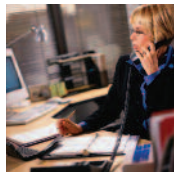
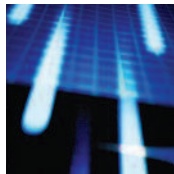


# Electronic Payments – Trends in Accounts Payable

Winter 2010



## INTRODUCTION

Today's Accounts Payable (AP) departments with their heavy usage of paper and manual efforts are eroding the bottom line of large- and mid-size organizations on an order of several million dollars each year. This is a stark contrast to many organizations' continued efforts to drive greater efficiencies and generate cost savings. Not surprisingly, AP has come to the forefront as organizations recognize the strategic importance of AP to impact their bottom line – and with that, the need to transform AP.

Many organizations are transforming AP through the “electronification” of payments. Payment, an often overlooked piece of the AP process, is typically characterized by paper checks, which are overwrought by manual and inefficient processes, lack of cash flow visibility and the high cost of supplier financing. Electronic payments have emerged as an alternative means of conducting business, offering numerous strategic benefits, including:

- Reduced payment costs
- Improved cash management
- Decreased risk of payment fraud
- Diminished paper from the AP department
- Increased operational efficiencies

Then why haven't electronic payments been universally adopted? Today only a small percentage of organizations have any significant level of payment automation in place. And while many organizations have moved a sizable percentage of payments from paper checks to electronic payment vehicles, a typical organization still makes 61 percent of its business-to-business (B2B) payments by check. So why does paper remain the rule rather than the exception?

*Supplier Resistance:* One of the top barriers to the adoption of electronic payments is the suppliers' willingness to accept these payments.

Persuading suppliers to accept electronic payments and align with their buyers' needs is a time consuming and costly process. Another key barrier is the trading partners' ability to send or receive automated remittance information with electronic payments. Once again, the time and cost associated with suppliers reengineering their financial systems and processes is a significant challenge. But organizations remain optimistic – more than 75 percent of buyers believe that the majority of their suppliers currently receiving paper checks will be able to receive electronic payments within three years.

*Internal Resistance:* In addition to perceived external barriers, many organizations face their own internal challenges. While buying organizations agree that “electronifying” payment leads directly to improved supplier relations, increased productivity and cost savings, they still have internal roadblocks such as justifying the cost to implement electronic payment projects and the resources necessary to manage the transition.

Many forward-thinking organizations have already begun transforming their AP departments to address these major challenges. Organizations are finding that electronic payments have helped them evolve. By automating AP functions organizations can realize noteworthy benefits such as precise cash management, higher productivity, improved data capture, early-payment discounts and enhanced risk management. As more financial executives recognize the benefits of leveraging electronic payment methods, they will work with suppliers and internal stakeholders alike to remove barriers and capitalize on the benefits.

## STUDY OVERVIEW

### Scope

As part of an effort to understand and improve B2B payment processes, U.S. Bank, the American Productivity and Quality Center (APQC) and the International Accounts Payable Professionals (IAPP) conducted an in-depth survey of AP professionals between June and July of 2010.

U.S. Bank, APQC and IAPP developed this survey to provide an overview of the electronic payment landscape and address the following questions generally asked by financial executives:

- What challenges are organizations facing when it comes to AP processes?
- What factors are driving the migration from paper checks to electronic payments?
- What barriers are hindering further adoption of electronic payments and how can they be overcome?

### Survey Demographics

More than 280 AP professionals, representing a wide cross-section of organizational sizes, industries and job titles, participated in the study, as shown in Figures 1, 2 and 3.

Spanning more than 15 industries, the majority of respondents (61 percent) had annual sales of more than \$250 million. A large majority of survey respondents were managers or directors with supervisory authority for their organizations' AP departments.

Survey results were reported as an overall consensus of participants as well as subdivided by industry, organization revenue, and the job title of the respondent.

