eCatalogs and cards can optimize your B2B payments

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eCatalogs and cards—streamline the entire requisition-to-payment process to optimize your B2B payments

eCatalogs and cards can help eliminate many inefficient requisition and AP processes, reduce costs and risk, and increase working capital—while generating more rebate revenue, value for end users, and greater revenue for suppliers

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$1.1T

By 2020, B2B ecommerce sales in the U.S. are predicted to surpass $1.1 trillion, making up more than 12% of total B2B sales.[1]

Executive summary

Organizations have been purchasing supplies and other goods from internal eCatalogs since the 1980s, built and hosted by themselves. Companies dedicated this time and expense because the value to the organization—supporting manufacturing, production, planned maintenance, and inventory management—justified the investment. The arrival of the Internet and eCommerce in the mid-1990s led service providers like Ariba to connect multiple buyers and sellers electronically and bring even greater efficiency to B2B transaction processes using "third-party" eCatalogs.

Today, cloud computing and other technologies make eCatalogs, and electronic payments, one of the most sensible ways to manage high-volume, low-risk B2B transactions. Underscoring this trend, B2B eCommerce transactions in the U.S. have grown nearly 40 percent in just the past three years—from $559 billion in 2013 to an estimated $780 billion by the end of 2015. Furthermore, 74 percent of B2B buyers now research, and 30 percent buy, at least one-half of their work purchases online.[2] eCatalogs not only bring streamlined requisition-to-payment (R2P) processes to internal customers' and accounts payable (AP) functions—for suppliers they help optimize cash flow, speed payment, and generate more revenue from more loyal buyers.

While companies are beginning to recognize the value of eCatalogs—optimizing where and how they buy—many are missing the full operational and financial benefits of eCatalogs by omitting virtual cards to make payments. This failure to go the "last mile," likely due to the lack of alignment between procurement and AP, is causing companies to miss full end-to-end process efficiencies and cost reductions.

This paper discusses the benefits of fully optimizing the entire requisition-to-payment value chain by optimizing card payments. The business impacts of looking at the whole picture can be significant: eliminating many inefficient requisition and AP processes and costs, and potentially increasing rebate revenue.

The requisition-to-payment life cycle: how much is your organization leaving on the table?

CFOs recognize AP as the most labor-intensive, inefficient, and expensive back-office function of their organization. Yet they also realize that when automation is harnessed to provide transparency into cash management flows, AP can offer the greatest opportunity to extract value.

Yet only 29 percent of companies have fully automated their AP functions.[3] So 7 out of 10 organizations are traversing the traditional 15-step journey from requisition to payment, at an average cost of $90 per purchase order (see Figure 1).[4] Their suppliers are none too happy about this either, as the traditional PO-to-invoice process can cost them nearly the same amount. How much money are *you* leaving on the table? Moving expensive transactions to lower-cost channels can deliver significant savings. And that's why 60 percent of CFOs plan to increase investment in AP automation in 2017.

600K

A consumer healthcare company with eight main demand fulfillment channels and 27 sub-channels found that a third of its spending passed through an ad-hoc request channel—generating 600,000 invoices a year.[5]

Chief procurement officers (CPOs) are also keen to drive efficiencies. Pursuing their own tactics (such as outsourcing, offshoring, and streamlining processes), they are big proponents of eCatalogs. eCatalogs not only make the procurement process easy for their internal customers while eliminating buyer activities, they also help control spend and extract maximum commercial value at the lowest cost.

Channel management: the best strategy for optimizing B2B commerce

When corporate buyers obtain products or services from a vendor, the procurement flows through demand fulfillment channels—the "plumbing," if you will—from end-user to supplier. This journey varies tremendously in time, effort, and cost, depending on the channel it passes through. We see traditional requisition-to-pay process cost benchmarks of $90 per PO, with costs to the supplier likely the same. But complexity and costs per PO vary by channel, and can range from $60 to over $1,000 per PO, based on Paytech Commercial client experiences.[4] Given the wide range of costs per PO per channel, it's extremely important that transactions be processed through the channel that reflects the appropriate complexity or risk for the good or service being purchased.

