

# Trends Driving Commercial Payments Evolution

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**eBook**

The commercial payments industry continues to evolve as technology surrounding payments advances. **By understanding four key trends, buyers can make decisions that will reduce AP operating costs** through automation and add value through rebates and prepayment discounts.

**Priority Commercial Payments** delivers a simple, integrated solution for automating commercial accounts payable (AP) and a full suite of supplier acceptance solutions.

We enable buyers to benefit from valuable rebates and pre-payment discounts and suppliers to benefit from cash acceleration.

**This guide will explain the how commercial payments types are evolving and explore the:**

- Opportunity to achieve accounts payable efficiencies
- Ability to capture new revenue streams
- Growing importance of supplier value to maximize participation

#### Industry Trends:



Virtual Card continues growth trajectory



Integrated Payables evolve into a comprehensive payment solution



Delivery of supplier value emerges through AR automation



Payment Hubs become the norm in Commercial Payments

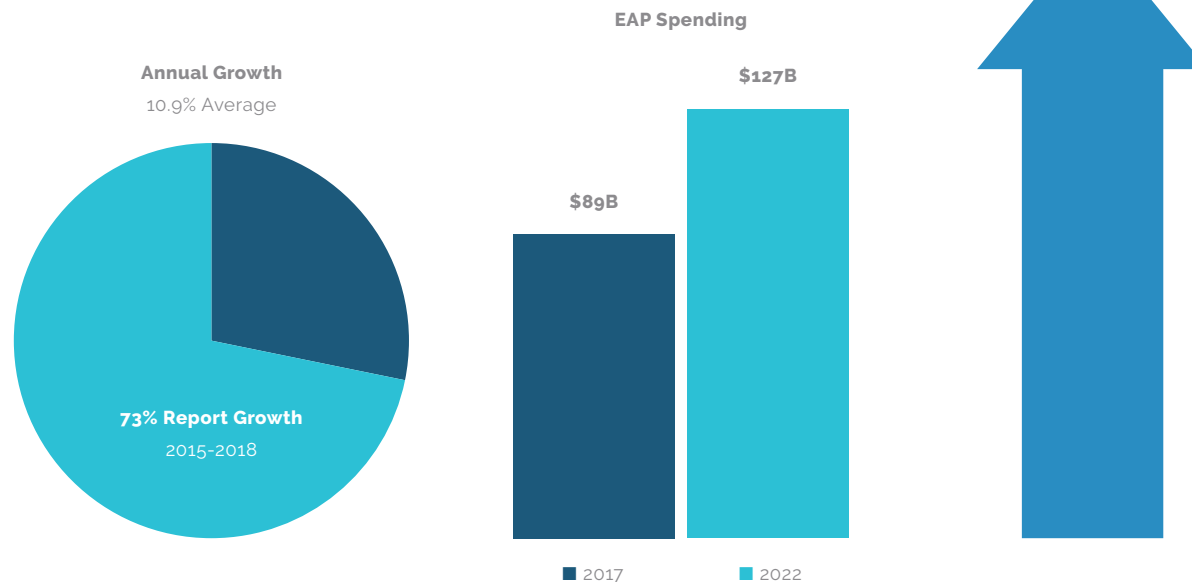


# Trend 1: Expansion of Virtual Cards

## Volumes Growing with Adoption, Use and Supplier Acceptance

As check payments have declined, those dollars are being redistributed to virtual cards and other types of electronic accounts payable (EAP) on invoices for goods and services which may be considered too expensive for payment with traditional plastic purchasing cards.

- The vast majority of AP end-users (73%) have reported growth, averaging 10.9% annually
- Spending is expected to rise to \$127 billion by 2022
- The market potential is projected to be \$1.2 trillion based on the current state of adoption, use and supplier acceptance



Electronic payments continue to gain traction as a more efficient and economical means of paying suppliers over traditional check processing.

## Lowering the Cost and Time for Integration

Growth of virtual card was previously focused in large market organizations because of greater technology resources and complexity involved in adopting virtual card systems.

Today, financial technology companies (FinTechs) at the intersection of finance and technology, are lowering the cost of entry for midsized businesses and the community banks and credit unions serving them.

