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THE EVOLUTION OF PAYMENTS

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TABLE OF **CONTENTS**

THE CHANGING
LANDSCAPE OF PAYMENTS

Up until the 1990s, it was still common to pay for your groceries with a check. Fast forward nearly 20 years, however, and paper checks are becoming few and far between. According to a 2016 report from the Federal Reserve, there were about 144 billion non-cash payments in 2015, and only 32% of all consumer payments were in cash.

But what does this mean for business-to-business (B2B) transactions? As the landscape of payments continues to evolve, the most successful, forward-looking businesses are adopting electronic payments for both consumer and B2B transactions. Though checks still make up nearly half of all B2B payments, there are no signs that the preference for electronic payments is slowing down—a momentum that will make checks more and more obsolete.

To ensure your business stays competitive, it's vital to understand how payments are shifting from paper to digital, and why it's essential for businesses of all sizes to keep up.

HOW MOBILE BANKING & ONLINE **PAYMENTS HAVE CHANGED FINANCE**

Pew Research Center found that 77% of adults in the United States own a smartphone, of which 62% use a mobile banking app, according to Bank of America.

These stats raise an imperative question: Does your business use mobile banking and/or online payments?

For small businesses, digital payment adoption is very low: 97% of small businesses report that they use paper checks for B2B payments, and regularly receive paper checks for payment from other businesses. But as the finance industry moves toward digital, these small businesses will need to adapt to mobile banking and online payments, which offer several dramatic improvements over paper checks. The most noteworthy improvements include cost and time savings, and security improvements.

Cost Savings

In its 2016 Electronic Payments Survey, the Association for Financial Professionals found that 51% of B2B payments are made by check. However, 70% of respondents believe their organizations will convert the majority of their payments to electronic methods within the next three years.

The primary reason to drop checks in favor of online and mobile payments is cost savings. In fact, electronic payments can offer up to 90% cost savings compared to older payment methods, a value any business leader can appreciate.

Faster Processing

Some banks participate in payment networks that offer near-instant processing. But with paper checks, instant is far from the norm. Paper checks take days to process and up to, or over, a week if you include postal travel. Digital payments are unencumbered by the postal service and don't have to be signed by the controller or CFO with a pen.

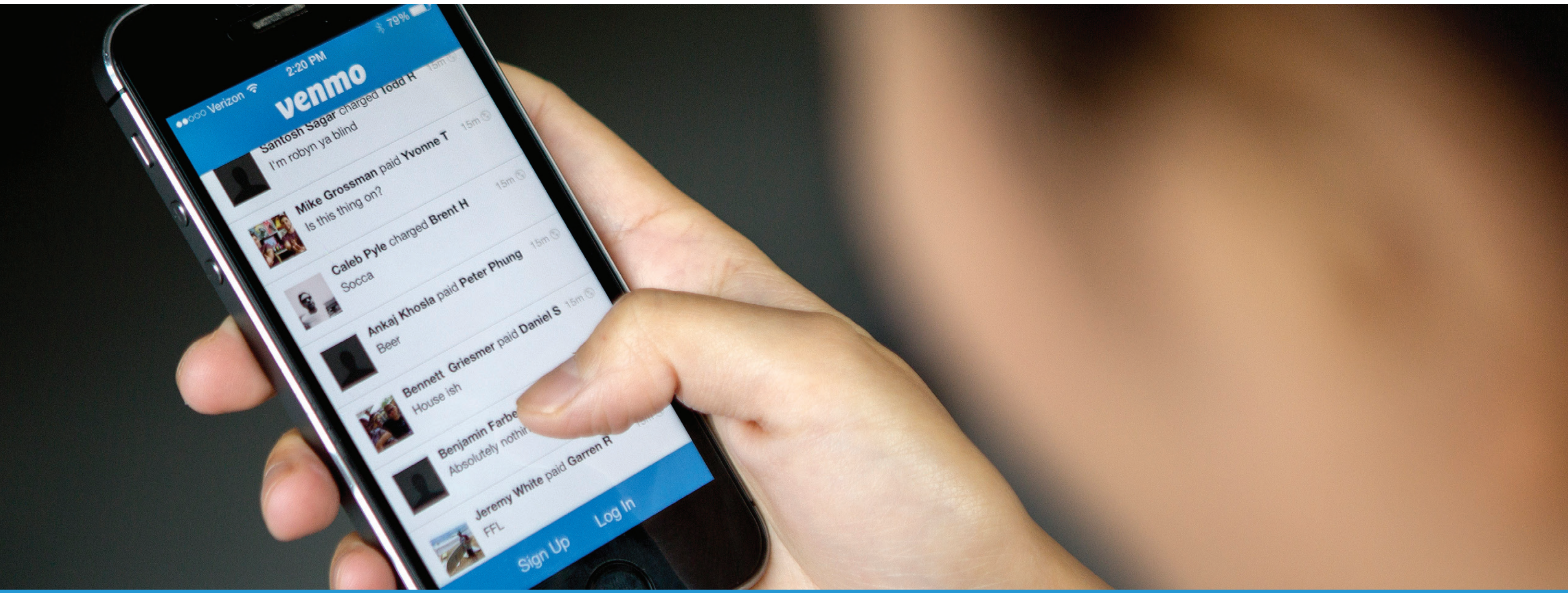
In 2017, the National Automated Clearinghouse Association, the organization responsible for maintaining the Automated Clearing House (ACH) network, took steps to bring same-day ACH fund availability to the mainstream. While payers can't "float" payments as they wait for a check to clear, billers can rest easy knowing that their payment will arrive quickly.