Channel management is a powerful yet easily understood way to align all stakeholders in your organization (end users, procurement, finance)—as well as suppliers—with common goals, metrics, and methods that work across business units and geographies. Channel optimization enables procurement and accounts payable's goals to be aligned. And when the invoice-to-settlement process is streamlined by commercial payment solutions, efficiencies and new opportunities for value are realized, meeting your objectives organization-wide. The benefits extend to your suppliers as well, motivating them to integrate into your streamlined R2P value chain. One of the most promising drivers of B2B eCommerce's high ROI is the eCatalog.

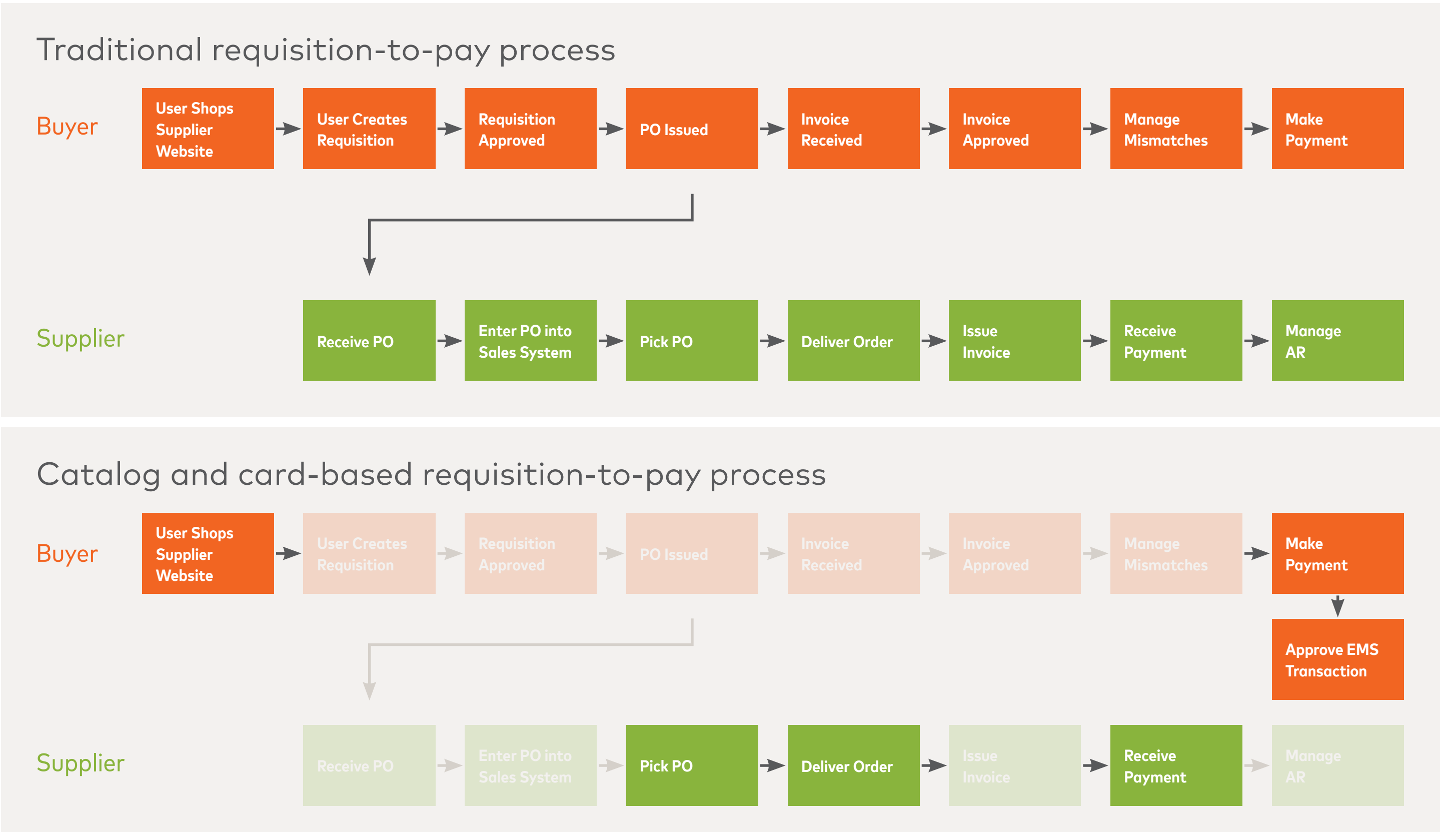
eCatalogs: optimizing the potential of B2B commerce