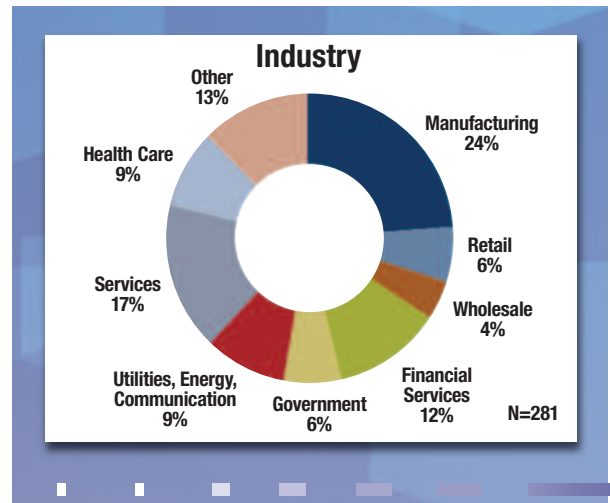


Figure 1

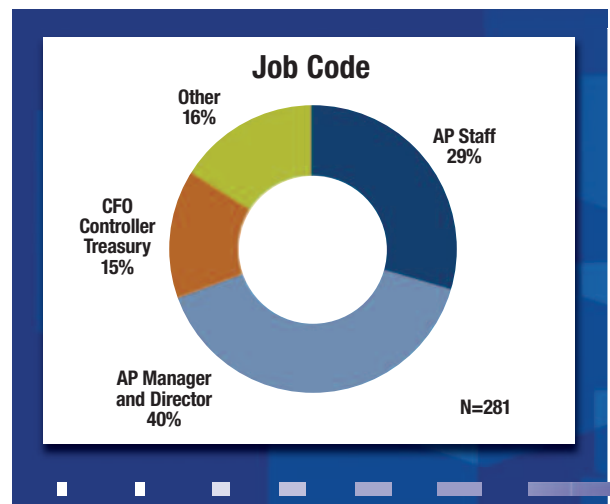


Figure 2

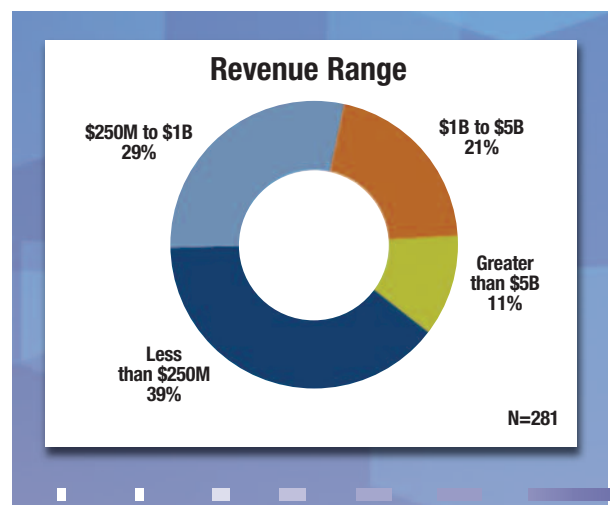


Figure 3

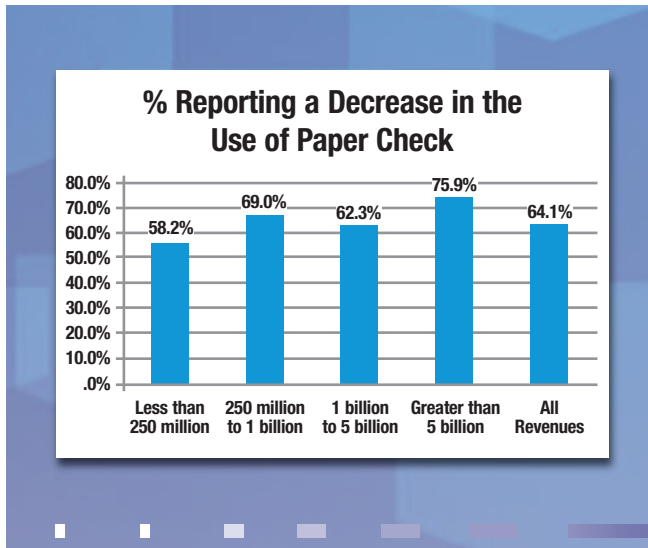


Figure 4

## ELECTRONIC PAYMENT USAGE

Overall, the study showed a strong universal migration to electronic payments. With electronic payment methods being more expeditious, cost-effective and convenient than paper-based checks, it is not surprising that use of the various forms of electronic payments has increased over the past year, while paper-based checks have declined.

While checks represent 61 percent of a typical organization's B2B payments today, 64 percent of respondents reported a decrease in paper check usage over the past year, as shown in Figure 4. This reduction in check volume corresponds directly with an increase in electronic payments. During that same period, 65 percent of respondents increased ACH/EFT use, and 50 percent increased purchasing card use.

Large organizations led the way: For ACH/EFT, 82 percent of organizations with revenue in excess of \$5 billion—already the highest ACH/EFT users—reported an increase in use versus the prior year. Organizations with revenue of more than \$250 million reported the largest increase in purchasing card use.

