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B2B PAYMENTS:

Delivering The Last Mile



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ACHIEVING THE **WIN-WIN** SCENARIO

What does the corporate treasurer really need to optimize and streamline his cash position and decide who to pay when?

Corporate treasurers on both the AP and accounts receivable (AR) side of the equation have more options today with respect to payment products that help manage a company's cash position. Products that provide greater access to working capital, like commercial credit cards, is one such powerful example. With commercial cards, corporate treasurers at the payer organization can extend days payable outstanding (DPO) by as much as two payment cycles by utilizing the grace period provided by their card issuer, giving them more control over their cash flow. At the same time, treasurers of payees can enjoy reduced days sales outstanding (DSO), because the grace period offered to the payer can allow them to pay their suppliers earlier, while still extending their DSO. This unique "win-win" scenario can only be accomplished with a commercial card product.

What are the biggest barriers to making those improvements?

The biggest barriers facing commercial cards are twofold. The first relates to the lack of effective supplier enrollment programs, resulting in a relatively low rate of acceptance for invoice-based receipts among larger corporations when compared to check, wire and ACH. This is changing rapidly, as many innovative enrollment programs have recently been introduced to the marketplace, but it still represents a drag on the growth of commercial card programs. The second barrier, which is the primary culprit of the first, is the general misperception of the cost, operational inefficiencies and security concerns associated with accepting commercial card products. For their part, suppliers have historically faced legitimate card-related concerns, including the need to manually process payments and reconcile AR systems, deal with exposure to sensitive card data and pay significant fees if transactions were not processed properly.

However, today's commercial card processing platforms have eliminated the need to process or post payments manually or to have any exposure to card data and the related PCI DSS compliance concerns. This is made possible by the introduction of straight-through processing (STP) technology, which allows all forms of commercial card payments to be digitized and automated, with some platforms also offering completely automated remittance reporting in the supplier's native format.

What is the trigger that will accelerate change, and why?

The large-scale adoption of technology and new pricing constructs that are designed to optimize the use and acceptance of commercial cards will greatly accelerate change, as they will eliminate the friction that currently exists by dissolving the barriers (real and perceived) that have historically stymied adoption.

Where do blockchain and cryptocurrencies fit – why or why not?

I personally believe that blockchain technology will serve a monumental role in how value may be transferred among trading partners going forward; however, as it relates to invoiced-based payments, I do not see blockchain displacing existing corporate payment methods on any large scale unless we start to see those rails being used for government-backed currencies, especially for cross-border transactions.



■ **JEFF MATHESON**

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FINTECH:

BRINGING SOPHISTICATED AUTOMATION TO TREASURY DEPARTMENTS OF ALL SIZES

In the past, sophisticated enterprise resource platforms that could automate accounts payable, benefits claims, human resources processes, and other business operations were reserved for large-scale companies that could afford the cost. Small and medium-sized enterprises that couldn't justify the expense were stuck using manual processes that were confusing and time-consuming. For example, many firms are still printing and mailing physical checks and managing cash positions with spreadsheets. The emergence of new FinTech solutions has brought automation to firms of all sizes, allowing treasury departments to gain better visibility and control of key financial data while holding the line on operational costs.

Technology and transparent payments

As the saying goes, cash is king – if a treasury department can't reliably reconcile accounts or quickly handle exceptions, it can't accurately project and manage where its cash is going and risks negative relationships with customers and vendors.

But, the rise of FinTech is making it possible for payments to be more transparent for companies of all sizes. They are utilizing application programming interfaces (APIs) to provide real-time insight into cash flow treasury functions. This improves cash liquidity, which has a positive effect on many key accounts payable (AP) and treasury functions, such as vendor supplier payments, intercompany cash transfers and short-term investments, all of which benefit organizations regardless of size. FinTech firms are providing increased value by leveraging cost-effective, in-country payment rails while simultaneously strengthening the transparency to and from these rails. This is providing organizations greater visibility into their payments and cash, as well as a better overall client experience, with user-friendly interfaces that are flexible enough to meet the unique demands of organizations of all sizes.

