ACCOUNTS PAYABLE AUTOMATION - UNLOCKING VALUE IN B2B ECOMMERCE

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# TABLE OF CONTENTS

- THE OPTIMIZATION IMPERATIVE IN B2B PAYMENTS ................................................................. 3
- COST DRIVERS IN A MANUAL CHECK-BASED PROCURE-TO-PAY CYCLE ........................... 4
- THE E-B2B PAYMENTS ADOPTION WAVE .................................................................................. 6
- PROSPECTIVE HEGEMONY OF COMMERCIAL CARDS IN ELECTRONIC B2B PAYMENTS ................................................................................................................................. 7
- OFFERINGS IN THE MARKET ........................................................................................................ 9
- EIPP – THE CRUCIAL MISSING PIECE OF THE PUZZLE FOR FINANCIAL INSTITUTIONS ................................................................................................................................. 10
- SYSTEM INTEGRATION SERVICES FOR ACCOUNTS PAYABLE AUTOMATION ................................................................. 14
- ACCOUNTS PAYABLE BUSINESS PROCESS OUTSOURCING ..................................................... 14
- WIPRO – A STRATEGIC PARTNER FOR AP AUTOMATION ...................................................... 15
- ABOUT WIPRO TECHNOLOGIES AND WCIR ........................................................................... 16
THE OPTIMIZATION IMPERATIVE IN B2B PAYMENTS

Business houses of different sizes have evolved in the market place and the number of B2B transaction between trading entities is on the rise. B2B transactions have grown in volume from 8 billion in 2002 to 10 billion in 2009. At an estimated cumulative average growth rate of close to 20%, the number would possibly hit the 14 billion mark in 2012. What becomes apparent from these numbers is the seriousness with which organizations would have to view the inefficiencies in the B2B payment process.

![Cost per Transaction Chart]

![B2B Transaction Volume Chart]

*Courtesy: Aberdeen Group*

The most efficient organizations which have completely automated their B2B payment processes spend an average of $1.50 per transaction which is at least $57 lesser than what an organization spends on a traditional check-based B2B transaction. About 74 percent of today’s B2B payments are made by paper checks, leaving plenty of room for improved efficiencies When one puts the problem in the perspective of trillions in dollar savings at an industry level, the cost benefit scale is evidently tilted towards weeding out or at a minimum, reducing the cost contributors in the more expensive B2B payment process.
Cost Drivers in a Manual Check-Based Procure-to-Pay Cycle

Administrative Overhead

Overheads associated with effecting the procure-to-pay cycle are comparatively higher in manual transactions than in B2B transactions that are e-enabled. Contributors to cost are not confined to processes within an organization but also in communications between trading partners. Intra-firm communication between different entities in the procurement and accounting departments of the buyer, sales, distribution and accounting departments of the seller, generation of a multitude of documents for contractual and billing purposes and inter-firm communication between buyer and seller are all important drivers of cost in the manual B2B payment process. Manual data entry and check processing has tipped the probability of errors in manual payment processing on the higher end of the scale. The cost and time spent on non value adding activities involved with error correction are formidable.

Paper Usage

The volume of documentation that has to flow through the cycle to supplement information is humongous. Right from invoice generation to payment fulfillment, the different business entities involved in the transaction create and exchange a wide array of documents including requisition forms, invoices, approval documents, checks and envelopes.
HUMAN RESOURCE
A negative correlation between the degree of automation in a payments process and staffing levels to support the process explains why cost of human resources is an important driver. With traditional B2B payment methods, processes are seldom optimized and streamlined, resulting in an overlapping workforce performing redundant and superfluous functions. The impact of this cost driver is even more when viewed in the perspective of high volume - low value B2B transactions where the head count has to be increased to support volumes.

LOGISTICS
A direct impact of the high volume of documentation that flows through the manual cycle is the increased cost of logistics. Costs involved with moving documents between trading partners, financial institutions and third party service providers in the chain are significant with traditional B2B payment methods. The problem intensifies when invoice clarifications are sought, checks get returned and paper-based notifications get lost in transit.

