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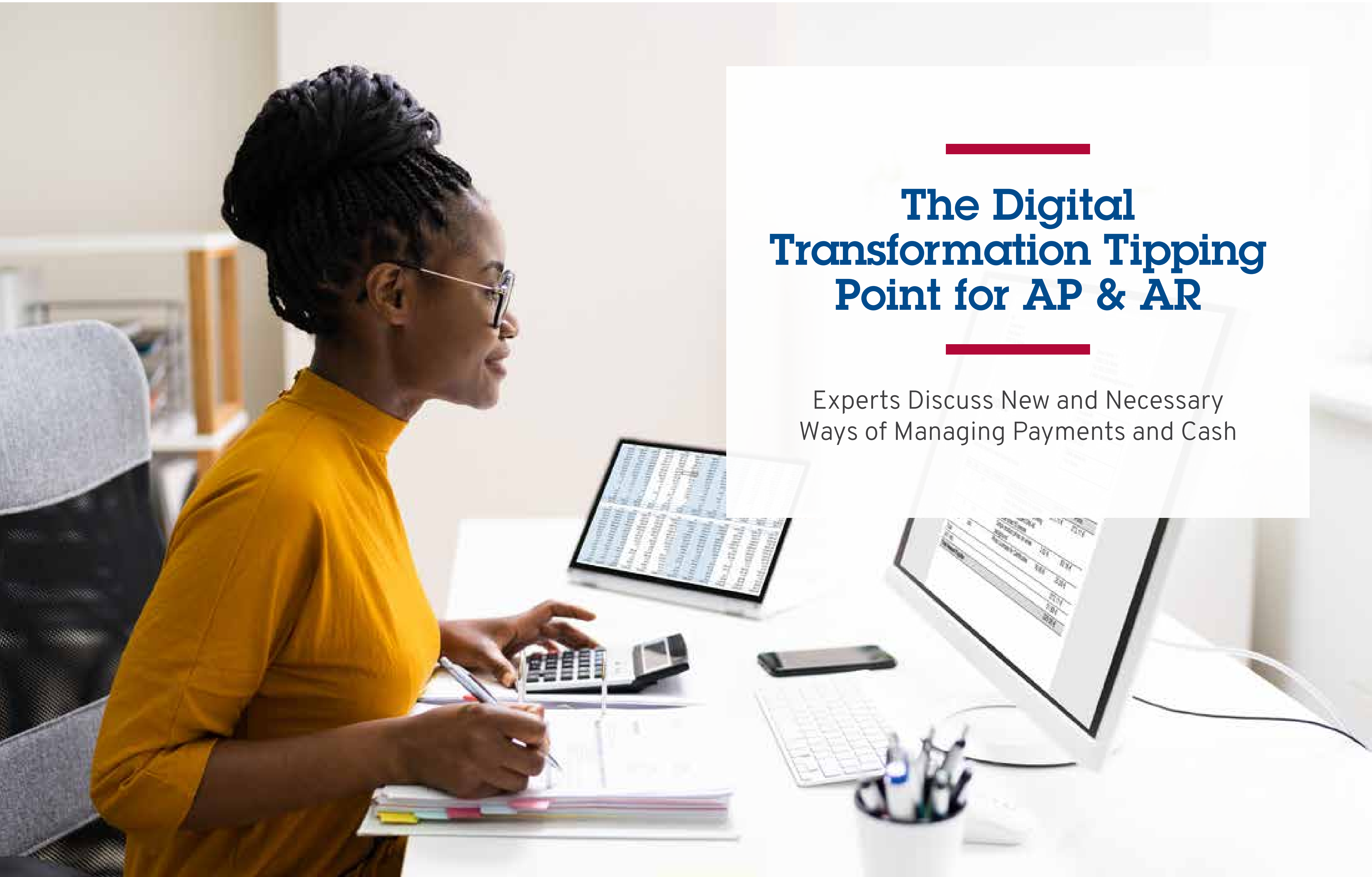
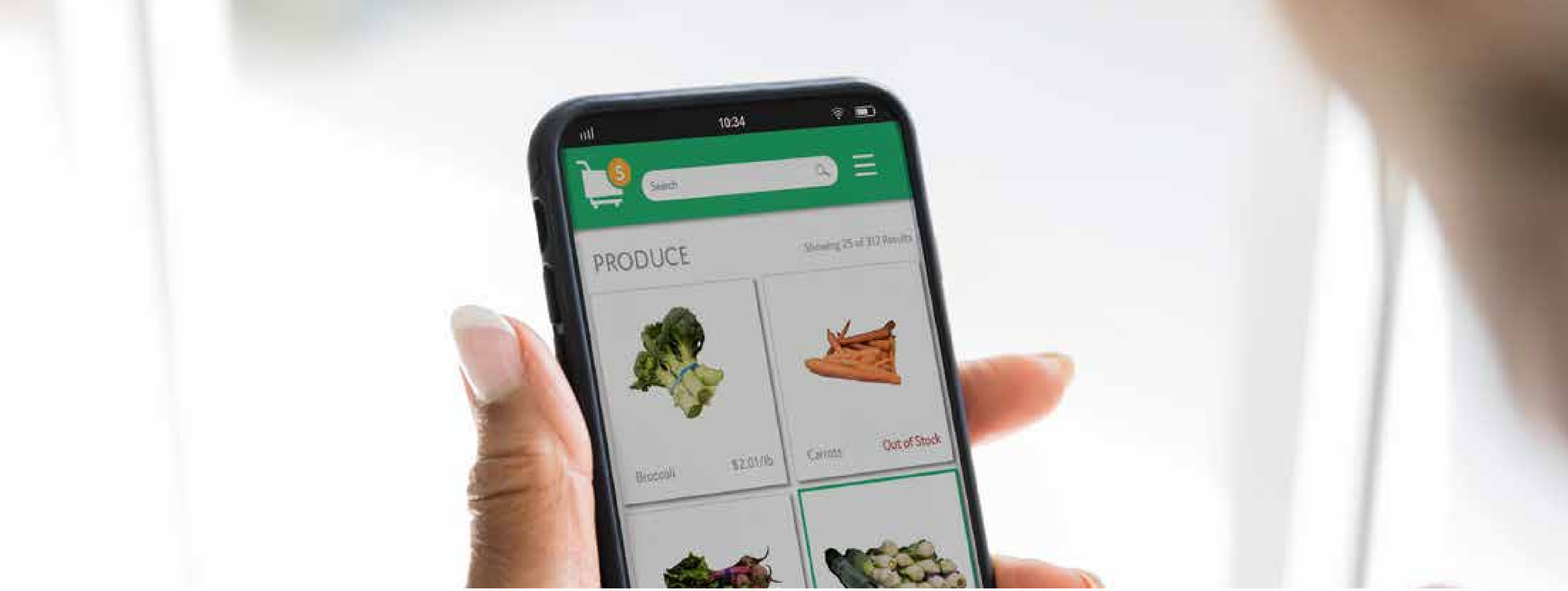