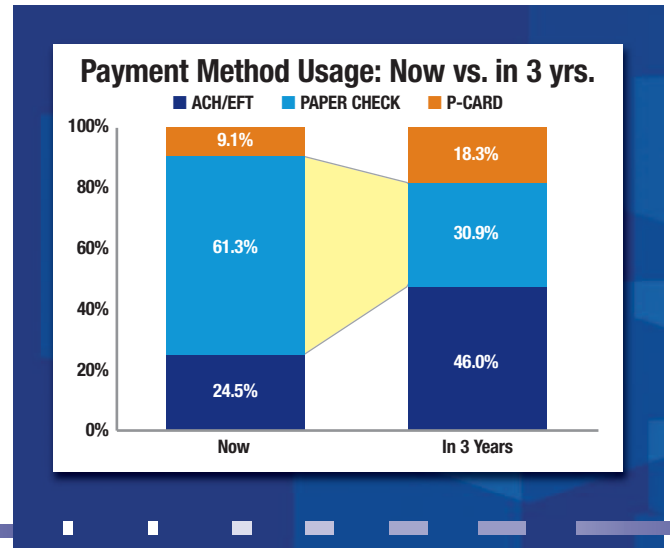


Figure 5

Today's current percentage of B2B electronic payments just scratches the surface—almost 25 percent of payments are ACH/EFT; another nine percent are card; and less than five percent are wire—providing ample opportunity for organizations to continue the trend towards electronic payments, as shown in Figure 5.

Overall, respondents plan to nearly double ACH/EFT and purchasing card use over the next three years. Survey results show that electronic payments will constitute nearly 70 percent of all B2B payments by 2013, with large organizations once again leading the way: 88 percent of total transactions for organizations with more than \$1 billion in revenue will be electronic versus 59 percent for smaller organizations.

It follows that respondents anticipate cutting paper check use by more than half in the next three years. This change is already well under way, especially among larger organizations, with 75 percent of organizations with revenue in excess of \$5 billion reporting a decrease in paper check use. The largest organizations anticipate that within three years only 13 percent of payments will be by check.

Cardless purchasing accounts, relative newcomers to the AP world, have been adopted by 26 percent of total respondents. However, over 50 percent of organizations with more than \$1 billion in revenue, and 40 percent of wholesale and health care industry respondents, use these accounts. While cardless purchasing accounts are used only at a small percentage of organizations, they are quickly growing due to an overall increase in purchasing card use. As organizations look to reduce the cost and financial risk associated with check payments, they are enabling card payment for purchases that so far have not been paid by plastic cards.

Wire transfers, perhaps the most expedient form of payment, are often used for high-dollar, one-off transactions as well as international payments. Wire transfers tend to be a niche payment method that currently accounts for less than 5 percent of transactions, and respondents anticipate that this minimal use will continue.

### AP Challenges

A majority of respondents identified three main challenges within AP, as shown in Figure 6. These top challenges—manual data entry, invoice routing and error/exception resolution—are consistent across surveyed industries, company sizes, and job families.

However, respondents in different job categories assessed the next tier of challenges differently. Lower-level staff viewed operational issues, such as error resolution, routing and missing invoices, as more significant than did upper management.

Organization size also played a role in challenge assessment. Although size increases AP complexity, larger organizations reported fewer challenges with error and exception resolution. Organizations with more than \$5 billion in revenue also reported less

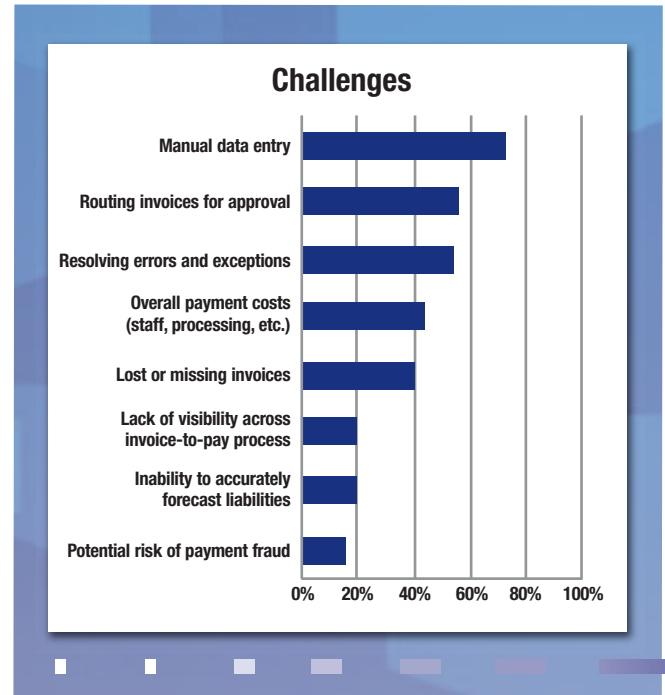


Figure 6

difficulty with routing and lost or missing invoices than organizations with revenue below \$1 billion.

Despite accounting for 67 percent of total AP expense<sup>1</sup>, payment costs were not seen to pose a significant challenge, neither were concerns of potential payment fraud.

While payment fraud is still present in all industries—nearly 50 percent of respondents reported at least one fraud incident in the past year—rising electronic payment use is enhancing fraud prevention efforts. According to the survey results, on average paper checks were related to 10 times as many incidents of fraud as ACH/EFT or wire transfers, and two-and-a-half times as many incidents as purchasing cards.

