

## BENEFITS OF B2B E-PAYMENTS:

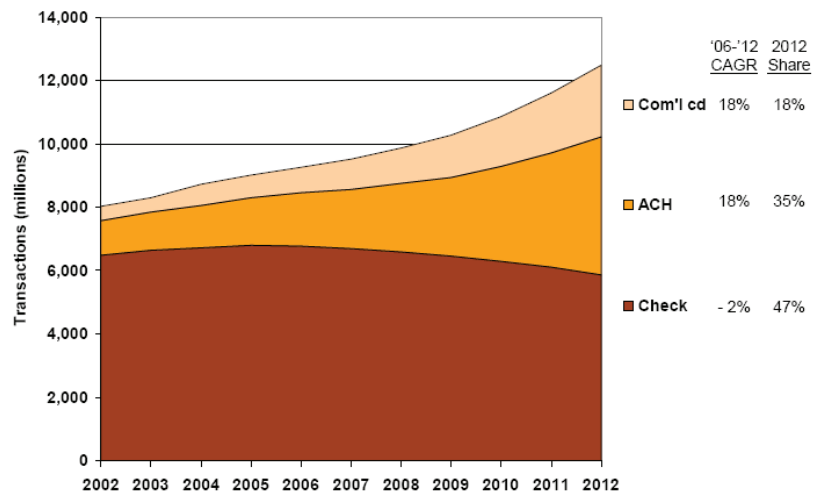
(FINALLY) LEAVING THE  
PAPER CHECK BEHIND

## INTRODUCTION

Today, approximately 10 billion B2B transactions are processed in the US annually, at costs ranging from a high of \$58.09 per transaction for inefficient organizations tied to paper checks, to a low of \$1.50 per transaction for highly efficient organizations leveraging electronic payment processing, according to a 2007 report by the Aberdeen Group. With the average corporation processing 500,000 payments annually, the cost savings and efficiencies can have a dramatic impact to the bottom line.

The Accounts Payable/Receivable processes in many of today's businesses are facing an evolution and redesign in terms of business model and framework. In a majority of these businesses, the current process is heavily reliant on paper, is labor intensive, manual and inefficient, usually incurring a heavy investment of time, resource allocation and funds. By seizing the opportunity to migrate from these traditional, paper-based methods of payment, these businesses have the ability to increase efficiency and realize numerous hard and soft benefits.

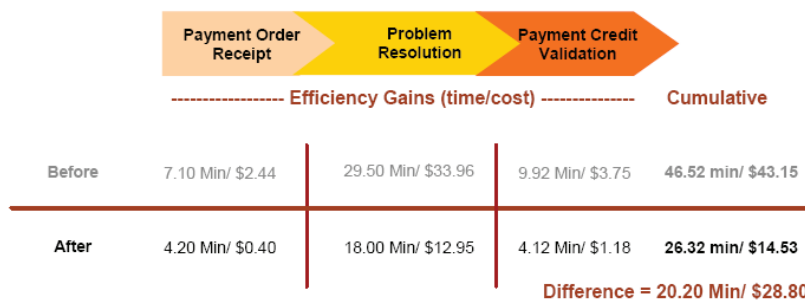
For most businesses still creating paper checks and invoices, the traditional, manual processes were maintained and supported due to the lack of a viable solution early on in the development and implementation of electronic payment processes. Today, these businesses face hard evidence and statistical analysis of benefits when faced with making the migration, including cost reduction, increased A/P efficiency, decreased fraud and improved visibility to cash.



Source: Celent estimates, Federal Reserve, NACHA

## WHY DON'T BUSINESSES SIMPLY SWITCH TO ELECTRONIC PAYMENTS? ALTERNATIVE PAYMENT METHODS TO THE PAPER CHECK

A 2007 survey conducted by the Association of Financial Professionals (AFP) revealed that the typical organization makes 74 percent of its B2B payments by paper check, leaving plenty of room for improved efficiencies. Businesses seeking alternative methods of payment to the paper check will find the procurement card (p-card) and transactions made using the American Clearing House (ACH). Many businesses prefer wire transfer payments because payment is made that same day and can accommodate large amounts with little exposure to risk. However, even wire systems running on aged platforms and technology can receive a significant boost in efficiency by migrating to newer, more focused process, as illustrated in the chart below. And there is still significant room for growth, improvement and expansion in wire payments. According to Federal Reserve research, even if only two percent of paper check volume moves to wire transfer systems that would represent a 47 percent increase in overall wire transfer volume. The same study also reveals that both small and large companies desire a more streamlined process for making wire transfer payments and also favor a single remittance information standard.