The Digital Transformation Tipping Point for AP & AR

Experts Discuss New and Necessary Ways of Managing Payments and Cash



2020 changed countless aspects of our personal and professional lives and accelerated shifts to digital everything.

While many households easily made the leap to online grocery orders and delivery and consumed even more streaming content than before, businesses were forced to figure out how to maintain or adapt their storefront and back-office operations in the face of challenges, such as remote work, social distancing requirements, production disruptions, postal delays, or a sudden drop or increase in demand.

In this ebook, People's United Bank consulted with leading experts in payables, receivables, and cash management to reflect on the past and hypothesize about what will be required for a successful evolution of these critical business functions. As you think about how your own business pays and gets paid, we hope you will find these insights useful, and we look forward to supporting you along your own digital transformation journey.

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Joe Proto
CEO,
Transactis, a Mastercard company

What impact has the 2020 pandemic had on accounts receivable?

When people ask me how I have spent nearly 40 years in the payments industry, I tell them that it's remained exciting because the landscape is ever evolving. COVID has had, and continues to have, a major impact on receivables. We were already in a multi-decade secular shift of continuous improvement and automation, but the pandemic pushed the proverbial envelope for both business and consumer payments.

While the headlines are often about point of sale and ecommerce, bill payment moves more of the gross domestic product than any other payment scenario. There are 4 million companies in the U.S. that send out 15 billion bills, statements, and invoices annually, and that doesn't even count the 4 million small businesses that also need to bill in order to be paid.