<sup>1</sup>APQC Open Standards Research Data, June 2010

## Adoption of Electronic Payments

With today's manual paper check systems contributing directly to the challenges many AP departments face, it is no surprise that organizations are looking to electronic payments to address these pain points.

There are several common factors driving respondents' efforts to increase electronic payments, including the ability to (Figure 7):

- Reduce payment processing costs
- Enhance supplier relations
- Increase productivity in the AP department
- Decrease the risk of payment fraud

Additionally, maximizing rebates and incentives on the purchasing card (37 percent) was a factor driving organizations to focus their efforts in utilizing electronic payments.

Organization size is another driver of moving to electronic payments: Larger organizations, on average, have a higher current level of electronic payment use, anticipate more future use, and see fewer barriers to implementation than their smaller counterparts.

As is apparent from the statistics above, and given the overwhelming interest in improving the performance of AP departments, increasing the use of electronic payments will be a top priority for organizations over the next three years.

## Adoption of Electronic Invoice Presentment and Payment Solutions

While a majority of respondents have focused on automating payment, the final step in the invoice receipt-to-pay processing cycle, many organizations are taking the idea of a paperless AP department to next level. The use of Electronic Invoice Presentment and Payment (EIPP) solutions are gaining popularity among organizations of all sizes due to their ability to address many of the AP challenges reported by organizations.

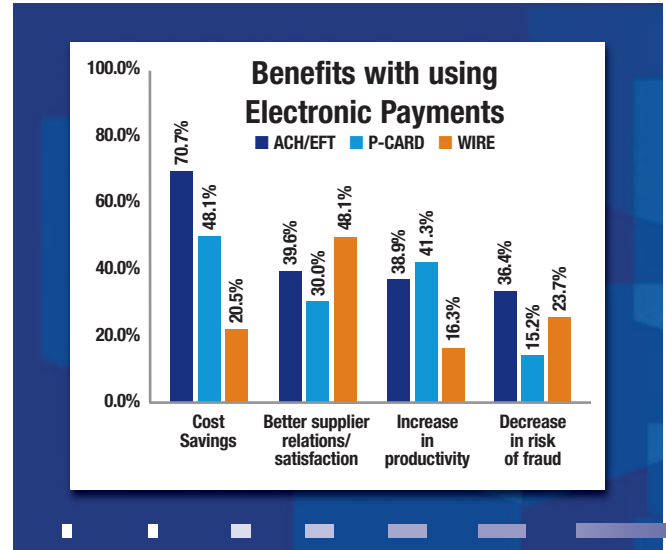


Figure 7

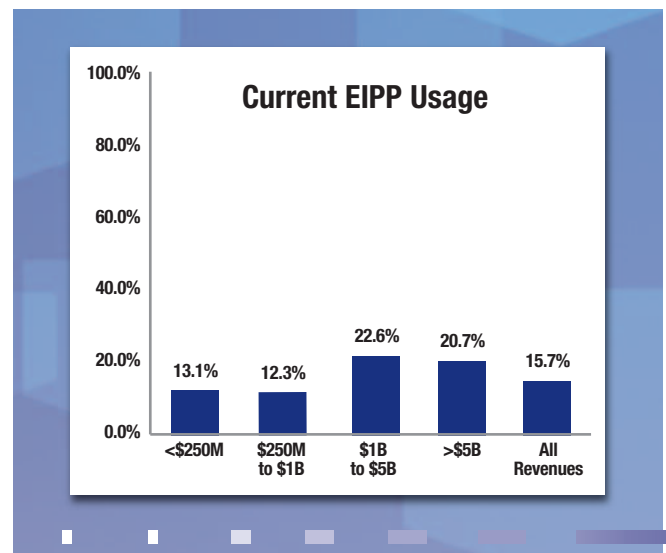


Figure 8

Currently an EIPP solution is used in nearly 16 percent of respondent organizations overall. Once again, organizational size drives adoption and use—more than 20 percent of those with revenue greater than \$1 billion use an EIPP solution, compared with just 13 percent of organizations with less than \$250 million in revenue, as shown in Figure 8.



