

Directing Payments

Financial Efficiency and Better Cash Management with Electronic Payments

Businesses looking for financial process efficiency, cash management visibility and effective fraud prevention would be well served to start with payments. Payments strategy is at the core of a business's financial operation. It ties together the daily work of paying vendors and partners with the financial task of managing working capital and improving capital efficiency.

The SunTrust OneTeam ApproachSM brings an integrated team with the right financial and industry expertise from across our organization to help our clients pursue the best financial strategies for their businesses. Our latest research highlights *Directing Payments*, *Managing Collections*, *Protecting from Fraud* and *Reporting and Controlling Cash*. SunTrust and industry experts discuss linking your business plans, your capital requirements, and your payments strategies to generate smart growth.

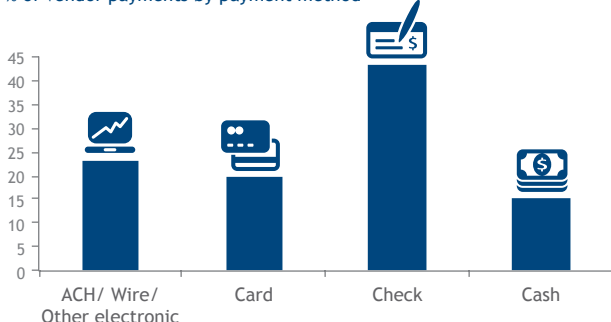
Payments and the Movement Towards Electronic Transactions

PAYMENT OPTIONS

How Businesses Make Payments Today

SunTrust Research shows that checks are still the dominant method used for vendor payments.

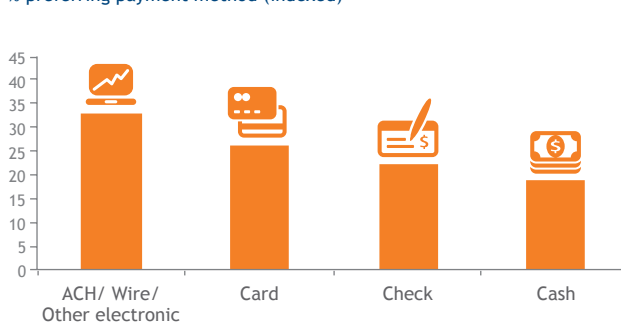
% of vendor payments by payment method



Preferred Payment Mix

Business executives prefer to make payments using more electronic means, dominated by the use of ACH and card.

% preferring payment method (indexed)



ELECTRONIC PAYMENTS

Advantages

Businesses have set their sights on using more electronic forms of payments. They see the primary advantages of electronic payments as:

	% of time cited as a reason
The payment is processed faster	36%
It is the most convenient for our company	34%
The payment process is more reliable	32%
The payment is guaranteed	30%
The payments are more secure	29%
It is the most practical for our company	28%
It works well with our accounting system	28%
This form of payment produces less hassle for who we are paying	22%
There is less chance for fraud	20%

Source: SunTrust Research

Barriers

Business executives cite a number of reasons that they are not making more electronic payments:

	% of time cited as a reason
It is not very practical for our company	25%
The method I use has a more reliable process	20%
It doesn't work easily with our accounting system	19%
There are more fees involved with making payments	17%
There is a chance for fraud	15%



A Changing Payments World — SunTrust's Perspective

The state of payments has changed dramatically over the past few years as technological advances gain acceptance. Businesses have embraced many electronic-type payment channels like ACH (Automated Clearing House), card and wire transfer. According to SunTrust Research, they use them to move 43% of their payments. Business executives say they want to grow electronic payments to almost 60% of their payments.

With new and adapted electronic offerings in the pipeline, business executives find themselves sorting through fit, solution maturity and future enhancements as they put together a payments strategy.