What's become particularly challenging for many organizations over the last year is delivering the paper bills they generate and processing the paper checks they receive. Two-thirds of the bills that businesses send in the U.S. are paper-based, that's nearly 10 billion bills. When the pandemic forced many companies to suddenly close their offices, their ability to send bills and get paid, as well as make payments, using manual, paper-based processes was dramatically disrupted. Companies nationwide were hard hit by escalating infection rates, which created a log jam effect: I can't pay you if you're sending me paper bills in the mail because there's no one in the office to process them. And you can't pay me because I can't get the bills out. So, what started as a logistical nightmare fueled a cash-flow nightmare.

What is shaping the future of accounts receivable?

For the C-Suite, there's a tremendous amount of pressure not only to survive but to grow their business and emerge from the pandemic stronger than before. That means they need to focus their precious resources—both cash and people—on what is core to their success. This means that wherever possible, automation should replace manual processes. IVR systems should be telling customers what amounts are due and also taking payments while people do more value-add customer servicing.

The future of receivables is also the future of payables: They're really twins separated at birth that have been kept apart due to antiquated paper-based processes. As we continue to move toward digital processes for receivables, I expect to see a network effect that solves for more automated payables and receivables at the same time.

What will new digital payables and receivables processes look like?

These digital processes will be more accurate, easier, and faster to post and reconcile at far lower costs. They will look like what we currently see on the consumer side where the credit card world has made matching merchants, cardholders, and payments a seamless process. For business payments, that same exchange doesn't yet exist. However, we're steadily moving toward that type of trusted, neutral, secure exchange for B2B payments.

In this space, the future is multi-rail. Right now we ask, "Should I pay this with a check, an ACH, credit, debit, or digital wallet?" But if you send a package, you don't care if it gets there by truck, by plane, or by boat. You just care if it gets there. It will soon be the same way with B2B payments. Banks are in the ideal position to provide this network, leveraging and collaborating on innovation with technology companies, to focus on the movement of money and data in a way that happens as a singular integrated process.

Who will solve these challenges: banks, FinTechs, or both?

Banks will lead this transformation because financial institutions are the only common element that all businesses and consumers share. However, the most successful banks will combine their reach and strength in compliance and fraud management with the innovations of FinTechs to ultimately create the most value for corporate and retail customers.

> **The future of receivables is also the future of payables: They're really twins separated at birth that have been kept apart due to antiquated paper-based processes. As we continue to move toward digital interoperable API-based processes for receivables, I expect to see a network effect that solves for more automated payables and receivables at the same time.**

Chris Sands
CFO,
MineralTree

How are CFOs changing their approach to forecasting?

The easiest way to forecast is top-down; it's also the least accurate. In a dynamic environment, you need a continuous forecasting process that constantly accommodates the latest data. The challenge with a continuous forecasting approach is that if you do it manually with a spreadsheet, it's incredibly time-consuming. Moving forward, financial operations will need to change to a dynamic forecasting process while incorporating the technology solutions they need to manage cash with agility.

Are there any other facets of the CFO role that are changing?

CFOs are no longer the head bean counters. They are the leaders of the business intelligence hub for the entire organization. In a world where there are so many more data points for every aspect of your business, whether it's customers, vendors, operations, or people, the CFO will become increasingly more tech-savvy so that finance can not only be a trusted repository for that data, but also a team that can help the broader business make sense of it.

Being a technologist is such an important part of the CFO skill set today, which wasn't the case 20 years ago. If you're a CFO, you still have to be an accountant. You also need to know how to optimize operations and create efficiencies so you can deliver the value you're being asked to provide.

CEOs depend on their CFOs to be a source of strategic business insight. If you're bogged down in paper, you're never going to be able to deliver that value. That's why CFOs need to leverage technology as much, if not more, than every other function in the business.

How does this focus on technology impact the rest of the finance team?

The skill sets must adapt. It's no longer enough to be good at booking journal entries; you have to be able to synthesize data, produce insights, tell a story from the numbers, and architect data flows. Technology can provide not only tools, but the time; by automating routine tasks, the finance team will have the time they need to focus on these high-value, strategic activities.

How can CFOs work with their banks to become more technology-driven?

The questions to ask your bank are: *Are your teams keeping up with how quickly our needs are changing? Are your services and products keeping pace with how quickly our needs are changing?*

Thinking about the central role banks play in the finances of an organization, a CFO should expect their banks to offer tools and services that will help their finance teams free up time that would otherwise be spent on manual tasks. Banks should also be able to offer strategic insights to their customers so that the financing relationship can be more dynamic.

