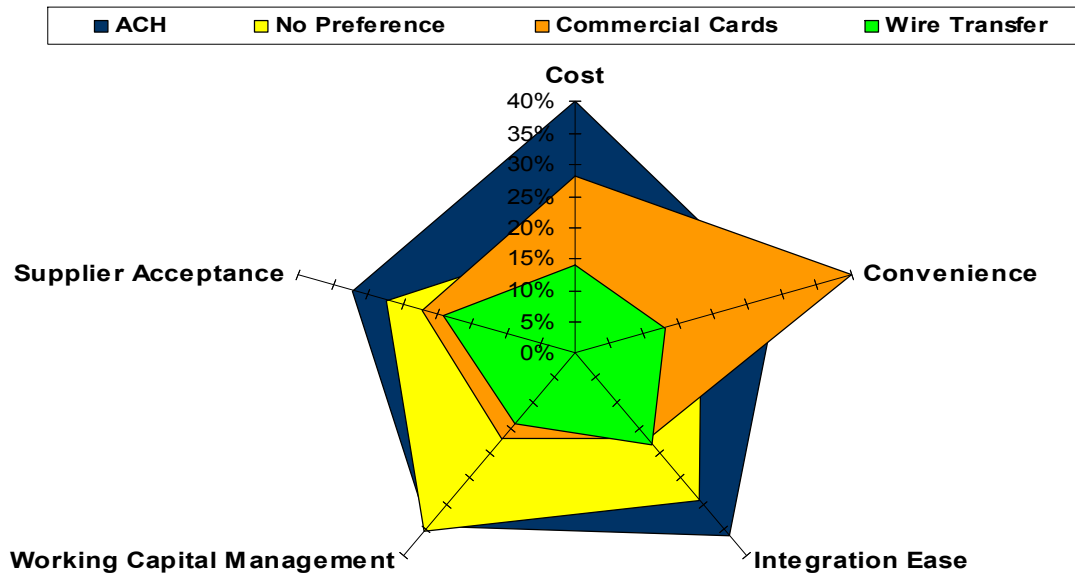
Figure 10 and Figure 11 correlate how enterprises perceive the significance of various payment-related attributes with the electronic payment method. It is important to note that while asking the question in the *E-Payables Benchmark Series* survey, Aberdeen required the respondent to choose only one of the four listed options - ACH, commercial card, wire transfer, or no preference - for each payment-related attribute.

ACH results as a clear preference for end-users, with its attributes spanning the gamut of cost, supplier acceptance, working capital management, and ease of integration with accounting systems (Figure 10); our study found that enterprises are more likely to integrate ACH with an A/P system than wire transfer and commercial cards.

#### Fast Facts

- ✓ Best-in-Class companies display 38% savings by utilizing electronic payments over paper-based checks
- ✓ 62% of Best-in-Class enterprises integrate ACH with A/P system
- ✓ 60% of Best-in-Class companies integrate wire transfer with the A/P system

