

The Role of a Supplier Value Proposition in a Successful Integrated Payables Solution

↳ The supplier is at the center of the AP and AR convergence trend. Understand why the supplier value proposition is essential to a successful end-to-end commercial payments solution.





The Challenge

One of the most important elements of a successful end-to-end commercial payments solution is understanding the needs of all parties involved. This means understanding how to automate the invoicing process for the buyers (AP Automation), how to implement an effective integrated payables (IP) solution, and finally, how to automate the billing process for suppliers (AR Automation). While there are various solutions on both ends, **the Integrated Payables solution is the critical connection between the buyer and supplier.** Yet, it is often overlooked, resulting in a gap – a missing payments engine.

Before an organization embarks on implementing an automated integrated payables solution, it is important to analyze their supplier file and establish a strategy that will make their IP program successful. This paper discusses best practices of a supplier payment and activation strategy that goes beyond AP automation and results in a fully-integrated commercial payments solution.

The Key to Success

A supplier activation strategy is key to a successful and seamless billing and payment relationship between buyers and suppliers. After making a significant investment of time and resources in an AP automation solution, a buyer may be left with buyer remorse if their suppliers are not willing and able to accept various forms of electronic commercial payments (i.e. virtual card, buyer-initiated payments, ACH/ACH+, proxy pay, dynamic discounting).

Although many commercial suppliers already accept virtual or physical cards for payments, they may not be willing to do so for all of their buyers. The first step in building an activation strategy is to understand the suppliers that have already accepted a card for payment, evaluate existing payment terms and formulate a strategy.

This is where Priority Commercial Payments (PRCP) delivers significant value. **Identifying and activating suppliers is a core competency of PRCP.** We start with a match process conducted against the card network databases and then Priority's proprietary database. Even with supplier acceptance rates as high as 65%-75%, suppliers still need to agree to accept in certain circumstances. This is another value Priority offers buyers with our supplier activation outreach team.

Accepting Suppliers

We know that within accepting suppliers, the best results for activation for commercial payments will come from commodities and services that have proven to be good targets for acceptance in the past. Examples of successful activations include suppliers that deal in industrial goods, maintenance, services and communications. Although these accepting suppliers are great to target for electronic payments, a strong value proposition is still critical for success.

Non-Accepting Suppliers

Suppliers that do not currently accept card for payment can be challenging to activate. Often, suppliers are not aware of all payment options available for them to accept in the commercial payments space. In some cases, there are preconceived notions within the supplier community that commercial payments are difficult to manage and expensive to process.

The Value Proposition

Whether or not a supplier accepts electronic commercial payments, there must be a very strong value proposition articulated. **The first component is ensuring the suppliers understand that accepting electronic payments is fast and efficient.** Since data is available with electronic transactions, the reconciliation process for suppliers is easy. Often it allows suppliers to reduce the number of individuals manually reconciling invoices to payments.

In many cases, accepting an electronic payment can be less expensive to a supplier than their current process of waiting 60 days for a check to arrive in the mail!

The second component of the value proposition for suppliers is the lower transaction costs available for electronic commercial payments. **A truly integrated payments solution offers a variety of payment options and price points.** Suppliers need to be educated on the payment types, where the various types fit into the payment mix and the fees associated with each. In many cases, accepting an electronic payment can be less expensive to a supplier than their current process of waiting 60 days for a check to arrive in the mail!

Alternative electronic payment solutions, such as card, varieties of ACH, proxy payment, dynamic discounting etc. are all part of a winning activation strategy to bring both greater value and reduced cost to suppliers. This, combined with simplifying the payment process to create efficiencies, rounds out the value proposition discussion.

One Size Does Not Fit All

Keeping in mind that **high supplier activation is key to a successful commercial payments strategy**, there is no 'one size fits all' value proposition for suppliers. Providers that try to apply the same strategy across a supplier base fall short. Suppliers decide to accept electronic commercial payments based upon a number of key factors:

- Strong buyer endorsement
- Increased business (preferred supplier status)
- Customer (buyer) satisfaction
- Acceleration of payment
- Automation of payment

There is a correlation between the number of factors that play into a value proposition and the success of a supplier activation campaign. And, before an activation campaign is launched, the buyer should approve an endorsement letter and be fully supportive of the value proposition offered since the relationship between buyer and supplier is one of the key factors.

