

VISA COMMERCIAL SOLUTIONS 
PAYABLES AUTOMATION WHITE PAPER

Automating payment processes to deliver bottom line cost savings in a weak economy.

Today's competitive business environment requires that companies continually seek new efficiencies and ways to cut costs to help improve their bottom line. In response to a weaker global economy, corporate leaders and financial executives are refining their focus on the efficiency of their business operations as a source of potential cost savings. Improving your accounts payable (AP) process has become increasingly important in an era of tightening credit where adequate cash flow and greater control over company payables are critical in maintaining liquidity and sustaining business operations.

Within this challenging environment, the value of commercial payment cards is becoming more apparent when it comes to streamlining the management of your company's cash flow and related payment processes. Gaining a new perspective on the AP benefits of commercial cards, and taking the appropriate steps to put them in place at your company, can lead to payment process improvements and measurable efficiency-driven costs savings.

Progressive organizations are learning to apply automation technologies to the AP function, which is still largely reliant on costly and inefficient paper-based processes. AP automation is being driven in part by increased adoption of electronic payment methods, including commercial payment cards, and integrating those payments with expense management technologies.¹ By pursuing automation of the AP function, aided by the integration of electronic payments and reducing the use of paper-based invoicing and checks, businesses are making significant strides in streamlining the overall management of their payables. These improvements are helping them increase the efficiency of their internal processes, gain greater visibility and control over their spending and positively boost their bottom line.¹

Growth in B2B Payments

Streamlining the AP process takes on added significance when considering the sheer volume of business-to-business (B2B) payments and the growth in commercial payments both domestically and globally. Estimates from Visa's Commercial Consumption Expenditure (CCE) Index indicate that B2B spending in 2007 was \$77.3 trillion globally and \$19.7 trillion in the US alone.²

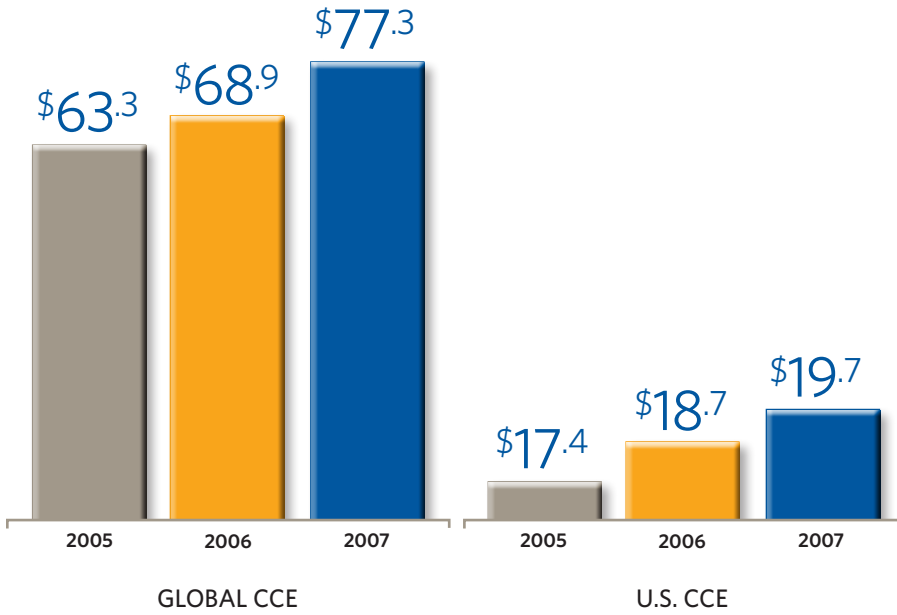
As the volume of B2B payments has grown, the corresponding opportunity to derive efficiency-driven cost savings from the traditional accounts payable process has also grown.