Enhanced Security

Data thieves may be looking for gift cards and other valuables when stealing mail, but that doesn't mean business checks don't fall victim. When you mail a payment then there is a possibility that the check will be lost in the mail. When you send a payment electronically, you never have to worry about physical transit. While businesses and consumers alike must stay vigilant against electronic payment fraud, electronic payments are proven to be far more secure than checks.

Banks and digital payment providers are key partners in helping businesses realize these gains. Many large businesses have complex digital payment solutions in place, while many small businesses forge their own unique paths to electronic payments. However, the middle market has been slow to adopt and make its way into paying digitally, despite massive benefits.

PAYPAL & VENMO:
HOW PAYMENT APPS PUT THE POWER INTO CONSUMER'S HANDS



When PayPal launched in 1998, internet adoption was low in the United States. Less than 1% of households had a broadband connection. But as internet speeds and adoption increased, so did the consumer preference for online payments.

By 2010, PayPal had more than 84 million registered users. As of Q3 2017, that number has grown to 218 million. Venmo, which is owned by PayPal, is particularly popular with millennials. In the years since its founding, PayPal—through its own tools and that of its subsidiary—revolutionized the way consumers think of digital wallets and mobile payments.

Before PayPal, Venmo, and other competing products, sending money from person to person (also known as peer to peer or P2P) was a tedious process. Individuals could follow the example of businesses and write paper checks, or they could get cash from a bank or ATM and physically hand it to someone. Wire transfers were another option, but quite expensive and tedious to send. Some banks offered basic transfer products as well, but adoption was limited until more recently when apps, like PayPal, became mainstream. Now with these digital payment and wallet providers, consumers can send money in a few taps.

PayPal became popular at a time when online banking was growing in parallel. Banks were slow to roll out options for consumers to log into their own account online, connect to friends and family at other banks, and send payments. Now, with Zelle, customers at 50 participating banks can send and receive payments instantly with no delay for ACH processing time.

What is the root cause of success for these mobile payments? PayPal focused on ease of use in its 2016 “New Money “campaign, which included a Super Bowl commercial. As the ad points out, “new money is always open”, regardless of business or holiday hours. Digital payment providers, like PayPal, run 24/7 to give maximum flexibility to users with processing times that typically take 24-48 hours.

PayPal, however, isn’t just consumer-facing: It offers business accounts, which are popular for online invoicing and nonprofit donation collection. Venmo has similar features, but with a more social and mobile focus. eBay believed so heavily in the power of PayPal and digital payments that it bought PayPal in 2002 for $1.5 billion. PayPal operated as an eBay subsidiary into 2015, when PayPal spun off into a new publicly traded company. The company performed so well that in June 2016 it joined the Fortune 500.

PayPal is not done growing. In an interview with Barrons, PayPal COO Bill Ready said, “In the early days of Facebook, it was only for college kids. If you had said in 2006 or 2007 that Facebook would be for grandparents, it would have sounded crazy. Now grandparents are on it as much as or more than anyone else.” Ready expects Venmo to follow suit.

The usefulness of ePayment apps is clear—users can split a restaurant check, charge their roommates rent, and send birthday cash to friends, or use these services to pay online businesses for goods. By putting spending power into the hands of consumers, these organizations have created tools that improve finance transactions across demographics. In 2016 alone, $102 billion dollars in payments were processed by PayPal, and $18 billion were processed by Venmo. These annual figures will undoubtedly grow in the coming years.

