

B2B PAYMENTS AUTOMATION

INNOVATION

PLAYBOOK

January 2019

The **B2B Payments Automation Innovation Playbook**, in partnership with Mastercard®, examines survey data collected from nearly 400 financial decision makers in more than 12 industries. Our findings provide a comprehensive overview of automation demand for automating payables in the B2B payments market, what's motivating or inhibiting business usage and how inhibition is set to change.

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KEY STATS

 **27%**

Portion of companies that have already implemented some form of **AP automation**

 **74%**

Share of companies that haven't adopted **AP automation** yet, but plan to do so within three years

 **54%**

Portion of **leading innovative companies** that have either implemented **AP automation** or are working to do so

 **72%**

Share of companies that intend to automate and also adopt **real-time payments** within three years

 **2.7**

Average number of payment innovations adopted by **middle-market firms** – higher than those for smaller and larger companies

 **41%**

Portion of **middle-market firms** that plan to adopt **real-time payments**, compared to 23 percent of large-market companies

**B2B PAYMENTS
AUTOMATION**
INNOVATION

PLAYBOOK

 **49%**

Share of **middle-market firms** that report using **ePayables**, compared to 35 percent of large-market companies

 **40%**

Share of **middle-market firms** that plan to increase their **ePayable and real-time payments** usage

KEY TAKEAWAYS

- Payments automation usually refers to automated payables and receivables, but it can also encompass a wider variety of operations. These often include invoice approval workflow software, cloud services and internet-based invoice and receipt submission, to name a few.
- There is a tremendous opportunity for market growth, as 59 percent of companies have yet to automate their systems in any way. This means that most businesses still have the chance to streamline their payments systems via automation offerings.
- Companies in the technology and banking industries are leading the payments automation charge. As much as 86 percent of them have already automated their payment systems, as have 45 percent of banks. These businesses can use their knowledge and industry expertise to help educate those in other sectors on the benefits of automation.

INTRODUCTION

Automation's benefits are readily apparent on modern assembly lines, which crank out goods at a much lower cost and require less manpower than in the past. But this automation revolution has yet to broadly impact modern accounting departments, and many still rely heavily on paper invoices and checks. This, at long last, appears to be changing.

PYMNTS, in partnership with Mastercard, has undertaken an in-depth survey and analysis of U.S. companies to better understand how the digital era is changing their B2B payment practices. The third edition of our series focuses on accounts payable (AP) automation. AP automation refers to a broad assortment of processes that use technological innovations to streamline payments and receipts, including invoice approval workflow software, cloud services and internet-based invoice and receipt submission.

AP automation offers concrete benefits, evidenced by the many businesses that have already automated – or plan to automate – their B2B payments processes. More than one-quarter have implemented some form of AP automation, and another 16 percent have begun the process. In addition, most of the companies that have not yet automated their AP systems intend to begin the process within three years.



That finding means many companies have yet to invest in any form of payments automation. This is where the opportunity lies, however, and the market has enormous growth potential on the macro level.

With so many businesses committed to AP automation, and so much to gain from doing so, the stakes are high. Companies that have not adopted automation can incur higher operating costs than those that have, and those costs cut into their margins.

B2B payments automation may be especially fruitful for middle-market companies with annual revenues between \$100 million and \$1 billion. These companies face more than just strong competitive pressure, though. Many of them have not yet invested in B2B innovations, so they also face the high costs of outdated B2B payment systems. Modernized offerings can help these firms keep their AP expenses in check.

40%

**of middle-market firms
plan to adopt real-time payments
in the next three years.**

By one recent estimate, many companies without automated AP systems spend five times more on each invoice than those that have implemented them.¹ Cloud-based, artificial intelligence (AI)-enhanced automation services could streamline and supercharge AP operations and eliminate the need for a large back office. Investing in these technologies can thus help medium-sized companies cut costs and simplify their payments operations.

Middle-market firms stand out as the most ambitious in their B2B optimization plans. Forty percent plan to adopt real-time payments within three years, compared to 23.5 percent of larger firms and 34.3 percent of smaller ones. It appears the middle market has the most action when it comes to AP automation and other avenues for B2B payments optimization.

¹ Wiggins, P. Metric of the month: Accounts payable cost. CFO.com. 2018. <http://ww2.cfo.com/expense-management/2018/02/metric-month-accounts-payable-cost/>. Accessed January 2019.



Automation on the rise



EMTg-3310-007
Characteristics
Rated Output 310
Rated Torque 1.337
Input 150-230
Current 2.3
Speed 4300
Weight 0.91

EMTg-123-01
3/4 view
DR89

| Item No. | Description | Quantity | Unit |
|-------------|-------------|----------|------|
| EMTg-123-01 | Motor | 1 | PC |
| EMTg-123-02 | Gear | 2 | PC |
| EMTg-123-03 | Shaft | 1 | PC |
| EMTg-123-04 | Bearing | 2 | PC |
| EMTg-123-05 | Bracket | 1 | PC |





Payments automation discussions typically focus on two specific features: AP and accounts receivable (AR). But many other operations can be automated as well, through features like invoice approval workflow software, cloud services and internet-based invoice and receipt submission, among others.

It is important to contextualize payments optimization as a broad concept that includes a wide variety of technologies and possibilities. What's more, it seems businesses are not letting the opportunity to leverage these technologies pass them by.

Automation stands out among recent B2B payments innovations because of the sheer volume of businesses that have invested in it. More than one-quarter of surveyed companies had already implemented some form of payments automation, and another 16 percent were working to do so.

