

HOW TO LEVEL-UP YOUR ELECTRONIC PAYMENTS TO SUPPLIERS





Business-to-business (B2B) electronic payments experienced unprecedented growth during the pandemic, and buyers are showing no signs of slowing their move away from paper checks.

- The percentage of accounts payable departments that make at least half of their payments to suppliers by check **declined by 7 percentage points** during the pandemic¹.
- Three percent of accounts payable departments **now make all their payments to suppliers electronically**. None of the accounts payable departments surveyed said they made all their payments to suppliers electronically before the start of the pandemic².
- Seventy-one percent of accounts payable departments **plan to deploy more technology to pay suppliers electronically**. Even those accounts payable departments that describe themselves as “largely automated” plan to deploy more electronic payments technology³.
- Sixty-three percent of accounts payable leaders say their **senior management is more supportive** than before the pandemic to automating supplier payments⁴.

Businesses have been slowly moving away from paper check payments to suppliers for years. While businesses recognized the benefits of electronic payments, there never seemed to be enough money, time, resources, or support for a project. But the sudden shift to remote working during the pandemic became an impetus, and in some cases the business case, for businesses to accelerate their move to electronic payments. Adapting paper check processes to a remote working environment is very hard.

As a result, businesses scrambled to migrate suppliers to electronic payments to keep their supply chains moving when accounts payable staff couldn't get into the office. And cash-strapped suppliers were eager to comply. As buyers settle into an operational rhythm in the new reality, and the economy reopens, it's time for accounts payable leaders to take stock of how they are doing things.

¹ Institute of Finance and Management (IOFM) virtual town hall meeting, 4/20

² Institute of Finance and Management (IOFM) virtual town hall meeting, 4/20

³ Institute of Finance and Management (IOFM) virtual town hall meeting, 6/20

⁴ Institute of Finance and Management (IOFM), 9/20

What accounts payable leaders are likely to find is that taking a strategic approach to supplier payments creates an opportunity to unlock cash trapped in their finance operations.

A strategy for electronic payments must go beyond the payment and include:

- Supplier experience
- Early payment discounts
- Days Payable Outstanding (DPO)
- Supplier adoption
- Fraud mitigation
- Reconciliation

This white paper reveals how to level-up your strategy for paying suppliers.

Supplier Experience

The success of a business rests in large part on its suppliers.

Yet suppliers are often an afterthought in an electronic payment strategy. Many buyers never consider the remittance details that a supplier will need to efficiently post electronic payments to their accounts receivable system. In some cases, suppliers are forced to renegotiate payment terms or accept ill-fitting payment methods, with little room for discussion. Put yourself in the shoes of a cash-strapped supplier that discovered during the height of the pandemic that they would receive their payments weeks later than expected because their buyer shifted to electronic payments. Slower payments could put a supplier's business in jeopardy, especially those without large lines of credit.

It is no wonder that electronic payments can strain strong supplier relationships. We've all heard the stories of large retailers that drive suppliers down to razor-thin margins. Frustrated suppliers may raise their prices to buyers at the first opportunity or stop going above and



A poor supplier experience could result in higher prices for the buyer.



beyond contractual terms. Some suppliers may quit doing business with a buyer, potentially creating supply chain headaches.

As businesses accelerate their move to electronic payments, the experience they provide to suppliers must be top of mind. Here are some ways to deliver a payments experience that will wow suppliers:

- **Make onboarding effortless for suppliers.** Partner with a payment solutions provider that offers supplier enrollment and enablement. Services such as ongoing supplier education, enrollment, and program management will help drive supplier adoption and satisfaction.
- **Offer payment options to fit the unique business needs of suppliers.** A “take it or leave it” approach to electronic payments is sure to strain supplier relationships. Look for a payment solutions provider that supports several payment modalities like virtual card payments, ACH transactions and wires, in addition to checks.
- **Provide options for getting suppliers paid fast.** Suppliers are under tremendous pressure to accelerate cash flow. Ease their burden and shore up your supply chain in the process by finding a payment solutions provider that supports real-time automated payment transfers into a supplier’s designated bank account and can take early payment discounts.
- **Deliver the remittance data that suppliers need.** Nothing grinds accounts receivable processes to a halt like having to determine how payments should be applied to open invoices. Eliminate the guesswork for your suppliers by deploying an electronic payments solution that delivers the rich remittance data they need to automatically apply payments.
- **Let suppliers know where things stand.** Suppliers don’t like calling and e-mailing buyers about the status of payments any more than buyers like responding to those inquiries. A best-in-class electronic payments solution lets suppliers know when payments will arrive. It provides suppliers with real-time visibility into the status of payments. And unlike paper checks, there is no chance that electronic payments such as ACH or cards will be delayed.