**Figure 10: Preferred Electronic Payment Type for Various Attributes**



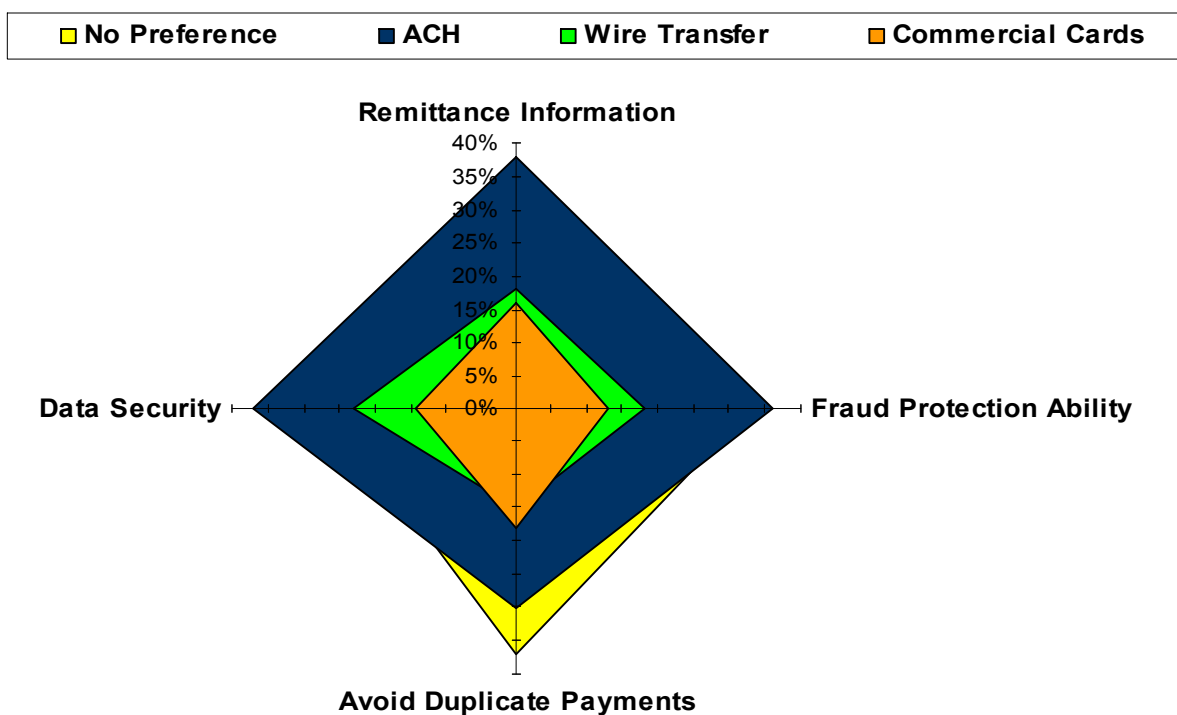
Source: Aberdeen Group, June 2008

Although ACH is a preferred method of electronic payment due to its attractive attributes like paperless processing and the ability to increase B2B commerce through payment speed, commercial cards provide the most

convenience out of the three flavors of electronic payments, mainly because of their added ability to ease the processing of initial aspects of A/P process - invoice receipt and associated approval cycle. Not surprisingly, given the fee associated with commercial cards, they are not the most popular payment method with suppliers.

In regards to safety against payment fraud, however, ACH runs with the financial torch again and is the perceived form of payment with the greatest fraud prevention ability (Figure 11); Figure 7 in Chapter 1 quantifies fraud and shows that only 6% of enterprises have witnessed ACH-related fraud.

**Figure 11: Preferred Electronic Payment Method for Various Attributes**



Source: Aberdeen Group, June 2008

Additionally, by utilizing EDI or XML to exchange remittance information, enterprises are able to exchange more accurate transaction details. While commercial cards are touted for their ease-of-use, they are least preferred with regards to payment fraud.

For international payments, 56% of enterprises indicated wire transfer as their preferred electronic payment method, with 25% indicating no preference. Only 11% and 8% chose ACH and commercial cards as their preferred electronic payment method, respectively. This is perhaps due to different regulations associated with ACH and commercial card payments in various countries, and a lack of integration between domestic and international financial institutions.

“Purchase card, checks, and ACH are all under the control of an elected official. Office is receiving large rebates for p-card use; therefore p-card has become the preferred payment method for *all* vendor payments if possible.”

~ Controller, Public Sector Organization in North America

Overall, each payment method has its pros and cons, and enterprises are best served by utilizing the most appropriate electronic payment method based on the payment attribute that matters most.

## Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the approaches they take to execute their daily operations); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing data and exposing it to key stakeholders); (4) **technology** (the selection of appropriate tools and effective deployment of those tools); and (5) **performance management** (the ability of the organization to measure their results to improve their business). These characteristics (identified in Table 4) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

**Table 4: The Competitive Framework**

	Best-in-Class	Average	Laggards
<b>Process</b>	Payment processes standardized across the enterprise		
	72%	46%	39%
	Highly automated supplier communications with little or no paper		
	47%	19%	6%
	Visibility into all payment activities		
	72%	41%	40%
	Daily reconciliation of payments		
	74%	50%	45%
<b>Organization</b>	Documented process for payments that is shared internally and externally		
	62%	44%	25%
	Clearly defined executive sponsor or champion for electronic payments		
	84%	52%	47%
	Centralized / shared services A/P model		
	73%	57%	48%
	Cross-functional coordination with procurement, finance, treasury, and IT		
	73%	35%	25%
<b>Knowledge / Data Management</b>	Electronic payments requirements established as a standard means of conducting business with key suppliers		
	63%	29%	18%
	Segment the supplier base for electronic and manual payments		
	56%	28%	15%