FinTechs are innovating new ways to automate commercial payments and simplify integration. **Automated AP program integration, which previously took months, can now be accomplished within a few weeks.**

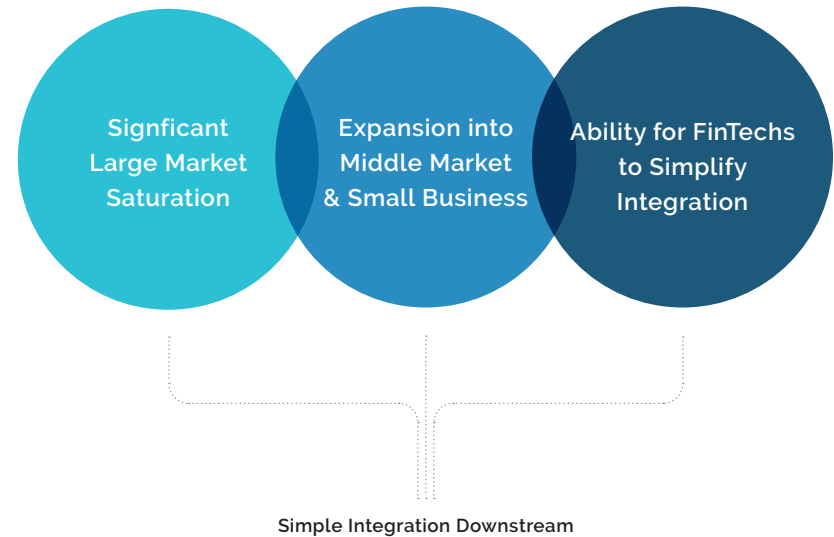
## Aligning the Goals of Buyers and Suppliers

Buyers want to use their preferred payment method – often card – to maximize incentives and to extend days paid outstanding (DPO).

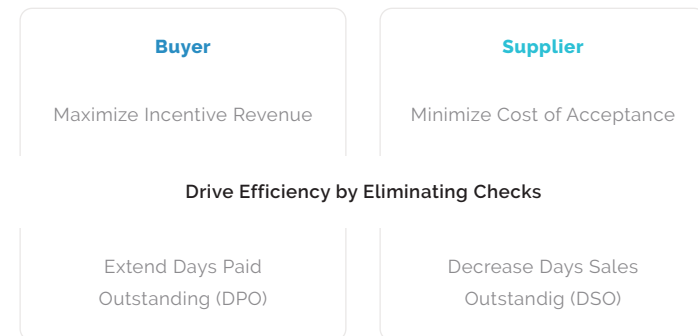
However, suppliers often require Automated Clearing House (ACH) payments to minimize their cost of acceptance and decrease days sales outstanding (DSO).

Both buyers and suppliers recognize the need to drive efficiency by eliminating check payments.

To marry their goals, **an integrated payments provider like Priority Commercial Payments can step in to offer a full suite of products**, including virtual card with terms, to actually provide payment acceleration, lowering the suppliers' DSO, while also providing buyers with the flexibility to extend their DPO.



## Organizational Goals



The organizational goals of buyers and suppliers were previously somewhat diametrically opposed, but the possibility of eliminating costly check payments can unite both parties as winners.

## Trend 2: Evolution of Integrated Payables

### Limited Choices and Multiple Payment Instruction Files are in the Past

Integrated payables solutions, while providing multiple options for buyers, **have historically been limited and cumbersome because they may involve working with two different teams at a financial institution**, Treasury and Commercial Card. It typically required three payment instruction files: ACH, a check run, and a virtual card payment instruction file. This has created disparate processes and inefficiency for banks, buyers and suppliers.

### Solution Providers MUST Take Three Key Steps

To motivate buyers to automate payments and suppliers to accept them, **financial institutions, FinTechs and other AP providers must:**



#### Deliver flexible payment solutions to suppliers

- Listen to suppliers to provide payment options and define the right price point to accept a card solution



#### Realize they cannot ignore non-card acceptors

- Find the right payment solution and price point so non-acceptors do not need to stay on check



#### Simplify the buyer's process for delivering a single payment file

- Develop a platform that truly integrates all payments very simply on a single platform



The Integrated Payables solution of the past was dependent upon multiple payment instruction files including **Virtual Card** details, **ACH** and **Check**.

