



ePay

Electronic Payments: Streamline P2P, Reduce Costs

A White Paper on Bottomline Technologies' Paymode-X Solution

Featuring

Challenges with Manual Processes

Growth of Electronic Payments

Barriers to ePayment Adoption

Understanding ACH Payments

Impact of eInvoicing on ePayments

Steps to Successful ePayments Initiatives

Key Issues to Consider



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Introduction

The Accounts Payable (AP) department has long suffered the stigma of being called a “cost center” or “black hole” from which money is constantly flowing out. Especially in recent times, with the spotlight turned on AP, the hole has become more noticeable. But just as every cloud has a silver lining, this added emphasis on the operations of the AP department has brought about a paradigm shift in the traditional invoice and payment management process. Increasingly, financially savvy managers understand that the AP department has tremendous potential to deliver strategic benefits around supplier relations and working capital improvements.

Traditionally, the enemy of radical improvements in the financial supply chain has been an overreliance on people and paper-based processes, which result in lengthy processing cycles, slow and delayed payments, and unhappy suppliers. However, all of this is changing. On the one side, heightened visibility has led to a growing awareness among financial managers that things are changing, with or without their approval. On the other hand, robust and easy-to-use electronic payment (ePayment) options — such as ACH and purchasing cards — are widely available in the market today, and are opening the doors for innovative AP and finance departments to take control of supplier payments and shine in the limelight.

PayStream has developed this white paper titled — ***Electronic Payments: Streamline Purchase-to-Pay, Reduce Costs*** — to provide an overview of the electronic payment landscape and address the following questions generally asked by finance managers:

- What challenges are organizations facing when it comes to manual settlement processes? What factors are driving the migration from paper checks to electronic payments?
- In spite of the widespread availability of ePayments and their tangible benefits, why are more than 75 percent of B2B payments settled via checks? What barriers are hindering further adoption of ePayments and how can they be overcome?
- What are the different types of electronic payments? How do ACH payments, differ from purchasing card transactions? What benefits does each ePayment tool deliver?
- What related developments in the procure-to-pay space are impacting the growth of electronic payments? Where does ePayments fit in a broader P2P automation roadmap?
- What are the functional components of an ePayment solution? What features should organizations consider when evaluating ePayment solutions? How can organizations build a business case for automation?

A companion report titled ***Electronic Invoice Management: Your Passport to Paper-free Accounts Payable***, featuring profiles on nine leading electronic invoicing vendors, is also available on our website at <http://paystreamadvisors.com/store/details.cfm?id=284>.

Payments Convergence Conference: PayStream has created the annual ePayments Convergence event to meet the needs of sophisticated finance professionals who are aggressively seeking to improve their penetration of ePayments, and who desire high-quality information to drive decision making. This two day event is held in June each year to showcase leading practices by corporate innovators.

For more information, go to www.paystreamsummit.com

Case for ePayments Automation

Inefficiencies in Manual, Paper-Based Payment Processes

Even though automation has already delivered tangible results in the physical supply chain, automation has barely trickled into organizations' financial operations. This is especially true as it pertains to the settlement of payables and cash flow visibility.

Given the historical lack of innovation in this arena, buyers and suppliers today are experiencing a number of problems that prevent true optimization of the financial supply chain. Unlike improvements enjoyed by the automation of physical supply chain transactions, today's payables and collection processes are still primarily manual, non-integrated and inefficient resulting in numerous challenges for trading partners.

PAIN POINTS IN THE FINANCIAL SUPPLY CHAIN

BUYER PAIN

Inability to extend payment terms and increase DPO.

Supplier inquiries into payment status tie up valuable AP resources.

Cost of printing and mailing paper checks, stop payments and re-issue costs with lost checks.

Suppliers' high cost of capital means incremental cost of goods and services for buyers.

SUPPLIER PAIN

Lack of visibility and uncertainty around payments hinders cash flow forecasting efforts.

Need to maintain excess cash as "hedge" against uncertainty increases working capital tied-up in the cycle.

Limited access to capital leads to reliance on expensive financing options like factoring and asset-based lending.

Lack of or insufficient remittance detail along with payments makes cash application a challenge.

- **Manual and Inefficient Processes:** The purchase-to-pay process has long suffered from the inefficiencies inherent to manual, paper-based processes including the lack of visibility and control over financial transactions, unavailability of timely information and high processing costs.

While buyers suffer from the high cost of making payments via checks, suppliers also face the issue of lost checks and missing or insufficient remittance detail. All these factors lead to frequent inquiries, exceptions and disputes.

- **Lack of Cash Flow Visibility:** Lack of visibility and uncertainty around cash flow is a source of major concern to suppliers. In the current environment, there still exists a great deal of uncertainty around the timing and amount of approved receivables. As a result, suppliers are compelled to maintain excess cash as a "hedge" against such uncertainties, which leads to an unnecessary increase in working capital that is tied up in the order-to-cash cycle.

Many suppliers also frequently carry a higher amount of debt on their balance sheets to fund this uncertainty. The wasted operating capital affects the entire financial supply chain, increasing the costs of working capital and reducing profitability for all the participants.

- **High Cost of Supplier Financing:** The above factors – primarily pressure from buyers to extend payables terms and uncertainty around the payment process – pose another challenge for suppliers.

Suppliers, who have limited access to capital, often have to rely on high-cost financing methods like factoring or asset-based lending to fund their working capital and improve their cash positions. The cost of financing can be significant to suppliers, which in many cases is passed on to the buyers in the form of higher cost of goods and services.

Factors Driving Electronic Payments

Payments are the final step in the invoice receipt-to-pay processing cycle. With significant effort spent on the initial stages of accounts payable processing that includes invoice receipt, workflow and matching, organizations must not experience failure in exchanging payments in a timely and cost-effective manner. Electronic payment methods allow processing of payments in a faster, cheaper, and more convenient manner than paper-based checks. Depending on the type of ePayments tools and technologies adopted by an organization, it can achieve the following tangible benefits:

“Our parent company has mandated that we move toward reducing the number of checks we issue & increase our use of ACH transfers. We will be sending out a letter to our vendors requesting their banking information.”

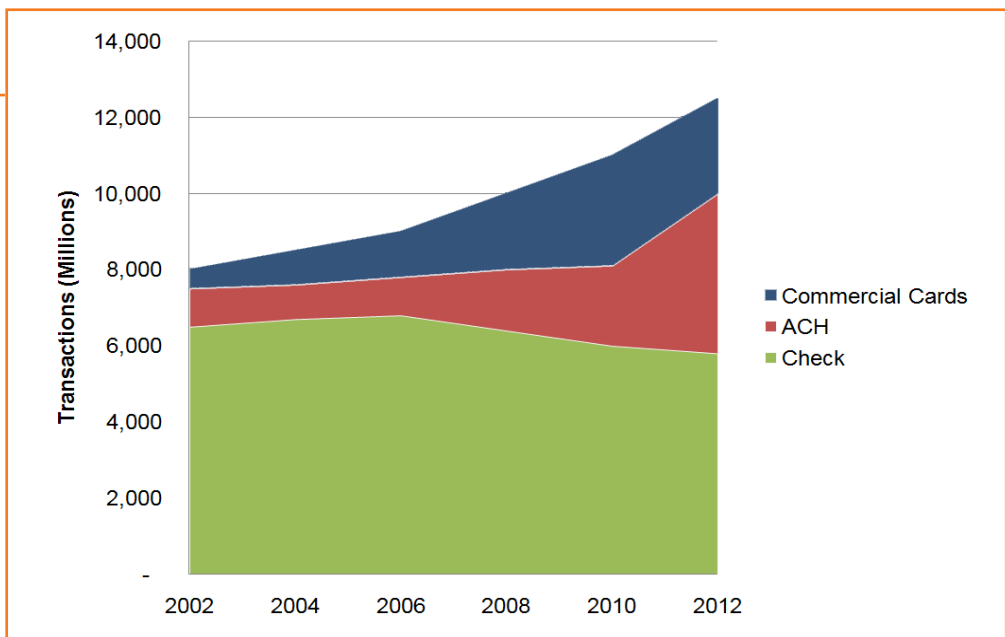
- Accounts Payable Clerk, Mid-size Manufacturing Company in North America

- Cost reduction from reduced headcount, lower administrative expenses, and decrease in printing and mailing costs.
- Reduction in the amount of paper consumed by an organization, especially with the use of purchasing cards to remove purchase orders and invoices from the equation.
- Compression of the procure-to-pay cycle resulting from the reduction in mail and check float.
- Increased ability to capture early payment discounts offered by suppliers due to shorter processing cycle times.
- Improved visibility into payments and overall spend translating to better cashflow forecasting and risk management abilities.
- Reduction in the losses incurred resulting from check fraud, theft of pre-printed checks and data entry errors.
- Positive impact on the environment from going “green” as a result of migrating from checks to electronic payments.

