Finexio

Why a Smart Payment Network Bests the Bank for Business-to-Business Payments

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Selecting a bank to help automate payments to suppliers seems like an obvious choice. After all, banks have a long-standing reputation for delivering financial services. But businesses are discovering the hard way that the approach most banks take to electronic payments automation does not provide the optimum results.

However, it doesn't have to be this way. Smart business-to-business (B2B) payments – services that electronically convert paper payments to capture the best possible transaction price and method of delivery – offer buyers a better approach to bank payment services. This white paper will show you how. It details the four major problems with the approach most banks take to electronic payments, describes how a smart B2B payments network works, details the benefits of a smart B2B payments network over bank services, highlights case study examples of organizations that are benefiting from a smart B2B payments network, and offers some questions to ask banks.

THE SITUATION

In the fever-pitched battle between banks and fast-growing nonbank competitors for payments market share and revenues, banks are losing their grip on their long-held leadership position.

In 2017, U.S. banks' total payments revenue netted out to $163 billion, with nonbanks such as financial technology firms claiming revenue of $136 billion, according to the research from Accenture Payments. That means that nonbanks ranging from the likes of Apple Pay, PayPal, and Square to payment network providers such as Finexio own a **45 percent share** of payments revenue.

But by 2020, Accenture projects the nonbank share will rise to $177 billion versus $167 billion for banks, tipping the balance in favor of nonbanks for the first time as they claim a 51 percent share[1]. The change in bank fortunes will happen over the next two years as banks gain $15 billion in revenue but lose nearly $12 billion to pricing pressure and business lost to "new players," according to the same research.

Ominously for banks, nonbanks will win $69 billion worth of new business by 2020, Accenture says[2].

And nonbanks have the financial backing that they need to build on their momentum against banks. Total global fintech investment topped $12 billion in the first half of 2017, according to the KPMG Pulse of Fintech report[3].

Supplier payments are one area where banks have seen a steady erosion in their market share.

THE PROBLEM

Accounts payable professionals rank electronic payments as their top automation priority, per the Institute of Finance and Management (IOFM)[4]. And for a good reason. Fifty-one percent of business-to-business payments are still made via paper check, according to the Association for Financial Professionals (AFP)[5]. Many businesses have turned to banks to help with their migration from paper checks. But the typical approach to payments taken by banks creates four big problems:

MISSED OPPORTUNITIES: Most banks miss valuable opportunities to convert suppliers to electronic payments. For starters, most banks focus on the largest buckets of a supplier's spending – the lowest hanging fruit – ignoring the rest of their spending. And most banks target suppliers based on a supplier analysis provided by the credit card networks. This analysis is only designed to identify suppliers that are willing to accept virtual card payments and ignore ACH and other electronic payment channels that may be enticing to suppliers.

NO PAYMENT OPTIONS: Most banks offer cards as their only option for paying suppliers electronically. This 'take it or leave it' approach to converting suppliers to electronic payments negatively impacts supplier adoption; either a supplier accepts cards, or they don't. Refusing to pay suppliers in their preferred method also strains relationships with valued suppliers. What's more, banks that offer multiple payment options typically require buyers to submit one file of approved payments for each type of electronic payment that the bank supports, resulting in additional work for the AP department adding considerable time expense and operational risk to the process of paying suppliers.

LOW SUPPLIER ADOPTION: Enrolling suppliers in electronic payments is an afterthought for most banks. Most banks don't have the staff, or the automated technology, to contact most suppliers about migrating to electronic payments. Making matters worse, banks rely heavily on the supplier contact information provided by the buyer, no matter how limited. In many cases, buyers do not know the right person to contact about migrating to electronic payments, or how to reach them. Additionally, many banks take a 'one-and-done' approach to supplier enablement and onboarding that ends after just a few weeks, meaning buyers will miss opportunities to onboard new suppliers or long-time suppliers whose business needs or decision-makers change. And supplier inquiries about electronic payments are typically put back on the buyer to answer rather than being answered by the bank. As a result, overwhelmed accounts payable staff must become experts in responding to questions about electronic payments, or electronic payments adoption will suffer. It is no wonder that most banks are satisfied with enrolling just 10-15 percent of a buyer's available spend in electronic payments.

