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The Treasurer's Guide To AR Payment Optimization

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How creating space for paper checks can help push businesses toward B2B payment digitization

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Acknowledgment

The Treasurer's Guide To AR Payment Optimization was done in collaboration with CheckAlt, and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the following findings, methodology and data analysis.

What's Inside

Businesses' day-to-day operations have undergone monumental shifts over the last year, especially as remote work pushes more firms to rely on digital technologies. Firms have had to work swiftly to augment their business and consumer payments to meet their clients' and customers' changing needs as digital interactions began to supplant brick-and-mortar sales. Companies' business-to-business (B2B) payments processes have experienced some of the most noticeable changes, with more firms adopting electronic methods, such as automated clearing house (ACH) transfers, to avoid the frictions associated with paper-based, manual options. B2B payments **sent** via ACH are expected to total $9 trillion in the United States and $27 trillion globally by the end of the year.

Many companies are also turning to digital invoices and other virtual tools to optimize their accounts payable (AP) and accounts receivable (AR) processes in an increasingly virtual business world. Recent PYMNTS **data** showed that roughly 66 percent of companies are receiving clients' payments digitally, for example, while another **study** found that 59 percent of the firms that still use manual AR processes plan to take said processes digital.

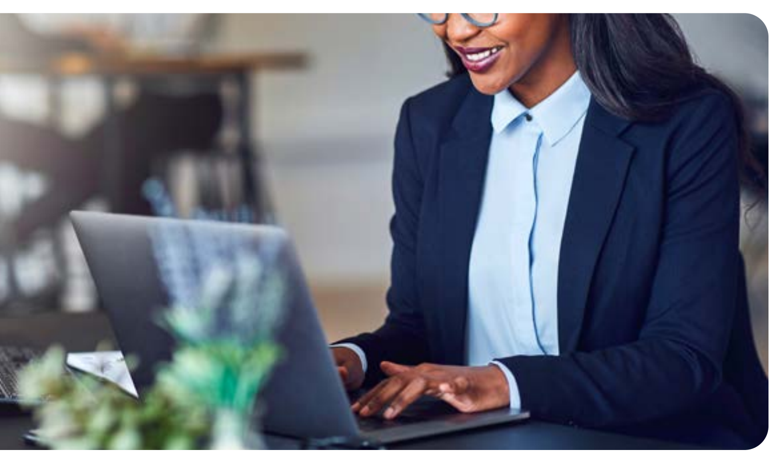
Even as companies move to digitize their B2B payment processes, many are still using paper checks to conduct much of their business. Some industries are still highly paper-driven, such as the health insurance space, for example. Paper checks are expected to represent 45 percent of U.S. B2B payments in 2021, making it clear that many businesses are still fond of the method.

The inaugural Treasurer's Guide To AR Payment Optimization, a PYMNTS and CheckAlt collaboration, examines emerging B2B and consumer payment trends, including why paper checks still represent a robust portion of the B2B payments atmosphere. This edition will also analyze how companies can incorporate emerging technologies to optimize their payment methods in ways that allow them — and their partners — to continue utilizing paper checks both for consumer payments and for their B2B payment processes.

Around the B2B payments optimization world

Paper checks still represent a significant portion of global B2B payments, but the companies in the space continue to move rapidly toward digitization. One recent **study** found that 60 percent of firms are shifting away from manual payments and adopting electronic methods, for example, with the last year's move to hybrid models and remote work greatly accelerating firms' digital payment shifts. Many companies are keeping digitization top-of-mind as they aim to reduce payment processing costs, improve cash forecasting and achieve faster settlement speeds, which were all listed as top reasons for companies to move past paper-based payments.

Many companies moving to digitize their payments processes lack the employees necessary to do so, even as closing this skill gap is becoming critical to helping them overhaul their friction-filled manual B2B payment cycles. It takes an average of 11 hours for most companies to **finalize** a single paper invoice, and the average team size required to complete the process is 15 employees. Reducing this complexity is imperative for companies looking to compete in an more digital B2B payments world, which has made finding knowledgeable partners or technology providers a must.