Payments at the Core of the Cash Cycle

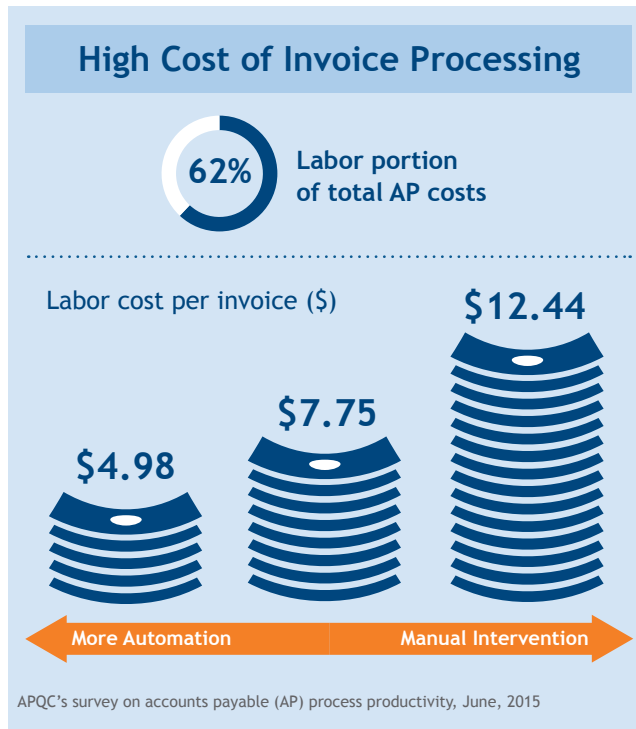
The accounts payable department handles a critical day-to-day function for a business — moving money out to suppliers and trading partners. From a strategic point of view, payments are at the core of cash management and one of the places in the cash cycle where companies can have the most control. “At the heart of what your company does,” Eric Brewer, Payment & Technology Industry Group Specialist at SunTrust, states, “it is all about managing liquid capital and having a tool that allows you to manage what you do with cash.” Robert Blair who heads Product & Digital for SunTrust Treasury & Payment Solutions summarizes, “Payments are your business’s transit system for cash liquidity.”

Mr. Blair continues, “I think there’s an opportunity for all companies to ensure that they’re managing and using payments to handle the flow of their cash in a way to benefit their P&L statement.” By viewing payments as a lever to control cash flow, your company can use the information and control you have to dictate your cash management approach, managing cash and relationships to match your business objectives.

The underlying move to electronic payments

The conversion of paper to digital transactions has begun to transform payments and cash management. As technology advances, it provides more opportunities for efficiency, speed and information retention through electronification of payments. The steady shift away from checks at 6% annually paves the way for the acceptance and preference of electronic payments. At the same time, credit and debit card usage has grown at 8.1% annually and ACH payments have grown 5.7% annually (The 2013 Federal Reserve Payments Study, 2014), even in the face of slow economic growth and reduced technology investment.

The internal costs of invoice processing and payment generation drive payment mix changes. “Everyone understands the manual labor cost to process invoices and receive payments, but few understand the true costs — such as the missed opportunities for savings through early payment discounts, and conversely, the risk of late penalties and fines. Add to this manual reconciliation and these costs can be staggering,” explains Mr. Brewer. Non-electronic processing is still the costliest method by far, and is getting more expensive on a per unit basis as the payment mix shifts towards electronic payments.



Another dynamic is the shifting demographics of the workplace. According to Mr. Brewer, “The Millennials moving into the workplace are used to getting their information on the go with a preference for apps, portals, and personalized information. They are more mobile, and the data needs to match their needs and desires.” He continues, “Where the market is going, longer term, is away from the kind of one-size-fits-all desktop online access points where one site gives the company all their information and toward smartphones, tablets and apps that will give the company the information they need in the environment they want. For example, SunTrust is developing our new online banking and cash management tool with a customizable dashboard to offer personalized information by role and enhanced user interaction. We are changing with the way customers want to receive data.”

Payment Automation Benefits

- 20X cost of invoice in low automation environment vs. high automation

Best in Class

- 4.1 days to process an invoice
- \$3.34 cost to process an invoice
- 90% capture of early payment discounts

Paystream Advisors Research, May, 2015; Aberdeen Group, 2012

Creating a winning payments strategy

A payments strategy does not have to be complex, but it must match a company's individual needs based on cash requirements, supplier type and relationship, cost of funds, and cost of transactions. “Extending payment terms, slow-paying invoices, using credit cards for float and paying through ACH to keep funds in-house as long as possible are all strategies which can benefit any size company,” explains Mr. Blair. “A solid plan fits the right payment tool to the right situation.”