	Best-in-Class	Average	Laggards
<b>Technology</b>	Payments technologies / enablers currently in use:		
	<ul style="list-style-type: none"> <li>▪ 46% conduct spend analysis to segment suppliers for electronic payments</li> <li>▪ 66% automate daily reconciliation of payments</li> <li>▪ 62% integrate ACH with A/P</li> <li>▪ 60% integrate wire transfer with A/P</li> <li>▪ 39% utilize EDI to exchange remittance information</li> <li>▪ 27% utilize XML to exchange remittance information</li> <li>▪ 33% utilize supplier networks</li> </ul>	<ul style="list-style-type: none"> <li>▪ 22% conduct spend analysis to segment suppliers for electronic payments</li> <li>▪ 32% automate daily reconciliation of payments</li> <li>▪ 45% integrate ACH with A/P</li> <li>▪ 41% integrate wire transfer with A/P</li> <li>▪ 25% utilize EDI to exchange remittance information</li> <li>▪ 19% utilize XML to exchange remittance information</li> <li>▪ 27% utilize supplier networks</li> </ul>	<ul style="list-style-type: none"> <li>▪ 14% conduct spend analysis to segment suppliers for electronic payments</li> <li>▪ 28% automate daily reconciliation of payments</li> <li>▪ 37% integrate ACH with A/P</li> <li>▪ 27% integrate wire transfer with A/P</li> <li>▪ 23% utilize EDI to exchange remittance information</li> <li>▪ 7% utilize XML to exchange remittance information</li> <li>▪ 9% utilize supplier networks</li> </ul>
<b>Performance</b>	Well-defined metrics, incentives, and penalties		
	39%	25%	11%
	Ability to quickly retrieve payment information for audit purposes		
	84%	58%	52%

Source: Aberdeen Group, June 2008

## Capabilities and Enablers

Based on the findings of the Competitive Framework and interviews with end users, Aberdeen’s analysis of the Best-in-Class reveals that a unique blend of payment technologies and streamlined processes have contributed to a superior level of success.

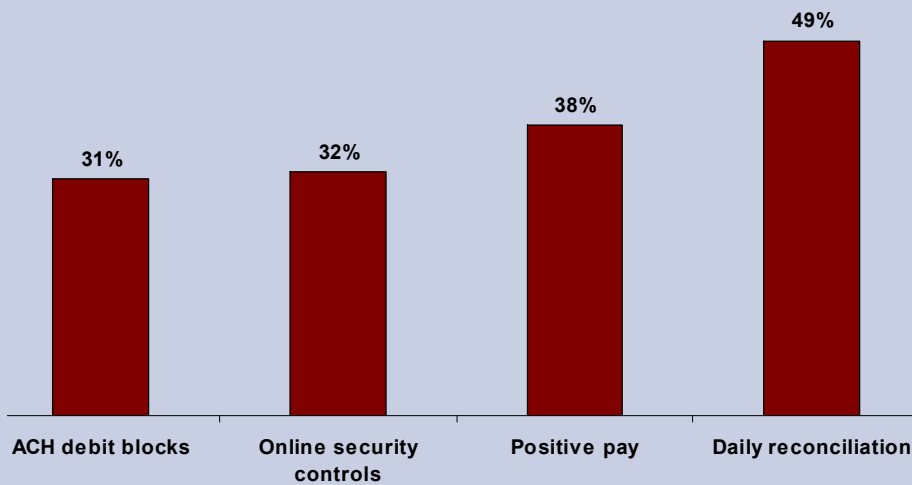
### Process

Standardized payment processes have assisted Best-in-Class enterprises in ensuring that every business unit and A/P department within the enterprise are aligned in regards to the manner in which payments are processed. Our research found that Best-in-Class enterprises are 68% more likely to have standardized payment processes than their peers. In turn, these top-performing organizations also have documented processes for payments that are shared internally and externally.

### Aberdeen Insight — ACH Fraud Prevention Mechanisms

Although the ACH method of electronic payment is the "go-to" tool for many top-performing enterprises, measures must be taken to ensure that all fraudulent activity is avoided. According to Figure 12, the simple task of daily reconciliation (49%) is the most popular method of combat.