MAIN TAKEAWAY

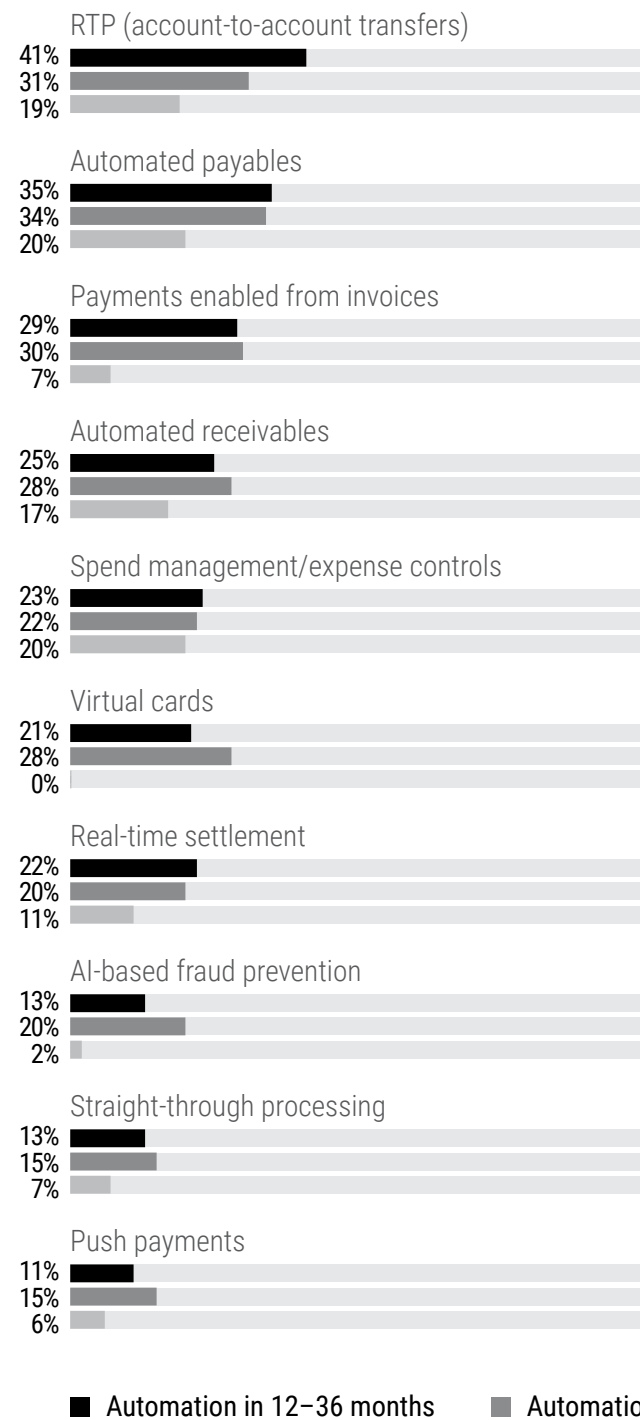
The key benefits of **AP automation**

Leading innovative companies know that automation offers:

- Error reduction:**
No more misplaced and misread invoices.
- Savings:**
Employees' time is not wasted on data entry or other manual invoice processing tasks.
- Reduced fraud:**
Cybersecurity, enhanced with AI, can immediately flag problematic or unusual transactions.
- Less reliance on checks:**
Card and real-time payments methods can be integrated into automation systems.
- Compliance:**
Comprehensive financial records are automatically kept in compliance with current tax regulations.

**FIGURE 1:
COMPANIES' INNOVATION PRIORITIES**

Percentage of companies planning various payments innovations, by time frame for automation adoption



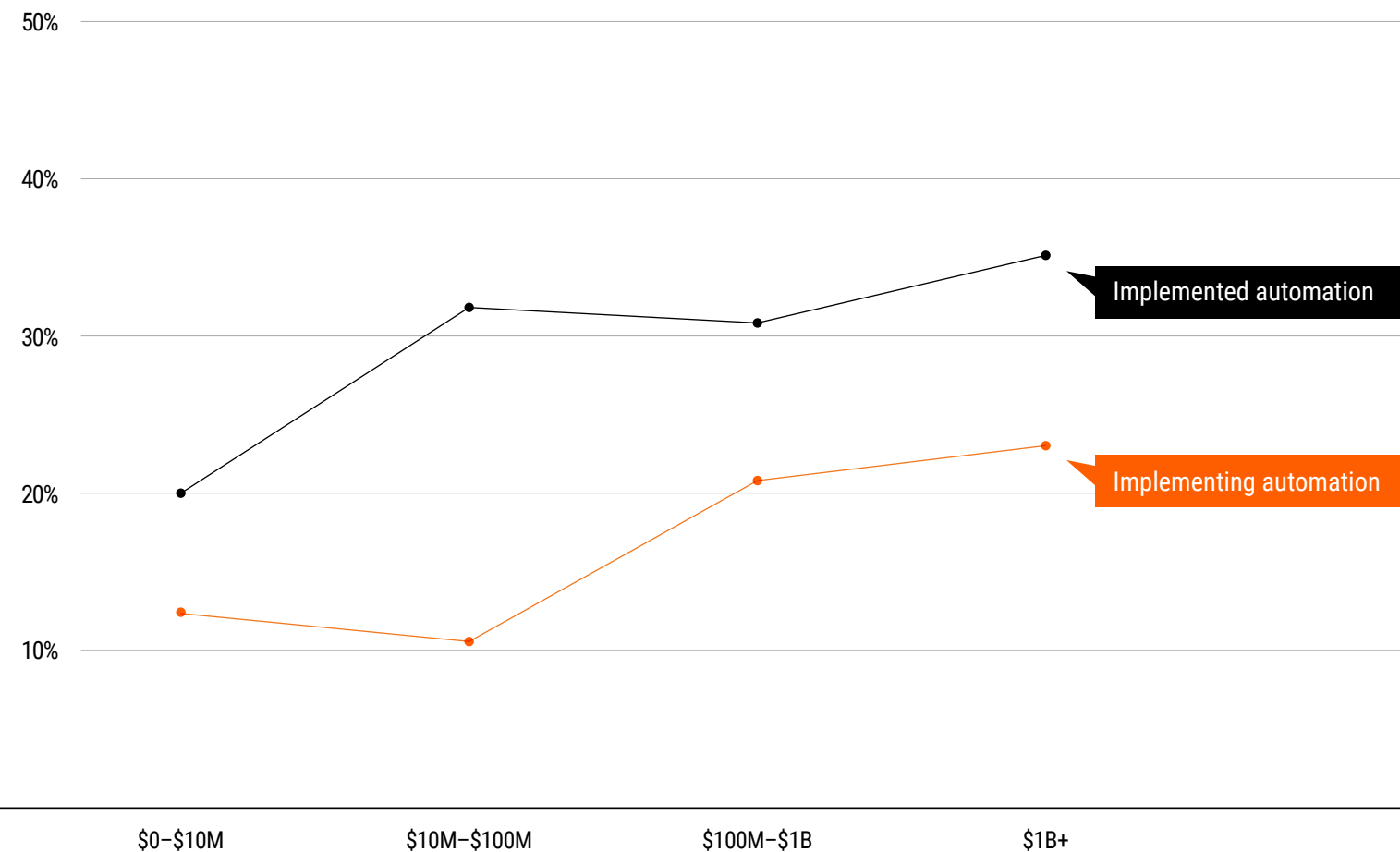
This leaves 59 percent of companies that have not tapped into automation's potential. These businesses may be late to the game, but they can still enhance their B2B operations by adopting it. More than one-third of surveyed firms plan to automate payables within the next year, making it the single most popular near-term innovation.