Commerce has been conducted by ordering from catalogs for centuries. Anything with a rate card or a negotiated price and a fixed description can be cataloged for easy ordering. The benefits are well understood: both buyer and seller gain a common language for commerce, with shorthand expressions for easy reference (such as part numbers), and suppliers can sell to many buyers via a single, consistent vehicle.

Now the web has revolutionized the purchasing process, as numerous other online enterprises such as Amazon have amply demonstrated. And the experience we all have as consumers is becoming increasingly available to the corporate purchaser. Indeed, B2B commerce, with advanced commercial payment solutions, offers even greater ease, security, speed, and certainty. The eCommerce capabilities of many suppliers are becoming increasingly sophisticated and key to their overall business success. Websites have evolved rapidly from the early "online brochures" sites to today's content-rich business engines with shopping carts an card payment acceptance—delivering end-to-end, requisition-to-pay automation.

FIGURE 1

eCatalogs and virtual cards eliminate much of the effort and expense of traditional B2B transactions



41%

Industrial supply company W.W. Grainger says it sold $4.1 billion online during 2015—41% of total sales of $10 billion.[6]

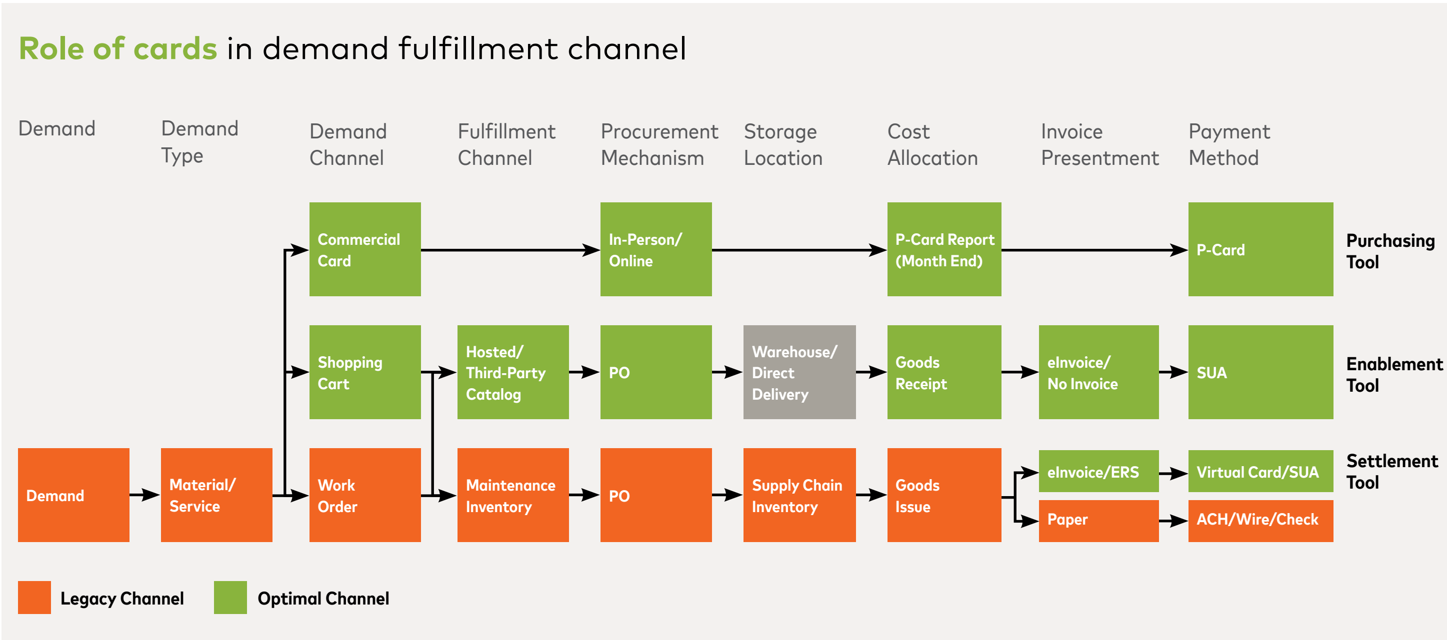
The evolving role of cards

Physical plastic commercial cards have long been used by organizations to facilitate large volumes of relatively low-value spending—in the form of a T&E card, purchasing card (p-card), onecard, or meeting card. Typically used where the buyer is physically present to initiate the purchase, physical cards as a purchasing tool bring desired controls and efficiencies to the purchase of office supplies, MRO supplies, and travel-related expenses, for example.

Since the introduction of physical purchasing cards, numerous innovative enhancements have been made to commercial payments. Today's virtual cards streamline corporate payments and provide spending controls and enhanced data to help simplify reconciliation and accounting processes. However, many organizations think of virtual card numbers as "ghost" cards, lodged with a supplier for small purchases made without a purchase order. But when used optimally, single- or multiple-use virtual accounts offer robust transaction-level authorization controls, enabling you to define how, where, and when accounts are used. Integrated into the R2P workflow, virtual cards increase AP efficiency and optimize cash flow and revenues from program incentives (see Figure 2).

FIGURE 2

Physical and virtual cards help optimize the entire demand fulfillment channel