“Manual, paper-based accounts payable departments are eroding the bottom line of large and mid-market enterprises by an order of millions of dollars each year. . . With the current state of accounts payable stuck in the confines of manual and paper-based processes, now is the time for enterprises to dig deep into their current A/P systems and set the stage for a major financial makeover.”¹

¹ Aberdeen Group, E-Payables Solution Selection: Your 2007-2008 Guide to A/P Transformation, September 2007.

² Visa Inc., Commercial Consumption Expenditure Index, 2008.

Growth in Comparable Global and U.S. Commercial Spending (in trillions USD)



Top Five U.S. Commercial Spending Categories

CCE Category	Amount (in trillions USD)
Raw Materials and Manufactured Goods	\$7.7
Capital Equipment	\$1.7
Rent	\$1.5
Telecommunications Services	\$1.1
Gasoline	\$1.0

Paper-Based Payment Methods

Despite the large volume of commercial payments, the majority of these payments still take place via paper checks.³ Because checks and associated paper processes are the predominant B2B payment method, there is an opportunity to streamline company payables by converting these costly payments to more efficient electronic transactions. Payment industry research indicates that today’s businesses may be recognizing the inefficiency of paper-based B2B payments. While the percentage of commercial payments made via checks is still quite large, the use of checks as a payment method appears to be on the decline.

Companies are beginning to recognize the inefficiency of paper-based payments. Check usage declined from 81% in 2004 to **74%** in 2007.

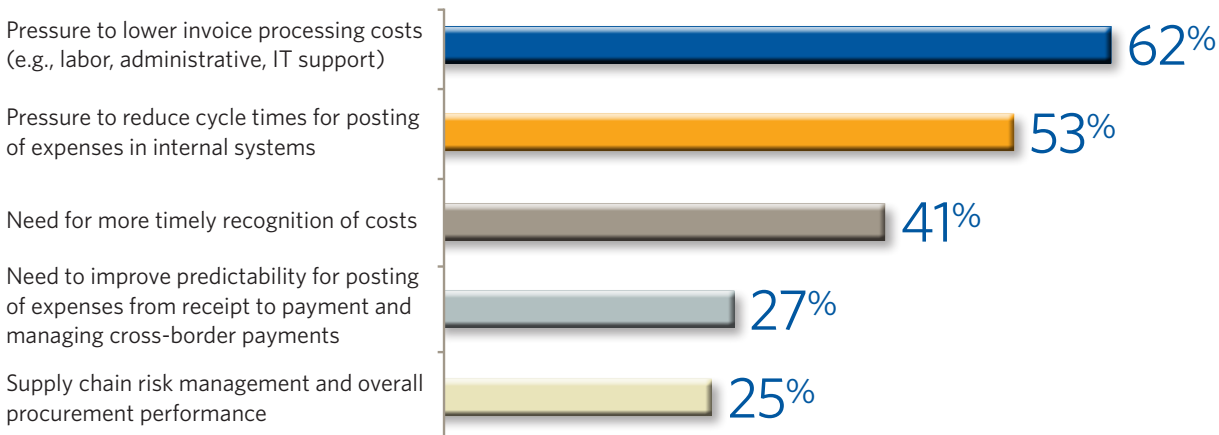
2007 AFP Electronic Payments Survey, October 2007.

³ 2007 AFP Electronic Payments Survey, October 2007.

AP Automation Trends

As check usage continues to drop and more companies begin to utilize electronic payment methods, additional steps can be taken to more fully automate the AP function to improve process efficiency. According to research by the Aberdeen Group, the trend toward AP automation is picking up momentum as one-third of enterprises surveyed have some form of AP automation in place. The same research indicates there is a growing awareness among corporate financial executives that the traditional AP function is highly inefficient and that taking steps to automate the function has become a top enterprise technology investment priority among surveyed companies. Several factors are driving the trend toward automation, according to the Aberdeen study, with the top priorities being the reduction of both costs and time associated with AP processes.⁴

Key Drivers for AP Makeover



The Role and Benefits of Electronic Payments

As awareness of process inefficiency grows, many companies are turning to electronic payment methods to help streamline their processes and eliminate the costs associated with paper checks. Research indicates that 82% of surveyed companies are preparing to make use of electronic B2B payment methods, up from 69% just two years earlier.⁵

Electronic payments, including commercial payment cards, can play a key role in streamlining the AP process for two primary reasons: (1) Improving process efficiency, (2) Increasing control over payables.