- **Don’t leave suppliers holding the bag.** Suppliers can sour on electronic payments fast when they don’t feel like they are being supported when they have payment issues, or they need to update their contact or financial information. And no supplier wants to get in the middle of finger pointing between their bank, the buyer, and a technology provider. Find an electronic payments provider with a support team that will be there when your suppliers need them.

These are the things that will create a satisfying payment experience for your suppliers.

Early Payment Discounts

Freeing up cash means more in uncertain economic times.

Capturing early payment discounts is one way that accounts payable departments can return cash to the business. The standard 2 percent discount for paying an invoice within 10 days can add up over time and offer buyers a much higher annualized rate of return than traditional savings instruments. And in these tough times, many suppliers willingly offer bigger discounts for faster payments.



Early payment discounts can provide a significant cash return to the business.

Getting money in the bank faster helps suppliers, particularly smaller ones, smooth out dips in their cash flow. Not surprisingly, offering early payment discounts can engender greater supplier loyalty.

Some buyers capture all the early payment discount offers they receive from suppliers. Many businesses are capturing hundreds of thousands of dollars annually in early payment discounts.

But in the rush to migrate from paper checks to electronic payments, many buyers never considered whether the electronic payments solution they deployed will make it easier to capture discounts.



As a result, many accounts payable departments miss discount opportunities because of their operational flow. Don't leave money on the table. Here are some ways to leverage an electronic payments solution to capture more discounts and convert your department into a profit center.

1. Start by digitizing your payables process end-to-end. Accelerating invoice processing is a sure way to capture more early payment discounts. And make sure your electronic payments platform provides immediate visibility into payment status and approvals so you can take quick action to resolve any issues that could result in a missed early payment discount window. Automation also enables buyers to mine data to identify discount opportunities.
2. Next, collaborate with treasury and procurement to review supplier payment terms and to adjust them over time to better align with electronic payments options. The most desirable payment options for buyers (virtual cards and ACH) should have the most desirable payment terms for suppliers. The goal is to incentivize suppliers to accept electronic payments while offering early payment discounts as a way for suppliers to get paid faster based on their funding needs. Establishing a discount schedule with suppliers eliminates any delays in capturing discounts.
3. Look for an automated accounts payable solution that will enable you to dynamically make early payment discount offers to suppliers as invoices are approved. Depending on when an invoice is approved, dynamically negotiated discounts can dwarf traditional negotiated discounts.

Early payment discounts are a proven way to free up cash.

The right approach to electronic payments can help a business maximize the discounts it captures.

Days Payable Outstanding (DPO)

Every business wants to hang onto its money longer if possible.

Yet many businesses don't pay close enough attention to their DPO – the average amount of time it takes a

business to pay suppliers – when developing a payments strategy. To calculate your DPO:

1. **Divide** your average accounts payable by your cost of goods purchased.
2. **Multiply** the result for the first step by the average number of days.

Extending DPO enables businesses to free up cash that can be used to pay off debt, reduce costly borrowing, and make strategic investments that will help the business growth (think: acquisitions).

Low DPO is tantamount to giving suppliers a low-cost line of credit.

It is no wonder that DPO regularly ranks among the most important finance metrics to CFOs.

Paying suppliers electronically can enable buyers to improve their DPO without the negative impact that comes with stretching supplier payment terms or implementing onerous credit restrictions.

With the virtual card programs offered by some electronic payment providers, buyers can instantly extend their DPO without changing their existing payment terms to suppliers. Since the funding for the card program is provided by the buyer's bank, and the payback period only kicks in once the payment is initiated, it is not uncommon for card-paying businesses to extend their DPO by weeks.

Not all electronic payments methods provide the same DPO-boosting capabilities.

So, it is important to consider DPO when determining the best way to pay suppliers electronically.

Supplier Adoption

Don't be fooled by the soaring volume of electronic payments.

Not every supplier will be quick to accept electronic payments. Some must be cajoled. Others must be nudged. A few will hold out because of concerns about the resources involved, the remittance information they will receive, or the financing of payments through the card rebate program. These suppliers will need to be convinced.



While paper checks still own the largest share of B2B payments, electronic payments are growing and surpassed paper check volumes in 2013⁵.

Small to mid-sized enterprises (SMEs) are the largest group that still accepts payment via paper check (34 percent of SMEs accept paper checks), research and consulting firm Levvel reports. Twenty-seven percent of mid-market businesses and 21 percent of enterprises still accept checks.

The cash-back rebates you will earn are not enough of a reason for suppliers to ditch paper checks.

Convincing all if not most of your suppliers to accept electronic payments – completing the so-called ‘last mile’ – requires an emphasis on program management. It all starts with educating suppliers on the value of getting paid electronically. Promote the cost savings, efficiencies, and improvements in cash forecasting that suppliers can achieve through electronic payments. Engage directly with suppliers at every level to better understand their needs and address any potential objections. Tailor your supplier outreach and marketing to different types of suppliers based on size or even geography. A phone call may be required for strategic suppliers while an email may suffice for those you rarely do business with. Small businesses may want to be reassured that moving to electronic payments will not tax their already limited resources.