As a settlement tool, commercial cards can take the non-physical form of a virtual card. Their advantage is in enabling settlement of purchasing transactions without requiring changes to existing purchase order or invoice approval processes. The virtual card as a settlement tool is best applied to higher-value transactions, typically small in number from a small number of suppliers, to support production and operations.

The virtual card as an enabling tool

Aside from its roles as purchasing and settlement tool, virtual cards can have the greatest impact on an organization's bottom line as an enabling tool. Where there are a large number of transactions comprised of many individual manual orders, the virtual card, especially when used as a single-use account (SUA), streamlines the entire R2P process, better aligns the objectives of procurement and AP, and by enabling automated matching, virtually eliminates the need for accounts payable. And suppliers will be motivated to accept virtual cards, because the net gains to them more than offset the cost of acceptance.

FIGURE 3

Both buyer and supplier goals are fulfilled by virtual cards

Buyer benefits	
End Users	• Clear path to demand fulfillment • Direct access to suppliers • Superior sourcing support when needed
Procurement	• Lower organizational costs • Ability to make earlier payments and maintain terms to corporate
Finance	• Greater control • Reduced risk • Enhanced data • Automated reconciliation
Treasury	• Increased working capital • Improved float

Supplier benefits	
Sales	• Ease of getting paid • Ability to receive earlier payments • Access to new corporates/new business • Buyer loyalty
Finance	• Increased working capital • Early revenue • Streamlined reconciliation and reporting • Process efficiency savings
Accounts Receivable	• Greater control • Reduced risk • Enhanced data • Automated reconciliation • Reduced disputes
Treasury	• Increased working capital • Improved on-time payment certainty

Catalogs and cards: stronger together

The supplier-hosted eCatalog, powered by a virtual single-use account (SUA), is the optimal R2P channel. By creating a controlled, user-friendly consumer-type environment of negotiated, preselected items, risk is mitigated entirely—aligning procurement and AP objectives. The benefits to buyers are easily demonstrated—in our experience, reducing R2P costs significantly—yet suppliers may not readily understand the overwhelming advantages to them as well:

Greatly streamlined R2P process – Key suppliers struggle to handle dozens of POs per day, requiring them in turn to send even more invoices each day. The burden on staff can erase much of a supplier's profits, or drive up the buyer's costs in the form of higher prices.