Barriers to implementation

FinTech has made enterprise resource systems more affordable, powerful, and scalable, but many companies are still resisting the switch to automation for several reasons:

- **A lack of desire:** *Many companies still view accounts payable as a low-value activity that's not worth investing in.*
- **Resistance to change:** *Many chief financial officers and treasurers are comfortable with their banking partners and do not want to upset the status quo.*
- **Limited resources:** *As businesses scale back headcount in search of savings, many firms aren't able to allocate enough resources to launch new initiatives.*
- **Legacy systems:** *Organizations may have technology already in place that they don't want to disrupt.*

Many firms want technology that is easy to implement and complements their existing banking relationships, instead of completely overhauling their processes. As companies of all sizes look for efficiencies,

automation of the treasury payment process can be a low-cost, low-risk solution.

Automation and optimization

Transparency has become the new mantra of corporate treasurers. They need real-time data about cash on-hand and where it's going at all times. Investing in automation technology offers clear advantages:

- *Improves operational flexibility by increasing visibility surrounding payments, the recognition of liabilities and the efficient use of cash*
- *Optimizes spend management and the ability to capture early payment discounts*
- *Capitalizes on favorable exchange rates for international payments*
- *Builds internal controls as well as regulatory compliance*
- *Reduces processing and labor costs and allows for the large-scale elimination of paper use*

- *Simplifies processes and reduces duplicates and errors*

Some organizations don't believe there will be an adequate return on investment (ROI) to justify the time and money spent implementing an automated resource management platform. Working with new financial technology can cut the time spent on accounts payable and cash management in half, however, freeing up resources for other areas of the business.

New insights and streamlined operations

Data is at the heart of efficient business processes. By leveraging FinTech solutions, firms of all sizes are able to generate greater visibility into their cash positions and make better decisions about payments and expenses. While corporate treasury departments have often been seen as low-priority when it comes to investment, new technologies and platforms have made it possible for even modest solutions to improve financial efficiency.



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RELATIONSHIPS MATTER IN THE FAST-PACED WORLD OF PAYMENTS

Many new systems and payments methods coming into the market are designed to make the lives of corporate treasurers easier. These technologies are exhilarating, yet their adoption must still be preceded by continuing adherence to best practices to ensure your business approach is right.

That means first considering your organization's financial position and what its goals are. You can pay business partners from 10 to 60 days and expect to have reasonably good relationships with them. Beyond that, you start to compromise the relationship – and that comes at a price.

There is a matrix of factors involved in finding the sweet spot whereby you have maximized your own value proposition and stretched the limits of a business partner's value proposition. And, if you are talking about a strategic business partner, you also need to consider their importance to your organization. You don't want to be low on their list of priorities when you face a crisis.

Breaking down barriers

Organizations should also consider what their barriers are to making system improvements. Often the greatest challenge financially is managing the data and invoices that come into the business.

To improve processes, it is always helpful to ask questions. For example: How can you automate signatures? What is your process flow to get from receipt to payment? If you outsource this process, how well it is working? How do you manage recurring payments? Do you need to get them approved, or do they come in preapproved? Establishing workflows with different streams can help you manage this complexity.

When to embrace change

With new payments technologies emerging, it can be challenging to determine when to embrace them.

Keep in mind that technological improvements often come in pieces and parts – it can take multiple technologies to achieve return on investment. Consider, also, the speed of implementation and the effectiveness of the controls.

Regardless of the technology you are considering, the investment should deliver four key benefits across payments rails: ease of use, ubiquity, speed and security. With proven debit, credit and person-to-person (P2P) payments, you can get an effective value exchange that is safe and secure, and that happens at the velocity required.

Blockchain and cryptocurrencies present a different paradigm and come with their pros and cons.

As a distributed ledger, blockchain is self-balancing, and that has advantages. Where cryptocurrencies and blockchain are challenged, though, is in their lack of ubiquity. They lack governance, and this has implications. The fact is that fraud occurs on cryptocurrencies – even though they are built on distributed ledger technology – which means, in theory, you will never have a dispute. What if you do? Until cryptocurrencies receive sovereign governance, they will be sidelined in the payments industry, even as they are actively traded on the markets.

