VIEW POINT

MIGRATING FROM PAYMENT MIGRAINES

Abstract

In the context of the COVID-19 pandemic and its repercussions, payments automation is one opportunity area that is still under-leveraged by many organizations. This paper explores the benefits of card payment solutions for both organizations and their suppliers and outlines a typical implementation journey.

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The opportunity to automate payments

The unprecedented outbreak of the coronavirus pandemic wreaked widespread havoc on business operations across the globe. The grim situation demanded technology-led optimization of processes to ensure uninterrupted work-streams. Yet, while there has been a great emphasis on streamlining operations and supply chain processes, payments automation is one opportunity area that remains underleveraged by many organizations.

Though payments are an integral part of any business operation, many organizations shy away from automating their payment processes. Typically, both clients and suppliers admit that their current processes for invoice submissions, approvals, and payments are a pain point. They also acknowledge the need to reduce the costs of payments, to simplify and speed up processes alongside increasing user satisfaction. However, when it comes to implementing automated payments, they are unsure of being able to maintain a secure payment environment.

However, using card payment solutions like ePayables makes automating payment processes easier than otherwise presumed.

Card payment solutions vs. purchasing cards

Card payment solutions are different from purchasing cards. Purchasing cards are issued to a specific cardholder, and typically have low credit and transaction limits, and need manual reconciliations. These cards are ideal for low value spends or when purchase orders are not required. While purchasing cards are more efficient than an end-to-end purchase requisition to purchase order to accounts payable (AP) transaction, their drawbacks are that individual receipts must be submitted, and purchases must be audited.

On the other hand, card payment solutions make use of a bank's card infrastructure — for example, MasterCard, Visa, or American Express — to pay for the purchase of products and services. They work either outside or in conjunction with the traditional AP model. The process involves a system-generated unique virtual card number with a defined payment value and expiration date.

Because this payment method is used for preferred/contracted suppliers who have been enrolled into the program, and requires a purchase order and invoice, there is negligible risk in automating the payments. Thus, card payment solutions are ideal for catalogue purchases, high spend suppliers, recurring payments, all regardless of transaction volume.

However, for organizations that already have a purchasing or corporate travelcard, a distinct advantage is that the card payment solution implementation can use the same interface that is used to receive purchase card transaction details from the card provider.

The simplicity of automated payments

Here is how an automated payment using a card payment solution works. When procurement creates a purchase order, the system generates a one-time use virtual card number. The card is associated with the specific purchase value that cannot be exceeded, a usage date range, and key purchase and expense details that will be linked to the payment.

A payment verification on the card is released either when the supplier provides the service or goods, or when the buyer acknowledges the receipt of such services or goods. The supplier then charges the invoice value to the card number and the card issuing bank releases the payment against the pre-authorized controls within the purchase order. Once the payment is made, the card number cannot be used again and no further charges can occur.

The card issuer consolidates and provides all card transactions to the company via a monthly interface. The system automatically compares charges to the purchase orders, reconciles them, and moves them to the general ledger (GL). Thus, the system is efficient in that accounts payable releases only one payment to the issuing bank instead of multiple individual payments to various suppliers.

Benefitting the organization

Organizations implementing card payment solutions derive several benefits. First, they stand to gain rebates from the card issuer. With standard purchasing and corporate travel cards, companies usually earn a 0.7 to 1.2% rebate based on the size of the program and speed of pay of the monthly statement(s). Rebates from payment solution cards too generally earn a 0.5 to 0.8% rebate[1].

These cards also reduce internal costs by eliminating the manual tasks involved in payment processes. Data from the Institute of Finance and Management indicates that internal costs vary from $1 for best-in-class processes to a high of $21, with an average of $11 for each invoice processed and paid. Other sources estimate these costs to be between $12 and $30, with an average of $16 per invoice. However, these estimates are only based on the AP process and do not include the costs linked to the individuals who submit and approve the invoices before sending them to AP for processing.

Regardless of the internal cost range, eliminating manual work by automating the payments of individual invoices can quickly deliver savings and efficiencies. As an example, a company that moves 5000 invoices with $50M in payments to a card product could earn a rebate of $250,000 in addition to around $50,000 based on internal cost avoidance.

Lastly, companies that have implemented automated card payment solutions have often measured high satisfaction with the process and fewer accounts payable complaints.

Benefitting suppliers too

One of the primary concerns for companies evaluating a card payment product is their perception that suppliers may be unwilling to accept the card due to the merchant fee – a percentage of the payment deducted by the card provider.

However, suppliers gain the same efficiencies and internal cost savings as the card user. Their need to send out invoices, wait for payments, and carry out internal reconciliations is greatly reduced. With card payments, instead of waiting 30-90 days, they are speedily paid within 24-28 hours by the card issuer that helps improve vital cash flows.

The way forward

The typical journey towards automated payments follows several stages. First, the organization needs to understand whether their current card issuer offers this product. If so, implementation would be quick and easy since all interfaces and a contract are already in place. If not, they will need to release an RFI or RFP to identify and select a suitable provider. While it would be wise to put the entire card program out to bid to maximize rebate potential, some companies may elect to have this as a stand-alone program.

Once the card issuer is in place, it will analyze the company's spend data to identify both the suppliers who already accept the product and the best opportunities for card payments. The organization will then need to communicate with the identified suppliers about the shift to the card payment model and the required steps to enroll. Card issuers usually provide a communication template that helps explain the benefits of the shift to the supplier.

It is equally important to communicate the benefits of the shift to internal stakeholders for which once again, the card issuer can provide suitable templates. To see the process through, the card issuer provides a project manager and the required project templates, while the company also needs to provide a dedicated internal project manager. Lastly, the organization needs to revise its standard master services agreement (MSA) to include card payment options.

As industry increasingly adopts paperless, automated payments to suppliers, the benefits for both organization and supplier will lead to strengthened long-term relationships, expedited payments, and tangible cost benefits.

[1] https://www.mediusflow.com/en/untapped/articles/process/how-much-does-cost-process-invoice-where-you-save

About the Author

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Ian has over 20 years of experience in sourcing & procurement across global blue-chip organizations. He has led Sourcing & Procurement organizations across Consulting, Telecom, Power Generation, Retail, and the Automotive industries.

He also spearheaded procurement transformation projects for many clients across multiple engagements, including - process optimization, platform harmonization, procurement systems implementation, category management establishment, and tail spend management.

Ian holds a Bachelor's Degree in Science (Psychology) and is a Member of Chartered Institute of Purchasing & Supply.

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Kurt has over 25 years of experience in sourcing & procurement with global organizations, including Packaging, Finance, Telecom, Pharma, and Mining Industries. He has deep experience throughout procurement with a focus on travel, cards, and expense management. He has been on multiple Travel Management Company, Credit Card providers, and airport client advisory boards.

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