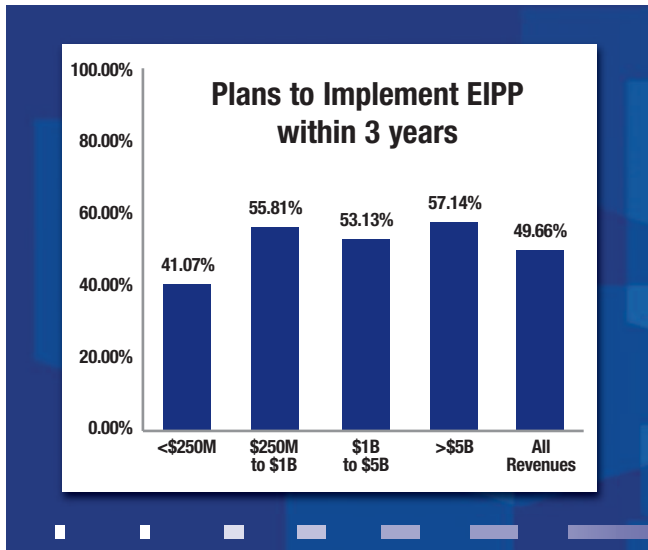


Figure 9

A high percentage of all organizations plan to adopt the technology within three years (Figure 9). Smaller companies have a lower percentage of predicted adoption, but even with this lower figure, nearly 50 percent of all organizations will soon use an EIPP solution to automate their AP processes.

### Industry Trends and Predictions

Current trends and predictions for individual industries are provided on the following pages.

#### Healthcare

The healthcare industry’s current electronic payment and paper check use is in line with that of all participant industries, but respondents predict a greater-than-average move toward electronic payment systems, as shown in Figure 10. Already one of the highest users of cardless purchasing accounts, the industry anticipates a two-thirds reduction in paper check use within the next three years as well as a threefold increase in purchasing card use—both well above the overall norm.

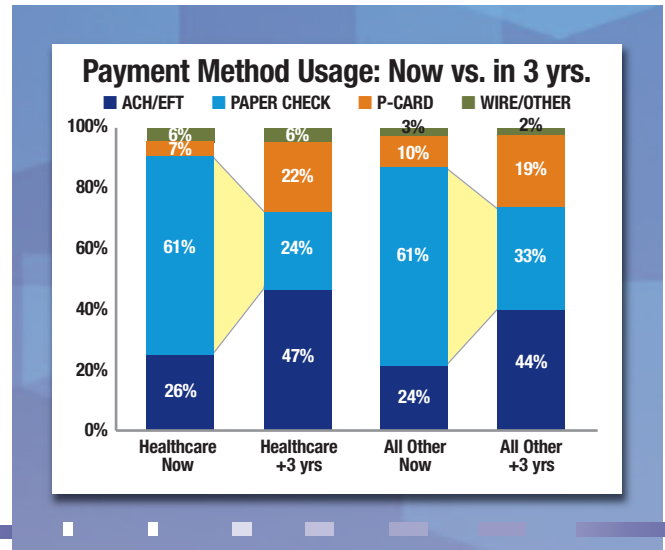


Figure 10

#### Manufacturing

Manufacturing currently leads in ACH/EFT use, and respondents predict that it will continue to set the pace for all industries. Respondents also anticipate a 50 percent reduction in paper check use and a doubling of purchasing card use in the next three years, as shown in Figure 11.