And proactively dispel any supplier fears that migrating to electronic payments will be a burden on their staff. Leading payment solutions manage bank account details, validate bank accounts, notify suppliers of payments, and deliver an integrated data file for automated AR reconciliation.

Buyers with a formal onboarding program can achieve three times the adoption compared to a typical bank or e-payables onboarding program – moving buyers closer to 100 percent adoption.

⁵ The U.S. Federal Reserve Bank

⁶ 2020 AFP Payments and Fraud Control Survey Report

Fraud Mitigation

Paying suppliers electronically mitigates a buyer’s risk of fraud.

But that doesn’t mean you can let your guard down as your volume of electronic payments grows.

Without the right safeguards in place, electronic payments are still vulnerable to attack. This is especially true when businesses rely on email to route sensitive data when staff is working remotely. Emails throw the door open to phishing schemes and Business Email Compromise (BEC) attacks. It can be hard for businesses to distinguish legitimate emails from those sent by bad actors.



BEC attacks were the most common type of payment fraud in 2019⁶.

So how can buyers improve their defenses against payment fraud?

For starters, buyers should pay suppliers using virtual cards when possible. Virtual cards are plastic-less payments that can only be used once. Unlike paper checks, virtual cards cannot be intercepted. Since there is no physical card, virtual cards cannot get lost or stolen like purchasing cards can. And the supplier never receives the full 16-digit number for a virtual card payment, only the last few digits, providing another layer of security. This means that there is less incentive for bad actors to try to hack a buyer’s systems for virtual card numbers than for ACH information. What’s more, buyers can designate a merchant ID, a payment amount, and a time range for each virtual card payment.

But not every supplier payment can be made via virtual card. That’s why it’s critical that buyers look for an electronic payment solution that has a multi-layered approach to safeguarding sensitive data.

- Stringent processes for collecting, validating, and storing banking details
- Strict restrictions on system access
- Dual factor authentication



- Strong encryption technology that secures data in transit and at rest
- Ironclad firewalls that control network access and prevent untrusted traffic
- Assignment of client-specific access codes
- Office of Foreign Assets Control (OFAC) company validation
- W-9 requirements and tax identification validation
- Tax ID validation
- Address validation
- A support team that is up to date on fraud schemes and the best practices for them
- Automated virus and malware monitoring and threat detection
- Regular scanning of vulnerability to known attacks
- Logging of all system activities
- Periodic compliance audits performed by third-party assessors

The accelerated growth of electronic payments makes it imperative that buyers mitigate their risks.

Reconciliation

If you think that electronic payments will solve your reconciliation headaches, think again.

We all know that check data can be mis-keyed and that checks can become lost in the mail.

But an ACH payment may hit a bank account that has been updated or closed. Virtual cards may never get charged. Some banks may use separate systems for each payment type that a buyer uses to pay its suppliers, requiring buyers to reconcile multiple statements. And some requests to update supplier information and banking details may be the work of bad actors, requiring careful analysis.

Accounts payable teams waste lots of time resolving electronic payment errors and reconciling electronic payments. A single error can consume 20 minutes or more of a person's time. And resolving errors and

reconciling payments aren't the kind of thing that can be put off for long. That means that accounts payable staff must drop whatever they are working on and complete these tasks.

If this all sounds like a drain on the bottom line, you are not mistaken. And the burden on accounts payable staff to resolve errors and reconcile transactions only gets bigger as the business grows.

Leading electronic payment solutions integrate with the general ledger of an ERP platform to provide real-time payment reconciliation. This eliminates the need to key data or decode banking messages. Leading electronic payment solutions also track approved and initiated payments and any rejects, with detailed payment and reconciliation reports integrated into the buyer's ERP. Cards that are not charged within a set time limit are automatically recalled. And a team of specialists employed by the payment solutions provider manages any supplier payment modifications on a buyer's behalf.

Accounts payable professionals have better things to do than spend enormous amounts of time resolving payment errors and reconciling payment transactions. With a best-in-class electronic payment solution from a leading technology partner, accounts payable professionals won't have to.

Conclusion

At long last, electronic payments are the way that most suppliers get paid. But the scramble to move suppliers to electronic payments during the pandemic was often done reactively, not strategically.

To achieve optimal results, accounts payable departments must align their payment options, supplier onboarding and adoption, and fraud control through a holistic approach to automation. Each of these components of a payment automation program are equally important.

With the right approach to electronic payments, businesses can unlock cash trapped in their operations. The strategies in this paper provide a roadmap for leveling up your electronic payments.



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