PROCURE-TO-PAY CYCLE TIME
Check-based B2B payment processes take a painfully long time for fulfillment often spanning weeks. More the cycle time of the process, greater is the quantum of funds that are locked in. This has a direct impact on the available working capital and the kind of accounting visibility to available funds that an organization would desire. An increased procure-to-pay cycle time adversely affects the ability of a business to take right decisions on capital allocation and engenders a huge opportunity cost. Cash forecasting challenges translate into lost investment opportunities in “greenfield” stars in the business portfolio.

COST OF FRAUD
An estimated US $20 billion is lost due to paper check fraud. Nearly 94 percent of organizations that are affected by payment related frauds are victims of check fraud. A lack of immediate payment verification methods and accurate invoice data matching creates a lot of exposure to check fraud related losses in the manual process. Organizations working with check-based payment systems maintain a large stock of pre-printed checks raising the risk of theft-related losses.

REGULATION AND COMPLIANCE
The need to comply with tighter and newer regulations in the current economic macro environment is compelling. Pervasive manual processes in order creation and fulfillment, payment, accounts payable and accounts receivable functions can only increase the risk of non compliance. Organizations have brought in greater focus on regulatory compliance to pre-empt huge costs associated with non-compliance. A case in point would be the cost of complying with regulations laid out in the Sarbanes–Oxley Act – certainly high for an organization relying on paper-based payment systems.
THE E-B2B PAYMENTS ADOPTION WAVE

A shift in the mindset of organizations to move away from traditional B2B payment methods is perceivable. A recent survey conducted by the Association for Financial Professionals pegs the percentage of organizations that would e-enable their B2B payments process in the next one year at 43%. The motivation for most organizations seems to be the direct impact on cost reduction, improved transparency with cash flows and straight-through processing to accounting systems.

Billion dollar firms with high volumes of payments are swiftly falling into the fold of converting to electronic payments. The benefits accruing out of this conversion is independent of organization size. Despite this fact, the mammoths in the business landscape are more likely to convert followed by mid-market firms and small business. Larger corporations are better geared for moving to electronic B2B payments owing to the sheer size of their IT establishment and a better network with trading entities which are already e-enabled with their EIPP systems. With the current trend, a check usage reduction to 60% by 2010 is what organizations are running towards.

![Chart showing the number of B2B transactions](image)

*Courtesy: Celent and NACHA*

Not to be left behind, small and medium enterprises have also begun to see the advantages of moving to electronic payment platforms. The inertia of these organizations has been reduced by the availability of newer technology solutions which can be tailored to individual organizational needs. This factor has brought in the flexibility aspect that is desired by smaller businesses. Organizations that are hesitant to take the plunge would fail to tap into a future customer base that is tuned into an electronic B2B payment mode.

In terms of geography, the developed countries have caught up well with electronic payment methods, with the pace being relatively slow in the US. Europe and Canada have been front runners in the race marked by early adoption. An evidence of this is a 95% penetration of non-cash transactions in Germany, Netherlands and Switzerland as early as 1999. Compared with data from the same year, US has been a
Slow adopter with figures of 40%. Notwithstanding the slow start, recent surveys have shown that financial institutions and their corporate customers in the US have begun to realize the value in e-enabled B2B payments. US shores are seeing frenetic activity in migration to e-enabled payment platforms.

A broad-based adoption of electronic B2B payments does not stop with a mind-set shift. A two-pronged strategy for changes in process and technology is what will take organizations closer to their efficiency goals. The environment for a technology change has been made conducive by IT solution providers offering a host of services to suit the need of every business.

**PROSPECTIVE HEGEMONY OF COMMERCIAL CARDS IN ELECTRONIC B2B PAYMENTS**

![Diagram of B2B payment processes]

Buyers and suppliers looking for efficiencies in their accounts payable process have turned towards Electronic Funds Transfer and more specifically, using the ACH channel. This is certainly a move closer to the cost reduction agenda since ACH payments eliminate a majority of costly resources that are involved in check-based payments. Enabling a batch processing of ACH payments with Electronic Invoice Presentment and Payment (EIPP) makes the proposition more attractive.