Given the tangible benefits electronic payments deliver over paper-based checks, it is not surprising that adoption of the various formats of electronic payments has significantly increased over the past five years, while check usage is on a decline (see Figure 1).

Figure 1
REDUCTION IN CHECK VOLUMES WITH CORRESPONDING INCREASE IN ELECTRONIC PAYMENT METHODS

Source: Federal Reserve and NACHA research



Electronic Payments

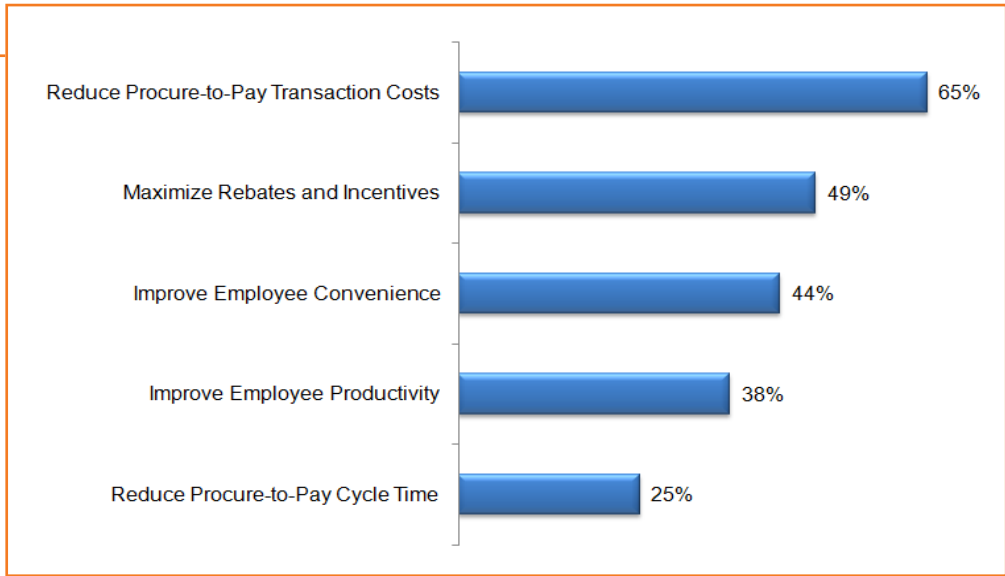
Factors Driving ePayments

Results of PayStream's "Electronic Payments and P-Cards Adoption Survey 2009" echoed the same sentiments. A majority of companies (80 percent) stated that the need to reduce procure-to-pay transaction costs was one of the biggest factors driving their efforts to increase electronic payments. This was followed by the goal to remove paper from the AP department, cited as a reason by more than half the organizations surveyed (55 percent). Additionally, better cash management (46 percent) is another important factor. Given the overwhelming interest in cost reduction and improved cash management, we believe that increasing electronic payments will be a top automation priority for organizations over the next three years.

Figure 2

TOP FACTORS DRIVING ENTERPRISES TO FOCUS ON ELECTRONIC PAYMENTS

Reducing overall payment costs emerged as the biggest driver for ePayments

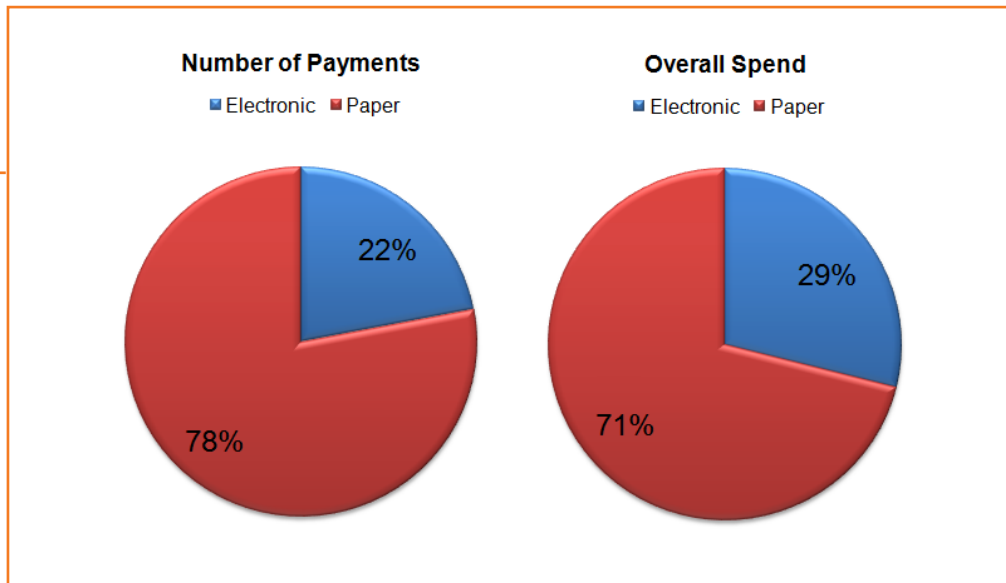


While we are excited about the growth in electronic payments, there still exists one cause for concern. Though organizations have increased the usage of ePayment methods, a typical AP department remains mired with paper-based check processing. Data from the survey reveals that, on average, 71 percent of indirect spend and 78 percent of payment transactions are still processed via checks (Figure 3).

Figure 3

PAPER REMAINS 'THE RULE', NOT AN EXCEPTION!

Organizations still rely heavily on paper when it comes to payments



Challenges to Automating the Payment Process

Paper remains ‘the’ rule and not an exception in a typical accounts payable department. What is the reason organizations still use checks so heavily? What factors are holding back the adoption of ePayments?

Supplier Resistance:

Given the fact that ePayments expedite payments, it is surprising that supplier resistance is one of the top barriers to the adoption of electronic payment methods. Persuading suppliers to change their processes to align with buyers’ needs is a costly and time-consuming process, and its success depends largely on the buyers’ ability to present a compelling value proposition to suppliers. In many cases, buyers have failed to effectively communicate the value of AP automation initiatives to their suppliers, and as a result have struggled to generate the results they expected.

Suppliers are also reluctant to pay any fees to financial institutions that may be associated with payments via electronic methods. Additionally, many suppliers struggle with proper posting of account receivables from ePayments due to the inconsistent transmission of remittance information along with ePayments. This “cash application” problem can be a significant challenge. See PayStream’s Receivables & Collection Management Report at <http://paystreamadvisors.com/store/details.cfm?id=284>.

For the supplier, payments automation should represent an opportunity to improve the efficiency of their accounts receivable (AR) processes. Therefore, buyer organizations need to be more proactive in providing supplier-driven visibility into the invoice settlement process. Given this scenario, technology providers that deliver supplier onboarding services in conjunction with the solution itself are gaining strong traction in the market.

Technical Challenges:

Until recently, a prevalent barrier to the adoption of ePayment applications was concern around their ability to easily and cost-effectively integrate with existing AP, AR, billing, cash management, supply chain, and other legacy systems.