That said, businesses looking to optimize their B2B systems do not always focus on automation alone. Many choose to implement several payments innovations at once. On average, approximately 21 percent of firms intending to automate within three years also plan to adopt real-time payments, and 28 percent of those companies are looking to adopt virtual cards.

In a sense, these businesses have a comprehensive, holistic approach to payments innovation. AP automation serves the front end of the invoice process while real-time and card-based payments address the back end. This ensures that funds are quickly and accurately settled, and implementing them together helps optimize the whole system rather than just one part.

**FIGURE 2:
COMPANIES' PAYMENTS AUTOMATION ADOPTION RATES**

Percentage of firms that have implemented or plan to implement payments automation, by annual income



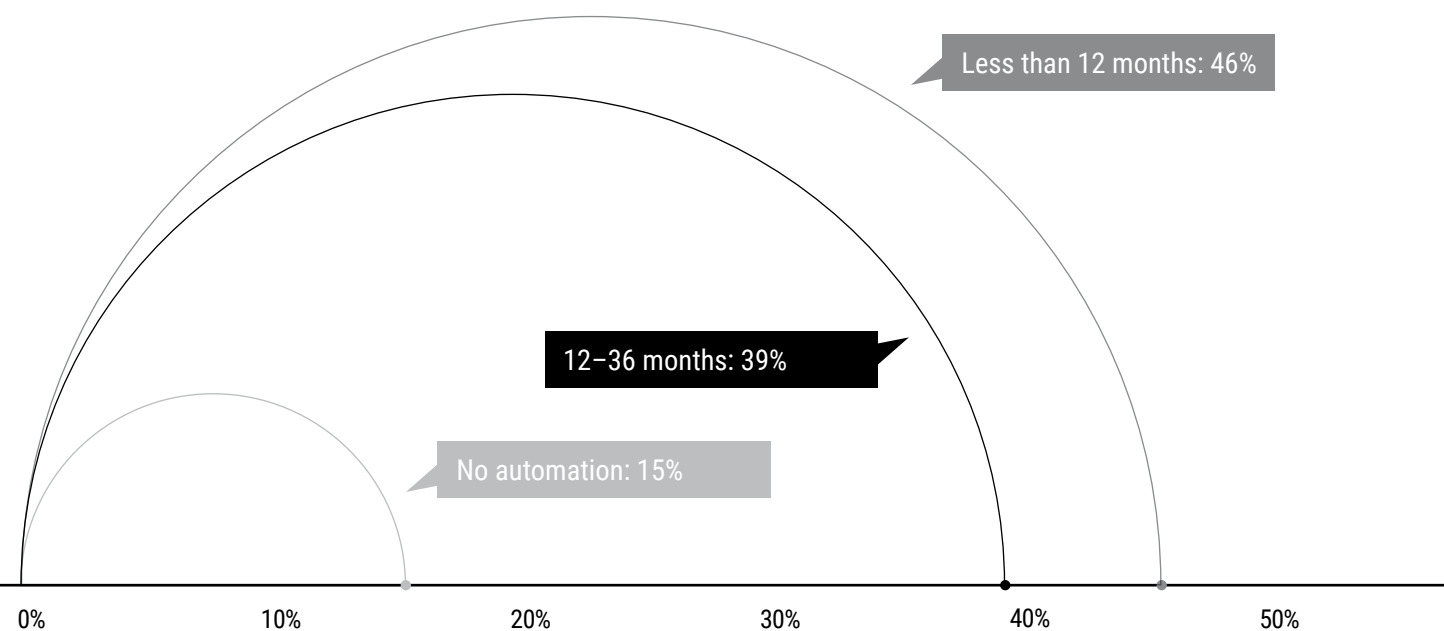
Perhaps unsurprisingly, the largest companies – those generating \$1 billion or more in annual revenue – have been the most enthusiastic about payments automation. More than 35 percent of firms in our sample have already adopted it.