**Figure 12: ACH Fraud Prevention Mechanisms**



Source: Aberdeen Group, June 2008

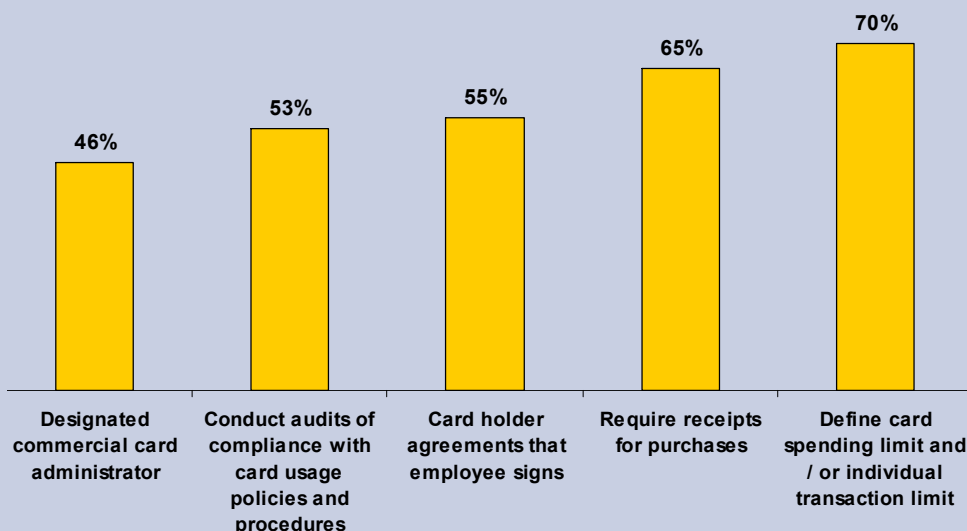
A full deep-dive into ACH transaction reports on a daily basis provides an enterprise with full visibility into the scope of all electronic payments. A/P professionals can scan for incidents of fraud and ensure that all payments were for the correctly allotted amounts.

With regards to payment fraud prevention, Best-in-Class enterprises are more likely to initiate the process of identifying fraudulent payments before payments are made (rather than after payments are processed) than their peers. Additionally, top-performing firms are 36% more likely to conduct daily reconciliation of ACH payments to prevent fraud. Furthermore, to prevent fraud associated with commercial cards, the Best-in-Class are 31% and 29% more likely to define card spending limits and ensure employees sign commercial card agreements than all other enterprises, respectively.

**Aberdeen Insights — Commercial Cards Fraud Prevention Mechanisms**

The task of preventing fraud for commercial card use is much varied from ACH and paper-based checks. The top method for preventing fraud is defining a card transaction spending limit (70%). Much like enforcing a policy for expenses, this method permits an enterprise to dictate a set level of spending allowed on a commercial card (p-card, T&E card) to ensure that misuse (and overspending) doesn't occur.

**Figure 13: Commercial Card Fraud Prevention Mechanisms**



Source: Aberdeen Group, June 2008

By involving the cardholder in the payment process more so than with other electronic payment methods, enterprises can fend off fraud by requiring receipts for all purchases (65%) and enlisting the cardholder into an agreement (55%) that sways them away from misuse.

**Organization**

By building a business case for electronic payments, which occurs in Best-in-Class companies 1.4-times more frequently than all others, the typical top-performing enterprise has clearly outlined the ROI on switching from manual and paper-based methods of payments (checks). They know the cost and security benefits of doing so. With clearly defined executive sponsorship (68% more likely for Best-in-Class) in conjunction with the business case, the stage is set for an enterprise to transform their accounts payable department.

“P-card fraud has been eliminated by the use of MCC blocking. We have also defined card spending limits and conduct 100% audit of all monthly transactions.”

~ Procurement Staff, Large Education Enterprise in North America

**Technology**

Best-in-Class enterprises are 86% more likely to utilize an Electronic Invoice Presentment and Payment (EIPP) solution than their peers. EIPP solutions

manage the payment lifecycle and include features for domestic and international payments, including checks, ACH, and wire transfer as well as reporting and analytical capabilities.

Additionally, top-performing enterprises are 76% more likely to utilize supplier networks as part of their source-to-settle process. Supplier networks are becoming a strong alternative to traditional EIPP solutions due to their ability to directly connect with a supplier and allow remittance information to be processed via XML or EDI exchange. Supplier networks also support faster electronic payments methods such as ACH and wire transfer. This "connect once, forget forever" capability of supplier networks restructures the payment process and ensures that all payments are made through a safe, electronic conduit.