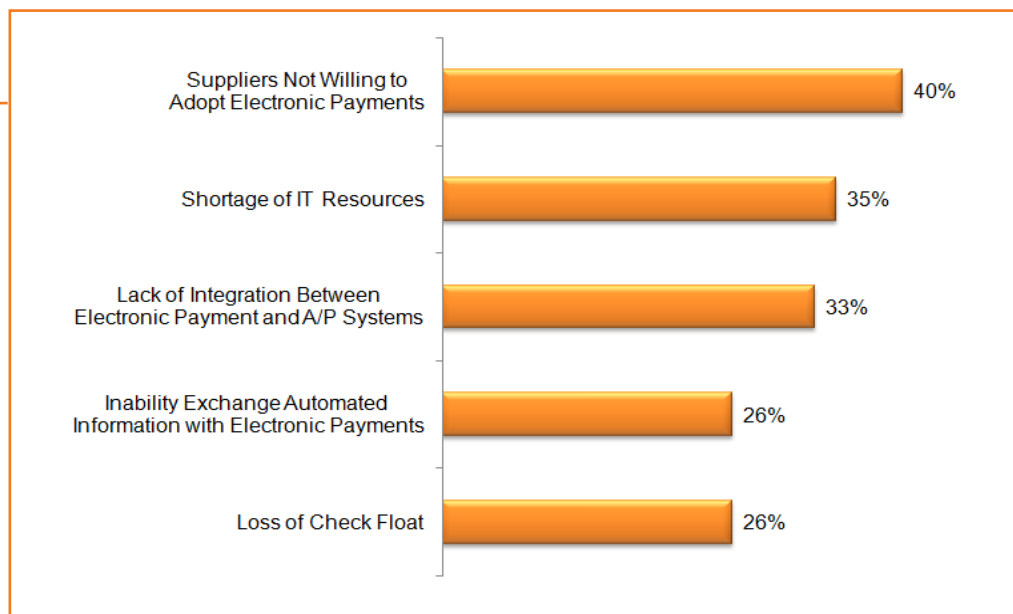
“We are currently campaigning to our suppliers to switch to ePayments. Suppliers with banking information on the invoice are automatically set up for ACH payments. New suppliers are asked to participate in ACH payments at setup.”

– Manager, F500 Dairy Manufacturing Company in North America

Figure 4

BARRIERS TO ADOPTION OF ELECTRONIC PAYMENT METHODS

The biggest barrier was the unwillingness of suppliers to accept electronic payments



However, state-of-the-art applications available in the market today that integrate seamlessly with back-end systems and provide secure data transfer protocols are enabling companies to overcome their initial resistance to automation. Most applications integrate easily with systems on the buyer and supplier sides, resulting in secure and seamless data transfer, as well as streamlined processes and more efficient workflows. Adopters can expect faster approval and cycle times, as well as better cash flow forecasting ability and vendor relationships.

“We are investigating cost savings from electronic payments and weighing this against the loss of float to determine monetary benefit. This is being done in conjunction with our bank.”

– Manager, Large Manufacturing Company in North America

For those companies concerned with the upfront costs of technology, hosted solutions and Software-as-a-Service (SaaS) delivery models offer minimal implementation costs, with technology providers responsible for maintenance and upgrades. Last, but certainly not least: given the current emphasis on going green, electronic payments provide a substantial positive impact on the environment. They save trees and energy, while reducing air pollutants and solid waste.

Business Practices:

Electronic payments herald a tremendous change in the way buyers and suppliers conduct business. A natural barrier to electronic payments adoption on the supplier side is the loss of detailed remittance information. Many suppliers are concerned that if they switch to electronic payments they will not get sufficient remittance detail, which facilitates payment reconciliation. Unless ePayments transactions are properly structured, transmission of usable remittance details is limited.

The recent emergence of payment and remittance advice consolidation, however, is beginning to alleviate this issue. These services, provided by third party invoice and payment networks and processors, collect detailed payment information from payers and make it readily available to suppliers in formats compatible with their accounting systems. With many solutions, suppliers have multiple options in which they can receive detailed remittance information - email, fax or even direct integration with their accounting systems.

Payment Service Providers (PSP):

PSP's provide third party payment facilitation including translation and remittance management to foster payment collaboration between buyers and sellers.

Another reason why buyer organizations hesitate to make the move to electronic payments is the perceived loss of mail float, which is inherent to paper checks. However, the advantages associated with check float are quickly diminishing as a result of electronic check imaging, which has accelerated check presentment to a day in most cases. In fact, usage of purchasing cards delivers more float than paper checks when check imaging is factored in.

Furthermore, the cost savings from electronic payments typically outweigh the benefits of check float given current low interest rates and fast collection environments. Finally, the functionality provided by electronic payment solutions that allow buyers to control settlement with specific payment dates make check float a moot point.

Electronic Payment Types

Electronic payments come in many different flavors. Historically they have evolved into three different types:

- **Commercial cards** are unique as they not only support the procurement function to purchase goods at the point of sale, and in many cases without paper invoices, but also permit accounts payable professionals to automate the settlement process. They have evolved into several types, including corporate purchasing cards, travel and entertainment cards, and fleet cards that target specific indirect spend categories, as well as one/multi-card systems that target multiple indirect spend categories.
- **ACH**, the most frequently used electronic payment method is designed for large volume credit and debit transactions.
- **Wire transfers** are perhaps the most expedient form of payment. They are often used for high-dollar, one-off transactions, as well as international payments.

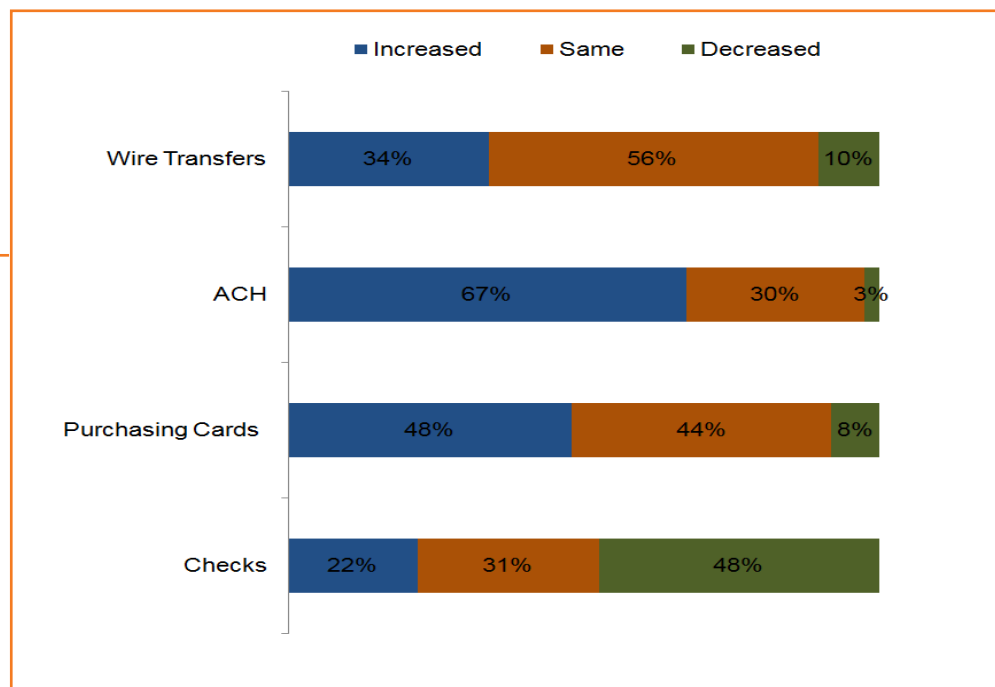
None of the above electronic payment types are mutually exclusive from one another or from paper checks. Depending on an organization's level of innovation, technological savvy and diversity of supplier base it can use a combination of the different payment types to satisfy its unique financial and business requirements. Our research shows significant changes in organizations' payments mix over the last two years (See Figure 5); checks have been on the decline with a corresponding increase in electronic payments.

Upcoming sections of this report will provide more details on ACH transactions, their benefits and barriers to adoption.

Figure 5

CHANGE IN USAGE OF ELECTRONIC PAYMENT METHODS

Electronic payments are increasing while checks are on the decline



ACH Transactions

ACH payments are electronic payments made through the Automated Clearing House (ACH) Network, which is truly a powerful system in the United States. The ACH network has extensive reach to almost every financial institution in the country, and therefore provides access to every business that has a banking account. This is a significant advantage of ACH as no other electronic network has the same reach.

PayStream research revealed that amongst the different electronic payment types available, ACH is preferred by a number of businesses. According to survey results, more than two-thirds (70 percent) of organizations have the ability to make ACH payments to their suppliers. Additionally, more than half (60 percent) of the companies that participated in our survey stated that they are taking active steps to increase their ACH ePayment programs.