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Michelle Young
GM, Head of Merchant Solutions for Financial Institutions,
Worldpay from FIS

Which new payment technologies or trends are merchants most excited about?

The explosion of eCommerce is a key payment trend due to the majority of consumers shifting purchases online from brick-and-mortar stores. Contactless, mobile, and card-not-present solutions will be key to doing business and accepting payments, even in a post-pandemic world. ‘Buy Online, Pickup In-Store’ has also established itself as a convenient hybrid of online and brick-and-mortar shopping, which will lead to it becoming the norm.

‘Buy Now, Pay Later’ is another growing alternative payment option with high consumer adoption. ‘Buy Now, Pay Later’ allows customers to pay for their purchase in installments or over time, often with no interest or fees. Retailers like Nordstrom and Sephora are allowing customers to pay for items as inexpensive as a tube of lipstick in installments. With some retailers, you can leave the store with your item or order it online after putting a percentage of the purchase price down instead of paying the full price or putting it on your credit card.

One interesting thing to note is that the average number of transactions have declined while transaction size (average spend per transaction) is up. That’s because during the pandemic, people limited the number of times they went to the grocery store from a few times a week to maybe once, which drove up average ticket size. Consumers also bought more things from one store instead of going to multiple shops, also driving up average ticket size. Retailers should expect to see fewer transactions but higher transaction size moving forward.

How can merchants work with their banks to prepare for the post-pandemic future?

Merchants should actively seek guidance on recovering and reopening to help with business challenges, generating revenue, and accepting payments.

By starting conversations with their bank on how they can accept payments as their business needs change, they can more easily prepare for new trends like contactless or card-not-present payments, ‘Buy Online, Pickup In-Store,’ and ‘Buy Now, Pay Later.’ They should ask about contactless payment solutions, taking payments over the phone, online, or curbside, and how to keep up with technology. They should also ask about merchant relief initiatives and processing packages to offset initial processing costs as they look to rebound from impacts.

> **“ Contactless, mobile, and card-not-present solutions will be key to doing business and accepting payments, even in a post-pandemic world.**

Craig Jeffery
Managing Partner,
Strategic Treasurer

How has recent uncertainty impacted treasury departments specifically?

Treasury departments are putting significantly more time and focus on forecasting and modeling multiple scenarios. This helps them better understand their cash flow and capital requirements should their organization be hit again by an unexpected event.

However, it takes data and resources to constantly model multiple scenarios that incorporate the latest data. If you're trying to do it all in a spreadsheet, it's really hard to keep updating everything every day. It's almost impossible to do it without technology when you're talking about a daily or a weekly update on three or four cash flow models.

What should businesses be expecting from their banking partnerships to make that process easier?

Beyond the traditional requirements of liquidity access and capital access, businesses should expect their banks to provide all the services they need, whether in-house or using third-party services, to gain efficiency, reduce fraud, and allow the organization to scale.

Perhaps as importantly, businesses are looking to their banks for new ideas. They know bankers see companies in similar industries, and with similar levels of complexity, and expect them to bring that insight to bear. A strong banking relationship is no longer measured in how many calls you get from your bank over the course of a year, but the quality of those calls.

What types of ideas are treasury teams looking for?

A bank may reach out to provide insight into fraud prevention, such as what you need to do from a system perspective or staff training needs. New thinking about payment processing efficiency and scalability are also of critical importance as businesses shift to a remote work environment. Liquidity management, working capital optimization, controls and security, and staff development are all key topics of discussion between bankers and the businesses they serve. Bankers have the opportunity to bring their unique insights, gleaned from talking to so many businesses each day about challenges and best practices.

> “ **Beyond the traditional requirements of liquidity access and capital access, businesses should expect their banks to provide all the services they need, whether in-house or using third-party services, to gain efficiency, reduce fraud, and allow the organization to scale.**

Cris Sigovitch
Senior Vice President,
Treasury Management,
People's United Bank

How are businesses preparing for the future of their treasury function?

While no one entered 2020 expecting a pandemic, many of our customers were relatively well prepared for operating their treasury function in case of an interruption. For other organizations that weren't as prepared, it was initially a scramble to figure out how to continue to operate, make payments, and receive funds. Since then, most have had the opportunity to take a step back and think more strategically about how they plan to operate in a scalable way in this new hybrid environment, no matter how long it lasts.