Relationships hold value

Improving payment processes is an important part of growing and advancing. However, we often chase technology at the expense of the vendor, which means we haven't addressed the broader problem.

The way you pay your partners should never supersede the relationship. Nothing should be more important to your business than getting quality products to market on time – and your strategic partners help you achieve that.

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THE TRANSFORMATIVE ROLE OF **BLOCKCHAIN** IN CROSS-BORDER PAYMENTS

The case for blockchain

Challenges in the traditional cross-border payments space are well-known to corporate treasurers. Surveys continue to point to dated payment rails and correspondent banking networks for lengthy settlement times, lack of traceability and high costs layered with hidden fees. These complexities are only magnified when it comes to emerging markets, where timing further complicates payment flows, since the volatility of most currencies in emerging markets far exceeds normal risk appetite for a treasurer. Local expertise and timeliness of trades are key to navigating individual market complexities.

One of the primary drivers behind the inefficiency in moving money in and out of emerging markets comes from the foreign exchange (FX) markets, which tend to be illiquid and volatile. Foreign exchange risk continues to be a significant challenge, particularly in 2018, where multiple currencies, such as the Argentinian peso or Turkish lira, have seen double-digit devaluation in a very short time frame, and multinational corporations have been faced with difficulties in hedging and forecasting. Many restricted currencies also require FX conversions to be done onshore. Without a local counterparty or banking provider, which would allow for a better experience, corporates are left with limited alternatives. Traditional payment providers, which may offer to deliver on a restricted currency, are known for charging upwards of 3 percent just for the conversion of funds. Services offering no wire fees for payments are likely raking in even greater fees in exorbitant FX conversion rates.

The payments space, primarily in domestic and regional payments, has started to see a shift with new entrants and technological innovation driving expansion. The expectation for a payment to clear and arrive on the same day does not seem unreasonable and it's only a matter of time before the transformation of payments expands into emerging markets, which are hungry for innovation around digitization of payment flows, speed and security. For disruptive technology to prevail within the corporate B2B payments space, it must be trusted, secure and efficient. It is a prime time for innovation.

Enter blockchain.

This groundbreaking technology presents a powerful solution to many cross-border payments pain points and meets the growing demand to move value more seamlessly. Payments are tamper-proof and accurate, with an ability to irrefutably record changes. Blockchain offers an ability to make near-instant transfers with lower costs, higher security and greater reliability. There have been many use cases developed based on blockchain, from money transfer APIs to cryptocurrency solutions. However, none are quite as compelling for corporate treasurers as digital asset tokenization.

Why tokenize assets?

Tokenized assets present an ability to make physical assets more liquid while retaining the core characteristics that determine their value. By dividing these assets into digital tokens or certificates of title, which are equivalent to the value of the real-world asset, tokenization presents a compelling alternative that is more stable than many volatile currencies around the world, allowing for better preservation of value.

How does it work?

If a multinational corporation can instantly convert its emerging market FX exposure to a tokenized asset, there is a higher chance of protection of asset value. Once the receiving entity receives the tokens, cash settlement to currencies can be executed on

preferred timelines based on overall float management across liquidity pools.

This tokenization process is built on smart contracts, which provide higher levels of trust. Contracts are automatically executed without the need for human verification. Smart contracts are stored on the blockchain and all permissioned parties have access to the information. Every step of the smart contract is verified, fulfilled and stored immutably, offering added confidence to multinational corporations that cross-border transfers are secure and made to trusted addresses, authenticated on the network in seconds.

Tokenization lays the foundation for greater efficiencies of payment flows, with the security and stability of a real asset. The market for tokenization is still evolving, but has the potential to very positively impact cross-border payments in the near future.

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GOING DIGITAL: BRINGING CHOICE, IMMEDIACY AND EASE TO BUSINESS PAYMENTS

A wave of new digital services has transformed how consumers live their lives, pay, get paid and manage their finances. However, businesses are still dealing with outdated systems, analog processes and paper checks.