B2B payment volumes are expanding annually, with such payments **expected** to value $20 trillion globally by the end of the year. This is putting even more pressure on companies — especially small to mid-sized businesses (SMBs), which often struggle to reduce costs and make faster payments — to optimize their payments and streamline their AP and AR processes. Tapping technologies such as artificial intelligence (AI) is one way in which companies can keep pace with B2B payments' growth, and global AI investment is expected to hit $22 billion by 2025. Businesses worldwide must carefully analyze how advanced technologies such as AI — alongside emerging digital payment innovations — can help them optimize their own payment processes.

For more on these stories and other B2B payments optimization headlines, read the News and Trends section (p. 10).

How to drive check-reliant companies to take their first steps toward B2B payment digitization

Businesses had to adjust quickly to keep their operations running smoothly during the past year as brick-and-mortar offices and locations shuttered, but these events did not convince all of them to give up the methods on which they have historically relied for their B2B payments. Paper checks remain a thriving part of the B2B payment space, but the past year's developments have made it clear that these firms cannot ignore the need for innovation that empowers them to send and receive funds in a digital-first environment. Persuading these companies to digitize their B2B payment operations is therefore a priority for FIs and other payment partners. In this month's Feature Story (p. 7), Jim Gifas, head of treasury and payment services for **CIT Bank**, explains why many businesses, especially smaller-scale entities, are still clinging to paper checks for their B2B payments. Taking that reliance into account is key to generating the trust necessary to prompt these firms to take their first steps toward payment digitization.

Deep Dive: Why considering paper checks is key to B2B payments optimization

The pandemic is shaking things up for firms around the globe, with many now completing their daily tasks and payment processes digitally rather than in person. Many firms are hunting for solutions to help them optimize their AR and AP processes to suit their new digital needs, but this does not mean that they want to completely abandon a familiar B2B payment method: paper checks. This month's Deep Dive (p. 15) analyzes why the so-called "death of the paper check" has been exaggerated, why businesses are still tapping the payment method and how firms can continue

Executive Insight

What are some of the challenges businesses that remain reliant on checks for the majority of their B2B payments face? What payment methods, tools or other technologies can be employed to help wean these companies away from checks without adding undue frictions or costs?

"There are three key challenges businesses still reliant on checks for most B2B payments face on a daily basis: speed, accuracy and efficiency. When a business sends an invoice, [its] top priority is receiving payment on that invoice quickly, correctly and in a way that simplifies operations. Check payments affect all three challenges, regardless of whether they are handwritten by the payer or initiated from an online bill payment.

Checks are carried and delivered via snail mail to an AR vendor that merges all payments for deposit into the business's bank account. Naturally, that is a long process, taking at least 30 days or more. If a business is not using an AR vendor, then they are dedicating resources to handling those checks themselves, researching the payments and manually matching them to open invoices. That is hugely inefficient and opens the door for errors such as inaccurately keying payments into an ERP.

These businesses should seek an AR vendor that provides speed, accuracy and efficiency in processing check payments, has direct core connections to simplify pushing and pulling payment data through ERPs, such as QuickBooks and RentManager, and can help convert check payments to electronic [ones] with automation and APIs."

Bobby Rahmanian
Chief product and innovation officer
CheckAlt

5 FIVE FAST FACTS

66%

Portion of firms that are now receiving B2B payments from clients digitally

59%

Segment of firms that rely on manual AR processes but are planning to transition to digital ones

81%

Share of companies that make most of their B2B payments via paper checks

49%

Portion of businesses that cite manual processes as their biggest AR pain point

70%

Share of companies that plan to integrate some form of technology into their AR processes

Feature Story

HOW CREATING SPACE FOR PAPER CHECKS CAN HELP PUSH BUSINESSES TOWARD B2B PAYMENT DIGITIZATION

The past year's events have prompted businesses to make digital shifts in their B2B payment processes, but that does not mean that all of them are prepared to entirely relinquish traditional methods, such as paper checks. Smaller companies in particular may continue to cling to paper checks because their B2B payment systems are still optimized for these manual methods, Jim Gifas, head of treasury and payment services for **CIT Bank**, explained in a recent PYMNTS interview.

"Paper payments continue to be widely used among small to mid-sized vendors, largely because their systems are not usually set up to accept electronic payments," he said. "Unfortunately, paper payments often mean higher processing costs and payment delays."

Providing businesses with the tools or skills they need to upgrade to electronic B2B payment methods is therefore a priority for FIs. This requires setting the stage for these companies to accept ACH or other forms of electronic payment while leaving room for their trusted paper check methods.