⁴ Aberdeen Group, E-Payables Solution Selection: Your 2007-2008 Guide to A/P Transformation, September 2007.

⁵ IOMA: AP Department Benchmarks and Analysis, 2007.

Improvements to process efficiency through the use of electronic payments may be derived through:

- Eliminating checks as a payment method
- Reducing time associated with check issuance and reconciliation
- Enabling timely and accurate payments to vendors and suppliers
- Helping reduce costs associated with late payments and payment errors

Electronic payments can help provide greater control over and visibility into payables through:

- The ability to pass invoice-level electronic data with each payment transaction
- Real-time access to aggregate payment data and overall company spending
- Detailed electronic payment data reporting customized to a company's needs

Improving process efficiency, control over payables and payment visibility through electronic payments deliver key benefits to not only the AP function, but the purchasing, treasury and sourcing functions as well. Key benefits may include:

- **Reduced Processing Time**—The processing time for purchase, payment and reconciliation may be reduced significantly as the overall AP process becomes more efficient.
- **More Timely Payments**—An important accompanying benefit of reduced processing time is more timely payments that can result in cost savings through early payment discounts from suppliers.
- **Streamlined Reporting**—Electronic payment data reporting improves information flow by reducing the need for manual inputs while increasing reporting accuracy and improving process efficiency.
- **Automated Reconciliation Process**—A much improved reconciliation process can occur as payment data passed with electronic transactions is automatically matched with purchase data, eliminating the need for manual inputs.
- **Improved Spend Analysis**—More comprehensive electronic data reporting on company payables improves enterprise-wide company spend analysis and fosters better vendor/supplier management.
- **Enhanced Compliance**—The automation generated by electronic payments increases the transparency of the AP process and fosters greater compliance with company policies or procedures as well as Sarbanes-Oxley (SOX) regulations.

Making AP Automation Pay

The current economic environment is putting additional pressure on businesses to achieve higher levels of operating efficiency and measurable cost savings. Current research and several sources point to hard-dollar savings from automating the AP

“The importance of the accounts payable function can no longer be underestimated. Long viewed as an antiquated back office process, enterprises are now looking to A/P for increased visibility into payment transactions, maintaining a top spot on executives’ agenda for both transformation and delivery of bottom-line results.”

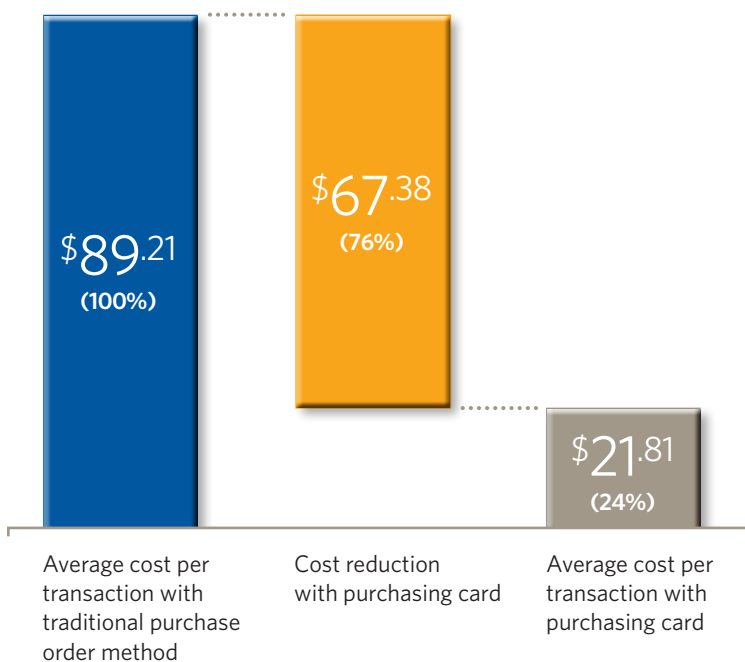
Aberdeen Group, E-Payables Solution Selection: Your 2007-2008 Guide to A/P Transformation, September 2007.