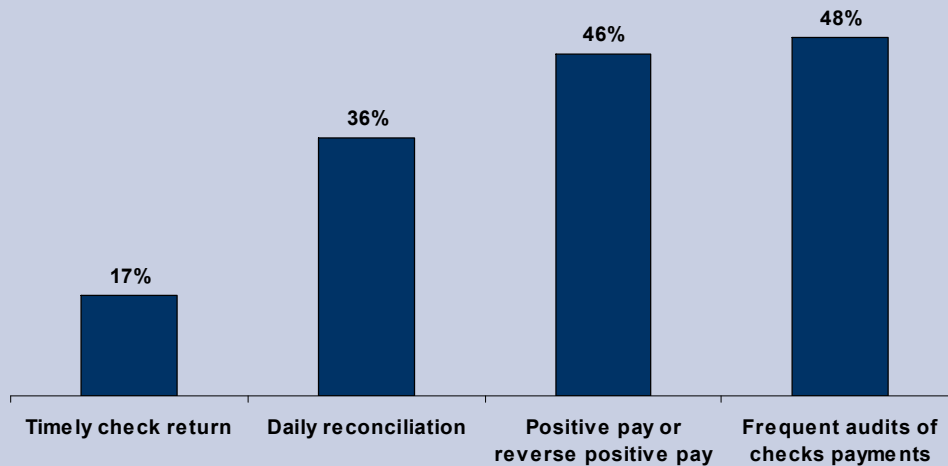
"We have implemented positive pay through our bank. We send our check file twice a week. We can access positive pay on line to view any questionable checks presented for payment and either pay or not pay them on an individual basis."

~ Manager of Finance,  
Publishing Firm in North  
America

### Aberdeen Insight — Check Fraud Prevention Mechanisms

To combat fraud within check payments, enterprises are frequently auditing their paper-based payments (48%) and initiating positive / reverse positive pay (46%).

**Figure 14: Check Fraud Prevention Mechanisms**



Source: Aberdeen Group, June 2008

As in any other facet of the source-to-settle cycle, auditing is a top strategy to attack fraudulent activity; frequent audits of check payments ensure that the proper parties are on the receiving end of payments, as well as the proper amounts. With positive pay, an enterprise transmits a file of issued checks to the bank each day the checks are written. Full payment is transmitted only if there are exact matches for the account number, check number, and dollar amount of each check presented for payment against a list of checks previously authorized and issued by the enterprise. This is a crucial solution in the toolbox against fraud.

## Chapter Three: Required Actions

Enterprises are locked in a continuous struggle to pay their suppliers quickly despite the threats of fraud and high transaction costs looming overhead. The following actions will help stimulate an existing A/P structure by integrating electronic payment procedures and the accompanying business strategies:

### Laggard Steps to Success

- **Centralize the A/P structure.** A centralized A/P model, which less than half (48%) of Laggard enterprises have in place, ensures that all of an enterprise's outgoing payments are transmitted through the same system. With every business unit on the same page, duplicate payments and the risk of fraud are reduced significantly. Aberdeen research found that the Best-in-Class are 52% more likely to have a centralized (or shared services) structure for A/P than Laggards.
- **Build a business case for electronic payments and secure executive support.** Calculating the ROI for an electronic payment system is the first step in moving to an automated structure. Only 25% of Laggard enterprises have done so, and are failing to realize the need for not only reducing costs, but access to real-time visibility into cash balances. Without executive support / sponsorship (47% for Laggards) for a new electronic payment program, Laggard enterprises will be unable to drive the implementation of a new system. Aberdeen research found that Best-in-Class companies are 1.9-times more likely to develop a business case for electronic payments than Laggards.
- **Utilize EIPP solutions and payment networks.** A stunning lack of Laggard organizations (9%) are currently using supplier networks; these enterprises are missing out on the ability to directly connect with their suppliers and transmit payments via quick electronic methods such as XML and EDI. Aberdeen research found that that Best-in-Class companies are 127% and 285% more likely to utilize EIPP solutions and supplier networks than Laggards, respectively.

### Industry Average Steps to Success

- **Conduct spend analysis for supplier segmentation.** Spend analysis technology can be leveraged in the payment world for segmenting an enterprise's supplier base into appropriate sections for each payment type. For example, ACH can be leveraged for suppliers with a high number of transactions, wire transfer where immediate settlement is required, and commercial cards for certain indirect spend categories. A mere 22% of Industry Average organizations are currently leveraging this standard procurement

#### Fast Facts

- √ 46% of enterprises utilize positive pay as a defense mechanism against check fraud
- √ 70% define card spending limits as a defense mechanism against commercial card misuse
- √ 49% of enterprises conduct daily reconciliation of their ACH transactions

“Lacking of standardized procurement process is our key payment related challenge. We implemented technology solution on part of our freight payment system. The solution provides spend visibility and spend analysis. We are now able to prevent unauthorized charges by 80%.”