SQUARE'S POS:
WHAT IT IS, HOW IT WORKS, & HOW IT'S CHANGING THE GAME

In the old world of card payments, merchants needed a dedicated processing terminal, which often sat next to the register and was hooked up to a phone line. If you didn't have a phone line, then you would make an imprint of the card that was later hand keyed for processing. These systems were clunky, slow, and expensive to operate. Most businesses paid a flat fee per transaction, a percentage of each transaction, and a monthly fee just to keep the account open.

Co-founded by Twitter's Jack Dorsey, Square aimed to streamline commerce by offering a simple mobile payment processor for credit and debit cards. The company has grown to include a variety of point of sale (POS) products for businesses of all sizes. Due to the low startup cost, ease of onboarding, and ability to plug a card reader into a smartphone, Square is particularly popular with small and mobile businesses.

Square POS brings multiple features together in one simple terminal. The register includes features to process customer payments with itemization and inventory management, and integrates with several third-party sales platforms. Square POS runs on an iPad or Android phone or tablet, and turns these devices into fully functioning point of sale platforms. It accepts all major credit cards with a competitive, flat-rate processing fee, and deposits payments in business bank accounts as soon as the next business day.

The POS system, which can run on existing devices, or dedicated hardware available from Square, handles everything you would expect from a basic food service or retail POS. The software can process orders, receipts, tips, split tabs, and gift cards. Advanced features incorporate customer profiles, email marketing, live inventory tracking across multiple locations, various levels of employee accounts and permissions, cost of goods sold and profit projections, customer feedback, and purchase analytics.

Square hardware involves some costs, though the basic reader is free. If you use your own device, you won’t pay more than the flat 2.75% card processing fee, which can be lower with Square Register, although it requires an additional cost to buy. Square POS takes the old payment model and throws out most of the expensive fees—there isn’t a recurring monthly charge, and if you don’t use it, then you don’t pay. For small businesses, this is groundbreaking.

WHAT B2B COMPANIES CAN DO **TO CATCH UP WITH CONSUMERS**

PayPal, Venmo, Square, and other providers are leading the way for electionic P2P payment processes, while B2B payment processes are still lagging behind. Before we look at opportunities for businesses to catch up, let's compare a typical B2B payment flow with a typical P2P payment.

A typical B2B payment starts when a business receives an invoice. Businesses are lucky to get the invoice via email, but in many cases, the invoice shows up in the mail in paper form. Someone has to import—and maybe scan—the invoice, key in relevant details, and match the invoice to a purchase order in the accounting system. Then someone on the AP team has to print a check, get it signed by an authorized signer, and mail it off to the vendor. The vendor then goes through a manual process to deposit the check and reconcile the invoice and bank account. Only about 25% of U.S. companies have upgraded to electronic invoicing, so there is still significant progress to be made.

How does this compare to the P2P payment process with Venmo? In the P2P process, the payer types in the name of the person who he or she is paying, a reason for the payment, and hits send—the process is just that simple.

While businesses are seemingly far behind consumers, catching up is not as difficult as it seems. Many solutions for business payments already exist, and while the majority of small and midsized businesses still use paper checks, many forward-thinking businesses have already dropped paper in favor of ePayments. With an estimated 90% savings compared to paper checks, businesses are motivated to improve.

Businesses can take the following steps to improve their B2B payments:

1. Evaluate

To catch up with consumer progress, businesses must evaluate their current processes. Start by sitting down with members of your AP team, such as an AP manager, AP clerk, or accountant, and go over the process and ask about pain points, opportunities for improvement, and what is working well. Then, focus on what is not working and the areas where you can find the biggest immediate improvements.

You are likely to notice a few places where you can make significant improvements right away, and other areas that will take more time and effort for smaller, marginal improvement.

2. Focus on the Low Hanging Fruit

In Ardent Partners' ePayables 2016 report, reducing processing costs was the number one focus of AP leaders. Fortunately for businesses, this is also one of the first impacts of upgrading AP systems to include ePayments.

When implementing an accounts payable solution, such as the AvidXchange™ suite of AP and Payment Automation tools, AP transaction costs should fall dramatically and quickly. The best ePayment systems incorporate multiple functions in one package, where the process is mostly automated. Therefore, AP and accounting staff only have to manage exceptions. When you can considerably lower the time required to process invoices and switch from checks to electronic payments, then you will notice the savings add up quickly.

3. Incorporate an ePayment System

When managing accounts payable operations, one of the top goals for many companies is to make safe and secure supplier payments with minimal effort and maximum speed. However, many organizations spend more effort and time overseeing the process than they would like. While many different options are available to streamline payments, organizations typically end up using the tools and methods they perceive to be the simplest and safest to use. In most cases, these methods are check and ACH payments. However, check and ACH payments are not the most efficient, safe, or affordable methods among available payment options today.