Buyer loyalty – When the procurement process is fully optimized by employing a supplier eCatalog, the buyer will naturally consolidate and reduce its supplier base and buy more from those vendors whose inventory in available through eCatalogs.

Improved DSO – Shared data, integrated procurement and fulfillment, and automated processes all work to speed payment to suppliers.

Savings outweigh interchange – The elimination of time-consuming, expensive R2P processes saves the supplier far more than the small cost of card interchange—resulting in a net boost to supplier profitability.

Lower interchange – Key suppliers are very likely to benefit from lower card processing fees.

Reduced disputes – When SKUs and prices are clearly defined and understood by buyers and suppliers, disputes over requisitions nearly disappear.

3/4

77% of companies employing best-practice electronic accounts payable (EAP) processes report that their suppliers receive a lower large ticket interchange rate.[7]

The process efficiencies of supplier-hosted eCatalogs

Buyers

- Supplier maintains catalog content, eliminating catalog management effort for buyer
- Buyer retains final approval for variety and pricing
- Purchase order accuracy is assured because supplier's part numbers identify required items
- Master data requirements can be limited to essential/critical items
- AP processes are streamlined and settlement and cost allocation automated

Suppliers

- Common data file formats make integration between member buyers and suppliers easy
- Data exchanged is in standard format and of consistent quality
- Buyer is using supplier product codes so fulfillment errors are greatly reduced
- AR processes are streamlined, no invoices are required, and settlement is accurate

Illustrative case study

Consumer healthcare company

Situation

A large consumer healthcare company purchased large volumes of materials from a supplier, predominantly using procurement software. Every day of the year, the buyer typically:

- Issued 1 PO every hour
- Received 3 invoices/hour
- Made 10 payments/day

Solution

PayTech analysis determined that if the buyer implemented eCatalogs with this eCommerce-savvy supplier and paid with a single-use account (SUA), it would eliminate 25,864 invoices per year from this single supplier.

Results

$4.8M/Year

The buyer could achieve savings and value of $4.8 million annually due to lower R2P costs, increased rebate, and improved commercial terms, and the supplier would enjoy significant process efficiencies as well.

Want to optimize B2B commerce? Consider this checklist:

- Do you have a high volume of low-value transactions?
- Have you implemented eCatalogs, but the effort stalled?
- Do you already have a purchasing card program?

Then you have everything needed for success. No new software, tools, or investments are needed to optimize your B2B payments.

If your organization would like to optimize your payment processes, we recommend you take advantage of a complimentary 1:1 consultation with PayTech.

30%

An energy company identified four suppliers with eCatalog capability that together represented 30% of total PO volume for 2015.

About Mastercard® and PayTech

Mastercard is a technology company in the global payments industry. We operate the world's fastest payments processing network, connecting businesses, consumers, financial institutions, merchants, and governments in more than 210 countries and territories. Mastercard products and solutions help make everyday commerce activities—such as traveling, running a business, and managing finances—easier, more secure, and more efficient for everyone.

PayTech Commercial AS is a global advisory firm specializing in B2B payments supporting end user clients globally in private and public sectors with change management (cost of change vs. value of change) support; B2B payments strategy and benefits case realization; RFI/RFP construction; downstream implementation support; and global market dynamics awareness/validation workshops. PayTech supports bank issuers with B2B sales workshops; P2P/R2P success; sales training/role play simulations; account management scorecard development; sales score modeling, strategy, and pre-qualification; and market research and reports.

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2. Forrester Research, The Forrester Wave™: B2B Commerce Suites, Q2 2015.
3. Institute of Finance & Management, TheFive Enterprise Benefits of Migrating to Electronic B2B Payments, sponsored by Mastercard, 2016.
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5. Unless otherwise noted, all performance data is drawn from PayTech Commercial AS client benchmarks.
6. https://www.b2becommerceworld.com/2016/01/26/e-commerce-accounts-41-grainger-sales-2015.
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