AP automation’s appeal extends far beyond the biggest businesses, however. A large portion of middle- and smaller-sized companies are also working to automate their B2B payments processes, and 32 percent of the former and 20 percent of the latter have so far automated to some extent.

Indeed, this growth is apparent. Forty-six percent of companies intend to implement an automation plan within the next year, and 39 percent aim to do so within the next one to three years.

FIGURE 3:
COMPANIES’ FUTURE PAYMENTS AUTOMATION PLANS

Percentage of firms planning to implement AP automation, by time frame



Not all companies are traveling at the same speed when it comes to payments innovation, though. Some have already implemented multiple offerings or are currently working to adopt them. As such, we’ve categorized the firms in our sample into three profiles: Leaders, Midfielders and Laggards.

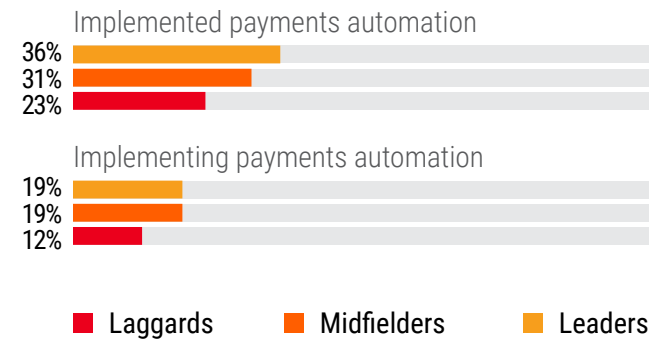
Leaders plan to implement at least four innovations and expect at least three benefits. Midfielders plan to pursue four innovations or fewer and expect two or fewer benefits, while Laggards plan three innovations or fewer and expect two or fewer benefits.

20%
Share of small businesses that have automated their systems

| LEADERS | MIDFIELDERS | LAGGARDS |
|---|--|---|
| <ul style="list-style-type: none"> Implement plan: 2-3 Benefit expect: 5+ Implement plan: 4+ Benefit expect: 3+ | <ul style="list-style-type: none"> Implement plan: 0-1 Benefit expect: 3+ Implement plan: 2-3 Benefit expect: 3-4 Implement plan: 4 Benefit expect: 1-2 | <ul style="list-style-type: none"> Implement plan: 0-3 Benefit expect: 1-2 |

**FIGURE 4:
AUTOMATION IMPLEMENTATION**

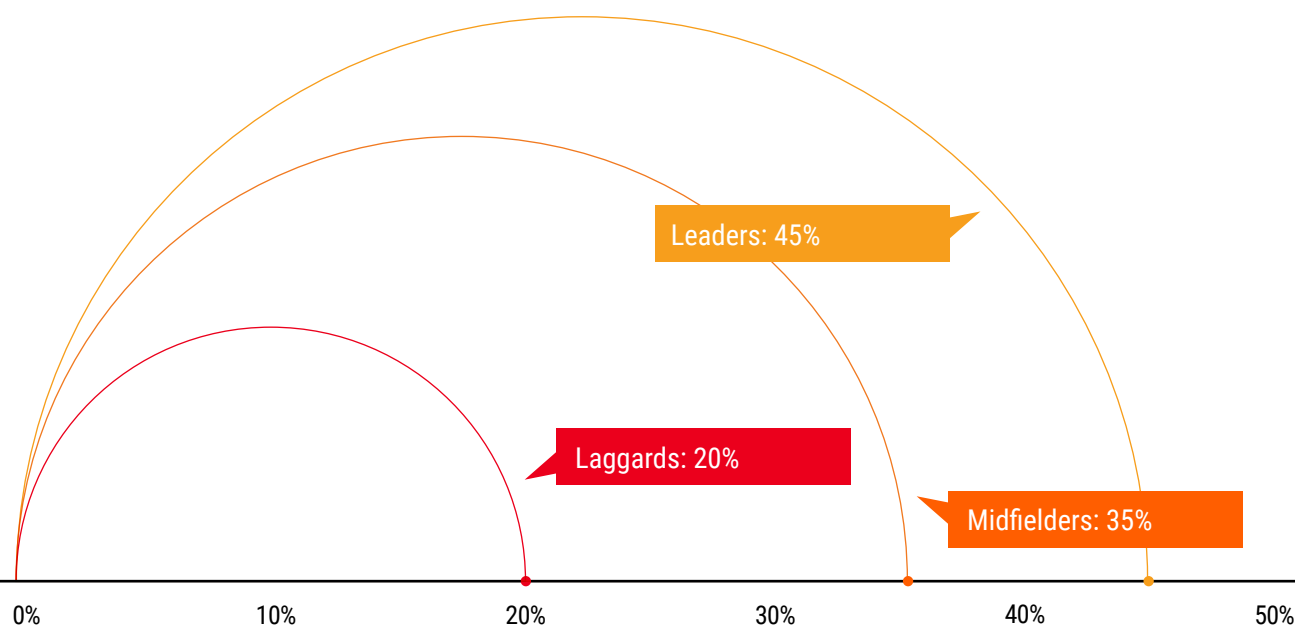
Percentage of firms that have automated or plan to automate their payments operations



Moreover, almost all Leaders that have not yet committed to automation will do so within the next few years. Approximately 45 percent are planning automation, which includes AP and AR automation features. They are also planning to adopt rules-based decision making to cut compliance measure costs.