Despite the advocated benefits of ACH payments, outside the funds transfer mechanism, the process of sharing account numbers and routing information is predominantly manual. Evidently, there is an optimization potential higher up in the value chain. A discourager of widespread adoption of ACH...
payments is an open gap for potential fraud. ACH payments require suppliers to provide buyers with sensitive bank account information, making them vulnerable. For buyers to better manage working capital, transparent spend visibility is essential. This is again a challenge with ACH payments since they carry miniscule or no remittance data.

Commercial cards such as P-cards offer alleviation to pain points in the ACH payment method. With cards, payment gateways preclude the need for trading entities to share bank account information. Rich remittance data and a tight integration with the accounts payable system engender detailed invoice-level spend reporting that is so very important for the treasury group. The “float” benefit in ACH payments is retained and enhanced with commercial cards since issuers present a monthly statement for billing. Organizations have begun to see the value in commercial card payments and are extending their use beyond high-volume, low value procurement to big ticket procurements as well.
## OFFERINGS IN THE MARKET

### Banks

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<thead>
<tr>
<th>Offerer</th>
<th>Features</th>
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<tbody>
<tr>
<td>Citibank</td>
<td>- PO and invoice process automation&lt;br&gt;- Invoice status tracking&lt;br&gt;- Online access for remittance data&lt;br&gt;- Manage supplier bank account data and fraud protection</td>
</tr>
<tr>
<td>Bank of America</td>
<td>- Single consolidated monthly invoice&lt;br&gt;- Payment authorization automation&lt;br&gt;- Automated reconciliation and Remittance Advice&lt;br&gt;- Global card network</td>
</tr>
<tr>
<td>US Bank</td>
<td>- Online eProcurement&lt;br&gt;- Multiple invoice payment instructions&lt;br&gt;- Electronic remittance advice&lt;br&gt;- Reporting</td>
</tr>
<tr>
<td>PNC</td>
<td>- Invoice Consolidation&lt;br&gt;- Dynamic credit limit adjustments&lt;br&gt;- Automated reconciliation&lt;br&gt;- Drill down spend reports</td>
</tr>
<tr>
<td>JP Morgan</td>
<td>- Online portal&lt;br&gt;- Invoice history and tracking&lt;br&gt;- Digital signatures&lt;br&gt;- Automated reconciliation</td>
</tr>
</tbody>
</table>

### Acquirers

<table>
<thead>
<tr>
<th>Acquirer</th>
<th>Features</th>
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<tbody>
<tr>
<td>Visa</td>
<td>- AP system integration&lt;br&gt;- Approved accounts payable files&lt;br&gt;- Remittance advice and reconciliation</td>
</tr>
<tr>
<td>Mastercard</td>
<td>- AP system integration&lt;br&gt;- Payment rules engine&lt;br&gt;- Remittance advice and reconciliation</td>
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Buying organizations which can flex their financial muscle have channeled large amounts of available funds into the development of Electronic Data Interchange (EDI) systems to stay connected with the supplier-bank network. For smaller organizations which transact heavily using commercial cards, in addition to the cost involved in building the infrastructure, there is the burden of cost of compliance with Payment Card Industry (PCI) security norms.

Banks and acquirers which have strong financial relationships with these trading organizations have been able to satiate their payment needs effectively – thanks to their extensive settlement networks. When it comes to the upstream requirements of invoice/purchase order presentment, validation, approval and payment release, financial institutions have been shopping in the market for EIPP vendors. The story is not very different with third party payment processors either. Alliances like Bank of America – Bottomline Technologies’ “Paymode”, US Bank – Powertrack, JP Morgan Chase – Order-to-pay and American Express – S2S, stand testimony for this fact.
While most such strategic partnerships are aggressively promoting packaged solutions in the accounts payables space, the race is far from over. Large multinational corporations, public sector, global FIs and medium and small enterprises represent a diverse customer base with equally diverse AP requirements driven by industry-specific, geography-specific as well as technology infrastructure related peculiarities.

Our forecast is that electronic B2B payments and AP automation business will continue to experience heightened activity over the next few years. More so, because of the fact that banks want to offer more integrated cash management services to their corporate and SME customers and EIPP is a good tool to gain visibility into their cash-flows. From a top line growth perspective, this information is of strategic import to banks in improving the effectiveness of their product development, customer segmentation and targeting exercise. Banks can structure and create new products which can help buyers fund their payments if they are low on cash-flows and offer investment products in situations of excess cash-flow.