~ Analyst, Medium-sized  
Apparel Company in North  
America

solution. Aberdeen research found that the Best-in-Class are twice as likely as the Industry Average to segment the supplier base for electronic payments.

- **Integrate ACH and wire transfer modules with the existing A/P structure.** Less than half of Industry Average enterprises have integrated ACH (41%) and wire transfer (45%) capabilities with their A/P systems. By failing to fully integrate these electronic payment methods, Industry Average enterprises are likely losing out on reduced transaction costs and leaving them open to fraud attacks. Aberdeen research found that the Best-in-Class are 38% and 46% more likely than the Industry Average to integrate ACH and wire transfer with accounting system, respectively.
- **Encourage cross-functional coordination among procurement, finance, treasury, and IT.** Collaboration is not only a rising strategy for success for procurement, it is a key factor in ensuring that electronic payment methods are aligned with the major department involved in an organization's payment process. Cross-functional coordination (leveraged by only 35% of Industry Average enterprises) across the procurement, finance, treasury, and IT departments drives payment visibility and helps to avoid misuse of commercial cards. Aberdeen research found that the Best-in-Class are more than twice as likely to display cross-functional coordination among procurement, finance, treasury, and IT.

## **Best-in-Class Steps to Success**

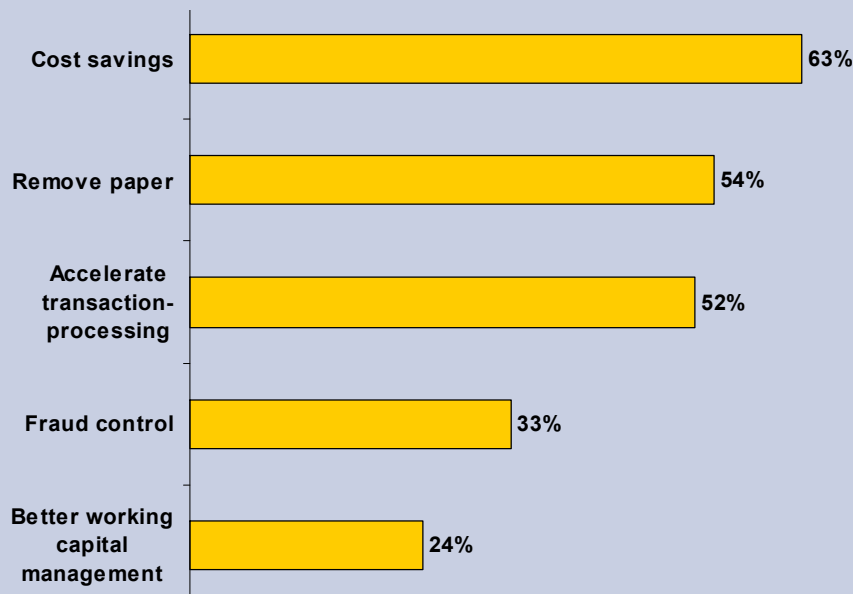
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- **Develop automated communication with vendors with little or no paper.** Less than half of Best-in-Class enterprises have automated communication with their financial institutions. These enterprises should consider utilizing EDI or XML to exchange remittance information. Our study found that as many as 40% of Best-in-Class enterprises utilize postal mail or fax to exchange remittance information, and 70% of top-performing firms use e-mail to exchange remittance information.
- **Integrate p-cards with the existing A/P system.** Best-in-Class enterprises have a fantastic track record with ACH (62% integration) and wire transfer (60% integration), however, only 25% of top-performing organizations have successfully integrated purchasing cards (p-cards) into their existing accounts payable systems. Our research found that commercial cards are perceived as the most convenient form of payment. By integrating p-cards and T&E cards with the accounting system, top-performing firms will not only further ease the payment process, but will also lower payment processing cost.

### Aberdeen Insights — Electronic Payments Benefits

Although the benefits of electronic payments are plentiful, there are a few that stand higher than the rest due to their impact on the enterprise: savings, speed, and mitigation of risk (Figure 15).

