Accelerating E-Payment Adoption with O2P Platforms

Written by Marcus Hughes,
Bottomline Technologies

> *As banks look for new ways to derive value from their corporate banking relationships, ensuring that existing revenue streams are not cannibalised is hugely important. Innovative electronic payment and invoicing services are one way to compensate for the loss of cheque processing revenue.*

Corporates today are looking for ways to optimise their working capital by improving efficiency in payment processing. In addition, regulations such as the Dodd-Frank Act continue to mandate transparency, particularly in the US.

Although electronic payments (e-payments) are the norm in European countries, cheque payments in the US are still pervasive. The most recent Association for Financial Professionals (AFP) US payments survey showed that 57% of all business-to-business (B2B) and government-to-business (G2B) payments are still made by cheque.

One of the main barriers to increasing e-payments in the US, according to the 2010 AFP survey, is difficulty in convincing suppliers to accept e-payments. Low adoption rates are also due in part to the fact that banks perceive that switching customers to e-payments will result in the loss of a major revenue stream from cheques.

As a result of potential profit loss, banks are only just beginning to fulfil their potential for offering innovative e-payments solutions. They have, however, begun to develop new revenue opportunities from services around e-payments, such as rich remittance advice delivery and e-invoicing, and are starting to accept the potential for cheque replacement revenues. Additionally, banks are embracing the cost efficiencies of outsourcing the build and support of their e-payments solutions. Order-to-pay (O2P) platforms, hosted in the cloud by technology partners, can be readily white-labelled by banks to drive new revenues and reach the market quickly.

In addition to meeting clients' demand, e-payment platforms can be integrated into a bank's cash management solution to serve as a differentiator for enriching basic payments offerings with single sign-on. For example, an international payments platform can be enhanced with capabilities allowing suppliers to submit their invoices electronically, providing clients access to real-time information and saving time and money.

Complementing EDI Solutions with O2P Platforms

A key barrier to e-payments is the perception that buyers or suppliers will not be able to send or receive remittance information along with a payment. Without it, a supplier receiving a payment is likely to experience difficulty reconciling their accounting system. This results in the payment lingering in a suspense account, creating extra work for buyer and supplier, as well as creating delays in settlement that can reduce working capital.

The electronic data interchange (EDI) format, which allows remittance information to travel with the payment, is used by only 42% of companies to send the information and by 39% to receive it, according to the AFP survey. Adopted mostly by Tier 1 suppliers, EDI is usually not practical for the entire supply chain, given the prohibitive costs and time required to set up EDI connections with all suppliers. As an alternative to the EDI, many companies use email to send and receive remittance information (63% and 62% respectively).

While an O2P platform can complement an existing EDI solution, they are also effective in sending and receiving rich remittance data on their own.

Driving Adoption Rates

Wider adoption of e-payments is increasingly being driven by platforms allowing suppliers to receive electronic purchase orders (POs), submit e-invoices and receive electronic remittances in a wide variety of formats. Most large corporations now have well-developed enterprise resource planning (ERP) systems, but the addition of an e-invoicing solution can greatly supplement and support ERP functionality by creating a collaborative platform in the cloud where buyers and suppliers can interact efficiently.

Such solutions can be valuable to companies with a wide range of differing levels of automation and technical ability, both on the buyer and supplier side. O2P platforms serve the full spectrum of corporates, including sophisticated companies that want to schedule automated secure file uploads, as well as those businesses who simply want to key an invoice onto a web page. The key is the ability to address a wide spectrum of capabilities to create a single path for all outgoing supplier payments.

Practical Implementation Steps

An effective strategy for corporates looking to implement an e-payment and e-invoicing solution is to consider both the current and future supplier database. With that in the mind, the treasurer needs to have detailed discussions with their technology partner to identify the most suitable strategy for maximising adoption across suppliers.

Many buyers are starting to see a high level of supplier conversion to e-payments and invoicing due to the significant benefits to the supplier including remittance delivery, ease and improved security of bank account management, and automated PO flip (extracting PO information to prepopulate an invoice) capabilities.

It is also essential to have a dedicated team and proven process for bringing suppliers into the network. The fastest-growing O2P network is currently on-boarding suppliers at a rate of more than 2,000 per month, with an existing community of more than 135,000 suppliers. With many of a buyer’s suppliers already enrolled on the network, the buyer can reap immediate cost-saving benefits such as early payment discounts.

Dynamic Discounting and Supply Chain Finance

Industry analysts estimate that companies miss more than one-third of pre-negotiated discounts. An efficient O2P platform makes it easier to identify and prioritise those invoices on which suppliers are offering early payment discounts, so that such invoices can be quickly approved and discounts captured. Where discount terms have not been pre-negotiated, buyers and suppliers can use such a platform to initiate discount offers.

A simple, intuitive web interface can provide visibility to all parties and give privileged users the ability to modify discount rates and terms, with discount offers being managed at group or individual invoice levels.

By white-labelling O2P services, banks have the ability to offer financing services to their clients and their clients’ suppliers. This creates new transaction revenue by offering ‘enhanced’ e-payment services, and opens the door for additional business. By automating supply chain finance documents, banks achieve visibility of approved invoices, presenting the opportunity for the bank to purchase these receivables from selected suppliers who wish to accelerate their cashflow and optimise working capital.

Bank Account Maintenance

Bank account maintenance has traditionally been time consuming and risk laden. When a supplier changes their bank account details, buyers are responsible for bringing those records up to date. Comprehensive e-payment and e-invoicing solutions automate this process by allowing suppliers to register their bank account details on the O2P platform, ensuring all customers on the platform send payments to the correct and updated bank account. These platforms are hosted by trusted third party vendors who authenticate suppliers' bank account information every time details are changed, mitigating fraud risk and maximising straight-through processing (STP).

Conclusion

White-labelling an established O2P platform enables a bank to deliver a proven product quickly, reducing time to revenue for the bank and producing rapid results for clients. Leaving the security and technical details to a technology partner allows the bank to focus on customer relationships and other strategic initiatives.

A comprehensive O2P solution appeals to multiple markets and allows a bank to roll out appropriate functionality as clients are ready for it. In addition, full integration enables the bank to control the user experience and maintain product branding, creating a compelling value proposition for driving revenue and customer loyalty.