SWITCH SYSTEMS TO SAVE

RECENT RESEARCH SUGGESTS THAT AN AVERAGE FIRM COULD SAVE HALF A MILLION POUNDS A YEAR BY SWITCHING TO B2B E-PAYMENTS. **RICHARD BABB** OF VECTORsgi INVESTIGATES.

Like their peers on other floors of corporate headquarters, executives in the treasury, accounts payable and accounts receivable departments are under considerable pressure to cut costs, operate more efficiently and generate more revenue. More specifically, they are struggling with these questions:

- How can they consolidate accounts payable processing and reduce internal and external costs?
- How can they merge accounts receivable data into their company's enterprise resource planning (ERP) system to clean up exceptions and disputes, improve 'hit' ratio and reduce costs?
- How can they set up adequate electronic processes and payments that can deal with all sizes of trading partners?
- How can they easily and effectively manage and communicate with their vendors and trading partners?
- How can they leverage their company's investment in an existing e-business infrastructure to deliver value across the entire payment spectrum?

As the initial buzz over the internet dies down, we have come to the realisation that it did not change every aspect of our lives. Nonetheless, it did introduce some major changes in the way we do things and has emerged as a very functional tool for businesses.

One emerging use of the internet, along with allied software, is to provide concrete answers to the above questions. By working closely with technology providers, businesses today can use the internet (with formidable security) to execute payments and deliver remittances electronically. And these new software solutions move beyond more elementary systems such as electronic bill paying and processing (EBPP) by providing additional capabilities such as automating exceptions and disputes, and delivering remittance advices through multiple channels, including the web. And making the transition to electronic payments could save some companies more than $1m (£600,000) a year or more.

TREADING WATER IN A SEA OF PAPER. Over 14 billion invoices were paid by businesses in the US in 2000, and the amount is expected to increase to nearly 18 billion by 2010. Each payment incurs costs in preparation, printing, paper and postage. No question about it, the paper-based transaction system is a burdensome, manual process. Invoices and cheques are usually generated, printed and mailed in multiple, manual steps, whereas e-payments use an integrated process, in which payment data is sent and received electronically from accounts payable and accounts receivable systems without intermediary human intervention.

It is estimated that generating a paper cheque can cost more than $2 (£1.20). With exceptions and dispute management, plus banking charges, the cost can rise to more than $8 (£4.80). And paper cheques rely on the hard-to-predict postal system, which prevents cash managers or treasurers from effectively planning their cash position and freeing up more funds for investment or debt reduction.

PRESENT ELECTRONIC PAYMENT OPTIONS. Up until now, several options for electronic payments have been available, each with inherent strengths and weaknesses, none able to provide a comprehensive payments solution by itself. Most fall under the category of electronic funds transfer (EFT), which is any transfer of funds that contains a structured format such as Automated Clearing House (ACH), Fedwire, Chips and on-line transfer systems. The various forms of EFT include:

- ACH: A central distribution and settlement point for electronic items exchanged between financial institutions. The National Automated Clearinghouse Association (Nacha) is responsible for developing and maintaining the rules for the network. ACH is the leading mechanism for domestic B2B electronic payments.
- Society for Worldwide Interbank Financial Telecommunications (Swift): An international network that moves messages and funds transfer instructions among member institutions.
- Wire: An EFT system operated by the US Federal Reserve. Funds transferred via Fedwire are final when effected.
- Financial Electronic Data Interchange (FEDI): The electronic movement of financial data with funds through the banking system.

As companies investigating a move to e-payments and electronic delivery of remittance information have discovered, these systems, in and of themselves, have significant shortcomings, including:

- they are not generally available to smaller- and medium-sized trading partners;
- they are not integrated with back-end corporate financial systems;
- they can be cost-prohibitive;
- they lack fraud detection and prevention capabilities;
- they do not alert business partners to issues requiring resolution early enough in the process;
- they do not improve cashflow management; and
- they do not allow for the use of prior investments in back office systems or ERP installations.