“Your company's liquidity and payments strategies are inextricably linked,” reminds Mr. Blair. This fact becomes increasingly important as interest rates begin to rise. He continues, “Companies are going to need to be more sophisticated about using payments to manage

cash in order to maximize the return on that cash, whether it's working capital to go do something else, or parking it somewhere for the longer term to gain more income.”

Mr. Brewer agrees, “It is in the client's best interest to electrify payments — in terms of settlement, in terms of availability of funds and in terms of security.” He continues, “Each company is different. Solutions need to be very specific to a company's industry and its business model as well as to the trends they are seeing in the marketplace.”

Harvesting the benefits of electronic payments to drive efficiency, visibility and simplicity

There are a number of reasons electronic payments have become more widely adopted in recent years and can prove valuable to businesses:

- Efficiencies from electronic payments can improve the cash cycle through scheduled payments and invoicing
- Visibility into payment and collections data can improve decision-making with better information
- Simplified payment-related processes can lower administrative and staffing costs, eliminate fraud opportunities and prevent compliance issues

Making the shift to more electronic payments provides companies an outstanding financial management improvement opportunity.

Fifty-two percent of Middle Market businesses cite speed as a top reason to use an electronic payment system. Indeed, best-in-class performers took only 4.1 days to process an invoice at a cost of only \$3.34. These same performers also realized a 90% capture rate of early payment discounts, doubly increasing the value of electronic payments to a company's bottom line. (Aberdeen, 2012) SunTrust Research noted more convenience and improved security as top responses in favor of electronic payments. Middle Market businesses also identified immediate fulfillment of payments, less paperwork and staff hours required, timeliness and traceability and avoidance of mail delays as benefits to using electronic payments for their company. These responses outline some of the most important and tangible business benefits of electronic payments.



Electronic payment adoption allows companies to leverage the full functionality of electronic payments and benefit from the broad range of automated tasks it provides. Rebates, discounts, and extended terms become a much more streamlined task. Detailed reporting from the electronic payment system provides additional financial history and targeted data, giving management access to information for improved decision making and additional efficiencies. Sixty-three percent of Middle Market companies currently using electronic payments rank accessibility to online reporting as extremely important to their business.

Implementation of an electronic payments system that allows for customized EDI (Electronic Data Interchange) payment and data processing also enhances supply chain control and visibility. Improvements in credit and collections processes give staff greater insight into payment status and improve data accuracy throughout the payment system. This allows for improved customer service and strengthening supplier relationships by streamlining the customer onboarding process. Digital transactions can also carry additional embedded data with specifics about the underlying customer or product and service delivered. Kellie Goodwin who heads Wholesale Payments Strategy for SunTrust Corporate Strategy Group notes, “The capacity to attach additional data to each payment provides the Accounts Payable (AP) staff with the information it needs to support workflow improvements.”

Administrative costs in the AP function can be lowered with the adoption of electronic payments. Labor costs are typically 62% of total AP costs. By collecting data accompanying payments, manual intervention is reduced, thus reducing staff time on reconciliation. Electronic payments improve cycle time as well, through faster invoice approval and payment. Essentially, initiating and processing payments sent electronically can free up valuable administrative resources for other tasks.

Moving away from paper checks and adopting a more electronic payment environment reduces the opportunities for fraud – both internal and external. Over half of business executives surveyed who use electronic payments feel extremely secure from online fraud. Electronic payment systems improve internal controls, which in turn reduce internal fraud. The ability to assign authorities at a user level with strong audit tracking adds controls that, along with the elimination of paper, help check internal fraud. By design, electronic payments systems offer built-in redundancies, basic controls (automatic reconciliation, blocks and filters, etc.) plus audit trails that deter fraud as well.

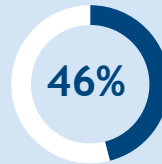
Electronic payments systems are not simply cost effective, they are a multi-faceted solution that can increase your staff efficiency, improve decision making, mitigate fraud and when used strategically, improve your company’s bottom line.



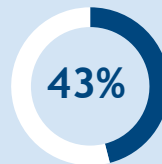
Top Benefits of Making Electronic Payments to Vendors



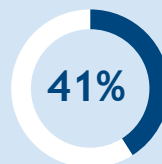
Processed faster, streamlining workflow and lowering costs



More secure, reducing opportunities for fraud and creating an electronic audit trail



More reliable, providing higher visibility into pending and processed payments



Guaranteed, eliminating lost payments in transit

Making the Move to Electronic Payments

Electronifying payments offers the promise of faster funds movement, with better tracking, higher security and more data transferred, all consuming less of your financial staff's time. A key tool to do this while going paperless is a credit card program.