Change has begun.

The surge of investments and partnerships in FinTech continues. FinTech products and services that were focused primarily on consumer applications are shifting toward business-to-business (B2B) solutions. Real-time payment systems with global standards (ISO 20022) and the ability to attach payment details with the payments themselves is opening opportunities to create efficiencies in business operations.

Here are a few critical areas in which corporate teams will see most change in the next three to five years:

Digital business identity and supply chain visibility

While parts of the B2B payments process have been digitized, there are still large and costly gaps, especially around risk management and payment reconciliation – driving up to \$500B per year in rising costs. Technology will help to streamline and automate the procure-to-pay process, enabling businesses to manage business identity, compliance and payments in a more efficient way.

Accounts payable reform

The accounts payable function at most businesses is labor-intensive and inefficient, and provides inadequate visibility into critical financial information. Corporate finance teams will begin to see the operational and financial benefits of automation and outsourcing in this space. For buyers, it will decrease manual processes and provide more control over payments, enabling resources to focus on more strategic and meaningful business activities.

More choice in payments

Consumer and business payment preferences are shifting from checks toward cards and account-based payments.

Card-based payment methods appear to be on the rise – and this includes virtual cards. Virtual cards provide transaction-level authorization controls that enable companies to define how, where and when payments are made. They also simplify reconciliation and reporting, provide more visibility into and control over payments and deliver better fraud management with real-time alerts.

Real-time payments technology can also make all account-based transfers more appealing to businesses, making them faster and more secure. It powers not just speed of payment, but also robust messaging capabilities, delivery of payment information alongside the payment itself and 24/7/365 availability. With such capabilities, real-time payments will help improve cash flow, operational efficiencies, customer engagement, data transparency and accuracy. For corporate financial professionals and treasury teams, this translates to more efficient operations, improved liquidity management and better working capital management.

Machine learning for fraud intelligence

Fraudsters are exploiting the benefits of payments systems to steal money with devastating efficiency. Timely analysis of large-scale payments data can help identify and flag likely incidences of payment-related fraud before the funds leave corporate accounts. Total view of end-to-end payments information, combined with machine learning, will bring the ability to pinpoint potential fraud among millions of transactions, and will enable corporate financial teams to detect and act quickly.

Based on these trends, we envision a future for corporate financial professionals where:

- *Corporations will gain easy and secure insight into their supply chain;*
- *Accounting teams will be able to initiate payment or funding requests via their preferred payment rails; and*
- *Procurement teams will be able to streamline and simplify reconciliation, one of the largest burdens facing today's businesses as a result of connecting purchase order and invoice information.*



■ **TOFFER GRANT**

founder and
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PEX

GETTING MORE FROM LESS

What mindset does a forward-thinking corporate treasurer need to optimize and streamline his cash position in a way that enables the organization while still optimizing the value of cash?

The ever-increasing demand to “get more from less” means the roles of leaders across any organization are evolving. The traditional role of a corporate treasurer can be boiled down to optimizing the value of a company’s cash position. Achieving that often means controls, restraints, multi-level approvals and other systematic grinds intended to ensure money is spent wisely. The modern corporate treasurer also needs to be thinking about the role cash plays in fueling the growth of a business.

Put simply, it takes money to make money.

So, instead of thinking of a company’s cash position as a standalone asset with an ROI, think about cash as the lifeblood and pulse of a business. It keeps the doors open, it keeps employees happy, it buys things that they can use to create something even better, it puts them in front of new customers, it keeps business partners partnering and it keeps the wheels turning. It’s the funds that fuel the business.

Many old rules still apply – money can’t be left unattended. It needs to be managed, to be massaged and controlled.

The challenge for the modern corporate treasurer is how to enable the organization to use cash nimbly, while still managing it wisely.

What needs to be in place to enable the organization to spend nimbly, while still managing cash wisely?