THE LURE FOR FINANCIAL INSTITUTIONS

It is expected that Initiatives like the Single Euro Payments Area (SEPA) will result in a reduction of cross-border payment fees within the Euro Zone. Payment instruments like the letter of credit are being replaced with open account trading in international trades. Given this business landscape, transaction-based revenues from corporate payment services are being driven down by an increased interconnectivity of payment systems and developments like SWIFT in the payments arena. Profit margins are getting thinner and corporate payments are becoming commoditized. Financial institutions can engage in a price war but it would not give them a sustainable edge. They need to embark on a differentiation strategy and take value delivery to the next level.

Gaining insights into valuable information all across the payments chain is crucial to the development of a differentiated servicing strategy. In today’s world, financial institutions have visibility limited just to payments made and received. In order to leverage untapped opportunities, financial institutions need to stay engaged in corporate transactions as early in the process as possible. A tight integration between banking applications and corporate accounts payable, accounts receivable and treasury management services gives them the unique advantage of gaining visibility into the client’s financial position at every stage in the financial supply chain. Geared with this information, financial institutions can structure products and services to suit a client’s need at different stages of a business transaction. They have a bigger cross-selling opportunity with a better risk assessment. By stretching their presence across the supply chain of their customer, financial institutions will be able to deepen the relationship with better retention and repeat business as positive fallouts.
CASH MANAGEMENT

A broad engagement of financial institutions in the financial supply chain enables them to have real-time understanding of the corporate cash position. This information is invaluable for financial institutions to quantify and demonstrate the cost of idle cash to their customers. It would set up a strong platform to provide “Sweep Account” services whereby excess idle funds earn interest. Going beyond the realm of overnight markets and intraday investments, financial institutions are better placed to offer investment management services to meet a corporate’s medium and long term investment goals.
Funds consolidation is a strong value proposition when targeted at corporates with a national or global footprint. Financial institutions that are continuously aware of the time, volume, value and status of payments have an even more compelling story to take their “Cash Concentration Services” to their clients.

Selling organizations that are part of the trading network provide a wealth of opportunities for financial institutions to position their collections, cost management and risk management services.

TRADE FINANCE

Financial institutions that deliver end-to-end services in a large trading network lend themselves conducive to strengthening their lending-based revenue stream. If buying organizations are illiquid in the short-term, they would see value in structured lending products with longer credit terms. An insight into the buyer-supplier supply chain would enable financial institutions to provide payables discounting services to suppliers that look at reducing their cost of capital and in turn pass on the benefit to the buyer. Invoice factoring and forfaiting are other trade finance services that would find demand with suppliers in need of short-term liquidity, at different stages in the order-to-pay cycle.

An integrated AP automation solution has the ability to link purchase order and invoice data to a trade finance instrument. This provides a stronger basis for extending credit at a higher percentage of the trade value or at a better rate of interest. It also improves the quality of trade instrument advisory, inspection and guarantee services offered by financial institutions.

BUSINESS INTELLIGENCE

The corporate quest for intelligence on their trade related finances can be best satisfied by financial institutions that render services all along the financial supply chain. Real time information on cash positions and float improve the quality of cash forecasting, zero balance accounting and interest reallocation services provided by financial institutions. Business analytics and decision support solutions become an attractive proposition for the target when the basis for such solutions is information that is gathered across the spectrum from order generation to supplier receipt of funds.

There has never been a better time in the market for financial institutions to enter the accounts payable automation space. Those that pursue a wait-and-watch strategy will miss out on the first mover advantage and in the long run a lion's share in the market. Those that take an immediate plunge will not only enjoy a new revenue source, but will also be heralded as “innovators”.