function and making the switch from paper-based processes. The Aberdeen research estimates cost savings from a fully-automated AP process are \$10.87 per payment. Based on this savings estimate, a company making 100,000 B2B payments per year could realize cost savings of approximately \$1.1 million annually due to process efficiency improvements alone.⁶

RPMG research, in their industry-leading purchasing card benchmarking survey report, points to even greater potential savings resulting from the switch from checks to electronic payments. The study indicates that companies can further benefit from the positive impact to the bottom line from enhancements to payment visibility, expense management, purchasing processes, strategic sourcing and vendor/supplier management that come from an electronic versus paper-based AP process.⁷

Based on this more in-depth cost savings analysis that takes the above-mentioned factors into consideration, that traditionally lie outside of the AP function, the cost savings can be much more significant. The RPMG study estimates that the average savings among public and private sector organizations when replacing checks with commercial card transactions are more than \$67 per payment on a fully-allocated cost basis across the organization. When applying the estimates from this more comprehensive research on the cost benefits of purchasing cards, the same company making 100,000 B2B payments per year could realize an annual savings of more than \$6.7 million.⁷

Cost Reduction per Transaction by Purchasing Card Use



⁶ Aberdeen Group, E-Payables Solution Selection: Your 2007-2008 Guide to A/P Transformation, September 2007.

⁷ RPMG Research, Purchasing Card Benchmarking Report, 2006.

While the migration of B2B payments from checks to electronic methods can have a significant impact on streamlining the management of company payables, it can also create additional company-wide benefits. The following are examples from a 2008 study by Deloitte Consulting for Visa Commercial Solutions on procure-to-pay best practices. These illustrate the overall benefits that can be derived from commercial card integration with payment and expense automation processes as well as taking other steps focused on process improvement.

- By establishing a goal of increasing payment process automation, a large manufacturing company was able to successfully automate 67 percent of its overall payment processes.
- A large technology company was able to significantly reduce its reliance on costly and outdated paper-based payment processes by shifting 85 percent of its payments to more efficient and cost-effective electronic payment methods.
- By encouraging large suppliers to accept commercial cards for B2B payments, a large defense and civil contractor was able to save 2.5 percent across the procure-to-pay process for every transaction.
- A global manufacturing company was able to improve its expense management processes and lower costs by reducing its supplier base by 70 percent, while consolidating 80 percent of its overall spending with a select group of suppliers.⁸

These examples illustrate how the AP function, through the adoption of electronic payments and automation technologies, can become a catalyst for change that can spread across the company. As such, AP managers can help foster enterprise-wide improvement initiatives and can take on a more strategic role in leading their organizations to higher levels of business process efficiency and profitability in response to difficult economic conditions.