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POOR SUPPORT: Supplier engagement and support is expensive and time-consuming. Most banks put the onus on buyers to handle processing questions, change-in-payment requests, and payment settlement. Most banks do not provide any support after a payment is delivered; instead, bank coach their payments customers on how to handle support questions. In return for taking on these support and administration burdens, businesses receive a few basis points on virtual card transactions from their bank payments provider. Making matters worse, most banks lack user-friendly reporting modules. As a result, busy accounts payable staff typically must log into multiple systems and payments portals to reconcile their payments to suppliers. Reconciliation ranks among the tasks that accounts payable professionals would most like to eliminate, according to IOFM research[6].

It is no wonder that many businesses never achieve the benefits that they thought they would from their bank's payments program. Supplier adoption is low. Someone must chase down suppliers for settlement. Reconciliation is extremely hard. Buyers know they are leaving money on the table.

Not surprisingly, more businesses are looking for options when it's time to renew their bank contract.

THE SOLUTION

Smart B2B payment networks offer buyers a better approach to bank payments services.

Smart B2B payment networks electronically convert paper payments to capture the best possible transaction price and method of delivery. Payment networks integrate into enterprise accounts payable and procurement software platforms to embed payments into the corporate buying and selling experience.

Deployed as a service, payment networks weave together access to several private "closed loop" payment processing networks. The networks provide unique integration with a variety of payment and billing aggregators, payment facilitators, merchant acquirers, processors, and payment networks.

Here's how smart B2B payment networks work:

STEP 1

The buyer transmits instructions on approved payments to the smart B2B payment network. The buyer also sends the network funds via ACH to cover the approved payments.

STEP 2

The smart B2B payments network processes the buyer's approved payments by automatically matching buyer instructions to aggregated network supplier information.

STEP 3

The smart B2B payments network conveys the funds to the supplier via partner integration. Funds are dispersed via a closed-loop network, virtual account number (VAN), various formats of ACH, and check.

STEP 4

Payments are settled, and electronic remittance advice is transmitted to the supplier.

Smart B2B payment networks also make it easy for buyers to pay suppliers. Payments network providers manage all the supplier outreach and support, accept a single file for all payments, determine the 'best way' to pay suppliers, instead of forcing all suppliers to accept the same payment method, streamline reconciliation and administration, and provide transparency and control.

BENEFITS OF A SMART B2B PAYMENTS NETWORK

- Free your staff to focus on value-added activities
- No more printing, signing, stuffing and mailing checks
- Pay suppliers in the method that they prefer
- Ensure speedy payment settlement
- No more reconciliation headaches
- Avoid the time and expense of supporting suppliers

THE BENEFITS

Smart B2B payments networks unlock the strategic value of payables for efficiency-minded finance leaders. Buyers benefit from revenue opportunities and cost savings, without sacrificing visibility and control or creating more work for overburdened accounts payable professionals. Suppliers get paid in the method that they prefer, without sharing their sensitive bank account information.

Importantly, payment networks address the four biggest problems with bank payment services:

OPPORTUNITIES CREATED: Unlike banks, smart B2B payment networks pursue 100 percent of a buyer's spending for conversion to electronic payments. Network providers accomplish this by analyzing a buyer's accounts payable spend file using proprietary analytics to determine the best payment method for each supplier. The analytics consider payment terms, discounts, payment volume, the relationship between the buyer and the supplier and other critical criteria. Some providers of smart B2B payment networks also leverage proprietary and third-party data to identify suppliers that accept various methods of electronic payment. The proprietary data is sourced from processing millions of dollars of payments. Replicating this volume of data would require the equivalent of several data resources (e.g., Dun & Bradsheet, LexisNexis) – a costly and time-intensive proposition for most accounts payable departments.