The Statistics

The number or percentage of suppliers that will agree to accept virtual card or other fee-generating payment options varies. Decisions are based on the strength of the buyer's vertical, the supplier value proposition, the product or service being procured, the margin associated with the buyer/supplier relationship and the perceived leverage the supplier may have with the buyer.

On average, virtual card acceptance rates, for example, range from 30% - 40% for a good buyer vertical. However, results vary and it is critical that the integrated payment solution provider has the knowledge and expertise to understand not only the market but the verticals within the market. Priority has this knowledge and expertise.

As an example, **when Priority analyzed acceptance rates specific to property management companies, the results exceeded average acceptance, as illustrated in the table below.** This study included approximately 4,700 targeted suppliers. The activation campaign resulted in an overall close rate of 44% (for virtual cards alone). These above-average results are driven by the high activity (in terms of spend volume and number of transactions) within maintenance and service suppliers. In the property management vertical, perceived buyer leverage is strong.

Below are the strongest supplier categories within the property management vertical:

Category	Examples	Close Rates
Communications	Advertising, Printing, Media	51%
Industrial	Purchase of Goods/Product (e.g. Paint)	58%
Maintenance	HVAC, Plumbing, Painting, etc.	49%
Service	Legal, Temp Services, Catering, etc.	50%
Technology	Software Systems	49%

The overall activation process needs to be simple and easy. Priority designed the process below to minimize impact to buyers while addressing the needs of suppliers. **Up to 95% of the work required to activate suppliers is done by the Priority activation team** based on consultation with the buyer.

Category	Activation Steps	Responsibility
File Analysis	<ul style="list-style-type: none"> • Buyer provides spend file to Priority to analyze (includes phone/email where available) • Priority conducts card match, analyzes the spend file and provides strategy recommendations that will include key suppliers to target and the payment methods most likely to succeed for each supplier 	Buyer/Priority
Supplier Targeting	<ul style="list-style-type: none"> • Buyer approves list of suppliers to be targeted or requests adjustments 	Buyer
Endorsement Letter	<ul style="list-style-type: none"> • Priority drafts a customized supplier endorsement letter for approval by the buyer organization (may vary based on supplier) 	Priority/Buyer
Campaign Launch	<ul style="list-style-type: none"> • When supplier emails are available, Priority will send endorsement letters to suppliers via email. • Priority conducts a call campaign to the suppliers to confirm commercial payment acceptance or ability to activate 	Priority
Reporting	<ul style="list-style-type: none"> • Priority provides weekly reporting to communicate campaign results to the buyer and supplier payment methods are updated within the buyer's ERP system 	Priority
CPX	<ul style="list-style-type: none"> • Going forward, all new payments feed directly into Priority's Commercial Payments Exchange (CPX) through a single payment instruction file sent by the buyer • CPX parses payments to the correct payment method and transactions process automatically 	Buyer/Priority



It is critical that the integrated payables solution provider has the knowledge and expertise to understand not only the market but the verticals within the market. Priority has this knowledge and expertise.

Why is Priority Different?

- We provide commercial supplier activation services for card networks, various Financial Institutions and a number of third party partners.
- Priority is **known as the industry expert for supplier activation** and **we lead the market in enrollments** of virtual card, buyer-initiated payments (BIP) and other payment options through our activation campaigns.
- Priority is **uniquely qualified to support activation and processing** for alternative payment solutions such as Dynamic Discounting (built into our CPX platform), ACH+ (basis points) and standard ACH (through our **direct Fed Terminal**).
- We have a **significant acceptance database** containing unique virtual card acceptors.
- Our database is leveraged to prioritize supplier opportunities providing positive impacts and speed to market. This means that buyers are able to begin using our integrated payables platform with their key suppliers faster.