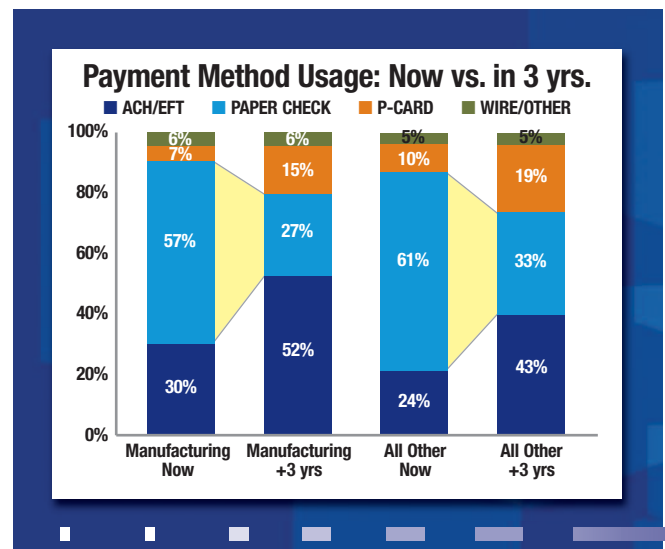


Figure 11

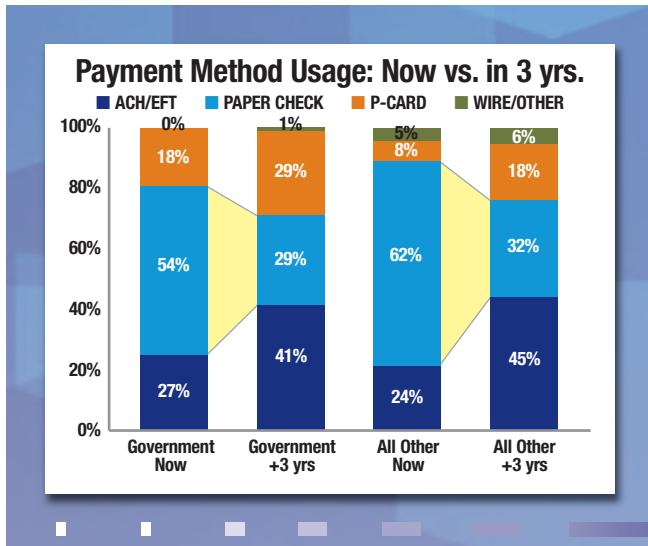


Figure 12

### Government

While government use of ACH/EFT and paper checks is at the average, the industry shows two notable deviations from the middle ground. Wire transfers constitute a negligible part of government AP, while purchasing card use is more than double the average of all industries—with another 11 percent growth anticipated in the next three years, as shown in Figure 12.

### Financial Services

The financial services industry reports above-average use of checks, together with below-average use of electronic payments. Both items are predicted to change: The industry anticipates tripling the use of purchasing cards in the coming three years and reducing checks to the overall average of use (Figure 13).

If the industry is viewed without the insurance sector, interest in electronic payment adoption is high. Since the insurance sector depends heavily on paper checks, it is likely to continue a high rate of use in the future.

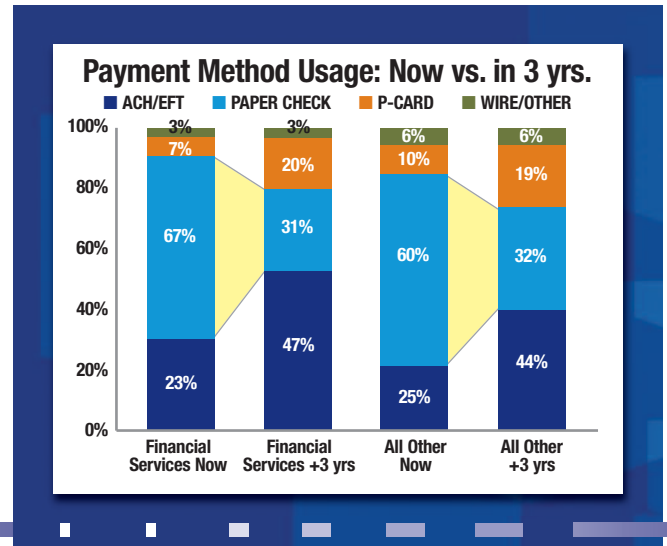


Figure 13

### Utilities, Energy, and Communication

As highlighted in Figure 14, electronic payment use is slightly above average for these industries, partially due to above-average use of purchasing cards. Although purchasing card use is expected to rise, the overall predicted electronic payment adoption rate is less than the average, and use of checks will remain in line with other industries.

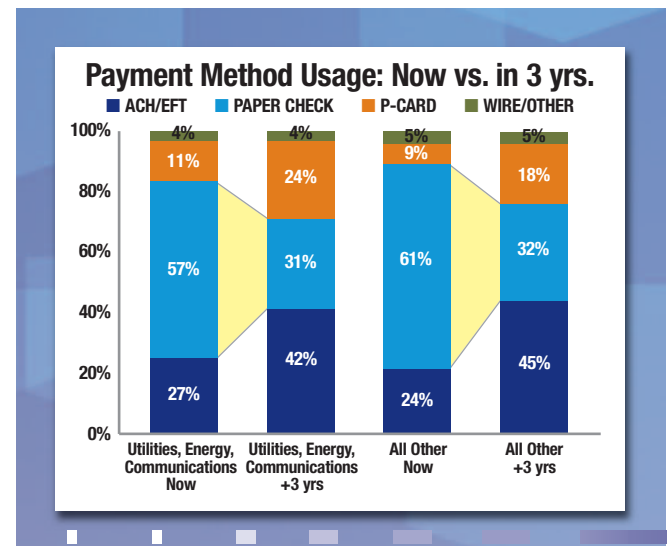


Figure 14



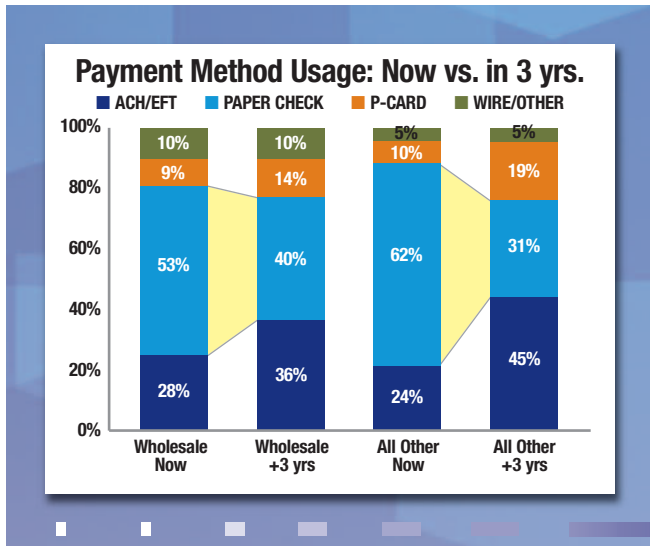


Figure 15

### Wholesale

Wholesalers are the highest users of wire transfers, and ACH/EFT and purchasing card use is also above average. And while the industry predicts a slower overall electronic payment adoption rate, purchasing card use is expected to rise, as shown in Figure 15.

