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Ever since the global financial crisis, key functions within the enterprise, such as treasury, procurement and accounts payable (AP), have or are beginning to experience a shift in their role and place within the enterprise. As credit became tighter, as it remains today, businesses increased their focus on improving internal processes and controls to ensure that working capital is optimized, both physical and financial supply chains are stable and that access to cash is fully maintained. This report looks at the role that electronic payments play, in particular virtual card payments, in this changing business environment.

Over the past few years, there's been a shift in focus within the enterprise to cash and visibility as seen by the actions of several key departments. For example, treasury groups have intensified their focus on creating more efficient financial operations with stronger internal controls and real-time access to payables, receivables and other cash flow data. Procurement departments, on the other hand, have taken a more holistic view of the entire procure-to-pay (P2P) process from an efficiency and performance standpoint. They are also more focused on improving supplier relationships and performance to ensure stability and ensure that negotiated savings are not lost. Accounts payable groups have been left to adapt to the needs of both treasury and procurement. These needs have placed pressure on AP groups to drastically improve their efficiency in processing invoices/payments and to raise the level of visibility into the AP process. With that, AP can provide more accurate and real-time data on financial liabilities and early payment discount opportunities, ultimately aiding their functional partners in viewing, managing and optimizing working capital.

From these actions, it is clear that “operational efficiency” across these three functions and their respective processes is a priority. When boiled down to the essential elements, the common bond between these three functions is a supplier transaction. Procurement is responsible for the supplier involved in the transaction, any savings generated, as well as the pricing and terms of payment, etc. AP is responsible for interacting with the suppliers after an invoice is received. They validate, approve and process the invoice for payment at which point treasury becomes involved with the final disbursement of cash.

Traditionally, these transactions have been supported by paper-laden processes which are often inefficient and costly. However, more enterprises are realizing the benefits and long-term value of automating the entire P2P process including the second “P” (or “Pay”) which until recently was generally viewed by enterprises as a distinct process. Today, all three functions view the payment and settlement process as a key part of the supplier transaction; as a result, enterprises are increasingly looking to migrate to electronic payment (ePayment) methods.
Electronic Payments

In recent market research conducted by Ardent Partners (“ePayables 2013: AP’s New Dawn,” June 2013), one of the most significant trends uncovered was the move away from paper checks towards electronic forms of payment. In fact, this report (based on survey results from 245 enterprises) found that the average AP department makes, on average, 53% percent of its total payments electronically, a figure which includes commercial card products, ACH and wire transfers. Additionally, Ardent’s analysis showed that over the past two years only 8% of enterprises saw an increase in paper checks, while 81% reported an increase in ACH payments and 50% saw an increase in commercial card payments.

Electronic payments offer a variety of benefits, the most important of which is cost savings, according 71% of organizations (Figure 1). Paper checks are time-consuming and tedious to process, and also involve various costs such as printing, mailing, lost checks, wrong addresses, etc. The manual nature of the check payment process also offers little visibility into payment data and accuracy around accruals.

Other benefits of ePayments, according to Ardent’s research, include improved fraud control and increased straight-through processing. Due to the significantly advanced controls and security around ePayments, it is much harder to conduct fraudulent activity. One example of improved control is seen in the use of virtual cards (a non-card account). Virtual card numbers are uniquely generated and issued to specific suppliers and can be “locked down” to only make payments with a specific supplier; they also have pre-set credit limits and established timeframes to improve control and security over payments. Additionally, virtual card providers can push payment straight-through to suppliers, further enhancing payment security, accuracy and timing.

Even though very tangible benefits exist, the volume of paper checks still being processed remains very high at 47% for the average enterprise. So, what are the barriers preventing enterprises from fully embracing ePayments?

According to Ardent Partners, the biggest challenge enterprises face is getting their suppliers to accept ePayments (Figure 2). Often suppliers will have to change their processes and be required to integrate and share bank account information, which they may not be willing to do. Furthermore, certain methods of electronic payments present difficulties in reconciliation because the payment and the remittance information are submitted separately.
Figure 2: Barriers to Increasing Electronic Payments

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convincing suppliers to accept ePayments</td>
<td>53%</td>
</tr>
<tr>
<td>Integration to back-end systems</td>
<td>42%</td>
</tr>
<tr>
<td>No standard format for remittance information</td>
<td>34%</td>
</tr>
<tr>
<td>Privacy/security of bank account information</td>
<td>31%</td>
</tr>
<tr>
<td>Shortage of IT resources for implementation</td>
<td>25%</td>
</tr>
</tbody>
</table>

Card Payments

As mentioned previously, approximately 53% of payments today are being made either by card, ACH or wire. Commercial cards, along with ACH, have grown significantly in usage over the last decade. Cards products in particular have evolved considerably over that time with providers adding sophisticated features in response to market demands for greater security and control. As a result, there are multiple types of card products available, each catering to a unique business need. Below is a list of the primary card types and their primary uses:

**Purchasing Card or "p-card":** Traditional plastic card with a credit line, ideal for low-value purchases that are not complex, such as office supplies. With p-cards, organizations can significantly reduce the time and cost of paying for a variety of business-to-business goods and services by eliminating paper-based purchase orders and invoice processing.

