E-treasury – managing capital on the web

The internet not only speeds corporate cash movements, it can weave treasury into the whole fabric of business, says Peter Hohenstein of Bank of America.

In three years time, according to Forrester Research estimates, nearly one US dollar in every 10 spent on business-to-business sales will change hands over the internet. To get their piece of this electronic pie, worth $1.3trn, businesses are defining and refining their e-commerce strategies. On-line procurement, targeted marketing and customer service may have grabbed the virtual spotlight, but equally profound changes are happening behind the scenes, where e-commerce is upping the ante for treasury's assault on non-working assets.

In their rush to turn any business into an 'e-something', companies are playing fast and loose with the moniker of e-commerce. Certainly the number of companies conducting business over the internet has grown exponentially, but unless a company is actually applying data from one source to multiple users and integrating that data into back-office financial and information management systems, it's simply sipping old soda through a new straw.

Realising the promise of the internet requires more than just putting a web face on existing operations. It calls for taking full advantage of the connectivity, networking and integration potential of the new medium. Otherwise the internet remains little more than a new channel of distribution for information that already arrives by other means – albeit slower.

Transformation

The financial services industry is being transformed by the internet and digital economy just like every other industry. To create value for its customers in this new economy, e-banking, too, should do more than deliver traditional banking information over the internet. It should aggregate account and transaction data across a global network and make them available simultaneously to multiple applications – in as close to real-time as possible. It is the difference, for example, between merely delivering a positive pay report over the internet (instead of by dial-up connection), and linking it to an on-line image of a cheque offered for settlement and automatically notifying the bank to return the questionable item.

To be fair, companies have been communicating electronically with their banks and their trading partners for decades. Traditional electronic data interchange (EDI) takes place over proprietary networks and requires a dedicated translator to allow computers at trading partner companies to talk to one another.

But the technology doesn't come cheap. An enterprise-wide system incorporating thousands of trading partners and complex transactions can easily cost $100,000 or more. The initial outlay, plus the cost of training, installation and customisation, makes EDI impractical except for the largest, most technologically sophisticated companies. Below the Fortune 500 level, fewer than 6.5% of all businesses are EDI-capable.

To date, the electronic divide between haves and have-nots has meant that even EDI-enabled companies still need to maintain traditional paper-based commerce systems for trading partners outside the EDI fold. Today, with an internet connection and a web browser, anyone can do business electronically.

Peter Hohenstein

Bill vs invoice

Large utilities, such as energy providers, cable service companies and telecoms, have been outsourcing customer billing to banks and third party providers for a number of years. Retail experience, however, doesn't automatically carry over to the rigours of business-to-business transactions. In general, business-to-business invoices are far more complex than business-to-consumer bills. Consumer bills represent little more than a reminder of goods or services ordered, the payment amount and the due date.

In corporations, however, the invoice is one sequence in a lengthy procurement process. Because the initiator of a purchase is rarely the same as the invoice's actual recipient, each document must contain enough information to identify the specific item as the one ordered and used elsewhere in the organisation. Banks are now working with technology partners, particularly enterprise resource planners, such as SAP, Oracle, PeopleSoft, JD Edwards and Baan and procurement providers, such as Ariba, CommerceOne and Intelysis, to integrate payments with automated inventory, production and accounting systems.

Digital images

The current payment environment offers decidedly limited opportunity in 'e-space' to accommodate various corporate payment practices and the wealth of remittance detail business-to-business transactions require. Wire transfers, which deliver reliable high-value payments in guaranteed funds, permit only 120 characters of identification to explain what a particular payment is actually for. Unless it's a single big-ticket item, the detail field may not adequately describe how to apply the payment once it is received.

The ACH, the more popular choice

for low-value payments in the US, does provide for the use of CTX transactions which include two message fields – one for payment amount and the other for remittance detail. The remittance detail fields in CTX may provide significantly more information than is available in a wire transfer which can help the biller match the payment to an invoice. While the ACH can provide a more information-rich alternative to wire transfers, what about paper-based payments?