### Retail

The retail industry is behind in overall adoption: It has one of the lowest ACH/EFT rates, and despite predictions that electronic payment use will double, the sector will continue to trail other industries (Figure 16).

Organization size alone does not account for the low adoption rate. Although 60 percent of the responding retailers have revenues of less than \$1 billion, the sector still lags behind similarly sized industries.

## BARRIERS TO ELECTRONIC PAYMENT IMPLEMENTATION

The survey identified a number of actual or perceived barriers to

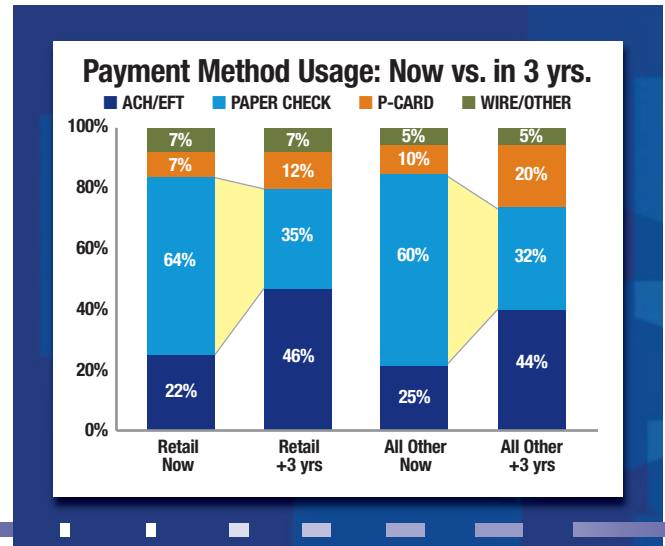


Figure 16

electronic payment use, as shown in Figure 17. Eighty-four percent of respondents cited supplier resistance to electronic payments as the primary external barrier. A related barrier—the inability of trading partners to send or receive automatic remittance information—was cited by 72 percent of respondents.

The survey suggests that these external barriers may evaporate. More than 75 percent of respondents expect that suppliers currently receiving only paper checks will be able to receive electronic payments within three years.

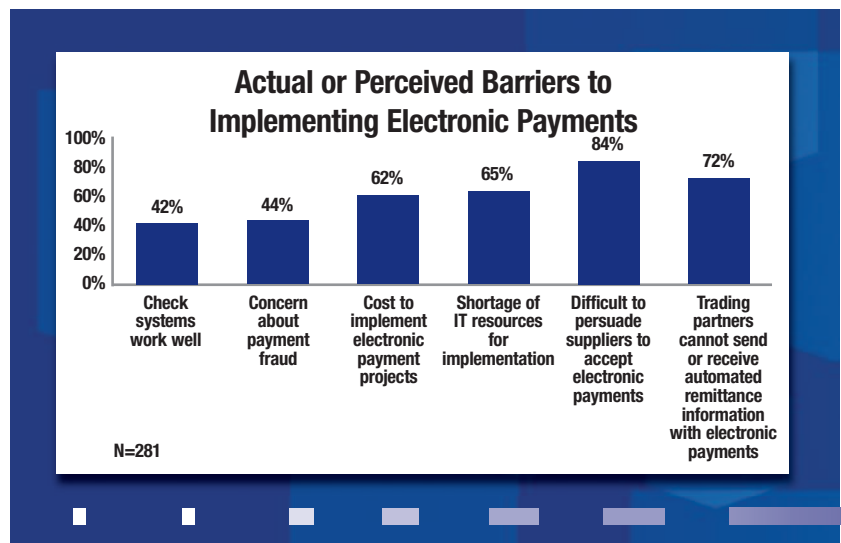


Figure 17

Internal costs, as well as resource and staffing concerns, were reported to be the most substantial internal barriers to implementation. However larger organizations see cost and internal capabilities as less significant barriers than do smaller organizations.

The survey results also show a barrier of interpretation: A high percentage of leadership believes that check systems work well, reducing the urgency of switching to electronic payment methods; significantly fewer of their lower-level associates, however, share this view.

## CONCLUSION

Electronic payments have transformed the world of B2B transactions. Electronic payment adoption is well under way and gaining momentum. More organizations are stating their intention to adopt electronic payments over the next few years, and that percentage continues to grow as organizations look for ways to cut costs and streamline processes.