Suppliers are also more willing to accept electronic payments via ACH, compared to purchasing cards, as was revealed by the survey. This is supported by the fact that suppliers do not have to pay interchange fees when it comes to accepting ACH payments.

How does ACH Differ from Card Payments?

While both ACH and corporate purchasing cards have the same objective of transferring funds electronically from the buyer to the supplier, the two payment tools differ in the way they do it. It is important to understand the differences in order to select the most suitable payment type.

- The primary difference between the two payment types is that they flow through different networks; while ACH payments are made through the automated clearing house network, card payments are processed via a commercial card network.
- ACH processing also differs from credit card processing in the sense that it does not provide real time authorization of transactions; instead, it allows funds to be electronically debited or credited to a company's deposit account within a few days.
- Unlike credit card payments, where suppliers have to pay a percentage of the transaction value as interchange fees, suppliers do not have to pay any fees for ACH. These transactions typically only involve a small fee per transaction to the buyer.
- ACH payments are settled the same day or the next day at best, taking float out of the equation. On the other hand, card payments offer a significant amount of float to buyer organizations.

Factors Driving ACH Payments

PayStream research found that owing to the following payment attributes, ACH has emerged as a favorite ePayment tool among organizations:

- **Low Cost:** ACH payments cost nothing to the supplier, while wire transfers and card payments can be expensive. Overall, ACH is the lowest cost ePayment option to both buyers and suppliers. More than half the organizations (53 percent) that participated in our survey stated that they

preferred ACH over other electronic payment options for this reason.

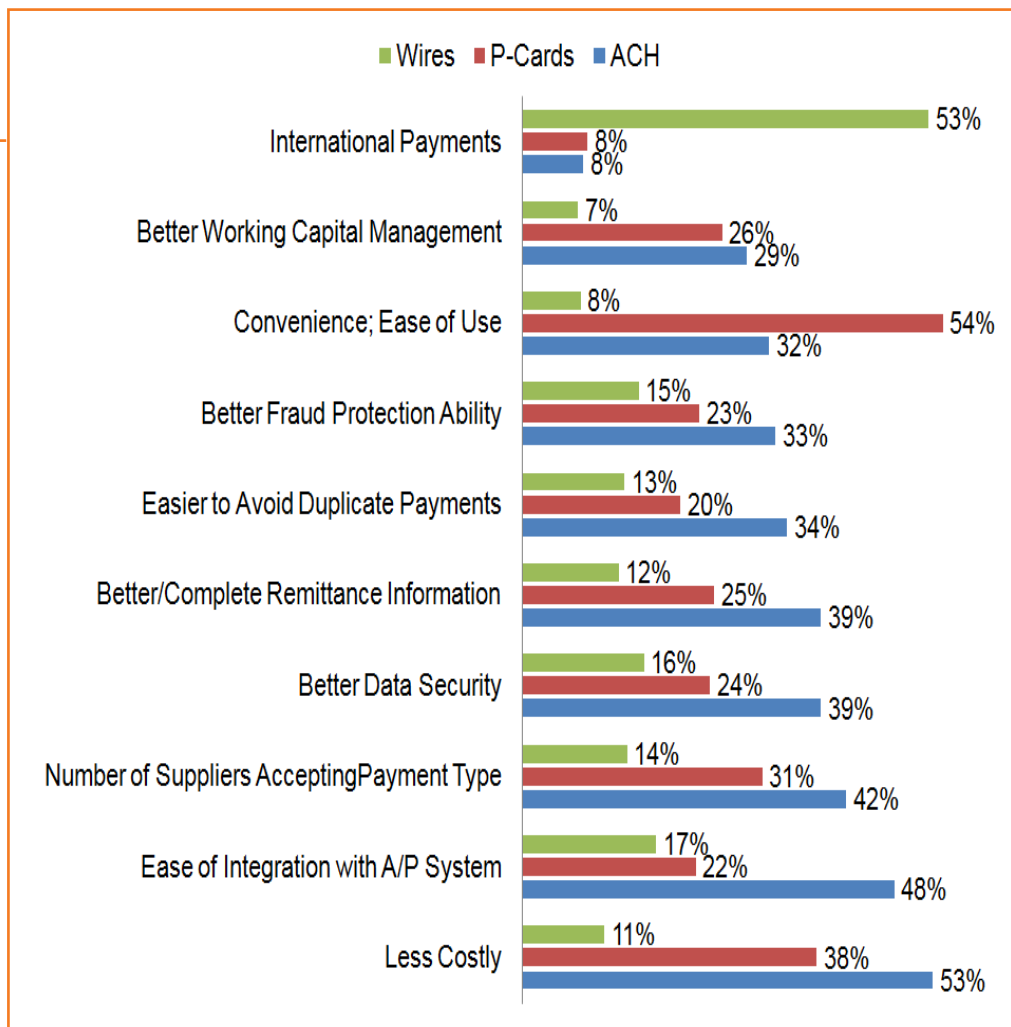
- **Ease of Integration:** Almost half the companies surveyed (48 percent) liked ACH for the ease with which it can be integrated with AP and other back-end accounting systems. Further, more than two-thirds of companies (68 percent) have already integrated their AP systems with ACH payments.
- **Supplier Acceptance:** Given that suppliers do not have to pay any fees for receiving ACH payments, it is not surprising that they are accepted by more of an organization’s supplier base than card payments or wire transfers. Almost half of the companies that participated in our survey (42 percent) validated this fact.
- **Other Factors:** Some of the other factors that emerged as driving forces for the use of ACH are data security, protection against fraud, and the ease of use of ACH payments.

See Figure 6 for more details on how ACH payments measure up against card payments and wire transfers across a range of payment attributes.

Figure 6

PREFERRED ELECTRONIC PAYMENT METHODS ACROSS PAYMENT ATTRIBUTES

ACH payments were preferred as they were low cost, could easily integrate with AP systems and were accepted by suppliers



Challenges to the Adoption of ACH

Even though ACH is a preferred form of payment across several payment attributes, the adoption of this form of electronic payment has been hampered by several factors. Our research reveals that:

- Almost half the organizations surveyed (47 percent) stated that less than five percent of their suppliers are enrolled in their ACH ePayment program. A mere one percent of innovative companies have been successful in enrolling over 80 percent of their supplier base.
- More than 40 percent of companies make less than five percent of their payments using ACH, and none of the organizations have been able to convert more than 80 percent of their payments to ACH.

The primary barriers to the adoption of ACH payments are the perceived loss of float, the challenges involved in collecting banking information from suppliers, and the limited ability to exchange remittance information.

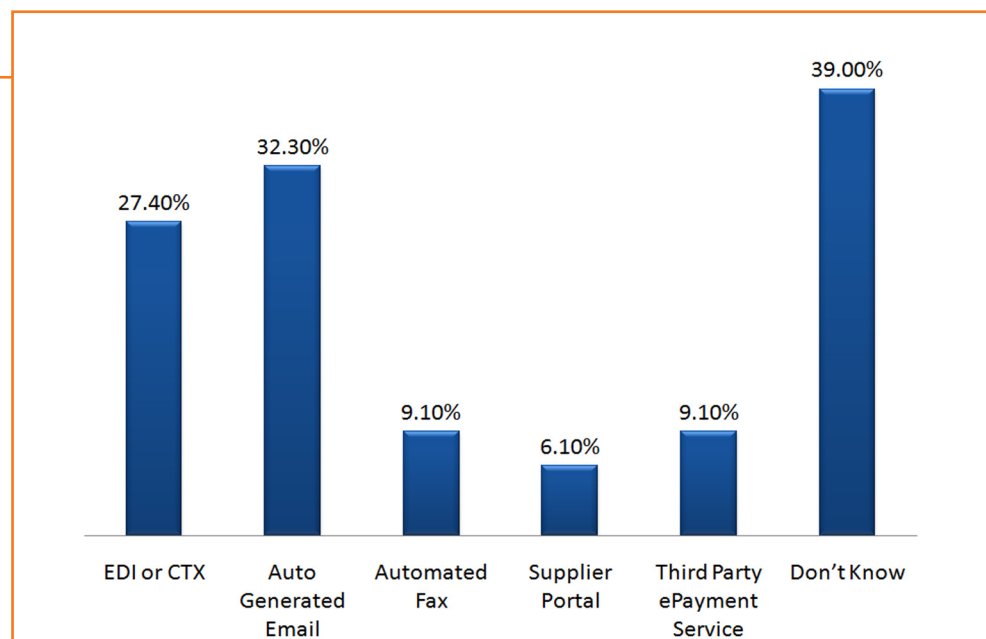
On the buyer side, organizations are faced with the challenge of collecting banking details from a number of suppliers, validating the information, and keeping track of changes to banking procedures on the supplier side. Buyers are also concerned about moving from checks to ACH due to lost check float. Suppliers on the other hand are hesitant to accept ACH payments as the remittance detail delivered along with ACH payments is insufficient, or their systems are unable to receive and manage the information delivered. Our survey shows that more than one-third of the organizations have no clear remittance exchange mechanism in place to provide suppliers with adequate details to post their books without manual handling.