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SYSTEM INTEGRATION SERVICES FOR ACCOUNTS PAYABLE AUTOMATION

As banks, acquirers, 3rd party payment processors, payment networks, independent service providers and EIPP vendors evolve their products and services through strategic partnerships, the success of their end-to-end product offerings quintessentially depend on effective systems integration. Near-real time response, robust, high-performance service bus, high availability and state-of-the-art audit trail meeting desired transparency levels are becoming the requisites, rather than standout features of an integrated next-gen AP solution. From the banks’ perspective, plain simple EIPP solutions are also passé, and integrated EIPP services with cash management and trade finance services is of most importance. Given the fact that different industries have different invoice formats, global and state wide tax regulations make the integration even more complicated.

A desire for greater control and agility has motivated larger organizations to move towards a centralized AP function. Money management from a centralized location would involve cross-border pooling of invoices, single currency statements and global dashboards along with the ability to integrate with more than one financial institution in different geographies. All this will need an innovative approach to SI.

Wipro’s experience in this field extends to various messaging/GroupWare platforms, BPM engines and SOA implementations. We have consistently delivered substantial cost benefits for our customers by leveraging on innovative delivery models and value-added initiatives such as Six Sigma and Lean methodologies, aimed at providing continuous productivity improvements. The SI practice of Wipro also has extensive experience in managing complex programs in a multi-vendor scenario.

ACCOUNTS PAYABLE BUSINESS PROCESS OUTSOURCING

As the automated AP solutions enabled by electronic B2B payments evolve and mature in the marketplace, service providers and customers face a significant hurdle in realizing the cost savings worthy of the product’s full potential. Businesses are in need of a comparatively smaller workforce with focused skills in using and supporting the automated AP solutions as part of the extended but e-enabled operations. Outsourcing these services to industry experts at lower costs is increasingly preferred over retaining and maintaining some of the large work force currently deployed to handle manual check-based AP functions. Wipro’s Business Process Outsourcing services optimize business performance to attain value creation. Wipro BPO Solutions is a leading provider of offshore BPO services typically required for using and supporting e-enabled business processes such as accounts payables. Our BPO services are driven by the integrated solution approach which provides enhanced value to the customers through process standardization, process simplification and process optimization.

Among Wipro’s wide range of BPO services, our procurement outsourcing services are the most relevant to AP automation business and have a direct positive impact on cost reductions that customers seek
through deployment of AP solutions. We offer complete “Source-to-Pay” outsourcing services to our clients and fulfill the “Source-to-Contract” needs of our customers through strategic sourcing, category management, supplier management and supply chain strategy. We also deliver “Procure-to-Pay” process efficiencies and operational cost reduction. Finally, we offer a full suite of “on-demand” procurement solutions that integrate with our client’s current ERP system and provide cost control thereby optimizing the entire supply chain. Wipro Procurement Outsourcing services offer key benefits to our clients, including value for money, Six Sigma enabled processes to improve efficiency and quality, cost reduction of more than 40% through offshore execution, leverage on IT expertise across different supply chain and AP platforms, domain experience in B2B payments industry and talent availability.

WIPRO – A STRATEGIC PARTNER FOR AP AUTOMATION

Through our Integrated IT (Application Development & Management services) and BPO (Business Process Operations) services and business domain expertise in Banking and Financial Services, Wipro is in the best position to partner with financial Institutions to implement aggressive go-to-market strategy and deliver and promote top-notch AP solutions at optimized costs. Our integrated IT, BPO approach has helped organizations save costs in excess of 40% in specific areas.
ABOUT WIPRO TECHNOLOGIES

Wipro is the first PCMM Level 5 and SEI CMMi Level 5 certified IT Services Company globally. Wipro provides comprehensive IT solutions and services (including systems integration, IS outsourcing, package implementation, software application development and maintenance) and Research & Development services (hardware and software design, development and implementation) to corporations globally.

Wipro's unique value proposition is further delivered through our pioneering Offshore Outsourcing Model and stringent Quality Processes of SEI and Six Sigma.

ABOUT WIPRO COUNCIL FOR INDUSTRY RESEARCH

The Wipro Council for Industry Research comprising of domain and technology experts from the organization aims to address the needs of customers by specifically looking at innovative strategies that will help them gain competitive advantage in the market. The Council in collaboration with leading academic institutions and industry bodies studies market trends to equip organizations with insights that facilitate their IT and business strategies.

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REFERENCES

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