Cards programs vary widely based on the business need that they address.

Mr. Blair advises, "Card is often the answer for ease of flow, but there can be more education required with trading partners or employees to get their buy in to card solutions and begin using them." For example, in the case of corporate purchasing cards, educating vendors about the program, demonstrating the simplicity and speed of payment and highlighting reduced costs and fraud risk from eliminating paper checks provides the cost justification that offsets merchant fees. That process can take some time and thought in working with your trading partners and should not be overlooked in planning.

	Approach:	Business Need:	Provides:	Results:
1	Business Card Corporate Card	Control employee spending	<ul style="list-style-type: none"> Consolidated billing Individual cards Pre-set limits Spend management reporting based on card type Additional benefits, e.g., travel insurance, rebates, annual fees, etc. vary by specific card 	<ul style="list-style-type: none"> Better expense control Minimal paperwork Improved cash flow management Extended payment terms
2	Commercial One Card	Consolidate business expense management	<ul style="list-style-type: none"> One card solution for most business expenses Consolidation of purchasing and T&E (Travel & Entertainment) expenses Online control of cardholder limits and activation 	<ul style="list-style-type: none"> Visibility and control of cardholder activity Enhanced reporting
3	Purchasing Card	Lower payables administrative costs	<ul style="list-style-type: none"> Automation of most vendor payments Integration with ERP (Enterprise Resource Planning) systems 	<ul style="list-style-type: none"> Better control over payment timing Improved cash flow management Creation of valuable payment analytics Reduces exception processing
4	ePayables	Ability to control spending at the transaction level	<ul style="list-style-type: none"> Authorizations tied to specific invoices and amounts Automatic transaction matching and reconciliation Consolidated vendor payment for multiple invoices 	<ul style="list-style-type: none"> Increases card spend/rebate potential Extends DPO Reduces exception processing Improves supplier cash flow
5	Payroll Card	Simplify payroll processes	<ul style="list-style-type: none"> Reloadable debit card issued to employee as pay Movement toward 100% electronification 	<ul style="list-style-type: none"> Increased Direct Deposit Elimination of paper checks Substantially lower overall payroll management costs




Striving for all Electronic Payment Disbursement

There is a wide range of electronic payment strategies that businesses can use to enjoy the simplification, fraud risk reduction, and greater control that comes with moving to electronic payments.

	Business Need:	Solution:	Features:	Provide:	Results:
	Low cost alternative to wire transfer and check	Corporate ACH payments/ Same-Day ACH	<ul style="list-style-type: none"> Secured Online File Transfer Online Banking Third party vendor 	<ul style="list-style-type: none"> Same day, next day or future dated payment 	<ul style="list-style-type: none"> Improved cash flow forecasting Reduced administration and transactional costs Reduced payment fraud
	Deliver payment data electronically	Electronic Data Interchange	<ul style="list-style-type: none"> Secured Online File Transfer 	<ul style="list-style-type: none"> Expanded business opportunity with companies requiring EDI (Electronic Data Interchange) 	<ul style="list-style-type: none"> Improved cash flow forecasting Reduced administration and transactional costs Improved invoice accuracy
	Pay staff at multiple locations	Direct Deposit of Payroll	<ul style="list-style-type: none"> Secured Online File Transfer Online Banking <i>Pass-Thru</i> feature Third party vendor 	<ul style="list-style-type: none"> Enterprise-wide payroll processing 	<ul style="list-style-type: none"> Simplified logistics in payroll distribution, regardless of location Increased security by eliminating checks Improved efficiency for payroll staff
	Outsource payment processing	Consolidated Payments File	<ul style="list-style-type: none"> File transmission directly into the application 	<ul style="list-style-type: none"> Single source execution of check, card, ACH and wire transfers Online accessibility of PDF of payment remittance for vendor 	<ul style="list-style-type: none"> Reduced internal costs Reduced payment fraud Reduced check stock on hand
	Enable same-day payments	Wire Transfer Same-Day ACH	<ul style="list-style-type: none"> Online Banking via <ul style="list-style-type: none"> uploaded CSV file direct input Phone call 	<ul style="list-style-type: none"> Secure, immediate transfer of funds for high-value, time-sensitive payments Repetitive and standing order payments Incoming and outgoing drawdowns 	<ul style="list-style-type: none"> Increased security with customer authorization controls Eliminated payment uncertainty Ensured timely posting