According to PayStream Advisors, companies relying heavily on checks or ACH payment methods typically experience more processing challenges than those that employ a diverse mix, such as electronic payables platforms and commercial card programs. Comprehensive ePayment solutions streamline the tedious tasks associated with payment management. These tools enable organizations to reduce their reliance on manual methods that require heavy involvement and oversight, and to shift much of the processing burden to the provider.

A full-service ePayment system includes virtual cards and ACH payments, and the ability to approve and pay invoices with the click of a button. These solutions utilize transactional pricing models, which make them ideal for midmarket companies, because you only pay for what you use.

4. Add Automation for Improved ROI

The ultimate goal of any business project should be a solid return on investment. The savings from adding automated processes pays you back again and again. When your staff does not have to spend as much time per invoice, they can focus their efforts on more profitable business activities. Why waste your company's money or your staff's time on manual processes?

The cost and time savings of switching from paper checks to an ACH, or other ePayment option, may be enough to make up the cost of implementing a new system. When you add in possible staffing changes, adding automation and electronic payments becomes an easy decision. Before you know it, you'll be looking to your phone to check in on your business payments just like you do your personal ones.

THE SHIFTING **EXPECTATIONS OF THE SUPPLIER**

For years, suppliers were generally happy as long as invoices were paid on time. But as technology changes, so do vendor expectations.

Like your business, vendors have complex accounts receivables, invoicing, and payment needs and want to lower costs. If you put yourself in your supplier's shoes, would you rather get paid by a check or electronic payment? According to a recent survey, 63% of supply-side organizations prefer to be paid electronically. Specifically, they want to be paid via ACH. Despite this preference, 83% of businesses said they still get paid via paper checks.

Electronic invoicing and payments make a difference in supplier cost structures and can lead to faster payments as well. The same survey found that 55% of businesses with more than $1 billion in revenue wait an average of 30 days for payments, and midsized businesses with less than $5 million in revenue struggle with the same slow payment timing.

When eInvoicing and ePayments are handled in the same system, payment times can be significantly reduced. Your business may choose to slow down or schedule payments to improve your cash flow, but paying faster may help you lock in additional savings through more favorable payment terms, early payment discounts, and a better negotiating position with a satisfied vendor.

Suppliers are still willing to accept checks and business credit cards with high processing fees, because these payment methods keep cash flowing and the business running. However, that doesn't mean businesses are happy about it. Technology-forward vendors want to fully automate everything—from purchase order to invoice to payment.

The [2017 Electronic Payments Report from PayStream] found the businesses that are strong proponents of checks struggle with missed discounts and missed payments, while proponents of card and ACH payments are far less concerned with the fallout of delinquencies. Strong proponents of checks are also three times more likely to be concerned with fraud losses than proponents of newer payment methods.