Card-Based AP Automation Solutions

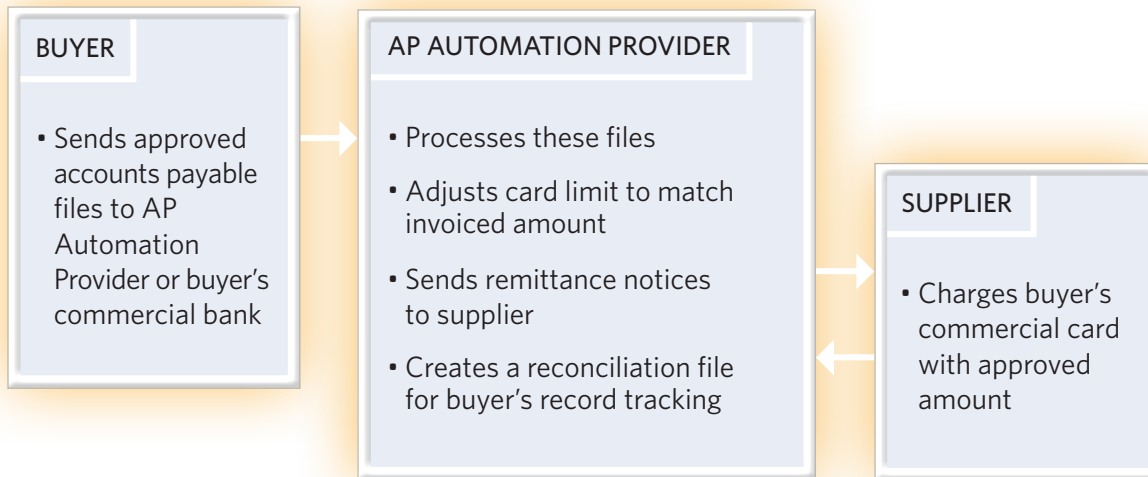
While significant progress is being made in automating many aspects of the AP process, the actual payment step in the process may still take place via a paper check rather than a more efficient electronic payment method. Because of the streamlining and data reporting capabilities of today's commercial cards, these valuable payment tools can play a key role in overcoming the "payment gap" that may exist in many corporate AP functions due to the lack of a robust electronic payments capability.

To help bridge the current payment gap and reduce the reliance on checks as a B2B payment method, solutions are emerging in the marketplace to foster greater use of commercial cards and automated reconciliation systems within the AP process. These solutions are supported by flexible technology platforms that can be customized to individual company needs and are specifically designed to utilize a commercial payment card as the primary B2B payment method. Within an AP function, commercial card integration is accomplished through the use of the combination of a virtual or "ghost"

⁸ Visa Inc., 2008 Global Procure-to-Pay and Commercial Card Best Practices Study, June 2008.

account, versus a physical payment card, and an automated reconciliation solution. This combination readily integrates with existing AP environments and can be a key factor in improving process flow and automation.

How Accounts Payable Automation Works



Even though several options are available when integrating electronic payments with AP automation, commercial cards can provide several unique benefits when compared with other electronic payment methods, such as:

- **Existing Supplier Network**—Commercial cards offer an existing network of millions of suppliers who accept cards for B2B payments. With this well-established payment network in place, there is no need for purchasing or AP departments to set up one-to-one electronic payment capabilities with suppliers. It also allows for easy access to a broad population of potential new suppliers already in the network. If an existing supplier does not currently accept commercial cards, a company can engage their commercial bank to assist in working with that supplier to begin accepting cards for payment.
- **Enhanced Data Reporting**—As with checks, electronic payment methods such as automated clearing house (ACH) offer little or no remittance data. On the other hand, commercial payment cards can provide enhanced data reporting with invoice-level detail that integrates easily with existing AP systems. This rich data reporting capability is integral to generating payables transparency, company-wide spend visibility and improved supplier management.
- **Cash Management Benefits**—The use of commercial payment cards can help streamline the overall cash management function by reducing costly, labor-intensive processes. While payment cards can offer fast payment to suppliers, companies may also benefit from the float on funds due to delayed settlement of the card statement with the issuing bank.

- **Greater Control Over Payables**—Commercial payment cards offer control features to help ensure that company spending is conducted only with approved vendors or suppliers. This allows businesses to consistently benefit from any pre-established discounts or favorable transaction terms with key suppliers. Pre-set parameters can also be used for card payments providing high levels of control over payment timing and transaction limits to ensure strict adherence to a company’s AP and purchasing policies.