Source: IBM

Ideal for smaller business purchases, the p-card by itself can be a large driver in reducing costs, consumption of paper forms and checks and work hours spent. Issuing a purchase order, receiving, verifying and processing an invoice, chasing approval signatures and finally writing and printing a check is not an efficient process for handling small purchases. Nancy Atkinson of the Aite Group states that, "P-card functionality provides automated straight-through processing from purchase through settlement to internal accounting system posting, which results in significant cost savings for businesses. Additionally, accurate and timely updating of internal accounting systems improves cash forecasting and strengthens working capital management, two key functions of corporate treasurers." A March 2007 Aberdeen study on e-payables determined that while considerably versatile and effective in managing smaller scale and low-value purchases, businesses and corporations need to integrate a fuller and more robust

e-payables solution to realize the majority of benefits that moving away from paper checks and into electronic payments provides.

A recent Aite study details the reasons why some businesses may resist ACH check conversion and electronic payment processing. These include perceived advantages of float, retaining check-based fraud prevention services, and preventing the complication of internal bank statement reconciliements, since ACH transactions appear in different portions of the statement from checks. The perceived advantages of check float are quickly diminishing due to electronic check imaging. Sending paper checks to remote locations is no longer providing the same buffer it used to now that a majority of transactions are being done with ACH.

While at one time these and other similar circumstances may have been legitimate reasons for businesses and organizations to balk at migrating their legacy and paper dependent systems to an electronic payments process, that is no longer the case. The advanced technology and research available means that while these may at one point have been the obstacles preventing some businesses from migrating to electronic payments, they are certainly surmountable with the right system and support and can be worked into such a system with ease.

## PAPER TO ELECTRONIC PAYMENTS: FORECASTING THE PROGRESS OF A SHIFTING LANDSCAPE

Businesses are more apt to adopt electronic payments today than they have been during the last decade. 43 percent of respondents to the survey done in 2007 by the AFP said that their organizations are very likely to convert the majority of their B2B payments to major suppliers to electronic payments in the next three years. The top three benefits identified by survey respondents are cost savings, improved cash forecasting and straight-through processing to accounting systems. The use of electronic payments is rapidly increasing, especially among organizations with annual revenues over \$1 billion and those with high payment volumes, again according to research done by the AFP.

When a larger-scale industry trend or change in corporate culture and process occurs, like moving from a manual labor intensive paper payment process, it is generally accompanied by wholesale change, both in process and organizationally as well as technologically.

Organizations that put off the decision to migrate to e-payments in favor of the comfortable, slow moving approach will miss out on the advantages that come with being an early adopter, namely recognition as an industry thought leader and forward thinking group that is focused on finding better ways to automate processes and meet the needs its business partners. According to an Aite 2008 study titled "Trends in U.S. Cash Management: A Survey of the 50 Largest Banks," it is noted that while there are benefits for all sizes of corporations and businesses, initially it is larger corporations that are the most likely business demographic to explore and implement an electronic payments system, quickly followed by middle-market business and small businesses.

## **By migrating away from the paper check, businesses have the ability to increase efficiency and realize numerous hard and soft benefits, both in their bottom lines and to their corporate citizenry.**

The study contends that larger businesses could be better equipped to handle the implementation of an electronic payment process, generally having their own internal information technology staff and knowledge to facilitate the transition. In some cases these larger corporations and businesses also have the experience of working with trading partners that already accept electronic payments and have their own EIPP systems. These partners might be more agreeable to negotiating mutual terms to offset any float losses, one of the positive benefits that paper checks provide.<sup>1</sup> As a result of these factors, Aite Group projects that large businesses will reduce their use of paper checks from 70 percent of their total B2B payments in 2006 to 60 percent by 2010.

In addition to the dramatic shift in larger businesses moving toward payments automation, the number of midsize and small businesses headed in the same direction is also seeing an increase. As the adoption of electronic banking continues to gain ground in the consumer market, it is expected that this shift will also gain momentum among small and midsize businesses. Apprehension will subside as these new technologies become more widespread and readily available. As long as there are solutions that can be molded to suit the needs of the small or midsize business owner, the business case that can be made in favor of electronic payments gets stronger. Small and midsize businesses need flexibility in a payments system. Not only do electronic payments provide that flexibility, but they also offer speed and accuracy not currently provided by the manual process.

1. Aite Report: Trends in Cash Management; A Survey of the 50 Largest Banks. February 2008

## PRIMARY DRIVER: COST REDUCTION

Cost reduction is among the key drivers for making the organizational move to electronic payments. Cost savings come from a variety of areas related to electronic payments – among the most readily quantifiable are reduced head count, lower administration costs and decreased paper usage. In fact, 59 percent of respondents to the survey conducted by the AFP claimed that they specifically implemented electronic payments for the cost saving benefits.