Paper checks' stickiness in a digital-first B2B world

Businesses that are still reliant on paper checks for the bulk of their B2B payments were already at a disadvantage before the events of the past year made manual or in-person operations close to impossible. The rush to remote work driven by the global health crisis created more of an impetus for companies to reexamine manual processes, but it did not remove the challenges that have long kept these firms from making the digital switch in the first place. It can be especially difficult to persuade smaller firms to commit the money and time it takes to digitize their B2B payment processes if their suppliers remain unconvinced of electronic methods' merits, for example.

"Overall, businesses are navigating a more dynamic and digitized environment and have had to shift their priorities and processes," Gifas observed. "When it comes to upgrading B2B payment processes and moving to automating payments, our clients face challenges, like updating systems, training staff and supplier enablement. Enabling suppliers to accept electronic payments has been an ongoing challenge because many of their systems are not set up to accept these types of payments."

FIs are thus forced to create solutions that allow for businesses' continued use of paper checks while highlighting the benefits — and eventual necessity — of digitization for effective operations. CIT Bank tackled this conundrum by developing an online banking platform that supports a variety of integrated payment methods, including ACH as well as remote deposit capture. Offering this flexibility is an important way to keep businesses engaged as they relax their grip on paper checks. The bank is also moving to invest in other technology solutions as they emerge, including automation, which currently powers solutions such as the bank's C-VendorPay product for digital business workflows, Gifas added.

"We stayed focused on delivering a more integrated set of banking solutions that drive value to our clients' businesses, recognizing the challenging environment they were in," he said. "Notably, over the last year we continued our investment in technology solutions that enable our customers to manage their business digitally, automate processes and prevent fraud."

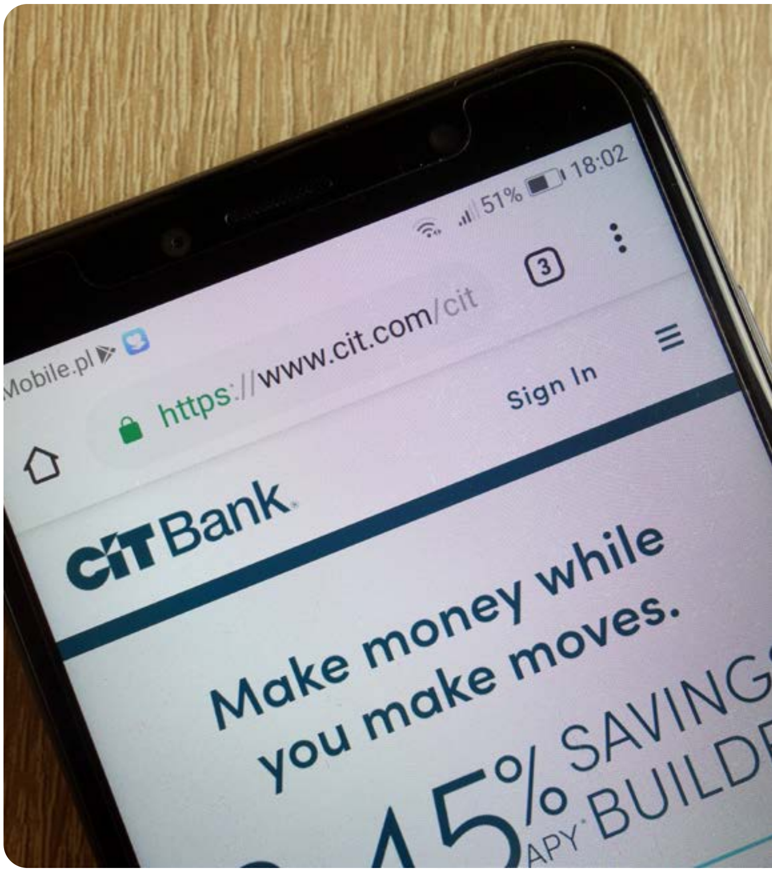
Adding automation into businesses' payables and receivables can help firms gain back the time and funds they need to keep pace with a digital-first, B2B payment environment. It is also imperative for FIs to earn the trust of their partner businesses if such technologies are to oust the enduring paper check, however. This makes robust and readily apparent fraud prevention especially essential.