Banks and solution providers, like Bottomline Technologies, that provide ACH payment solutions need to address these issues if they wish to increase ACH share of business-to-business payments. They can do this by providing robust solution functionality that delivers remittance information in multiple formats supported by supplier systems. These should go hand-in-hand with value-added services such as supplier recruitment and management of bank account details.

Figure 7

REMITTANCE INFORMATION TRANSMISSION WITH ACH

Auto-generated email is the most widely used method of transmitting remittance information along with ACH payments



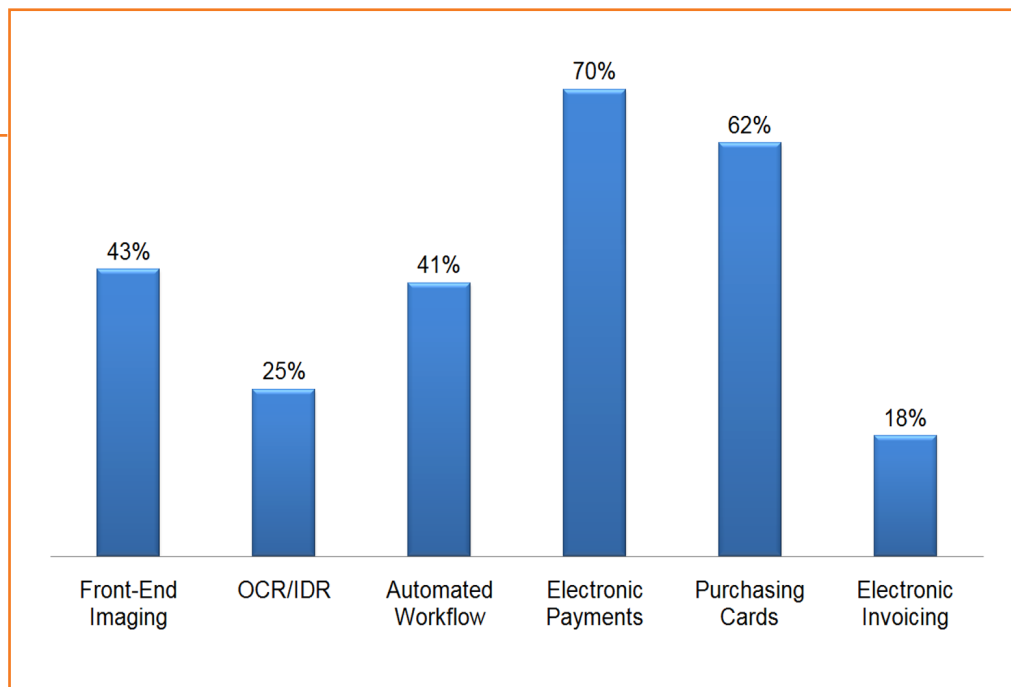
ePayables Innovations

Along with the evolution of electronic payment tools, we are noticing a number of innovations in the procure-to-pay space. Figure 9 shows the adoption of various technologies in the accounts payable space, based on PayStream survey results. Electronic payments via ACH and purchasing cards are the most widely adopted technologies in the AP space. One of the primary reasons for this high traction is that when compared to more comprehensive procure-to-pay implementations, electronic payment solutions are relatively easy and quick to deploy, are less expensive, and deliver a quick return on investment.

However, the emergence of innovative tools and technologies in AP automation has a direct impact on the uptick of electronic payments. Two related developments that support and complement electronic payments are electronic invoicing and dynamic payables discounting.

Figure 8
ADOPTION OF VARIOUS AP AUTOMATION TECHNOLOGIES

Electronic payments via ACH and p-cards are the most used automation technologies in the AP department



Electronic Invoicing

Automation solutions that enable trading partners – buyers, suppliers and banks – to seamlessly exchange transaction-related information and funds are indelibly changing the invoicing and payables landscape. A new crop of electronic invoice networks are making significant inroads into reducing inefficiencies and driving costs out of companies' financial operations through the elimination of paper. These electronic invoicing solutions improve the invoice receipt-to-payment cycle by streamlining how organizations receive and approve invoices and make payments.

These new technologies have been given further impetus by the fact that the AP department is no longer considered just a cost center. Innovative financial managers are now recognizing AP automation as an area offering tremendous potential

to generate bottom-line improvements with processing acceleration and discount management abilities, better ability to monitor and manage spend, strengthen working capital positions, and build stronger trading relationships.

One the biggest barrier hindering electronic invoicing and payments initiatives has been supplier adoption, or lack thereof. Persuading suppliers to change their processes to align with buyer's needs is a costly and time-consuming process, and success depends largely on the buyers' ability to present a compelling value proposition to suppliers.

Many buyers have failed to effectively communicate the value of AP automation to their suppliers, and as a result, struggled to generate the results they expected from implementing e-invoicing solutions. In order to ensure the success of their AP automation efforts, buyer organizations need to be more proactive in demonstrating the benefits of electronic invoicing and settlement to their supplier base.

Given this scenario, technology solutions that support a shared supplier network are gaining popularity. The network with a Web-based interface that allows many buyers and suppliers to come together at one location to transact with one another. The network acts as an intermediary, collecting invoices and facilitating payments from multiple buyers for multiple suppliers, eliminating the need for point-to-point connections.

This model not only has all of the robust features of a buyer or supplier-centric stand-alone portal, but also provides additional value through the shared supplier network, open to suppliers and buyers alike. Both may participate in the network, but neither controls it. Instead, buyers ask their suppliers to present invoices through the network, and suppliers ask their buyers to view and pay invoices through the same network.

Another reason e-invoicing networks are gaining popularity is the value-added services delivered by solution providers in the area of supplier recruitment and enablement. Organizations that do not have the expertise or the financial resources required to manage the supplier recruitment process in-house now have the option of leveraging the experience and best practices of their technology provider for this process.

While the adoption of electronic invoicing is still limited to larger companies, we are evidencing this trend trickling downward to small and medium sized businesses for the following reasons:

- The evolution of hosted and Software-as-a-Service (SaaS) models has significantly lowered the upfront cost of implementing AP automation solutions and reduced the hassle of maintaining them.
- Realizing that removing paper from AP needs to be accomplished via a series of small steps - not a big bang - companies are leveraging and upgrading previous investments in AP technologies.
- The convergence of electronic invoicing and front-end invoice imaging presents organizations with a single, comprehensive solution that can manage both paper and electronic invoices through a common process.
- Value added-services delivered by e-invoicing solution providers around supplier recruitment have enabled buyer organizations to bring suppliers onboard more quickly.
- Dynamic discounting and supply chain finance capabilities offered by e-invoice networks are delivering tremendous strategic benefits around working capital improvements.

DEFINING DYNAMIC DISCOUNTING SOLUTIONS

DPD solutions are dynamic in more ways than one. They

Allow suppliers to control the timing of payments.

Calculate discount fees and payment amounts dynamically based on the number of days remaining until the due date.

Provide the ability to dynamically capture discounts as the working capital needs dictate, rather than having to negotiate discounts in advance.

Allow trading partners to tap into an alternative source of working capital with the use of third party creditors who pay early on behalf of the buyer.

Dynamic Payables Discounting

A financial practice in place for years in parts of Europe is gaining acceptance in the United States, largely because of the technological innovations of a few, relatively new electronic invoicing and payment solution providers and collaborative bankers.