What's more, providers of smart B2B payment networks help buyers segment their supplier base (e.g., strategic, high-volume, core, basic) to develop targeted conversion strategies. Some smart B2B payment networks provide configurable dashboards that help buyers identify key opportunities for electronic payments conversion. The dashboards graphically display important metrics such as dollar amount and supplier count by week, month, and year; spend per supplier; spend by payment type, and all-time totals for the amount paid, supplier payments made, and the number of suppliers. These are the reasons that organizations that migrate from a bank payments service to a smart B2B payments network achieve an average 15 percent increase in electronic payments adoption, which can result in hundreds of thousands of dollars in benefit back to buyers.

PAYMENT METHODS SUPPORTED: Smart B2B payment networks make it easy to pay suppliers in the method that they prefer. Some smart B2B payments networks support several different types of payment – including closed-loop network, VAN via e-mail, VAN via straight-through processing, debit card transfer, check, digital check, ACH, enhanced ACH and dynamic discounting – and allow for new payment types as they come to market (i.e., blockchain). Buyers can customize the fees, payment speed and delivery method for each payment method to drive supplier adoption of preferred payment methods. Best of all, buyers use a single interface and file transfer to pay suppliers using any of these methods; with a smart B2B payments network, buyers make just one payment per day or week according to their existing payment schedules. The payments network generates the appropriate payment type for each supplier. Supporting multiple payment options enables buyers to select the payment type that is the best fit for them and their suppliers, automates all a buyer's payments, strengthens a buyer's relationship with its suppliers, and generates revenue for buyers while providing high value to suppliers. More payment options at reduced rates uncover more suppliers willing to accept electronic payment. Buyers also can manage their cash flow by telling the network provider when payments should be made.

SUPPLIER ENABLEMENT: Providers of smart B2B payments networks recognize the importance of supplier enablement and onboarding to the success of an electronic payment initiative.

SUCCESSFUL SUPPLIER ENABLEMENT ENABLES BUYERS TO ACHIEVE STRATEGIC GOALS FOR:

- Accounts payable monetization
- Electronic payments
- Process automation
- Cycle-time reduction

Providers of smart B2B payments networks design an enablement campaign for each buyer. Unlike banks who perform minimal "enrollment," providers of smart B2B payments networks "enable" suppliers with education, materials, information, and choice in how they want to be paid more efficiently by calling and e-mailing all the buyer's suppliers about migrating to electronic payments. Some network providers use sophisticated tools to research and append complete supplier contact data to the information provided by buyers, ensuring that the network provider reaches the right person. And network providers use a customized, empathetic outreach guided by predictive analytics. Customizable supplier letters and other communications provided by network providers spell out the considerable benefits of accepting electronic payments. Some of the benefits of electronic payments to suppliers include faster payments, better visibility into the status of payments, better predictability on when payments will arrive, better cash flow management, no chance of payments being lost in the mail, and streamlined reconciliation. Providers of smart B2B payment networks also leverage payment terms, electronic remittance formats, cost arbitrage, rate arbitrage, and enhanced data to drive supplier acceptance. Some smart B2B payments network providers also offer answers to frequently asked questions by suppliers, such as:

- Why should I move away from paper checks?
- What is a virtual card?
- How do I process a virtual card?

- What is included in my payment notification?
- What if a transaction fails?
- Can I access my payment activity and history online?
- What level of support will I receive?
- What if I can't process credit cards, can I still participate?
- How much does the program cost?
- What if I'm not the right person to authorize enrollment, but I know who can?