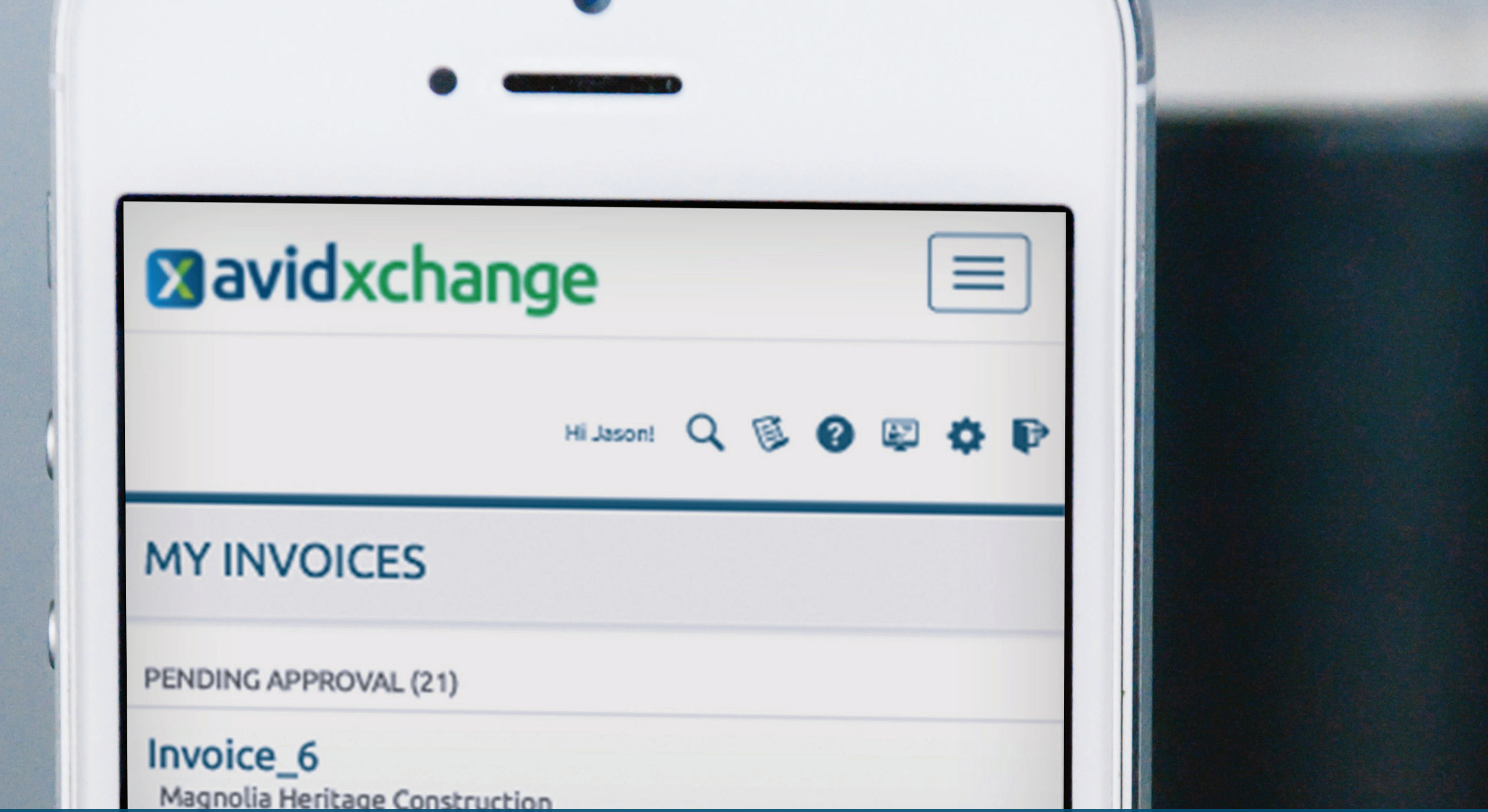
Strong proponents of checks do have a few advantages. These benefits come in the form of fewer duplicate payments and better control and visibility. But it must be noted that these concerns are significantly reduced—if not eliminated—when payment systems are well-managed and integrated with accounting and other business systems. Supporters of checks, however, are also less likely to acknowledge the drawbacks of check use, such as high processing costs that are ten times more than electronic payment processing.

For both suppliers and customers in B2B relationships, the benefits of ePayments are evident. Businesses enjoy the increased convenience for employees (23%), lower processing costs (22%), and rebates and incentives (21%), among other benefits. Suppliers show a strong preference for check and ACH payments over wire and commercial cards, likely due to cost. Bank wires are fast, but typically come with high processing costs on every transaction, which are charged by both the sending and receiving bank. Similarly, commercial cards require the merchant to pay a processing fee, often around 2% to 3% of the total transaction value. The fees are very low with checks, but processing costs are high. The fees and ancillary costs to process ACH payments are the lowest among all preferred payment methods.

AUTOMATED PROCESSES **ARE THE FUTURE OF FINANCE**

Not long ago, businesses had to create their own technologies to handle digital payments. But those days are far behind us. In the internet age, emerging financial technology businesses, also known as FinTech, are partnering with banks and other financial institutions to lower payment processing costs, while improving efficiency and the overall user experience.

Today, maintaining an edge in the market is a challenge in virtually every space. Competition is growing, and B2B businesses need to do everything they can to remain viable. As more B2B businesses implement what PayPal, Venmo, and Square are already offering consumers, improvements in efficiency and cost savings are becoming a norm for businesses across industries. The question is no longer, “Should we upgrade to ePayments?” but “When will we upgrade to ePayments?”



SAY GOODBYE **TO PAPER CHECKS AND INVOICES**

This guide was created by AvidXchange. AvidXchange revolutionizes the way organizations pay their bills. Serving more than 5,700 clients throughout North America and 400,000 vendors nationwide, AvidXchange is an industry leader in automating invoice and payment processes for organizations spanning multiple industries including Real Estate, Financial Services, Energy, Non-Profit, and Construction.

Interested in automating your payables and creating efficiencies for your AP team? Schedule a meeting with an AP automation expert to learn how you can increase productivity and protect your business. Our automation specialists will create a customized demo and walk you through the streamlined workflow of an automated AP process.

To schedule a demo, click here!