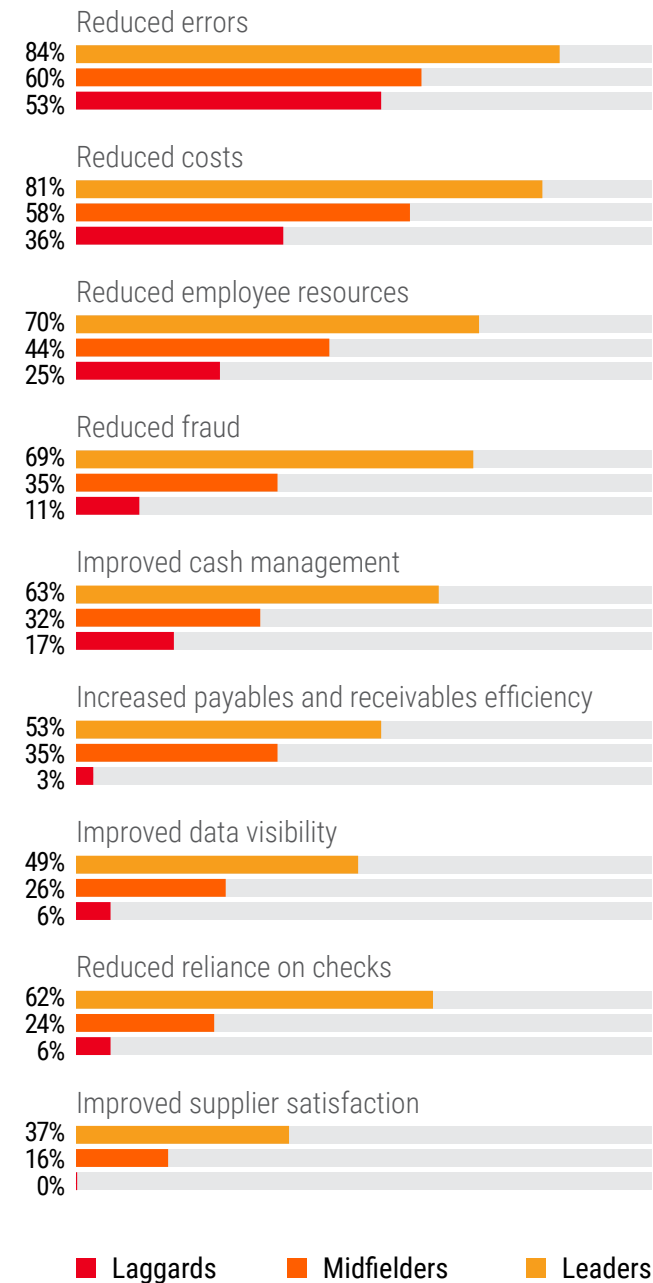
**FIGURE 5:
AUTOMATION IMPLEMENTATION**

Percentage of firms that plan to implement AP automation, with automated receivables and payments run by rules-based decision-making within three years



**FIGURE 6:
AUTOMATION BENEFITS**

Percentage of companies that expect various benefits from their automation investments, by innovation profile



Leaders have a clear understanding of what automating their B2B payments processes can help them gain. Foremost among these benefits are fewer errors and reduced costs, cited by 84 percent and 81 percent, respectively. The findings support what most C-suite executives already know: Manually processing paper invoices is a major drain on employees' time and resources, one that creates many opportunities for mistakes.

For Leaders, invoice processing goes hand in hand with how they're remitted. Nearly 45 percent intend to increase their ePayables usage, compared to 25 percent of Laggards. On the other hand, Leaders are also looking to reduce their reliance on paper checks. More than 47 percent of them intend to use checks less, compared to 19 percent of Laggards (see Appendix: Table 2).



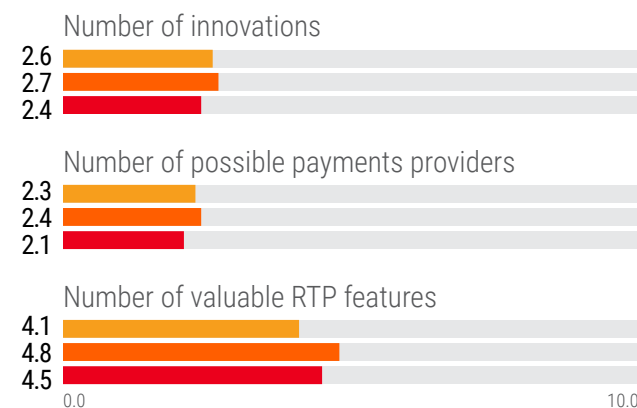
Breaking to the top:

the view from
the middle market

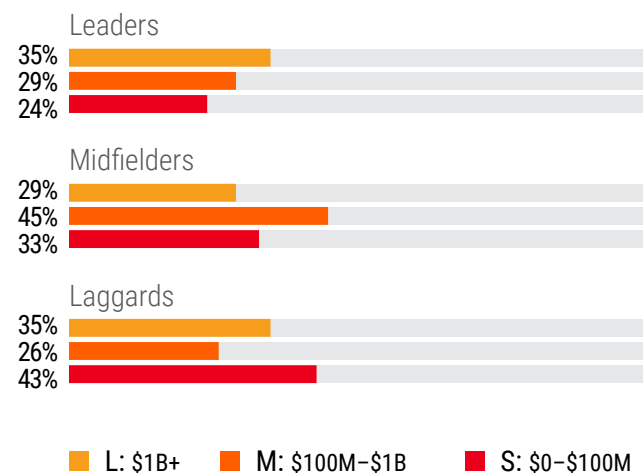
Companies are investing in more than just automation. Middle-sized businesses have already implemented an average of 2.7 payments innovations, compared to 2.6 for large-market companies. They also tend to work with 2.4 payments providers on average, compared to 2.3 for the largest firms.