**Ghost Card:** A non-card account that is often held by preferred suppliers and where payment is initiated by the seller. Ghost cards are effectively account numbers linked to a high-limit charge account, which a buying organization uses to conduct a high number of transactions. They are ideal for enabling many employees to make purchases without having to issue multiple cards and also for recurring purchases of low-to-medium value.

**Virtual Card:** A non-card account with multiple security and control features that are ideal for higher-value invoice payments. For most organizations, their AP processes and systems remain the same – only the payment method changes. Rather than send a check run file to their provider, the buying organization sends a virtual card payment instruction file. Account numbers are “dormant” until the payment instruction is sent, specifying the authorized payment amount, payment date range and supplier. Virtual cards replace costly manual checks, automating payments, reconciliation and reporting. There are variations in virtual card accounts, for example:

- **Dynamic credit adjustment accounts** are assigned to trusted suppliers. These dedicated accounts are set with a zero credit limit, so suppliers cannot authorize payment until they receive notification that the account limit has been raised to the approved payment amount. With dynamic credit adjustment accounts, suppliers keep the account number on file, eliminating the need to manually retrieve/enter the card number for each payment.
Virtual Payments, Real Benefits

- **Single-use accounts** can be locked-down for use only by a specific supplier, for a specific amount and within a certain timeframe. Unlike dynamic credit adjustment accounts, where one account is assigned per supplier, a single-use account is assigned per payment. Due to the one-time-use nature of the account, buyers benefit from improved security and reconciliation. With single-use accounts, suppliers must log-in to a portal to retrieve the unique card number that is generated.

- **Buyer-initiated payments** on the other hand enable the buyer to “push” the payment straight-through to the supplier’s bank account. There is no processing required on the supplier’s end, so the buyer maintains complete control over the payment timing and amount.

**Virtual Payments**

While there are various commercial card options, when it comes to addressing the specific needs of AP and making higher-value invoice payments, virtual cards offer the efficiency, security and control that is highly desirable within an AP operation. Virtual cards offer benefits to both buyers and suppliers and over the last few years, demand for this sophisticated payment mechanism has risen.

**Benefits for Buyers**

- **Reduction in exception-processing** – The controls offered by virtual cards can help to reduce time-consuming and costly exception-processing by avoiding short payments. This is made possible because single-use virtual accounts can be authorized to execute only a specific dollar amount, right down to the penny, thereby rejecting any higher or lower amounts.

- **Extension of float and Days Payable Outstanding (DPO)** – The accuracy and precision with which virtual payments can be made, combined with the timing of the buying organization’s billing cycle, allows cash to be held for a longer period of time. Checks or ACH payments debit the buyer’s account when the payment is made, whereas with virtual cards the supplier is paid immediately, but the funds are debited from the buyer during the regular billing cycle. This enables the buyer to extend DPO and thereby improve working capital.

- **Improved controls, reduction of fraud** – Virtual cards have the ability to “lock down” payment amounts and specify the maximum credit limit for every payment, while also removing the need for buying organizations to hold supplier bank account information. All of which are effective fraud deterents.

- **Remittance information** – With other forms of electronic payment, such as ACH, the payment often arrives without remittance details, leading to additional reconciliation work and issues. Virtual cards provide enhanced transaction details such as invoice numbers and/or payment reference numbers, enabling automatic matching and visibility and reducing the reliance on supplier provided information.
**Rebates** – Virtual cards and their suitability to invoice payments provides AP with the opportunity to significantly add volume to an organization’s overall card program and thereby generate additional rebates, turning AP into a revenue generator (Figure 3).

**Figure 3: Example of Value Created with Virtual Cards**

| Checks per Month | 4,500 |
| Average Cost to Process a Check | $9 |

**Process Savings**  
Migrate only 10% to Virtual Cards  
Rebate Earned  
$67,500

| TOTAL ANNUAL COST | $486,000 |
| TOTAL VALUE CREATED | $105,300 |

According to Ardent Partners research, the average cost to process a check payment is between $9-$13, and the cost to process a card payment is approximately $2. The rebate was calculated using an average payment of $1,000 and a rebate of 1.25%

**Benefits for Suppliers**

Traditionally, from a supplier’s perspective accepting payment by card means agreeing to a transaction fee and quite often this is the main deterrent. However, suppliers may be surprised to find that there are certain benefits to accepting virtual card payments such as:

- **Faster receipt of payments** – Suppliers can expect to receive invoice payments faster from customers who pay via virtual card (as compared to checks or ACH), as the payment goes through the same way any other credit card payment would: at the point of the transaction and straight to the supplier’s bank account. Receiving payment faster can mean an improvement in working capital for the supplier. (Note: other card solutions such as p-cards are not ideal for higher value and more complex invoice payments due to more limited control and reconciliation).

- **No additional processes** – Suppliers that already accept any form of card payment do not need to learn any new processes or require any special setup or training.