PayStream’s analysts have coined the term “dynamic payables discounting,” or dynamic discounting for short, to define this concept. Dynamic discounting solutions provide suppliers with the option of accepting early payments against any or all of their approved receivables, at any point, up to the maturity date for a discount fee. A portion of the finance charge or discount fee can be passed on to buyers. Our research reveals that this functionality has been rapidly gaining acceptance as it offers financing to suppliers at attractive rates while delivering an additional income stream to buyers – a win-win situation all around.

Many buyer companies are not nimble enough to take advantage of valuable discounts. Some seek to extend terms in order to preserve cash. Still others have investment alternatives so attractive that they outweigh the opportunity cost of missing a discount. Suppliers, on the other hand, too often find themselves financing sales by factoring their account receivables or through asset-based lending - both expensive sources of capital. Some suppliers, particularly smaller companies, don’t enjoy either option and are frequently strapped for cash.

Dynamic discounting serves the cash management needs of buyers and suppliers alike. The solution providers create the technological framework to facilitate this process. The transaction can be self-funded by the buyer or a bank can stand in as a short-term lender. Through Web-based buyer-supplier networks, buyers are able to project compressed settlement terms through supplier discounts. Suppliers are able to pick and choose among an array of payment options for each outstanding invoice. Banks pay the bill and collect from the buyer the full original price minus a percentage of the discount savings; an arrangement often referred to as “revenue sharing.”

According to our research, when third party financing is involved, buyers are able to reduce their working capital requirements, some by as much as 40 percent, and suppliers gain access to capital at a more competitive rate than they are likely to obtain through a local bank.

Electronic Payments Solution Functionality

Electronic payments solutions deliver a range of functionality from supplier enrollment and management to payment processing and remittance detail delivery. PayStream Advisors has identified the following functional components and value-added services that are usually offered by ePayment technology providers:

Supplier Enablement and Enrollment:

As identified earlier, supplier adoption is key to the success of any electronic payment program. In best case scenarios, the application and the solution provider:

- Deliver vendor segmentation analysis to identify suppliers who are most likely to switch to electronic payments and develop activation campaigns to recruit suppliers to the solution.
- Offer a quick, easy, and painless online enrollment process. Support many-to-many relationships, allowing suppliers to interact with multiple buyers at the same time.
- Provide additional services, such as recruiting suppliers for dynamic discounting and segmentation analysis to identify high spend suppliers who may offer significant early payment discounts.

Electronic payment solutions offer functionality to allow suppliers to enroll themselves by logging into the application to provide bank account and registration information. Alternatively, buyers can manually enter supplier information or import the same from their ERP or AP systems. In some cases, vendors go a step further to authenticate the bank account information provided by suppliers before payments are initiated, either by verifying a cancelled check or by directly calling the supplier's bank.

Figure 9
ELECTRONIC PAYMENTS SOLUTION FUNCTIONALITY

ePayment solutions streamline and optimize the payment process and deliver tangible results around processing efficiencies, cost savings and working capital improvements.



System Integration and Data Mapping:

Many buyers and suppliers are hesitant to use electronic payments owing to concerns around integration with existing accounting infrastructure. To overcome this barrier, electronic payment technologies delivers seamless functionality to integrate the application with AP technologies on the buyer side and AR technologies on the seller side.

These solutions also facilitate interaction between buyers and suppliers by:

- Delivering built-in adapters for major ERPs like SAP and Oracle, while providing custom integration for virtually any accounting system, including home-grown and legacy applications.
- Providing any-to-any data mapping between buyer and supplier document formats (payment details, remittance information, etc.), at the time of supplier enrollment itself.
- Extracting payment and remittance information automatically from buyer systems and making it available on an online portal or passing it directly into suppliers' accounting applications.

Online Portal and Supplier Self-Service:

Through the integration of self-service supplier portals, electronic payments solutions can truly drive collaboration between buyers and suppliers. These portals accelerate the exchange of information between trading partners and provide improved visibility and control over financial transactions.

- Suppliers' ability to log into an online portal and track payment status in real-time strengthens the visibility and control they have over their accounts receivables processes.
- They receive notification immediately upon completion of the buyers' payables approval process, allowing them to monitor and assess their receivables, as needed.
- Suppliers can use the portal to also manage their profiles and banking information and to notify buyers of any changes.
- And for the buyer, this translates into a reduction in resources required to resolve discrepancies and respond to inquiries into invoice and payment status.

Payment and Remittance Processing:

ePayment solutions deliver robust functionality to automate the steps that buyers take to initiate, post, and execute payment, including preparation, processing, and submission of the payment file to the bank. Some solutions also deliver capabilities around consolidation of all payment processing and transaction information enterprise-wide, including sophisticated multi-bank reporting for a single view of cash balances, as well as provide support for international and multi-currency payments.

Payment automation solutions also provide comprehensive functionality around remittance delivery to suppliers by:

- Allowing suppliers to specify and change the format in which they would like to receive the remittance detail.
- Providing functionality for suppliers to manage whether they want the information to be available on the online portal or sent directly to their ERP systems.

- Allowing suppliers to download the information in a format of their choice for further analysis, payment reconciliation etc.

Reporting and Analytics:

All ePayment applications offer some degree of reporting capability through standard built-in reporting templates and ad hoc, user-defined custom report creation tools. The wealth of information gleaned from the procure-to-pay process can not only be used to comply with regulatory requirements but also to provide valuable business intelligence for strategic spend analysis.

More robust applications can deliver further functionality around:

- Printing and exporting reports into multiple formats, including Adobe Acrobat (.pdf), Microsoft Word (.doc), Microsoft Excel (.xls), Rich Text Format (.rtf) etc.
- Comprehensive audit trails of all actions taken within the system with date and time stamps.
- Payment scheduling to automatically generate or email reports based on specific time periods or event triggers.

Bottomline Technologies Overview

Bottomline Technologies (NASDAQ: EPAY) provides collaborative payment, invoice, and document automation solutions to corporations, financial institutions, and banks around the world. The company's solutions are used to automate and manage processes involving payments, invoicing, global cash management, supply chain finance, and transactional documents. Organizations trust these solutions to meet their needs for cost reduction, competitive differentiation, and optimization of working capital. The company has more than 9,000 global customers, with offices in North America, EMEA and Asia-Pacific.

Bank of America purchased Fleet in 2004 and operated the PayMode service until September of 2009 when Bottomline Technologies acquired the product from Bank of America and rebranded it as Paymode-X. Through the acquisition, Bottomline Technologies has been able to complete its order-to-pay offerings by integrating the Bottomline Business eXchange (BBX) and Paymode-X platforms. Bottomline will continue expansion of the product offering by presenting next-generation solutions for fully integrated payables automation, including expansion of its global capabilities in both payments and invoicing.

Today, Paymode-X is a SAAS offering and is marketed and sold by Bottomline's Corporate solutions group across all vertical markets. Additionally, Bottomline has a key strategic relationship with Bank of America who sells the solutions to its Treasury clients.

Table 1

BOTTOMLINE TECHNOLOGIES COMPANY AND SOLUTION INFORMATION

Company Name	Bottomline Technologies
Website	www.bottomline.com
Founded	1989
Headquarters	Portsmouth, NH
Number of Employees	750
Sales Contact	info@bottomline.com 1-800-472-1321
Solution Name	Paymode-X

Bottomline Technologies PayMode-X

Paymode-X is a business-to-business electronic invoice and payment network of more than 100,000 active, authenticated suppliers. The Paymode-X solution supports a number of electronic payment methods, including ACH, card and Wire transactions. If the client chooses, payments can also be made via checks. By transforming paper (invoices and checks) into electronic transactions, Paymode-X reduces processing costs and extends cash flow benefits.

Following are some of the key features of the Paymode-X solution:

Integration: Paymode-X is able to integrate with all ERP and AP automation systems. A few major systems that the solution has been integrated with to date include SAP, Oracle, JD Edwards, Lawson, GEAC, PeopleSoft, Banner, Elite, Solomon, Great Plains, AMS and McKesson. Paymode-X has also been successful in integrating with a number of “homegrown” and legacy systems.