Confronting fraud

Businesses that are only just now becoming convinced of electronic payments' advantages over those of their favored paper checks may need significant reassurance from their banking providers or other payment service partners to begin this transformation. This means finding digital-first B2B payment solutions that are not only swift but also secure.

"In addition to providing technology solutions that automate and digitize the payments process, we remain focused on fraud prevention and reducing risk," Gifas said. "With fraud on the rise with the pandemic, we work to educate and train our clients on how to reduce risk with payments."

The shift toward remote working and operations is likely here to stay, making it critical for businesses to send and receive B2B payments smoothly via digital channels. Tailoring traditional business processes to fit this expanding virtual world is a crucial first step to remaining successful, and companies and their financial partners must adjust accordingly.



News & Trends

CHECKS AND B2B PAYMENT OPTIMIZATION

Businesses accelerate plans for B2B payment digitization

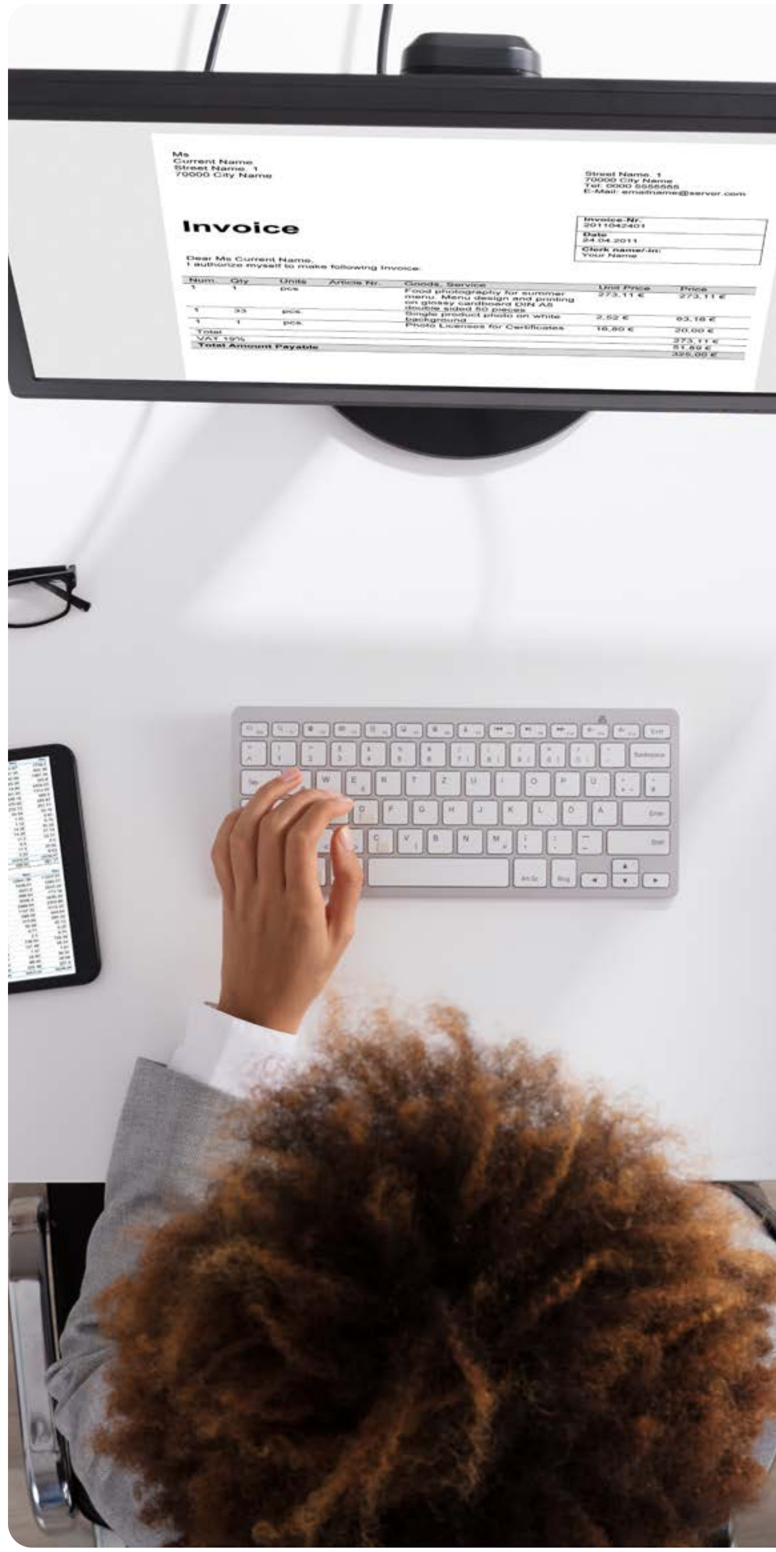
Businesses are taking steps to enable quicker digital payment processes as both their and their clients' needs shift. One-third of companies included in a recent **survey** stated that they use electronic methods for the bulk of their B2B transactions while an additional 60 percent claimed they are working swiftly to transition from paper checks to electronic payment methods. The last year appears to have upped many companies' desires to move their B2B payment processes online, with another **study** finding that the global health crisis has significantly accelerated many firms' B2B payment plans.