# The Integrated Payables solution of the future delivers a cross-section of payment data compressed within a single payment instruction file.

## The Future Offers Flexibility and Simplicity

The future of integrated payables is moving toward multiple and flexible payment types and **a single payment instruction file** for all of them.

Today, each form of payment can be integrated and delivered in a single payment instruction file (PIF). The preference for delivery of the invoice or payment request, the type of transaction method, timing for payment and acceptance, and the cost/benefit to buyers and suppliers are all contained within the single PIF.

**All Forms of Payment  
are Integrated and  
Delivered in a Single  
Payment Instruction File**



### Card Solutions:

Virtual Card, Buyer Initiated Payments (BIP), Supplier Initiated Payments (SIP) or Visa's Straight Through Processing (STRP), Proxy Payments



### ACH Solutions:

ACH+ (Flat Fee), Dynamic Discounting, Standard ACH



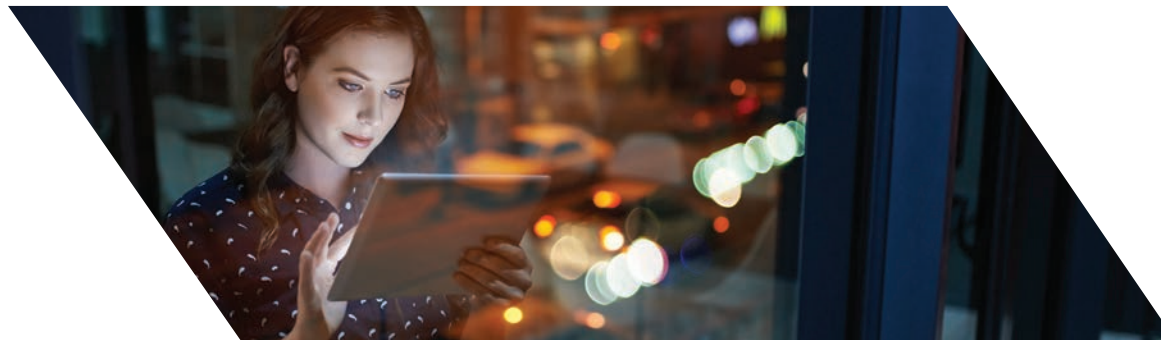
### Financing Alternatives:

Supplier Chain Financing



### Check:

Standard Issuance, Managed, Customized



# A Guide to Payment Types

| Single payment file covers... | All types of payments...  | Through a simple platform...  |
|-------------------------------|---|---|
| Card Solutions                | Virtual Card  | Buyer sends file of approved invoices for suppliers that agree to accept this payment method paid via a 16-digit single use account number passed to the supplier to process at point of sale                                     |
|                               | Buyer Initiated Payments (BIP) and Supplier Initiated Payment (SIP) | Buyer sends file of approved invoices (BIP). Supplier pushes the payment information to the buyer (SIP). Priority generates and processes a single use account number and sends the supplier an email with remittance information |
|                               | Straight Through Processing (STP)                                   | Visa's name for Supplier Initiated Payments   |
|                               | Proxy Payments  | This service enables electronic payments in industries that only accept phone or web payments   |
| ACH                           | Standard ACH  | Processes, monitors, tracks and reports single or recurring payments, returns and remote deposit capture and same-day ACH   |
|                               | ACH+ (Flat Fee)   | Supplier agrees to a flat basis point (BP) discount with no commitment of early payment. The flat discount rate is negotiated based upon the supplier value proposition   |
|                               | Dynamic Discounting   | Similar to an early pay discount, the cost is flexible and depends on the number of days the supplier is paid earlier than their standard payment terms. The discount is prorated accordingly                                     |
| Financing Alternative         | Supplier Chain Financing  | Payments are funded by a bank or third party financier, which can extend DPO  |
| Check                         | Standard Issuance<br>Managed<br>Customized                          | When card is not an option or banking information required for ACH is not available, check payments may be outsourced   |

## Trend 3: Emphasis on Supplier Value

Today, it is important for all stakeholders to focus on supplier value.