Accomplishing the mission of the modern corporate treasurer means taking a hard look at the three elements that enable any operation to scale – people, process and tools. Each element needs to be addressed to be able to evolve and achieve the goal of enabling the organization to use cash nimbly, while still managing it wisely – aligning both senior management and the organization to the vision, having a clear sense of what the process is and the roadmap to get there and installing the tools necessary to make it all work efficiently and at scale.

What are the biggest barriers to making those improvements?

“If it ain’t broke, don’t fix it.” That notion is often the underlying rationale for not embarking on efforts to optimize and change. But a leader is always thinking ahead to anticipate what will be needed in the future. Still, fear of change and the unknown is always the biggest initial barrier to overcome. The tools and processes to make that change already exist across most elements of the corporate payments ecosystem. These are often digital-based tools, so having a working understanding of technology or being able to involve other technical resources within the organization is key. In many cases, adding technical resources to the traditional corporate treasury organization can be an important enabler of change.

What works now that treasurers shouldn’t be asked to change?

In a world where value can be created by rethinking and optimizing business’ operations, nothing should be off the table as something to potentially change. Every penny counts.

What is the trigger that will accelerate the change, and why?

There was once an advertisement for a car repair service where the main line was, “You can pay me now, or you can pay me later.” The implication was that if you didn’t spend to do things to maintain your vehicle now, you’d be paying a lot more later when the issue became a crisis. The same is true in the context of business operations. Most often, the trigger to change is a problem that the business didn’t foresee or hoped would never happen. The real answer is not to wait for a trigger – it’s to be proactive in evolving your treasury approach, the people, processes and tools, so that you are in a position to take advantage of opportunities, not trying to catch up when a problem arises.



■ CHEN AMIT

chief executive officer,
Tipalti

OVERCOMING INERTIA TO OPTIMIZE CASH FLOW

What does the corporate treasurer really need to optimize and streamline his cash position and decide who to pay when?

For payment terms and payment schedules to be optimized, the treasurer needs all manual processes leading up to payment to be as streamlined as possible, reducing the cost of running AP operations and allowing the treasurer the greatest number of options. The key elements of the accounts payable process should be addressed by utilizing payables automation technology, which automates supplier onboarding, AP tax compliance, invoice processing, global payment approvals and execution, and financial reporting. Once this is taken care of, the treasurer can utilize early payments to pay suppliers earlier, positioning the business to generate revenue from those early payments and providing cover for the treasurer to even consider extending payment terms. By leveraging early payments automation and third-party lenders, working capital is improved because more revenue has been generated from those offers, payment terms have been extended and the treasurer still only pays on the original invoice due date.

What are the biggest barriers to making those improvements?

Inertia. Finance has been managing payment operations with people and manual processes for its entire history. The idea of applying technology to make this more of a self-driving operation is a transformative change and not all finance professionals are ready for it. Similarly, yesterday's antiquated supply chain finance programs don't apply. For an early payment initiative to work, it needs to be completely frictionless for both the payer and the payee, and that is where early payment automation comes in to play.

What works now that treasurers shouldn't be asked to change?

The same general treasury and cash management best practices apply. What has changed is that technology can now enable them to be applied more consistently and effectively.

What is the trigger that will accelerate the change, and why?

When companies start realizing the cash position benefits of implementing an effective and efficient early payments program, change will accelerate. As companies grow and have a multi-geography, multi-subsidiary structure, managing money across multiple currencies becomes a real challenge, and multi-entity payables automation capabilities start making more sense.

What is the role of new rails?

It's not necessarily a matter of new rails as much as it is enabling a wide choice of rails so that payers and payees can select the ones best for their individual situations. Having said that, the market is already aggressively moving away from paper checks, and we anticipate that wire usage will decrease because of its cost and fraud risk. Methods such as ACH – both U.S. and global ACH – for overseas payments come with low costs, low fraud risks and still deliver fast payments. PayPal is also an important method to consider in certain industries, such as the digital economy.

Where do blockchain and cryptocurrencies fit – why or why not?

Until blockchain and cryptos have a better regulatory environment, reducing AML, Office of Foreign Asset Control (OFAC) and fraud risk, we don't see cryptos as a major contributor.

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