Supplier Management: Enrollment in the Paymode-X network is free to the supplier. Bottomline Technologies provides professional services that include technical integration of clients’ payment applications to Paymode-X, and development of a custom set of direct marketing and enrollment services for the purpose of rapidly and efficiently enrolling suppliers in the Paymode-X electronic payment network.

The key success factor in the Paymode-X network, which today boasts more than 100,000 suppliers and a growth rate of 46 percent for 2009, has been its ease of use and the flexibility of the product platform. This ease of use also translates to high rates of conversion. Within 12-16 weeks of beginning the vendor marketing campaigns, clients typically see between 50 to 70 percent of their suppliers successfully receiving ePayments via the network.

Security Measures: Paymode-X incorporates a number of security features including:

- Digital signatures and certificates with 2048-bit encryption;
- User access controls including password best practices and functionality-based privileges;
- Multi-approval payment workflow utilizing digital certifications;
- Additional levels of database encryption for confidential data types (passwords, card, bank account, SSN, etc.);
- Controls established for web portal user account log-in (repeated attempts, lockouts, alerts, etc.);
- Multi-tiered authentication of all enrollments.

Payment Workflow: Incoming invoices are routed to defined approval groups for decision. General Ledger coding can be applied based on client-defined rules for each approval group. PO matching and PO flip are also offered as client options. Additionally, discount options are offered to both the supplier and the buyer. Once approved, the invoices are integrated into the client’s ERP application for payables processing. Once the payables process is complete, payment instructions are passed back to Paymode-X for settlement.

Paymode-X offers several options for clients to manage audit and/or financial payment controls within the application. There are multiple levels of approvals that can be applied at the file or payment level. Payments are processed only after the full approval process has been completed. Clients have the ability to review, approve, or reject files and/or payments. Financial limits can also be set to forewarn the client when payment instruction files have been received that exceed normal processing amounts. Once approval has been provided, payments are processed and notification is sent to the supplier.

Working Capital Management: The current Paymode-X offering includes dynamic discount capabilities. A planned expansion to include Supply Chain Financing will be completed later this year. Further, Bottomline’s full invoice-to-

payment service provides better working capital management and more efficient terms management, as well as greater visibility into the order-to-pay process.

Remittance Information: Unlike traditional ACH restrictions for remittance detail, there is absolutely no limit to the amount of data that can be linked to a Paymode-X payment. Bottomline works with suppliers to deliver data in the precise format required, allowing them to post and reconcile the payment quickly and accurately. Options include online reports, online downloads such as XML, .csv, .xls, BAIV2, and EDI 835, CCD+ and CTX for ACH, as well as proprietary receivables output files.

Dispute Management: The solution delivers a collaborative interface to expedite dispute resolution between buyers and suppliers. Discussion threads allow buyers and sellers to exchange information when an incoming invoice needs repair (dispute) or needs to be resubmitted (reject). Email and online messaging tools are offered to facilitate the dialogue.

Reporting and Analytics: The Paymode-X solution comes bundled with a robust reporting module. There are more than 20 standard reports, available to any user of the Paymode-X service, based on their granted privileges for report viewing. Further, users have the ability to generate custom reports by filtering on unique search requirements each time they access the Paymode-X online reports. Reports can be printed as .pdf, or downloaded in a number of different formats (.xml, .csv, excel, BAIV2, EDI 835).

Implementation and Support: An average Paymode-X implementation is 30-60 business days. A key success component of the implementation process is the ease of use for the client. Paymode-X does not require specific file formats; it accepts virtually all native file formats and provides a file translation service to ensure limited IT resource requirements by the client. Additionally, Bottomline provides complete supplier on-boarding services to ensure successful adoption, including handling of any file formats the supplier may require for delivery of remittance data.

The baseline Paymode-X service consists of a professional service engagement that addresses the clients total invoice and payment needs. Additionally, Bottomline Implementation Specialists work with clients to understand their existing AP processes and ensure maximum utilization of the features within Paymode-X - all with minimal impact to daily AP processes/controls. At the end of the implementation, a User Acceptance Test is executed and online training is conducted for all users of the service who were not part of the implementation project team. Online help is also available after implementation along with live customer support.

P-Card Solution Functionality: Paymode-X accepts and processes downstream to the card processing platform used by its clients. The features and functionality of the particular card offering would be specific to the financial institution that supports the client's card services.

Case Study: State of Mississippi

State of Mississippi is a PayMode customer sold through the Bank of America Merrill Lynch channel.

The Client: The State of Mississippi's Department of Finance and Administration (DFA) helps the Governor, State agencies and the State Legislature provide effective, efficient and fiscally sound government to the citizens of Mississippi. The agency has overall management responsibility for the State's \$11.2 billion in annual disbursements to over 30,000 business and government payees.

The Requirement: Operating as the central disbursement authority for over 125 state agencies, DFA's mission and organizational culture promotes continual improvement in operational efficiencies and cost reduction. Having identified paper processing as a source of inefficiency, DFA wanted to reduce the amount of paper involved in its disbursement process – much of it stemming from the use of paper checks and remittance documents. Additionally, DFA's Electronic Funds Transfer (EFT) platform was not adequately supporting the amount or complexity of remittance information associated with payments.

In addition to the need to convert a paper-based payment process to a more streamlined electronic process, DFA identified other important requirements:

- Ensure that up-stream State agencies could continue to manage their relationships with the State's 30,000+ business and government payees – vendors, suppliers, service providers and Mississippi- domiciled municipalities – without disruption.
- Allow State payees of all sizes to accept electronic payments, without requiring changes to their existing bank accounts or internal processes.
- Maintain the State's existing banking relationships in Mississippi.
- Enable their existing Statewide Automated Accounting System (SAAS) to initiate electronic payment requests and send remittance information without requiring a significant technology investment or system changes.
- Solicit and encourage State payees to accept electronic payments without dedicating resources to the process.
- Implement a solution quickly and inexpensively.
- Use a HIPAA-compliant payment solution.

The Situation: Invoices are processed and approved for payment by each State of Mississippi agency, and associated remittance information is forwarded to DFA for centralized disbursement processing. Payments are made in both check and ACH formats. Payment information is made accessible to the agencies since each maintains its own relationships with the State's vendors.

The Solution: DFA conducted a search for an electronic payment solution. After learning about PayMode, DFA found an answer to its electronic payment needs.

PayMode provided DFA the following benefits and features:

- A proven alternative to paper-based processing.
- Experience with state and municipal implementations.
- Bank neutral processing for both the State and its vendors.

“Through PayMode®, the State of Mississippi implemented a state-of-the-art electronic payment and remittance system without the headaches or overhead involved in the implementation of an ERP. The staff has been exceptional. Every time we need or question something, they immediately bring the folks who can get it done to the table and just get it done.”

— Cille Litchfield,
Deputy Executive
Director,
Mississippi
Department of
Finance and
Administration

- An ability to quickly integrate with the State's accounting system and workflow.
- Broadly accepted by vendors and a proven vendor marketing and acquisition program.
- Real-time reporting of both in-process and settled payments.
- Sophisticated security and cost-effectiveness.
- Outstanding references from public and private sector customers with whom the State could validate all of the above.

The Implementation: SAAS Integration – DFA's existing disbursement workflow was documented and SAAS was configured to generate a PayMode payment file. The file, which is regularly created during the DFA's pay run, consists of both payment and remittance information. In order to capture remittance information from up-stream State agencies, additional integrations were completed with multiple billing systems resident within the agencies. This also provided up-stream agencies with a real-time view into their payments, as well as the ability to track payment history.

Vendor Sign-Up – The PayMode Accelerated Enrollment Program was used to rapidly sign up State payees in PayMode to receive payments and remittances electronically. A tiered program was created to incrementally target various types of State payees. The first group to be targeted included Mississippi-domiciled municipalities and educational institutions and those vendors receiving EFT payments. The second tier of targeted vendors included those related to the State's technology and general expense categories. Finally, agency-specific vendors were targeted, such as those of the Mississippi Department of Transportation, as well as medical payments that required compliance with standards set forth in the Health Insurance Portability and Accountability Act (HIPAA).

With PayMode, the State of Mississippi benefits from:

Lower State disbursement costs.