**The success of the buyer's automated AP program depends on supplier acceptance and activation.**

Accounts receivable (AR) solution providers are helping suppliers minimize risk and lower their transaction costs by managing their interchange processing. Buyers can now engage in buyer initiated or straight through processing, which map payments directly into the supplier's enterprise resource planning (ERP) system. **These buyers will achieve greater supplier acceptance because it eliminates manual processing and reconciliation.**

### Traditional Supplier Value

- Grow/Retain Business
- Preferred Supplier Status
- Check Elimination
- Accelerated Payment
- Reduced Risk

### AR Supplier Value

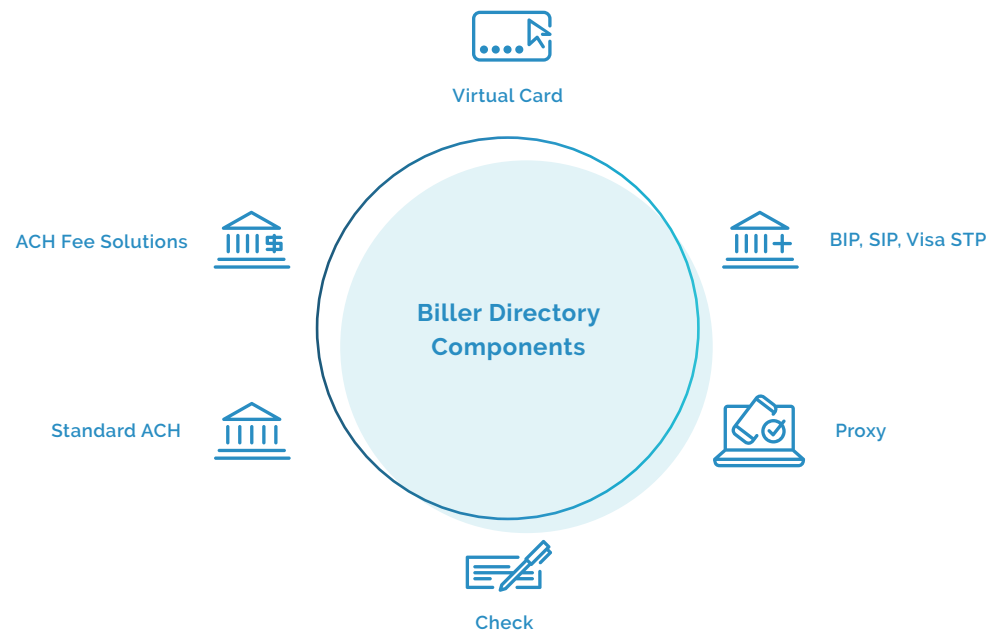
- Manage Interchange
- No Touch Processing (BIP/SIP/STP)
- No Touch Reconciliation



## Trend 4: Emergence of Payment Hubs

What is a commercial payment hub? The definition will vary widely. But, **the key to efficient supplier activation is taking a network approach with known suppliers who have already agreed to accept electronic payments.** This is now expanding to ACH and check so that a single process supports multiple payment types.

As the network approach to building biller directories matures, unique networks will focus on the top suppliers that represent the majority of spend volume within specific industries.



The necessary biller directory components to deliver an effective and efficient card and ACH supplier activation process.

A hand holding a Priority card in front of a laptop screen. The card is silver with a gold chip and the word 'PRIORITY' visible. The laptop screen shows a green circular logo. The image is partially obscured by a white diagonal shape that separates it from the text on the right.

## Accessing the Right Technology and Team

The rate of change in the commercial payments ecosystem continues to accelerate. Organizations and financial institutions serving them realize that the value locked within Accounts Payable can be monetized in the form of discounts, incentives and new revenue streams.

**The key to expediting an automated AP solution is to partner with a provider that simplifies the process for buyers creates seamless collaboration with suppliers.**

Innovative technology, experienced support teams, supplier networks and activation expertise are key standards required to optimize the efficiency, economic benefit and risk profile of every form of commercial payment.

**Your potential partner should provide you with an analysis of your vendor AP file and present you with their findings that show cost savings and revenue projections.**

Carefully consider the technology and qualifications of the support team required to simplify and integrate your automated commercial accounts payable platform. Be sure they have proven capabilities to automate 100% of your AP file with multiple forms of payments – with a single payment instruction file.