The reduced amount of paper consumption can have a drastic and far reaching effect. By making the switch from paper check printing to electronic payments, businesses can eliminate enormous amounts of check, forms and approval documents and envelopes. These savings also cascade into postage reduction - effective May 12, 2008, the U.S. Postal Service is increasing rates again, and future postage increases are almost certain. These printing and postage costs have a demonstrable negative impact to the bottom line.

## Industry estimates of paper check fraud losses hover around US \$20 billion.

In many cases automation reduces the procure-to-pay cycle time from weeks to a matter of days. This not only means there is a beneficial return on investment, but that it also comes at a quickened pace. Given these developments, PayStream Advisors estimate that the number of B2B invoices traded within the U.S. in electronic format will move beyond that of paper invoices by 2010.

## STREAMLINED PAYMENT PROCESSING

For organizations of all sizes, the move to electronic payment processing can bring additional challenges, however. Although cost savings can be found by replacing paper checks with electronic payments, many organizations are finding that in order to execute electronic payments they must log in to several proprietary vendor systems. This can add operational complexity to an already inefficient accounting process. A simpler approach is to consider working with a payment processor that can execute all payment types on your behalf. Some of these vendors, such as SunGard, can accept payment files directly from your accounting/ERP applications, and even provide least cost routing of payments, dramatically increasing payment processing efficiencies without requiring process change.

The speed with which electronic payments can be received and delivered can have even further reaching effects on the bottom line when considering the effort to attain early payment discounts (generally the 2 percent 10 net 30 terms).

According to PayStream, the average business organization is unable to capture anywhere between 50 percent-60 percent of discounts offered, because their A/P departments are unable to process and pay the invoice using a paper check within the 10-day window that applies to the discount. According to statistics from PayStream Advisors, the average paper check approval and disbursement cycle can take between 30-40 days or more, placing the 10-day discount opportunity well out of reach. Aside from the standard discount practices among businesses, electronic, faster payments also means fewer late fees. If the average payment and approval cycle is around 30-40 days, with variances going even higher, then the likelihood of incurring late fees and other penalties must increase dramatically, again impacting the bottom line.

### EXCEPTIONALLY IMPROVED VISIBILITY TO CASH, TAKING ADVANTAGE OF ERROR REDUCTION AND INCREASED FRAUD DETECTION

The same survey done by the AFP referenced earlier also revealed that the second most widely selected benefit of electronic payments is improved cash forecasting, selected by 41 percent of the organizations polled. Improved cash forecasting is directly related to the improved visibility to cash made possible by automating the payment process. 60 to 70 percent of all enterprises note a lack of visibility across many key aspects of the A/P process, making it increasingly difficult to mitigate risk, according to research done by the Aberdeen Group in March of 2007. A lack of visibility to cash easily translates to lost and missed opportunities for stakeholders in other business areas such as treasury, procurement and supply. It also incurs higher costs per transaction and longer cycle times. The lack of visibility can also directly affect the bottom line by reducing the ability to identify billing errors, overpayments, unclaimed discounts and other transactional information or discrepancies.

Again according to a research survey done by the AFP, nearly all organizations (94 percent) that experienced attempted or actual payments fraud in 2007 were victims of check fraud. Organizations were much less likely to be subject to fraud from electronic payments than from checks, including:

- ACH debit (36 percent)
- Corporate cards (13 percent)
- ACH credit (4 percent)
- Wire transfer (3 percent)

Even with check usage at businesses declining, it is still the payment instrument most susceptible to fraud. AFP research goes on to suggest that organizations that switch from checks to electronic payments can be effective in protecting themselves from fraud.

In the middle office, an electronic payments process also creates faster cycling times and payments processing assists the detection of fraud in a timelier manner. Electronic payments are subject to more immediate methods of payment verifications and more accurate matching without being exposed to as much chance for human error. In more recent years, a fuller integration of electronic payment systems and accounting systems has contributed the efficiency increase in this arena, eliminating one of the barriers previously cited by businesses for not moving toward an electronic payments solution. By reducing the amount of manual data entry and check processing, the likelihood of human error is also drastically lowered. This also leads to a greater capability to adhere to regulations and maintain compliance with today's strict regulations.

Simply put, a reduction of paper files and payments also leads to fewer of those files and payments that are able to be misplaced. In addition to losing files and payments, most businesses paying with paper checks require large quantities of preprinted checks, which can be susceptible to theft. Following the same line, crucial payment data stored electronically can be less susceptible to theft and conversely the behaviors and patterns of payments is more visible. Industry estimates of paper check fraud losses hover around US \$20 billion.