**FIGURE 7:
INNOVATIONS, PROVIDERS
AND FEATURES**

a. Average innovations, possible payments providers and valuable features, by annual revenue



b. Portion of large-, middle- and small-sized businesses that fit into each innovation profile



35%
Portion of
innovation Leaders
that generate
more than
\$1 billion annually

Middle-market companies were also the least likely to be behind on innovation plans. They made up the greatest share of Midfielders and Leaders and the smallest portion of Laggards.

**MAIN
TAKEAWAY**

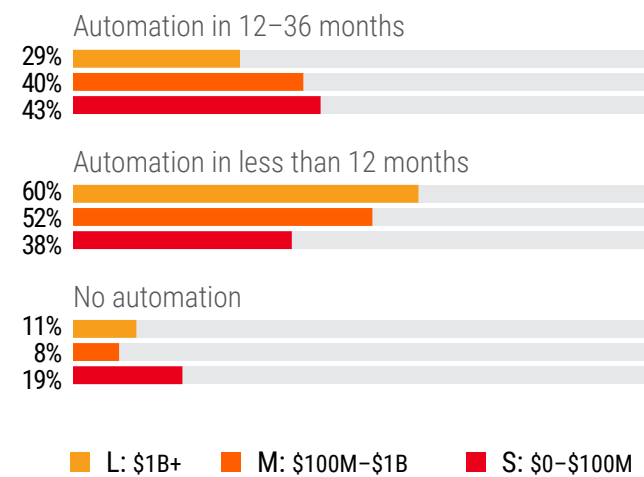
What companies
expect to gain

Middle-sized companies expect to gain several benefits from B2B payment innovation, including:

- Cost savings**
- Reduced chance for human error**
- Reduced fraud risks**
- Enhanced data visibility**
- Better usage of employees' resources and time**

**FIGURE 8:
THE RELATIONSHIP BETWEEN
AUTOMATION PLANS AND COMPANY SIZE**

Percentage of firms that plan to implement automation at different times, by annual revenue



Large corporations tend to have more robust accounting and IT budgets, however, and are usually the first to commit to payments automation. The companies in our survey that expressed the most interest in AP automation backed this up, tending toward larger annual revenues and employing more people.

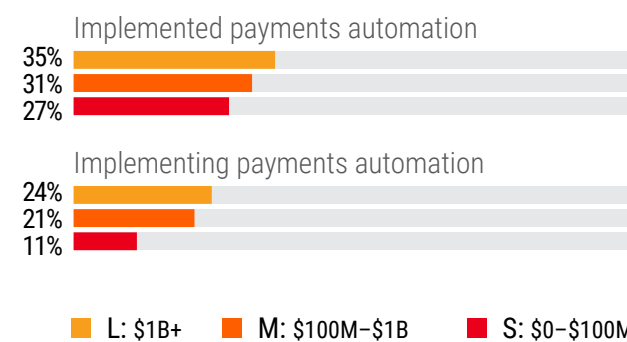


2.7

Average number of payments innovations implemented by mid-sized businesses

**FIGURE 9:
COMPANIES' IMPLEMENTATION RATES**

Percentage of companies that have automated or plan to automate their payments operations, by annual revenue



More than 60 percent of corporations with \$1 billion or more in annual revenue planned to implement automation within the next year. This could be because larger companies tend to have well-staffed IT departments and be better equipped to quickly automate AP systems.

This does not mean medium-sized businesses are opting out of automation, though. In fact, 31 percent of these firms have already implemented some degree of automation, and 21 percent are currently working to do so.



Automation and industry



Leaders are blazing the trail on the migration to payments automation, and many other businesses will soon follow. But what type of companies are Leaders, and what sets them apart from the rest?

A company's willingness to innovate tends to follow industry lines, according to our findings, and those in certain sectors are more intent on pursuing B2B payments innovations than others. A disproportionate number of those that have already automated their AP systems – or plan to – come from the banking, financial services and technology sectors. This makes sense because companies in these industries are arguably the most likely to benefit from automation.