However key challenges and barriers to electronic payments still persist. Many organizations are gradually overcoming the barriers to increased electronic payment use and reducing their reliance on checks, but for others the hurdles remain—specifically around supplier resistance. Suppliers’ reluctance to pay fees that may be associated with electronic payments and their concern around sufficient remittance detail remain obstacles.

Many financial institutions and payment providers are addressing these supplier challenges and developing solutions to lower the acceptance barrier, including:

- Recruitment activities: on-boarding of suppliers through activation campaigns that promote the benefits of supplier acceptance such as improved cash flow, expedited cash application and reduced late payment collections.

- Payment and remittance advice consolidation: collection and delivery of remittance information in multiple formats supported by supplier systems such as e-mail, fax or direct integration with accounting systems.

Yet steady adoption and increased use of these payments may address and minimize most of the perceived issues, especially as both buyers and sellers achieve quantifiable, bottom-line savings as a result.

While moving payment from paper to electronic methods provides immediate efficiency gains and cost take-out, a long-term payables strategy can help an organization achieve more significant results. Organizations should move beyond payment and expand their payables vision to include automation of the entire financial supply chain.

While it may be difficult to make the business case for change when “check systems work well,” organizations should prioritize investment in electronic payments. It’s no longer a question of whether AP should be automated—but how to automate and to what extent.

### U.S. Bank Payables Solutions

To help organizations grow and evolve, given the increased strategic importance of AP, U.S. Bank offers comprehensive payables solutions that deliver value from the purchase order through invoice processing and payment. More specifically, our array of integrated products allows U.S. Bank to address all aspects of the financial supply chain and ease organizations’ evolution toward electronic processing and payment.

From treasury management solutions to commercial cards to electronic invoice presentment and payment tools, U.S. Bank has the industry-leading resources and implementation experience to make your

payables program work harder for your organization. We continue to invest in products that meet market needs and will help organizations execute an integrated payables strategy to drive cost savings and working capital improvements.

## ABOUT APQC

APQC is the leading resource for performance analytics, best practices, process improvement, and knowledge management. Its research studies, benchmarking databases, and renowned Knowledge Base provide managers with intelligence to transform their organizations. A member-based nonprofit founded in 1977, APQC serves Global 1000, government, and nonprofit organizations.

## ABOUT IAPP

IAPP is internationally recognized as the trustworthy guidance-setting association for the accounts payable profession. Serving members throughout the world, IAPP is the AP professional's global voice, chief advocate, recognized authority, acknowledged leader, and principal educator on all AP operational, regulatory, leadership, tax, control, and fraud-related topics. Together, the IAPP and its sister organizations, International Accounts Receivable Professionals (IARP) and The Association for Work Process Improvement (TAWPI), have more than 6,000 members in 70 chapters throughout the United States, Canada, and the United Kingdom. They provide training; conferences; knowledge sharing; certification; online resources; AP Matters, AR Matters, and today magazines; and more. For additional information, visit [www.TheIAPP.org](http://www.TheIAPP.org), [www.TheIARP.org](http://www.TheIARP.org), and [www.tawpi.org](http://www.tawpi.org).

## ABOUT U.S. BANK

U.S. Bancorp (NYSE: USB), with \$283 billion in assets as of June 30, 2010, is the parent company of U.S. Bank, the fifth largest commercial bank in the United States. The company operates 3,002 banking offices in 24 states and 5,309 ATMs and provides a comprehensive line of banking, brokerage, insurance, investment, mortgage, trust and payment services products to consumers, businesses and institutions.

Corporate Payment Systems (CPS), a division of U.S. Bank, offers unique solutions to meet clients' payment needs. CPS is a single source for an array of payment options, from straightforward purchasing, travel and fuel card programs, to sophisticated electronic invoice presentment and payment tools.

CPS pioneered the nation's first commercial bankcard, serves as the federal government's largest commercial card issuer, and is ranked the second largest bankcard issuer of corporate, purchasing and fleet cards. CPS continues to lead the industry on multiple levels, offering:

- A comprehensive suite of electronic payment solutions, including traditional commercial cards and innovative e-Payables account options.
- Experience with a wide array of client sizes and industries, serving 277 of the *Fortune* 500
- Financial supply chain solutions that automate the entire invoice receipt-to-pay process for general payables, utilities and freight.

## Contact U.S. Bank for more information

From purchasing cards to access tools to complete electronic procure-to-pay systems, U.S. Bank offers organizations the solutions they need to cut costs and operate more efficiently. For more information, please contact us at 866-274-5898, [intouchwithus@usbank.com](mailto:intouchwithus@usbank.com) or visit [usbpayment.com](http://usbpayment.com).

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