**Figure 15: Benefits of Electronic Payments**



Source: Aberdeen Group, June 2008

Aberdeen research found that cost savings (63%) is the top benefit of leveraging electronic payments in the A/P department. A long-standing advantage of automation, the elimination of manual and paper-based payables processes consistently deliver more dollars to the bottom-line due to increased visibility and the speed of transaction.

The removal of paper from the accounts payable department (54%) is also one of the more alluring benefits. Our research found that as many as 65% of the B2B payments are made via paper-based checks. The costs to cut and send live checks as a form of payment are generally higher than that of electronic payments.

Additionally, by using electronic payment methods more than half of the enterprises are able to accelerate their payment processing, which in turn allows them to take any take any early payment discounts. Furthermore, one-third of the respondents to our study cited fraud control abilities of electronic payment as a major benefit, while a quarter of the respondents consider improvement in working capital management and a balancing of days payable outstanding as a major benefit.



## Appendix A: Research Methodology

Between April and June 2008, Aberdeen examined the use, the experiences, and the intentions of more than 300 enterprises using payment solutions in a diverse set of enterprises.

Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on invoice receipt, imaging and workflow strategies, experiences, and results.

Responding enterprises included the following:

- *Job title / function:* The research sample included respondents with the following job titles: manager (30%); CEO/ CFO / CTO / CIO (21%); director (10%); vice president (7%); staff (5%); partner (3%); and others (24%).
- *Industry:* The research sample included respondents from the following industries: finance (10%), IT services (7%), high technology (6%), education (6%), government (5%), mining /oil / gas (5%), pharmaceutical manufacturing (4%), transportation / logistics (4%), healthcare / medical (3%), distribution (3%), construction (3%), software / hardware supplier (3%), and telecommunication services (3%).
- *Geography:* The majority of respondents (69%) were from North America. Remaining respondents were from the Asia / Pacific region (10%), Europe (9%), and rest of world (12%).
- *Company size:* Thirty-three percent (33%) of respondents were from large enterprises (annual revenues above US \$1 billion); 36% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 31% of respondents were from small businesses (annual revenues of \$50 million or less).

Solution providers recognized as sponsors were solicited after the fact and had no substantive influence on the direction of this report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

### Study Focus

Responding A/P executives completed an online survey that included questions designed to determine the following:

- √ The maturity and scope of A/P imaging and workflow solutions
- √ The performance of different imaging and workflow solutions considering the integration level of these solutions
- √ The best strategies for invoice receipt and data capture in the A/P department
- √ The benefits, if any, that have been derived from imaging and workflow automation solutions in the A/P department

**Table 5: The PACE Framework Key**

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p><b>Pressures</b> — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p><b>Actions</b> — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p><b>Capabilities</b> — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p><b>Enablers</b> — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, June 2008

**Table 6: The Competitive Framework Key**

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p><b>Best-in-Class (20%)</b> — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p><b>Industry Average (50%)</b> — Practices that represent the average or norm, and result in average industry performance.</p> <p><b>Laggards (30%)</b> — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p><b>Process</b> — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p><b>Organization</b> — How is your company currently organized to manage and optimize this particular process?</p> <p><b>Knowledge</b> — What visibility do you have into key data and intelligence required to manage this process?</p> <p><b>Technology</b> — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p><b>Performance</b> — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, June 2008

**Table 7: The Relationship Between PACE and the Competitive Framework**

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, June 2008

## Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [\*The E-Payables Benchmark Series: Imaging and Workflow \(March 2008\)\*](#)
- [\*Accounts Payable Transformation \(December 2007\)\*](#)
- [\*E-Payables: Solution Selection \(September 2007\)\*](#)
- [\*E-Payables: Advancing Accounts Payable Automation \(March 2007\)\*](#)
- [\*Accounts Payable: Strategies for Success \(December 2006\)\*](#)
- [\*E-Payables: Solution Provider Landscape \(March 2007\)\*](#)
- [\*An A.P.B. for A/P Managers \(November 2006\)\*](#)
- [\*Working Capital Optimization \(June 2007\)\*](#)
- [\*Supplier Enablement \(May 2007\)\*](#)
- [\*E-Procurement Benchmark \(August 2006\)\*](#)
- [\*The Invoice Reconciliation and Payment Benchmark Report \(June 2006\)\*](#)

Information on these and any other Aberdeen publications can be found at [www.Aberdeen.com](http://www.Aberdeen.com).

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