Embedding Electronic Payments in your Financial Operations

Business executives report a gap between where they want to be with electronic payments and where they are in their implementation. Often the cost savings from electronic payments can only be reached by redesigning financial processes around electronic payment processing when implemented at scale. The following visual roadmap shows possible approaches to financial payments workflow under a more electrified approach.

	 ACH, Checks, Wire Transfers,Cards	 ACH, Wire Transfer, Payroll Direct Deposit, Payroll Card	 Card Payments
Initiation Point	Payables Processing System	Online Treasury Manager Direct Setup	Issue Purchasing Cards to Vendors
Process	<ul style="list-style-type: none"> • Bank receives file via FTP (File Transfer Protocol) • Bank remits via best method (ACH or check) 	<ul style="list-style-type: none"> • Remitted through Online Banking: Fed wires, SWIFT and SunTrust book transfers. Can be entered as a single wire or an imported batch (templated or free form) 	<ul style="list-style-type: none"> • Cards are integrated into clients payables systems (Cards have a zero dollar limit until an invoice is approved and funded) • Eliminates check payments and the associated reconciliation
Best For	<ul style="list-style-type: none"> • Recurring and one-time vendor payments • Dividend/rebate payments • Expense reimbursement 	<ul style="list-style-type: none"> • ACH Payroll • ACH Pre-authorized debits • Vendor payables • Book transfers 	<ul style="list-style-type: none"> • Large volume vendors
Benefits	<ul style="list-style-type: none"> • Improves control • Reduces costs • Improves efficiency 	<ul style="list-style-type: none"> • Improves efficiency • Payment flexibility • Reduces costs • Improves security 	<ul style="list-style-type: none"> • Increases rebates • Controls spending • Minimizes paperwork and overhead • Streamlines procurement

Building an Electronic Payments Strategy

Payments strategy has a broad business reach, from cash flow and fraud risk to capital requirements, capital structure and capital efficiency. The impact of payments decisions reaches through the balance sheet to the value of the business itself.

At SunTrust, we want to help you link your business plans, your capital requirements and your payments programs to generate the success that you seek. Michael Maza, head of SunTrust Treasury & Payment Solutions adds, “We leverage our payments expertise and our knowledge of market trends to advise clients on the right payments mix for their specific needs, ranging from traditional to electronic methods that best support their smart growth strategy.”

More detailed information on successful payments strategies and techniques can be found in our in-depth reports:



Reach out to your SunTrust Relationship Manager or Treasury Sales Officer to discuss your business plans for smart growth and your payments needs. With our SunTrust OneTeam ApproachSM, SunTrust brings the resources you need to support you and your business, whether seeking capital, working on financial systems, exploring strategic options or securing you and your family's future.

To find out more, call your SunTrust Relationship Manager or visit the [SunTrust Resource Center](#) for more information.

About our Research

In today's world with technical and regulatory complexity, business executives need to be able to call on the right expertise to get to the most salient points without information overload. For our [Developing Strategies for the Electronification of Payments](#) series of reports, SunTrust has combined the results of our periodic research with over 500 Middle Market and Small Businesses with insights from an assembled team of SunTrust executives and industry leaders.

Michael Maza — Head of SunTrust Treasury & Payment Solutions

Robert Blair — Product & Digital, SunTrust Treasury & Payment Solutions

Eric Brewer — Payment & Technology Industry Group Specialist, SunTrust

Magnus Carlsson — Manager of Treasury & Payments, Association for Financial Professionals (AFP)

Chris Fritz — Digital Solutions, SunTrust Treasury & Payment Solutions

Kellie Goodwin — Wholesale Payments Strategy, SunTrust Corporate Strategy Group

Carolyn Pyle-Kennedy, CTP — Technical Product Consulting, SunTrust Treasury & Payment Solutions

David Sawyer, CPA, CFE — Partner, Frazier & Deeter, LLC

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