To prepare for the future, they are looking at the changing demands of their customers and suppliers today. This can help them identify which demands will be permanent so that they can be addressed. Right now, we're advising clients to start identifying their treasury pain points, if they have any, so they can begin to solve them before they face another business disruption.

What challenges do these businesses face in overcoming their pain points?

For many of them, they simply don't know what they don't know. As their bank, it's our job to be proactive and bring them ideas about handling payments more efficiently and securely.

For those customers who do know what they need to do, it often becomes a matter of prioritizing their many initiatives in the face of all the competing projects and demands that can vie for a treasury team's time.

How can you help them prioritize things like AP and AR automation?

For some, it's purely a financial decision, so we try to demonstrate the ROI of any solution they're evaluating. For others, it could be a fraud mitigation or other preventative solution that is seen as a must-have. It's about understanding the specific needs of the individual customer so we can help them find the solution that will achieve the maximum benefit.

Sometimes it's not always obvious. For example, we were recently speaking with an organization with a manual accounts payable process that required all checks over $10,000 to be signed by the CFO, with anything over $100,000 required to be reviewed by the CEO. As we started to explore an accounts payable automation solution with them, we discovered that their existing process was, on the surface, relatively low-cost to operate. However, there were other hidden costs to their manual, paper-based process that they weren't factoring in, such as the increased risk of fraud, a lack of visibility into spend, and a slow disbursement process that can put them at a disadvantage with suppliers.

By helping them understand both the soft costs and the hard costs of their process, we were able to provide recommendations that weren't just about ROI, but also other businesses advantages, such as accessing cash more quickly, reducing fraud risk, gaining the ability to win more business from customers by making it simpler for them to pay for goods and services, or freeing up credit lines so they can buy more product.

> “ **It's our job to be proactive and bring them ideas about handling payments more efficiently and securely.**
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> **For those customers who do know what they need to do, it often becomes a matter of prioritizing their many initiatives in the face of all the competing projects and demands that can vie for a treasury team's time.**

Ron Shultz
Executive Vice President,
New Payment Flows,
Mastercard

What was the impact of the pandemic on business payment processes?

The pandemic created a shock for many accounts payable and accounts receivable departments when they were sent to work from home and realized they couldn't go to the office to open mail, write checks, or reconcile invoices with purchase orders by hand. That's because commercial payments have really lagged behind consumer payments over the years when it comes to the adoption of technical innovations to improve speed, transparency, efficiency, and security. Even now, you still see a lot of paper, manual processes, and fragmentation when it comes to payment types, invoices, and players in the ecosystem. It's brought to light the need to replace letter openers and rubber stamps with digital solutions.

How will business payment flows evolve from here?

Many new tools, platforms, and payment rails are coming online that will bring capabilities to corporates and small and mid-sized businesses in ways that weren't possible in the past, such as applications that leverage new real-time payment rails and traditional rails.

As we build products and partnerships at Mastercard, one area of focus for us in business payments is the need to marry the payment with the relevant data to simplify the reconciliation required to match payments with invoices. It's critical that this remittance data is sent in the right format, at the right time and in the right place.

That's because often the data is almost as valuable as the payment itself. Finance teams on both the buyer and supplier side spend too many hours processing paper, chasing payments, and reconciling payments. We're focused on bringing products to market that remove this friction and enable automated reconciliation as often as possible. Ultimately, this empowers teams to work more efficiently and helps ensure that critical financial data is accurate and up to date.

How will changes in payments impact buyer and supplier relationships?

Over the years, there's been a tug of war between buyer and supplier over who has more leverage, and therefore, who dictates what payment types and terms will be used in a transaction. As we get more choice in payments, companies that can provide options will have a competitive advantage. Eventually, we'll see a shift toward choice that enables both the buyer and supplier to make and accept payments using their preferred methods.

> “ **Even now, you still see a lot of paper, manual processes, and fragmentation when it comes to payment types, invoices, and players in the ecosystem. It's brought to light the need to replace letter openers and rubber stamps with digital solutions.**

Discover more about transforming your bill pay experience at People's United Bank's treasury management resource center.

www.peoples.com/getstreamlined

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