The customized communications offered by network providers direct suppliers to an online portal where they can activate their electronic payments account, and then be contacted by a representative of the smart B2B payments network. Leveraging these types of customized communications help drive supplier enablement while reducing calls to busy accounts payable staff. And the custom workflows employed by some providers of smart B2B payment networks eliminate common enablement open questions by providing solutions to issues such as remittances, portal payments, and straight-through processing. Payment network providers deliver progress reports and updates to buyers throughout the campaign, and propose additional campaign phases, as needed. What's more, the client-specific supplier enablement campaigns offered by smart B2B network providers never end, offering buyers a way to enroll new suppliers or those suppliers whose needs or decision-makers change.

CONCIERGE SUPPORT: Providers of smart B2B payment networks save buyers considerable time and money by providing a service desk, managing suppliers on their behalf and taking on responsibility for all payment settlement and administration support. Most smart B2B network providers employ a dedicated support team to resolve and report on all inbound and outbound payment matters, including processing questions and change-in-payment-method requests. The network provider's support team also ensures that suppliers process virtual cards within the buyer-specified timeframe and conducts follow-up calls to ensure other payments are redeemed. Between 10 percent and 15 percent of card transactions are not run unless someone contacts the supplier. Unprocessed card transactions tie up cash flow and complicate reconciliation. Buyers only pay smart B2B payment networks for payments that are delivered effectively, so it is in the best interest of the network provider to ensure that suppliers process their payments. Buyers can view transactions and rich reconciliation data through an online portal and receive the data back automatically in their preferred file format. Some network providers also monitor Days Disbursements Outstanding (DDO) and issuer and acquirer data to help drive continual improvement.

CASE STUDIES

Organizations across vertical industries are achieving operational and strategic benefits from using a smart B2B payments network to drive their migration from paper checks. Here are a few examples:

- A leading national personal injury law firm increased adoption of electronic payments among its suppliers by 177 percent after switching from a bank solution to a smart B2B payments network. The law firm grew its volume of electronic payments to suppliers by 58 percent.
- A provider of state-of-the-art pharmacy solutions leveraged a smart B2B payments network to achieve a 337 percent improvement in cash flow and generate $200,000 in annual rebates. Sixty-two percent of the solutions provider's suppliers converted to electronic payments.
- A community association management company generated more than $250,000 in annual benefit between check cost savings and rebates after migrating a smart B2B payments network. The company converted 15 percent of its spend to electronic payments within 30 days of leveraging the network.

It is unlikely that these organizations would have achieved these operational and strategic benefits if they had relied on a typical bank payments service instead of a smart B2B payments network.

CONCLUSION

Buyers have too much riding on their electronic payment initiatives to risk choosing the wrong partner. Below are some questions to ask prospective providers of electronic payments solutions to ensure that you select one with an approach that will help you achieve the maximum benefits:

- How many different payment types does your organization offer to suppliers?
- How many different price points and cost models can your organization provide to our suppliers?
- What is the dollar spend threshold for suppliers that you will contact?
- Does your organization have staff and/or technology for contacting suppliers?
- Who makes sure that payments are run and/or delivered?
- Does your organization offer straight-through processing for suppliers who don't accept traditional virtual cards?
- How does your organization reach out to suppliers in cases where we have incomplete contact information?
- How many custom enablement campaigns do your organization use to enroll suppliers?
- How does your organization handle large/ticket/large merchant transactions?

The answers that most banks provide to these questions will highlight the differences between bank payment services and smart B2B payments networks. Payment networks deliver the opportunities, payment methods, supplier enablement and concierge support that efficiency-minded executives need to seize the full benefits of electronic payments and unlock the business value of accounts payables.

ABOUT FINEXIO

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In 2015, financial executives from MasterCard and Change Healthcare saw a critical opening for a B2B commercial payments execution platform that could service mid- to large-market companies. They envisioned Finexio to help customers and their efficiency minded-finance teams unlock the strategic value of payables. Finexio's payment technology identifies which suppliers can be paid electronically, then routes those payments without requiring bank account information. Finexio's proprietary network identifies, delivers and supports nine forms of payment, generating revenue and cost savings for accounts payable departments while offering complete visibility and control of the payment process.

To learn more, visit www.finexio.com.

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