The former survey also revealed that companies cited several reasons for wanting to transition away from checks. Cost was the most cited factor, with 45 percent of businesses saying it was their top priority for overhauling their B2B transactions. Firms also valued improved cash forecasting and settlement speed, with 42 percent of companies claiming these as top concerns. Many companies remain fond of checks, however, and are seeking digital solutions that can help them streamline these payments and reduce processing costs rather than completely replace them.

Manufacturers increase B2B payment digitization efforts

One industry that is significantly hastening its B2B optimization plans is manufacturing. Ninety-five percent of manufacturers have begun working to **digitize** either their purchase order engagement with clients or the invoices they send to buyers, and doing so could help many of these firms gain transparency into their cash flows and reduce costs. Many businesses that are still relying on manual data entry to conduct these back-end processes lack a holistic understanding of the associated costs, which average $1 million annually. This can prove to be a significant drain on companies' finances, explaining the appeal of B2B payment optimization. Most business executives also believe that digitizing these transactions and their related processes can improve their understanding of their cash flows and cut down on their days sales outstanding (DSO).

B2B INNOVATION CHALLENGES AND FUTURE PREDICTIONS



Barriers to education prevent payment innovation

Businesses worldwide are digitizing friction-laden B2B payment operations as the growing costs and complexities of manual AR and AP processes become more untenable. Businesses **spend** an average of 11 hours handling and finalizing a single invoice, according to some estimates, with approximately 15 employees participating in the process. Almost half of business cite overdue invoices as one of their top three challenges when attempting to run their operations smoothly.

Companies must address these hurdles to avoid driving up costs and creating cash flow frustrations, but doing so will require more than simply adopting digital invoices or payment processes. Many firms lack the skilled employees needed to innovate and manage their B2B payments processes, especially when it comes to building out electronic payment systems in-house. Solving this knowledge and skills gap will thus be essential for companies to achieve their B2B payments digitization goals.

Examining AI's shifting role in the B2B payments process

Steadily increasing B2B payments volumes are putting increased pressure on firms, even though many businesses — especially SMBs — still rely on time-consuming, manual B2B processes. One recent **study** found that U.S. SMBs spend a collective $2.7 trillion annually on AP processes, making it all the more pressing for them to reduce the time and costs associated with legacy payment methods. One technology that holds promise in this regard is AI, and businesses are becoming more interested in the technology as they pursue quicker payments.

Some reports predict that global AI investment will reach $22 billion by 2025, with companies turning to features like AI chatbots to remove some of the frictions in the B2B acquisition process. These bots can automate critical aspects of the B2B sales cycle often handled by human employees, such as creating invoices, providing buyers with product details and managing payments.

How automation could help businesses keep pace with cross-border B2B payments growth

Commerce is also becoming more global as more companies make or receive payments from partners or clients abroad. B2B cross-border payment volumes have actually **exceeded** those of business-to-consumer cross-border payments in recent years, and such payments are expected to continue growing. Staying on top of this growth is key for businesses in all markets, but firms must ensure that they can seamlessly accept numerous currencies or payment methods across geographies.

Incorporating back-end automation can help businesses coordinate and consolidate payments across multiple markets without adding undue friction for their clients and partners. Technologies that leverage blockchain could also prove helpful in this regard as distributed ledger solutions could likewise enable businesses to aggregate payments data. Examining which technologies will prove most useful for their operations will be necessary for businesses to compete in the global B2B market.