Since suppliers may offer or consider discounts to buyers based on flexible needs and changing parameters, suppliers may be open to accepting non-traditional payment methods for centralized purchases such as commercial cards. To aid in persuading suppliers or vendors to accept payment cards, the following benefits to suppliers can be highlighted when cards are used in place of checks:

- **Faster Payment and Settlement**—When compared with checks, commercial payment cards can offer much faster payment and transaction settlement for suppliers. Card payments generally take only a fraction of the time required for check settlement, offering much faster access to funds and improved supplier cash flow.
- **Funds Availability**—Because card payments are settled electronically, it is virtually assured that the funds are available when the transaction is processed. This benefit helps reduce late payments and the costs associated with investigating and following up on these payments.
- **Process Streamlining**—Just as card transactions can help streamline the AP process, the accounts receivable function benefits in like manner. The electronic receipt of payments helps reduce or eliminate labor-intensive processes, such as traditional paper-based invoicing. The transmission of valuable remittance data can also be integrated with accounts receivable systems.
- **Improved Customer Relationships**—The decision to utilize a commercial card-based AP automation solution is made by the customer. A supplier who readily accepts that choice by their customer is more likely to strengthen relationships and retain customers when compared to suppliers who resist accepting cards from their customers. This could be especially true for suppliers within industries that are highly competitive or have a higher than normal level of commoditized products or services.

Integrating Payment Data

A key benefit of card-based AP automation solutions is a rich, enhanced data reporting capability and utilizing that data to help optimize payment processes. This enhanced data includes invoice-level transaction detail that is electronically transmitted from the supplier to the buyer as part of the commercial card payment, thus eliminating the need for paper invoicing. The integration of enhanced transaction data with the AP function is a core element of process automation by significantly reducing labor intensive processes and increasing an organization's visibility and control over payables.

To help facilitate a seamless integration of payment data with an automated AP process, technology solutions have emerged in the marketplace that are designed to easily interface with existing AP systems. These solutions allow a high degree of flexibility and customization to help ensure that AP automation does not necessarily mean a wholesale renovation of existing programs. Data integration services for card-based AP automation solutions are delivered in partnership with industry-leading technology providers who are expert in developing integration solutions to meet specific business needs and requirements.

Key attributes and benefits of data integration solutions include:

- **Full Service Integration**—Current AP processes are fully evaluated and an integration solution is developed that includes technology and process change management, strategy planning, custom configuration, program deployment, project management and support services
- **Financial Institution Interface**—Data integration with AP automation solutions is implemented in coordination with an organization's commercial financial institution, which is usually also the commercial card issuer, to ensure compatibility and a seamless interface with overall financial processes.
- **On-Demand Solutions**—Data integration solutions are not disruptive to existing infrastructure or business processes because they do not require the installation and maintenance of hardware or software and are scalable to accommodate growing business needs.
- **Process Synchronization**—Achieving a higher level of automation and efficiency is accomplished through improving process synchronization by integrating payment data with company payables and reducing or eliminating the need for manual intervention while managing payment transactions.
- **Security**—Data integration technology providers ensure the highest levels of transaction and communication security that meet or exceed an organization's requirements for secure and reliable information exchange.



Summary

The current downturn in the global economy requires that today's businesses increase their focus on ways to cut costs and operate more efficiently. Even though checks and other paper-based processes still dominate the AP landscape, the trend toward utilization of electronic payment and reporting methods is increasing while helping companies more easily automate their AP processes.⁹ This trend toward automation, including the integration and use of electronic payment methods, can help businesses streamline the overall management of their payables, increase the efficiency of their internal processes and positively impact their bottom line. The economic benefits of AP automation, and the integration of electronic payments into a company's payables, can result in significant annual cost savings through improved process efficiency and better overall expense management.

To help companies realize the potential cost savings of AP automation, commercial card-based solutions are emerging in the marketplace that are highly flexible and integrate easily with a company's existing processes. As part of these card-based solutions, data integration technology service providers are helping ensure that payment transaction data reporting is fully utilized for optimum process efficiency and cost savings.

For more information on the benefits of AP automation and to find electronic payment solutions to meet your company's needs, talk to your commercial banker or visit visa.com/commercial.

⁹ Aberdeen Group, E-Payables Solution Selection: Your 2007-2008 Guide to A/P Transformation, September 2007.