One practical strategy that is emerging for companies is to adopt a comprehensive e-payments solution that allows for the selective use of each of the current systems, sidestepping their limitations while leveraging their strengths: ACH for cost-effective payments; electronic data interchange (EDI), web and fax remittance presentment to reach business partners, regardless of size and technical sophistication; and Swift for many international payments. A comprehensive solution of this sort incorporates many of the benefits of systems such as EBPP or e-procurement, while offering many additional capabilities.

CAN YOU DEPEND ON YOUR BANK FOR A SOLUTION? The fact is, companies are inexorably linked to their banks when it comes to performing financial transactions. That is not likely to change, nor should it. But it is also evident that they will have to take the initiative in developing a comprehensive e-payments solution for themselves. The best approach may be to look to the technology companies for the answer, making sure it is compatible with existing banking relationships.

Historically, banks take a long time in developing new products for their customers, and they have been less than proactive in helping their corporate customers migrate from paper to electronic transactions and payments. And what solutions banks have introduced tend not to integrate easily with their customers' systems. In addition, they tend to lack fairly critical features such as trading partner solicitation and enrolment, invoice presentment and authorisation, invoice exception and dispute management, and improved remittance delivery options.

FINDING A SOLUTION. As a company casts about in search of the optimum e-payments solution for its own particular situation, these key factors must be considered carefully:

- Technology. Any technology you adopt must be secure. It should address buy, sell, ship and pay functions. It should include reconciliation and exception management capabilities. And it should have a capability for 'self-service' – trading partners should be able to enroll themselves, and both you and your trading partners should be able to easily view and research payment status.
- Flexibility. The solution you adopt should be flexible enough that you can pay electronically on a date of your choosing, preserving float, and it should be flexible enough to meet your needs and those of your business partners. Perhaps most importantly, it should leverage your existing infrastructure investment and integrate easily with your ERP and accounting systems.
- The vendor. Choose carefully when looking for a technology partner to provide an e-payments solution. Your partner should be highly experienced in the electronic transactions area, and have the long-term financial stability to be a dependable partner over the long haul. Make sure the vendor you choose makes the effort to understand your business completely, and has the strategic insight to evaluate your current business situation and accommodate your plans for the future.
- Your business partners. Any e-payments strategy that does not include your vendors and customers is a faulty one. Find out what their capabilities, needs and attitudes are in relation to e-payments. You may have to devise incentives to encourage them to participate. Evaluate any technical changes that will be required on their part, and design a rollout process that makes the transition as hassle-free as possible.

THE RIGHT SOLUTIONS MAY BE HERE NOW. Businesses interested in making the transition to electronic payments can now embrace a less costly, less risky and more efficient payment process that maximises the investment most of them have already made in EDI. Technology firms are now offering internet-based e-payments software solutions that solve many of the problems that have prevented companies from embracing e-payments in the past.

"This new technology enables large payers to minimise e-payment costs," said Dave Robertson, Principal of Treasury Strategies, Inc. "They can eliminate costs associated with EDI translations or separate handling of remittance advices by their financial providers."

These new systems also promise to take some of the pressure off corporate treasury departments by facilitating a faster adoption of e-payments, therefore reducing banking fees, and by enhancing the ability to perform cash forecasting; by reducing fraud and enhancing security. They also help by generating positive pay and account reconciliation issue files, which reduces the need for IT resources; and by merging files and performing re-association to improve the 'hit rate'.

In the accounts payable area, the emerging e-payments solutions will maximise the creation of electronic documents (invoices and payments), as well as provide additional capabilities such as invoice exception and dispute management, payment and origination, remittance delivery, and account reconciliation issue files.

Capabilities for the accounts receivable department are equally impressive. Besides facilitating the use of electronic documents, the new software solutions will allow for the consolidation of files, the re-association of payments and remittance details, invoice presentment and authorisation, exception and dispute management, debit origination and cash concentration. A significant benefit is that they do not require a firm to 'start over' – they can leverage their existing EDI infrastructure. Additional benefits are numerous, such as:

- an improvement in working capital management;
- increased efficiencies through integration with ERP systems (EDI) and accounting applications;
- the ability to consolidate supply chain documents in a single system, laying a foundation for more effective exception and dispute management;
- a reduction or elimination in costs associated with generating paper cheques and banking charges (such as EDI-to-ACH translation, lockbox charges and the like);
- companies can take advantage of buying discounts for faster payments;