MAIN TAKEAWAY

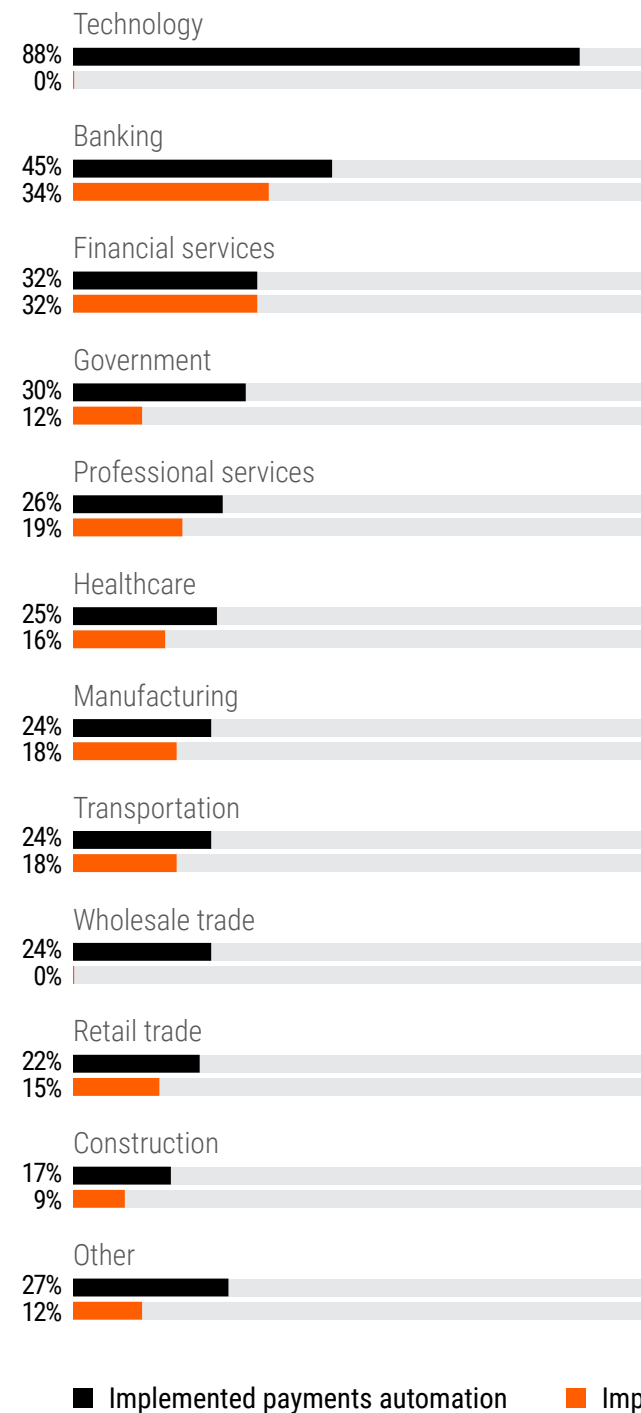
Getting clients **onboard**

Financial institutions can help other businesses streamline their payment processes by:

- Tailoring solutions to address clients' specific needs and concerns, and offering industry-specific use cases.
- Stressing that B2B payments optimization – and AP automation, in particular – is fast becoming standard across the business landscape.
- Emphasizing cybersecurity: Fraud detection and other features are integral components of automation.
- Quantifying the benefits that can come from automation: Several studies have documented substantial savings from streamlining manual invoice procedures.
- Offering turnkey solutions: Make migrating to new payments systems as painless and simple as possible.

**FIGURE 10:
COMPANIES' FUTURE AUTOMATION
PLANS**

Portion of businesses in select industries that have implemented or plan to implement payments automation



As expected, the technology industry's 90 percent level of automation adoption is especially high and far outpaces all others. Meanwhile, manufacturing and construction companies are among the least interested in adopting AP automation.

Businesses in different industries also plan to automate their systems at different times in the future. Some plan to do so very soon, while others are in it for the long haul. For example, 25 percent of food and beverage industry companies are putting off automation innovations for the next three years, as are 24 percent of those in transportation.

These are large numbers, especially considering that just 24 percent of the transportation businesses in our survey had already automated their payments to some extent. Thirty-eight percent of those in the food and beverage industry have done the same.

32%

Share of financial services companies that are implementing payments automation

On the flip side, 43 percent of utilities companies plan to pursue payments innovations in the next year, though 29 percent already had some type of automation in place. Thus, industry dynamics seem to play a role in how businesses decide to commit to – or avoid – adopting automation (see Appendix: Table 3).

In this regard, financial institutions (FIs) have much to offer businesses in other industries, like helping to streamline their payments operations. Varying industry norms often keep companies from understanding how payments automation can make them more competitive. In these cases, FIs add value by educating these businesses on the benefits.

FIs have the knowledge and industry expertise to help other businesses plan their migrations to automated payments systems. These financial players can facilitate stronger client relationships by spreading their knowledge.

CONCLUSION



Of all the recent innovations in B2B payments, none appears to be making real-world progress like AP automation. More than one-quarter of companies have already implemented some form of it so far, and 85 percent plan to pursue additional or new features soon. This makes automation the most popular B2B payments innovation market.

More interesting is that middle-sized companies are taking an active role in pursuing payments innovation to maintain their competitive edge. These businesses remain at the forefront of B2B payments innovation, meaning others would do well to rethink their notions of innovation. By focusing on

leading practices and investments, other businesses can make informed decisions about whether payments innovations can benefit them.

Now, more than ever, financial services firms are being called to act as facilitators in this environment. They know better than most that money is being left on the table with so many businesses resisting payments innovation. It is up to them to help others come to terms with one reality: that adoption of AP automation and other B2B payment innovations is proceeding rapidly. All companies are left with a simple choice, then: Innovate or be left behind.

METHODOLOGY

We surveyed 387 company leaders about their current B2B payment systems and plans for the future. Respondents were responsible for such matters as accounts payable, accounts receivable, financial planning and analysis, payroll

and treasury management, and the companies involved ranged from small operations – those with at least 10 employees and \$1 million in annual revenue – to large firms with more than \$1 billion in annual revenue.