EMERGING PAYMENT TECHNOLOGIES

Businesses bank on digital payment transformation

Most companies expect digital transformation to become more of a priority in the future, with 72 percent of firms thinking that digital transformation will become more important over the next several years, according to recent **research**. Just 5 percent believe it will become less critical. Companies are turning to advanced technologies like AI and emerging payment methods to address their digitization needs, but they still face challenges in tapping these tools to their fullest potential. Ninety-three percent of B2B sales teams say they are failing to fully utilize the digital B2B payment software to which they have access, for example.

Several factors are behind companies' struggles to make the most out of their digital tools. One particularly glaring issue is that sales software often operates independently of firms' B2B payment management systems. Determining how to more easily aggregate payment data and processes onto one platform is emerging as a key consideration for these companies.

Why businesses must examine the potential of eChecks

eChecks are coming to the fore as a compelling solution for firms looking to take their B2B payments operations digital. One **study** found that eChecks can reduce payment processing expenses by as much as 60 percent, making them ideal for smaller businesses looking for digital alternatives to paper checks that are less pricy than credit card solutions. This also makes them more intriguing for businesses making large-scale or recurring payments online as firms can verify these payments electronically, adding security.

eChecks still come with their own frictions, however, including the fact that they can take days to clear. They can nevertheless fill a critical need for many B2B companies — as long as they determine how best to integrate the technology into their payments operations to satisfy clients' or vendors' demands.

Business leaders look to real-time payments for the future

Real-time payments are also becoming more intriguing for firms, with nine out of 10 companies **stating** that they would like to adopt them in the future. This desire grows as The Clearing House expands the availability of its RTP Network in the U.S. and as the Federal Reserve continues to plan its network, FedNow, which is set to launch by 2023. Many companies expect these networks to profoundly shift how B2B payment transactions are managed, with 81 percent of business leaders stating that they anticipate real-time payments to have a dramatic impact on businesses over the next several years. Real-time payments could also be paired with other emerging tools and payment solutions to provide greater transparency and improved cash flows for businesses. These include automated technologies or digital dashboards that can help firms track invoices, outstanding payments and other expenses.

Deep

Dive

WHY PAPER CHECKS STILL FACTOR INTO B2B FIRMS' PAYMENTS OPTIMIZATION PLANS

Companies worldwide have been moving toward B2B payments digitization for decades, with many anticipating significant changes to how businesses operate as well as an increased abundance of digital payment methods in the years ahead. Eighty-one percent of business professionals **expect** the growing availability of real-time or 24/7 payments — electronic transactions that can be made or received at any time of day — to "dramatically transform" how business is conducted. Other studies point to the increasing prevalence of digital payment methods like ACH, which is quickly becoming the payment method of choice for some companies.

These developments do not mean that traditional, paper-based payment methods have fallen completely out of favor, though it is true that businesses in most industries — with some outliers, such as those in the health insurance space — no longer rely on paper checks or manual invoicing to the extent that they once did. Paper check use accounted for 81 percent of U.S. B2B payments in 2004, for example, but they represented just 42 percent of such payments by the end of 2019. **Data** from a March 2020 PYMNTS playbook found that 81 percent of businesses still pay other firms via paper checks, however, making it the most common B2B payment method, even amid companies' pandemic-driven digitization efforts. Another **study** found that, while check payments' overall volume is declining, the average value of typical paper check payments is increasing, rising from $526 in 1998 to $2,600 by the end of 2020.

Transitioning away from paper checks can also be a challenging and gradual process for companies, particularly SMBs, and this is leading some firms to examine how they can move toward B2B payments digitization while accommodating the manual payment process to which they are accustomed. The following Deep Dive examines why the "death of the check" has not yet come to pass as well as how businesses can continue to digitize and optimize their payments processes while making space for the check payments that many clients and partners still use.