Time lag associated with the printing and mailing of paper checks also ties up businesses cash flow. By moving away from the belabored manual processes of yesterday, companies can utilize electronic payments to reduce fraud as well, by being better able to control form theft, check duplication and alteration.

## GOING "GREEN" AND IMPROVING CORPORATE CITIZENRY IN ADDITION TO THE BOTTOM LINE

There are a number of other benefits outside of the traditional return on investment and various business oriented key performance indicators that organizations might be looking for when making the move from check printing to electronic payments. Among these benefits is going "green."

The green movement plays an important role in today's business landscape. Not only is there the environmental impact many companies are reducing, but the positive effect on their corporate culture and the way they are viewed by other organizations and consumers can also have a beneficial effect on bottom lines. According to statistics found on the non-profit PayItGreen Alliance Web site, paper checks require more than 674 million gallons of fuel and produce over 3,628,200 tons of greenhouse gases over the course of their lifetime.

The PayItGreen Alliance is a coalition of financial service companies led by NACHA, whose goal is to educate consumers and businesses about the environmental impact of their organizations and processes, and how to reduce that impact by consuming less paper and energy. The most immediate returns are felt and realized in the reduced amount of physical paper used to print checks and invoices, as well as the drastically reduced number of envelopes used to mail them in (tying back to the financial savings realized with regard to postage).

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The Environmental Defense Fund and the PayItGreen Alliance are two large non-profit organizations that are committed to aiding businesses and corporations move to a paperless corporate environment and payments process. The Environmental Defense Fund's homepage has an online paper calculator to help businesses determine by how much they can reduce usage. The organization touts the fact that large businesses and corporations like PepsiCo, Wells Fargo, Staples and Starbucks use the calculator over 500 times every month.

## EMBRACING THE MOVEMENT AS PAYMENT STRUCTURES CONTINUE TO EVOLVE

The antiquated, labor intensive manual systems of paper checks and payments are nearing their end. The benefits gained by migrating to an electronic payments process are now more lucid and achievable. With the roadblocks and obstacles of recent years being addressed and rendered irrelevant, it is in the interest of businesses and organizations that have not yet begun to migrate to electronic payments to begin taking a hard look at doing so.

**Benefits of Migrating to Electronic Payments**

- Cost reduction
- Improved fraud detection and error reduction
- Increased accessibility and visibility to cash
- Automation of labor intensive, manual processes
- Utilizing resources that were once occupied with paper checks in different, more productive ways
- Reduction of necessary space and resources, Going Green and facilitating your organization's part in helping the environment

Celent anticipates that B2B adoption of electronic payments processes will bump up to 58 percent of total volume by 2010. The specific and tangible ROI and bottom line gains are easy to point to as the main driver for moving away from paper checks, but it is the value gained in other areas and business operations that make the switch valuable as well. Partnering with the right solutions provider is also critical to seeing maximum gains when migrating to an electronic payments process.

Today, many banks and service companies have developed product offerings and solutions to help payers transition more of their B2B payments to electronic disbursement solutions that deliver remittance information along with the payment or notice of payment. These solutions include vendor portals for self-managing their bank deposit account information, receipt of electronic payments and delivery of electronic remittance. Many have developed card payment solutions that are also capable of communicating electronic remittance for each vendor payment.

Service offerings and banks have allocated significant resources and efforts to bring together state of the art efficiency and security controls into these services, in addition to compliance with the Sarbanes-Oxley Section 404 requirement for complete auditing of controls and practices. For organizations interested in investigating new solutions for improving efficiencies and lowering costs, seek out vendors that have a complete and fully audited SAS70 Type II solution for the entire payment process, not just customer-specific solutions.

To fully take advantage of the flexibility provided by all payment types, look for full service payment solutions that support domestic and international ACH, wires, card payments and yes, even check printing, as companies that streamline and automate processes can normally issue checks at a much lower cost than those that don't.

[www.sungard.com](http://www.sungard.com)

#### About SunGard

With annual revenue of \$5 billion, SunGard is a global leader in software and processing solutions for financial services, higher education and the public sector. SunGard also helps information-dependent enterprises of all types to ensure the continuity of their business. SunGard serves more than 25,000 customers in more than 50 countries, including the world's 50 largest financial services companies. Visit SunGard at [www.sungard.com](http://www.sungard.com).

#### About AvantGard

SunGard's AvantGard solution offers a unique suite of electronic payments and check printing offerings. AvantGard streamlines the processing of payments, helping to improve routing, connectivity and integration; reduce transactional and operational costs; increase security; and improve the management of payment information, exceptions, and statement flows. Visit AvantGard at [www.sungard.com/avantgard](http://www.sungard.com/avantgard).