FIGURE 1

A MODEL OF EFFICIENCY

A model for electronic payments usage was created by VECTORsgi and Treasury Strategies Inc. The model projects annual savings of $1m (£600,000) for a 'theoretical' company of a specific size and configuration that implemented one of the new software e-payments solutions. Of course, your company might experience savings of a smaller or greater amount, depending on its size and organisation. The characteristics of the company that was the model for this study were:

- A centralised treasury department.
- Decentralised accounts payable, accounts receivable and purchasing.
- Multiple accounts receivable collection sites.
- An accounts payable staff of more than 65.
- More than 1,000 vendors.
- More than 840,000 invoices processed annually (assuming four invoices per payment).
- Some 21% of transactions become exceptions (average rate, according to Gartner Research).
- About 18% of exceptions are disputed (average rate, according to Treasury Strategies).

COST COMPARISON FOR MODEL FIRM ($)

	Manual	Electronic
Cheques: internal	331,800	
Cheques: banking	67,200	
ACH: internal		65,100
ACH: banking		12,600
Translation		4,200
Manual remittance	53,865	
Exceptions: manual	882,000	
Exceptions: automated		441,000
Disputes: manual	396,900	
Disputes: automated		198,450
Total	1,731,765	721,350
Cost per payment	8.25	3.44
Savings: $1,010,415		

"The model reveals that large organisations can cut costs dramatically by automating payments. Banking costs can be reduced by as much as 80%, and automation of disputes and exceptions creates significant hard and soft dollar savings."

DAVE ROBERTSON, Treasury Strategies, Inc.
www.treasurystrat.com

- electronic notifications can be generated to resolve payment status inquiries, which will reduce phone calls;
- the capacity to easily re-associate ACH payment to EDI remittance data;
- the number of days outstanding (DSO) will be reduced;
- the ability to receive electronic notifications, for better predictability of receivables;
- companies will have access to optional translation or consolidation for bank lockbox, ACH and EDI reports.

OPT FOR VERSATILITY. This may well be the ideal time to make the transition to electronic payments. The new software solutions can provide an almost seamless transition, with innumerable benefits for your company. But not all of these solutions are the same. It pays to search out the solution that offers the most, and provides the most versatility, for your firm.

Tracking the following criteria may be the best way to discover which of these solutions is best for you:

- Does it let you receive in any accounts payable format?
- Does it allow you to send in any accounts receivable format?
- Will it perform 'any-to-any translation' – for example, EDI, XML, Edifact, Swift, Chips, ACH, BAI, ERP interface?
- Will it eliminate translation fees from your banks?
- Will it facilitate faster adoption by your business partners through solicitation and enrolment functions?
- Does it allow you to connect to any exchange for your suppliers?
- Is the solution provided by an existing EDI provider? (They may be better positioned to manage your transition to a hybrid Internet/EDI solution.)
- Will the network and payment platforms interface to your ERP system?
- Will the solution facilitate connection to your banks for payment initiation?
- Does it include alternative remittance delivery options to match the needs of your trading partners?

QUICK RETURNS. The best of the new e-payments software solutions promise a rapid return on investment by simplifying processes, eliminating steps and improving efficiency. By implementing such a system, a company can expect to eliminate manual entry of invoices into the ERP system by their accounts payable department.

Both the accounts payable and accounts receivable departments will be able to simplify and automate the invoice exception and dispute management process. In addition, companies can expect a reduction in labour, postage, cheque stock and ink in producing paper disbursements and invoices, as well in bank fees and in payment status calls.

TIME TO MAKE THE SWITCH. Is now the time for your company to make the switch to electronic payments? Very probably. Will your company save over $1m or £600,000 per year by doing so? Very possibly.

There is little question that the software solutions now emerging will save you time and money. They can eliminate common accounting headaches and create seamless links with your business partners while consolidating and streamlining the buy, sell, ship and pay processes.

Best of all, to implement one of these systems, your company does not have to start from scratch – you can wisely leverage your current investments in EDI technology while bringing about substantial positive change. And you can retain control over the entire process while it is being implemented and after.

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