- **Improved payment data** – When compared to other forms of ePayment, suppliers will receive improved payment information and remittance data from virtual card payments, resulting in an improved reconciliation process. Remittance data is often submitted to the supplier via secure email.

**Getting Started with Virtual Payments**

Enterprises that are considering going down this path must evaluate providers appropriately in order to ensure that the best results are obtained for the organization as well as for their suppliers. Here are some of the primary factors to consider when evaluating virtual card providers:
• **Various types of ePayments** – Look for a provider that can accommodate various types of ePayments, including ACH and other types of card products in addition to virtual cards. While limiting an ePayment initiative to one type of payment method may be necessary in the initial phases, over the long-run, other ePayment methods should be considered in order to increase the percentage of payments that are migrated away from checks. Finding an end-to-end payment solution provider has many advantages, including the ability to consolidate payment processing across various methods to gain cost savings and efficiencies.

• **Security and control features** – Ensure that the security and control capabilities are of the highest standards. For example, how are the unique virtual card numbers retrieved? Is there an online portal, and if so, what are the security features? Can transactions be monitored by client-defined criteria? Can authorizations on single-use accounts be controlled down to the penny?

• **Reporting and analytics** – This capability is important in order to monitor payments, analyze trends, and track the performance and progress of an ePayment initiative. Whether providers put in place dedicated account managers to work with clients to access this information or offer a self-service online tool, this should be a key piece of the offering.

• **Rebates** – While rebates are not the only reason for migrating to virtual card payments, they are certainly an added benefit. It is important to ensure that the rebate program being offered by the selected provider is well-defined and understood, including the ability of the provider to modify the program or rate.

• **Supplier enrollment** – Supplier acceptance is the biggest challenge when it comes to migrating from check payments to ePayments; therefore, it is critical to work with a provider that has the resources and expertise to provide support. Often, providers will analyze the current payment process and provide recommendations on what and how improvements can be made. This will often include a supplier match analysis (e.g., identifying which suppliers already accept card payments), which will help with initial targeting. Some may also provide a dedicated team that focuses on enrolling suppliers on behalf of the customer. Whether the buying organization enrolls suppliers on their own or uses third-party services, Ardent recommends the following approach to supplier enrollment (Figure 4):
  o **Analyze payment data** – To start, go through an exercise to better understand your payments. Look at payment types, suppliers, categories, spend amounts, recurring payments, low- and high-dollar payments, etc.
  o **Segment and target suppliers** – Based on the analysis, segment suppliers that are best fit to migrate away from checks; for example, those that are already accepting card payments.
  o **Launch campaign** – Develop the appropriate messaging and materials (e.g., email and phone strategy) that will be used to communicate with suppliers about the benefits and value of enrolling.
**Conclusion**

Checks are slowly but surely becoming a thing of the past; and enterprises that have not begun to evaluate and understand the best path to migrating off checks should do so sooner rather than later. The options that are available to replace checks are growing as well; and while it is important to understand the strengths and weaknesses of each, it is likely that the optimal approach will include multiple electronic payment methods.

Given the significant cost savings and efficiencies both buyers and suppliers can achieve with virtual cards, this ePayment mechanism continues to play a key role in the overall payment strategy for many organizations. For those that do not have a program in place, virtual cards present a unique opportunity to reduce payment costs, improve transparency and control over payments, and take advantage of early payment discounts. Even where there is a program in place, organizations should consider re-assessing their current program to ensure they are gaining the full benefit. Whether an organization is currently using or planning to use a virtual card program, a well thought out and executed supplier enrollment process will go a long way to ensure a successful ePayment initiative.
ABOUT ARDENT PARTNERS

Ardent Partners is a Boston-based research and advisory firm focused on defining and advancing accounts payable, procurement and supply management strategies, processes and technologies that drive business value and accelerate organizational transformation within the enterprise. Founded by Andrew Bartolini, Ardent also publishes the CPO Rising and Payables Place websites. Register for access to Ardent Partners research at ardentpartners.com/newsletter-registration/.

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Vishal Patel is a recognized expert in the world of accounts payable and supply management. He has worked closely with accounts payable and procurement groups for most of his career, researching best practices and advising clients on how to utilize technology to improve organizational performance. Vishal is the lead analyst for Ardent’s ePayables (Accounts Payable automation) coverage and is also responsible for the oversight of certain AP solution selection and benchmarking projects.

Vishal joined Ardent from a technology provider, where, as Director of Business Development, he helped establish and grow the company’s US business by helping corporations de-couple their marketing supply chains and drive significant savings. Earlier in his career, Vishal was a Research Director in the Global Supply Management research practice at Aberdeen Group where he led and supported the coverage of many key areas including contract management, commercial cards, ePayables and complex category management.

Vishal has been named a “Pro to Know” by Supply and Demand Chain Executive and holds a B.S. in Finance and International Business from The Pennsylvania State University and an M.B.A from Babson College. He welcomes your comments at vpatel@ardentpartners.com or +1. 917.470.9522.

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