How the pandemic accelerated manual payment friction

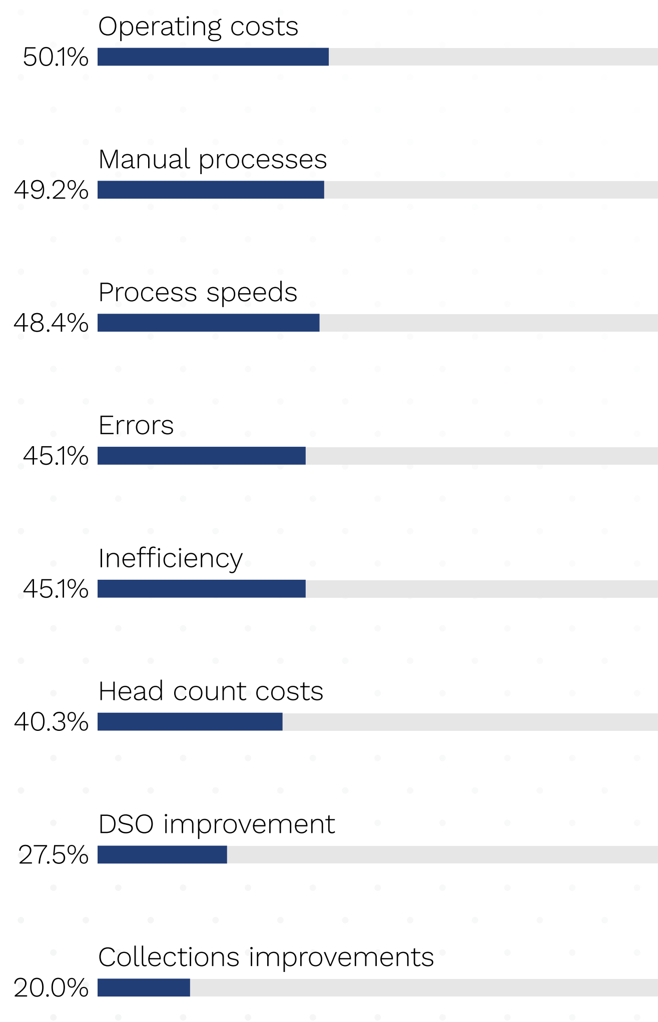
Numerous business professionals have foretold the death of the check for decades, but the payment method remains an essential part of the B2B payments process for many companies. Firms today rely on paper checks for several reasons, including the simple fact that many firms are more familiar with the payment method and likely to utilize it despite its friction points. Many companies' traditional AR and AP processes are designed to accommodate all aspects of paper check payments, making it difficult for some to shift to entirely digital B2B payments.

Despite paper checks' foothold in the B2B payments space, many companies — specifically SMBs — are beginning to struggle as the payment method grows more costly and complicated to maintain. One **report** found that it can cost SMBs $22 on average to process a single paper invoice, for example. The costs and other pain points related to checks and paper invoices have only increased since the pandemic began, with a September 2020

Figure 1:

Main points of stress in businesses' AR processes, by pain point

Share of businesses that cited each point as an AR problem area



Source: PYMNTS.com

PYMNTS **study** revealing that more than 49 percent of businesses cited manual processes as one of their most critical friction points within their AR processes.

Companies are therefore examining how to integrate automation technologies and other tools into their B2B payment processes to remove key friction points and reduce costs.

Eighty-three percent of businesses have **made** their AR processes digital in some capacity over the last year while 70 percent plan to implement technology to optimize their AR processes within the next few years. Businesses are undoubtedly beginning to reexamine their B2B payment strategies as their needs shift, but it is important to note that not all of these companies wish to ditch paper checks entirely.

Changing the paper check conversation

A multitude of companies interested in B2B payments optimization have nevertheless been reluctant to completely relinquish their use of checks. Paper checks still **represent** a hefty $21 trillion that moves through the U.S. economy each year, and some experts estimate that 40 percent of all B2B payments in the market are still made through this method, meaning they play a critical role for a large share of businesses.

Businesses still view paper checks as a trusted B2B payment method, and its continued popularity demonstrates this. Rather than replacing checks entirely, a growing number of businesses are beginning to incorporate digital methods into the mix alongside the check-based options with which they are familiar. The current B2B payments environment requires firms to fundamentally rethink their approaches to payments optimization to ensure that their newer digital solutions can coexist with long-established methods like paper checks.

About

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PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

checkalt

In the past 10 years, **CheckAlt** has become the leading provider of check payment processing solutions for hundreds of financial institutions across the country. Both channel agnostic and demographic agnostic, CheckAlt is uniquely positioned to process all payment types. It has been our focus to process check payments while also eliminating paper from the system with robust electronic payment APIs. CheckAlt's solutions include lockbox processing across a nationwide hub-and-spoke network of processing sites, consolidated item processing, integrated treasury solutions and mobile capture services.

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