More efficient and effective inter-agency remittance processing.

Significant decrease in paper.

Positioning as leader among U.S. states in financial management.

The Results: DFA was set up to electronically disburse payments, along with associated remittance information, to State vendors, suppliers, service providers and municipalities within its existing A/P system environment and process. This work was completed over a period of eight weeks. DFA and the other agencies experienced no disruption to their ongoing operations. Additional integration work was completed at later dates as incremental State agencies aligned with the State's PayMode program.

Vendors representing over 58 percent of the State of Mississippi's annual disbursement dollars and 70 percent of the payment transactions are presently enrolled with PayMode, significantly reducing the amount of paper involved in the State's process. Additionally, the less efficient EFT process originally in place was virtually eliminated. State payments continue to be captured as more State vendors are solicited and enrolled. Today over 20,000 payees are currently receiving electronic payments from the State using PayMode.

With a successful electronic payment program in place the State has expanded their use of PayMode to receive invoices electronically from their strategic vendors. In addition to receiving invoices, PayMode Invoice Management facilitates matching invoices to purchase orders and routing invoices to authorized users for approval. The vendors have the flexibility to submit invoices in multiple formats and access online reporting tools to gain visibility into the status of their invoices. This solution augments the existing payment program to achieve straight-through processing and further reduces the paper in State's processes.

Success of ePayments Initiatives

PayStream Analysts have identified ten simple steps that organizations investigating ePayments options can follow to ensure that their automation initiatives are successful:

1. Building a Strong Business Case

One of the key decision metrics around whether or not to implement any automation technology is a return on investment. It only makes sense to automate and go through significant process reorganization if the new process is going to be more cost-effective compared to the current process and deliver tangible cost savings.

2. Getting Senior Management Support

Our research indicates that more than 15 percent of projects fail due to lack of support from senior management. Getting management buy-in from the start goes a long way in gaining budget approval for the project, especially in today's tough economic climate, where multiple projects are competing for the same budget dollars.

3. Documenting Your Requirements

Before evaluating technology solutions, organizations have to thoroughly document their requirements and develop an automation roadmap, highlighting key milestones and deliverable dates, preferably over a three to five year period. The requirements document should clearly identify technology changes as well as process changes.

4. Selecting the Technology Vendor

The requirements document can be used to develop a Request for Proposal (RFP), which will be sent to short listed vendors. It is important to develop objective score cards to evaluate the vendor responses to the RFP, so vendors can be narrowed down and a decision made as to the provider of choice.

5. Negotiating a Contract

While negotiating contracts, balance fixed costs (implementation fees or license fees) against variable costs (per transaction fees). Other areas that merit close consideration are the length of the contract and penalties for terminating the contract early, as well as any guarantees around supplier recruitment and conversion.

6. Doing a Pilot Project

Some organizations prefer to do a test pilot before rolling out any project full scale. Pilot projects can range from six months to one year and the scope for the project can be determined based specific business units or invoice types, for example and closely aligned with the milestones outlined in the automation project roadmap.

7. Segmenting the Vendor Base

Not all suppliers are good candidates for electronic payments, so it is important to segment the vendor base depending on suppliers' propensity to accept ePayments. Most organizations that are going the electronic route will target strategic high volume or high value suppliers first and then pursue the remaining suppliers.

8. Communicating to Vendors

As with any initiative, which impacts suppliers, do not forget to bring them into the

loop as soon as possible. Communicate as early as possible to vendors about the automation initiative and the changes they would be expected to make on their end. Develop a supplier enablement plan that outlines the different ways in which the organization will interact with suppliers.

9. *Evaluating the Pilot's Performance*

If you are embarking on a pilot project, prior to full-scale implementation, develop key metrics with the service provider, which will be used to evaluate the performance of the pilot. These established metrics can be compared with the actual performance to determine whether the project is on the right track and whether to enter into a long-term contract with the chosen provider.

10. *Monitoring Your Technology Usage*

It is tempting to think that once the long-term contract is in place and the technology is up and running, the AP department does not have to concern itself with those payments. That is not the case. Just as evaluation of the service provider's performance during the pilot is critical, periodic monitoring of performance and service levels is important to ensure continued success of the project.

Key Issues to Consider

While the benefits of electronic payments are undisputed, selecting the right electronic payment vendor and solution is a challenging task. It is critical to analyze what various technology solution providers offer and how the functionality matches with an organization's business needs. This section is helpful in identifying the most appropriate solution provider for your business needs:

Company Overview

- How long has the company been in business? Since when has it been offering payment automation solutions?
- Are payment processing solutions a core business of the vendor?
- How many customers does it have, and who are they?
- How is it funded? If it is a public company, look at the prospectus.
- How does it plan to grow, and are there any mergers or acquisitions on the horizon?
- How will it manage growth and the resulting increased customer demand on its systems?

Solution Overview

- How is the solution delivered? Is it a licensed software or a hosted solution?
- How does the system interface with clients' existing ERP and/or AP automation systems?
- What security measures are incorporated in the solution?
- Will adopting the solution result in changing core payment processes and compromise (versus strengthen) existing controls?
- Is the solution scalable? Can clients start with converting paper checks to ACH, paper-check/wire, with one AP interface and a single file?
- Does the solution also deliver electronic invoicing and dynamic discounting capabilities?

Supplier Network

- Does the electronic payment solution come bundled with a supplier network?
- Is it a shared network supporting many-to-many relationships between trading partners?
- How many suppliers are currently enrolled on the network?
- What support does the vendor provide around supplier recruitment, specifically around vendor segmentation analysis and activation campaigns?
- How does the solution provider work with suppliers reluctant to accept electronic payments?
- What functionality is available for suppliers to access the network and create profiles?
- What support does the technology vendor provide around collection, validation and storage of suppliers' bank account information?

Payment Processing

- What type of payment methods does the solution support – check, ACH, commercial cards, and wire transfers?
- Does the solution support a single Web-based interface to process different payment types?
- Can buyers request multiple payments to different suppliers through a single payment instruction?
- Based on conversion estimates, who will manage ACH notification of changes (NOCs) and returns?
- What payment workflow capabilities are available as part of the solution?
- How will suppliers receive notification of payment status?

Remittance Management

- How does the solution facilitate the delivery of remittance information to suppliers?
- Is the remittance functionality sufficient to respond to suppliers' required formats and level of detail?
- Do suppliers have the option of specifying the format in which they would like to receive remittance information?
- How will the solution integrate with clients' source systems that house the data required by suppliers?

Supplier Self-Service

- Do suppliers have access to an online portal to create and maintain their profiles?
- Can suppliers use the portal to access real-time information about transaction status?
- Does the reporting module of the solution allow access to suppliers to view and download reports?

Reporting and Analysis

- Does the solution include a reporting module? How many standard reports are available as part of the solution?
- Can users generate custom reports and save the queries for reuse later?
- Can data from the solution be downloaded into third party reporting tools like Crystal Reports for further analysis?
- What out-of-the-box payment-related metrics/KPIs does the solution provide to buyers and sellers?
- Does the solution support report scheduling, whereby users are automatically emailed reports based on pre-defined triggers?

About PayStream Advisors, Inc.

PayStream Advisors is a technology research and consulting firm that improves the way companies plan, evaluate, and select emerging technologies to achieve their business objectives. PayStream Advisors assists clients in sorting through the growing complexities of IT applications related to business process automation with the goal of making objective, analytical, and actionable recommendations. Wherever business process automation technology is an issue, PayStream Advisors is there to help. For more information, call (704) 523-7357 or visit us on the Web at www.paystreamadvisors.com.

About the Analyst

As Research Director, Sush Koka manages PayStream Advisors' overall technology research effort. She writes research reports, leads client briefings, and participates in consulting engagements in the purchase-to-pay and order-to-cash functional areas. Her deep experience both as a market analyst and a consultant enables her to analyze trends in financial services automation, assess feasibility of products and drive research activities. Her areas of focus include invoice and payment management, travel and expense management, and business process automation. She has extensively researched and written reports in these areas, and her work has been published in trade magazines such as Supply & Demand Chain Executive and DOCUMENT Magazine.

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- Free Reports
- Software Directory
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Advisory Services

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- Create and manage your RFP
- Review and select the perfect vendor

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