With the ability to combine graphic and written information, the web is an ideal vehicle for transmitting lockbox receipts in digitised form. A Fortune 500 company typically receives several thousand payments per day in various lockbox accounts. Each transaction comprises as many as five separate pieces of paper, including the cheque, the envelope and the payment stub.

In the past, banks forwarded overnight hard-copy contents of each lockbox – easily hundreds of pounds of paper shipped, sorted and archived every day. Now, the cheque and accompanying documentation can be converted to digital images and sent electronically within hours of being received.

In as little as two hours after a payment has been processed, authorised personnel can go on-line and determine that a payment has been received. When used in conjunction with data transmission, images are extremely helpful in cash application. Alternatively, images sent first over the internet and then delivered on a CD can be searched electronically – by invoice number, date, or amount, in a fraction of the time it would take to requisition and search paper records.

Click and pay

While digital lockbox imaging delivers electronic remittance detail, it doesn't eliminate the need on the biller's side for generating, printing and mailing paper invoices, nor for that matter, on the payer's side, to return a paper payment. Over the internet, though, electronic invoice presentment and payment, IPP, represents a dynamic advance in managing payment and collections.

Here's how IPP works: the biller sends an invoice file to the bank, which posts individual invoices on a secure web server; trading partners with access to the site log on to view their invoices and authorise payment; the bank then generates an ACH debit on the purchaser's account and notifies the biller that the payment has been received; and an electronic remittance file automatically posts the payment to accounts receivables, clearing the outstanding.

> Realising the promise of the internet requires more than just putting a web face on existing operations

Traditional paper-based invoices are estimated to cost an average of $2.50 for paper stock, production, mailing and personnel expenditures. Electronic bills are expected to halve that figure. In addition, digital billing can pare as much as 10 days from the conventional payment cycle by eliminating mail time.

Currently in the United States, somewhere between 50% and 90% of all payments are made in amounts that differ from the original invoice. Automated payments let payers explain the discounts they're taking in a message attached to the payment authorisation itself. Not only does a complete rationale accompany each payment, it can also be forwarded digitally via e-mail to designated personnel in sales or the deduction management department charged with approving short-pay items.

Authorising a payment on the web also eliminates cheque-writing errors, which improves the automatic hit rate for posting receipts to outstandings. Preliminary results from companies quick to initiate the new technology in pilot projects now underway indicate a 5% to 10% improvement in straight-through processing with electronic payments.

Other benefits

Putting invoices, payments and digital images on the web delivers cash faster than traditional paper-based payments, though sophisticated payers are likely to renegotiate credit terms that reclaim part of the value of an accelerated schedule. Likewise, transmitting digital lockbox images closes outstanding positions sooner. In both cases, the expedited payments enable credit managers to make more accurate decisions about extending credit to customers by releasing shipments.

In addition, the ability to search a database and forward data electronically as needed makes it possible to resolve payment disputes days and weeks ahead of a purely manual review. And faster, more responsive customer service can help turn a company into a preferred provider.

Finally, web-based collections have the potential to substantially reduce days' sales outstanding, a critical measure of treasury performance. Payment solutions that accelerate outbound invoices and inbound payments put idle funds to work sooner. Results from some of the early pilot studies indicate that some companies have been able to cut a day and half from days' sales outstanding by moving payments to the web.

New technology, new alliances, new economy

Rapid deployment of buy-side, sell-side and virtual marketplace is increasing demand for a new generation of internet-centric financial services. Before buyers and sellers can reap the full financial gains of e-commerce, they need automated services such as buyer financing, seller invoicing, payment initiation and information integration. Planned enhancements to automated payments will build in greater flexibility. In the future, payers will be able to see which invoices are open, which have been paid, and how much available credit remains in their account. They will be able to schedule a future payment date and designate whether a particular payment will be debit or credit.

Particularly as the new technology becomes established, no single payment solution will prove optimal across the board. Treasurers looking to take advantage of the latest trends in web-based payments will want to make sure that their banking partners can deliver the broadest range of financial services via the internet and integrate these services seamlessly with corporate financial systems. Maximum reach depends on maximum flexibility, and every paper process and payment that can be on the internet represents a saving in time and money.

Further, this type of end-to-end integration provides real-time information that allows for the most aggressive management of working capital to date. ■

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