**TABLE 1:
INNOVATION PROFILES**

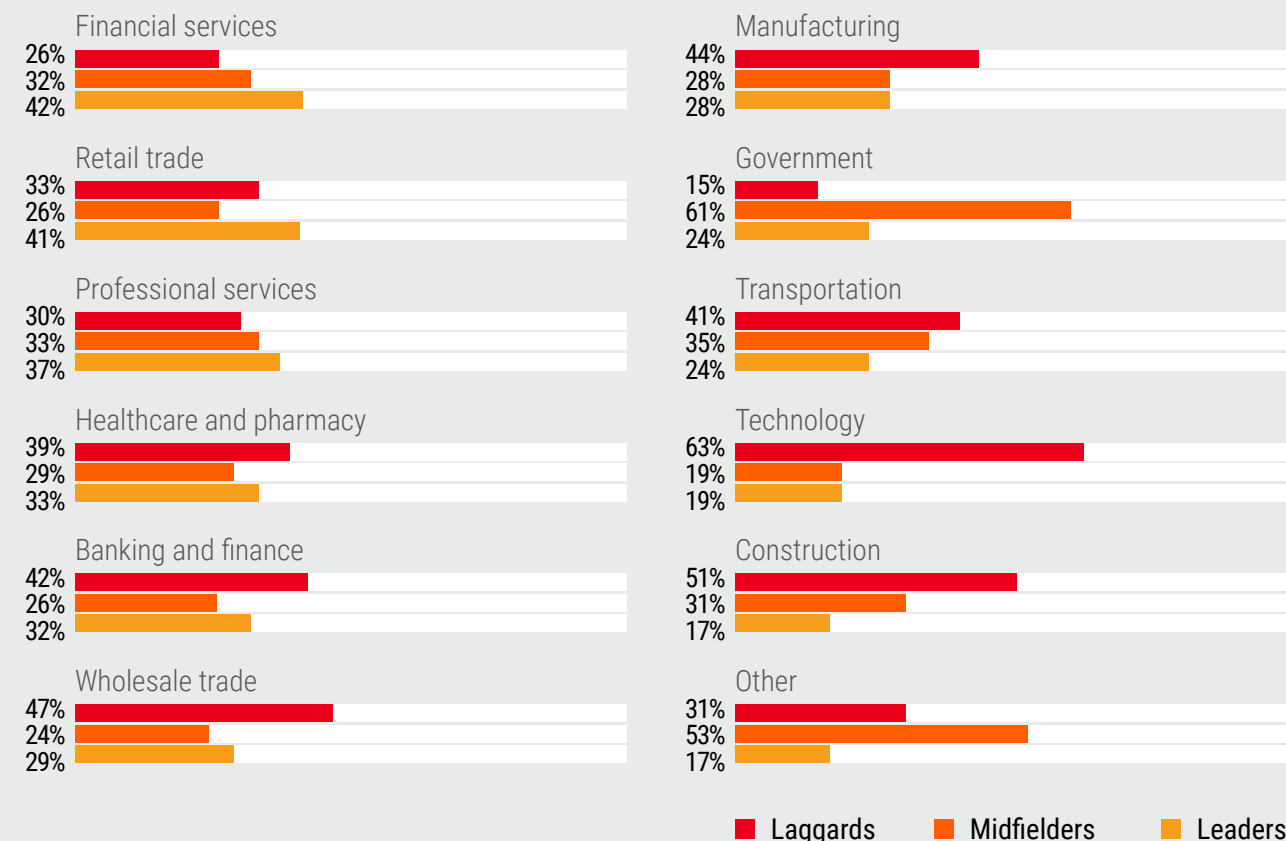
Distribution of businesses, by number of innovations planned and expected benefits

| | Number of perceived benefits | | | |
|--------------------------|------------------------------|----|----|-----|
| | 0-2 | 3 | 4 | 5+ |
| No innovations | 5% | 1% | 0% | 1% |
| One innovation | 18% | 5% | 3% | 3% |
| Two innovations | 11% | 6% | 3% | 3% |
| Three innovations | 4% | 7% | 4% | 4% |
| Four or more innovations | 3% | 3% | 5% | 13% |

■ Laggards ■ Midfielders ■ Leaders

**FIGURE 11:
INDUSTRIES AND PAYMENT OPTIMIZATION**

Percentage of companies in various industries, by level of optimization






To arrive at our three innovation profiles – Leaders, Midfielders and Laggards – we divided the companies in our survey based on the number of innovations they planned to pursue in the next three years and the benefits they expected to derive from them. We also considered commitment to innovation and industry.

The largest share of Leaders could be found in the financial services, professional and banking and finance sectors, followed by trade industries – such as construction – in which Leaders made up less than 20 percent of the companies. There is a significant presence of both Leaders and Laggards in all industries, however.

**TABLE 2:
FUTURE PAYMENT METHOD USAGE**

Percentage of companies that expect to increase or decrease their usage of select payment methods

| |  LEADERS |  MIDFIELDERS |  LAGGARDS |
|------------------------------|---|--|--|
| PAPER | | | |
| Cash | -42% | -35% | -37% |
| Check | -51% | -50% | -43% |
| ELECTRONIC | | | |
| Regular ACH | 13% | 24% | -7% |
| Same-day ACH | 8% | 24% | 23% |
| Wire | -12% | -8% | -11% |
| CARDS | | | |
| Credit/purchasing cards | 14% | -13% | 11% |
| NEW TECHNOLOGY | | | |
| ePayables with virtual cards | 61% | 69% | 44% |
| Digital wallet transfers | 64% | 39% | -5% |
| Push payments | 12% | 11% | 11% |
| Cryptocurrencies | 26% | 14% | -25% |

**TABLE 3:
INDUSTRY AUTOMATION ADOPTION TIMELINES**

Percentage of firms that plan to automate their B2B payments processes, by time frame

| | Automation in less than 12 months | Automation in 12-36 months | Automation in more than 36 months | Other |
|-----------------------|-----------------------------------|----------------------------|-----------------------------------|-------|
| Financial services | 11% | 26% | 0% | 0% |
| Retail trade | 11% | 15% | 19% | 0% |
| Professional services | 22% | 26% | 4% | 0% |
| Healthcare | 20% | 10% | 16% | 2% |
| Banking | 11% | 5% | 5% | 0% |
| Wholesale trade | 18% | 29% | 18% | 0% |
| Manufacturing | 4% | 12% | 10% | 4% |
| Government | 9% | 15% | 18% | 3% |
| Transportation | 6% | 6% | 24% | 0% |
| Technology | 6% | 6% | 0% | 0% |
| Construction | 14% | 11% | 9% | 3% |
| Other | 12% | 19% | 17% | 0% |

APPENDIX

ABOUT

PYMNTS.com

[PYMNTS.com](https://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.



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