
Business is dynamic. B2B transactions must keep pace.

Executive Summary

The “connected era” has introduced jaw-dropping innovations in communication, mobility, networking, and collaboration. Look closely and you’ll notice that these advancements are driven by a single human desire: an unquenchable need for speed. Business, like life, is fluid and dynamic, and people want to be able to get things done at the speed of thought—to notify, verify, exchange, initiate, modify, iterate, and collaborate across the supply chain right now.

Yet when it comes to the payment process, B2B transactions have remained painfully slow, disconnected, and inefficient, leaving companies virtually in the dark about cash flow realities. The consequences to businesses are quite substantial. Recent research shows that more than 60% of B2B payments are still handled manually, causing up to 25% payment mismatches; 78% of companies cannot forecast cash flow within 5% accuracy; and over 30% of B2B invoices are paid after the due date.¹

What is the explanation for this paradox—and more importantly, how can it be solved? This paper provides fresh insights and answers for both questions. It explores the increasing complexities of the multi-tiered relationships in the supply chain, how these complexities have outstripped the capacity and performance of traditional payment technologies, and how a fundamentally different approach called “Dynamic Payments” can provide a solution.

B2B Commerce Networks: Necessary But Not Sufficient

Corporate employees and supply chain partners are not immune from the desire for instant gratification. Among today’s supply chains there is a greater desire for flexibility, transparency, and responsiveness than ever before. However, the rapid growth and increasing geographic dispersion of supply chains has led to complications that hinder instantaneous interactions.

For example, it has become increasingly necessary for trading partners to collaborate outside of traditional office hours, bridge time zone disparities, and overcome the gaps created by lack of proximity, inconsistent processes, and dynamically changing business requirements. Moreover, B2B transactions involve multiple relationships within each corporation, complicated processes, and a long value chain.

¹ Source: The Hackett Group (as reported in the Purchase to Pay Manifesto from Basware).
On the buyer side, the Purchase-to-Pay (P2P) process includes discovery, sourcing, procurement, contract management, electronic purchase order generation, invoice receipt, approval flows, document matching, discount management, and finally, payment. Similarly, the supplier-equivalent set of Order-to-Cash (O2C) processes includes catalog generation, order management, fulfillment, e-invoice generation, discount management, and payment reconciliation. Each company is also subject to complex business rules on each side of the transaction, whereby both parties need to generate and track documents that capture promotions, discounts, and dynamic business conditions.

According to a 2014 Ardent Partners study, the average cost to process an invoice today is approximately $14.21. With many companies processing in excess of 400,000 invoices in a given year, the overall cost of this function is enormous. As such, the top priorities for companies when it comes to processing invoices and payments are as follows:

<table>
<thead>
<tr>
<th>Priority</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Reduce Processing Costs</td>
<td>63%</td>
</tr>
<tr>
<td>Improve Reporting and Analytics</td>
<td>37%</td>
</tr>
<tr>
<td>Improve Visibility into Invoice and Payment Data</td>
<td>31%</td>
</tr>
<tr>
<td>Improve Collaboration/Communication with Procurement</td>
<td>27%</td>
</tr>
<tr>
<td>Better Link P2P and O2C Processes and Systems</td>
<td>25%</td>
</tr>
<tr>
<td>Generate Discounts on Spend</td>
<td>23%</td>
</tr>
</tbody>
</table>

*Figure 1: Top priorities for AP in 2014 – Ardent Partners*

B2B commerce networks have emerged to resolve these challenges. Today, B2B commerce network providers represent a group of solutions, usually provided as a service, that facilitate automated interaction and exchange of electronic documents, including purchase orders and invoices. Some even extend to dynamic discounting, factoring, e-payables, and myriad supply chain financing capabilities. Particularly in the past few years, significant gains have been made by these software vendors to bring intelligence, automation, and transparency to the P2P and O2C flows across the supply chain. Some of the more progressive B2B companies have also embraced the latest social, mobile, and cloud technologies to meet their fast-evolving business needs.

As a result, the majority of traditional companies have now employed one or more automated B2B commerce network platforms to streamline business interactions across the supply chain.

According to the Ardent Partners Annual State of Procurement Report:

- 55% of companies agree that B2B commerce networks will eventually become the main platform for trading partners to conduct business.
- 73% believe that B2B commerce networks enhance collaboration between buyers and suppliers.
- 75% agree that B2B commerce networks are beneficial to buyers and suppliers.
- 54% agree that B2B commerce networks are an increasing source of new business for suppliers.

These statistics make it clear that B2B commerce networks are not a passing fad, and are poised to be the primary vehicle for B2B transactions of the future.

However, since the last mile of the transaction—the execution, clearing, and settlement of the payment itself—remains a completely disconnected process, the immediacy, flexibility, transparency, and efficiency gains of enterprise networks do not transfer over when it comes to the payment.
The Dirty Little Secret in E-Payables

The typical “e-payables” workflow provides an example of how B2B commerce networks simply aren’t sufficient to keep pace with the need for ever-faster B2B payments. E-payables is the term often used to describe the process associated with an Accounts Payable (AP) department in a company receiving, processing, and paying invoices to its suppliers. P2P is a related process. Ironically, there is no actual integrated “pay” component in e-payables or P2P processes. The names are grossly misleading. Payments are entirely separate and disconnected from these processes.

While there are many claims of “payments” being part of the flow, the reality is that at best it is a static payment “instruction file” to a bank or a link to a payment gateway. Once the instruction is received and checked, various messages eventually wind their way through an enshrouded maze of what is known as the multi-corner banking process, shedding important data and remittance along the way. While this happens, both buyers and suppliers have zero transparency into the whereabouts, timing, costs, and remittance surrounding the transaction. The same is true of the O2C process on the supply side. There is no real “cash” in that process either.

Static Payments Need to be Fixed

The root cause of the sluggishness and inflexibility of today’s B2B transactions is the limited and archaic methods of traditional payment technologies available to supply chains. And at the very core of the problem is the fact that all traditional methods of B2B payment are “static.”

Static payment methods require all variables to be fixed throughout the transaction lifecycle. Examples include bank checks, ACH, EFT, wire transfers, credit cards, push or pull p-cards, pre-paid cards, virtual cards, single-use accounts, PayPal, and similar methods of payment.

For static payments, the “who, what, when, where, why, or how” of the transaction cannot change without generating significant costs, delays, chargebacks, and disruption in payment or outright failure of payment. If any of these variables change in the course of a transaction, static methods of payment have no flexibility to comprehend or administer the changes, and have no capacity to handle the related data or remittance that would be required for reconciliation.

For example, in a given net 30- or net 60-day invoice period, a new dynamic business condition may require that a payment must be split, combined, rerouted, canceled, executed on condition, put into escrow, milestone-based, paid on delivery, scheduled for a different date, supplier discounted, paid early, partially refunded, financed by a third-party, factored, exchanged to a different currency, or in some other way be dynamically altered. These kinds of changes are the norm today, and will happen to 25-30% of all the $300 trillion annual global B2B transactions.

Since static payments don’t handle rich data, and are disconnected from the rest of the transaction flow, they are unable to adapt to these changes, or keep the associated data and systems up-to-date and in sync. For all static payment methods, when variables in a transaction change, it wreaks havoc on handling remittance and reconciliation.

As a result, order management in traditional B2B transactions becomes a complicated and time-consuming process whereby 70% of orders and payments are handled and tracked manually by:

- Managing invoices
- Matching documents and reconciliation
- Handling payment exceptions
- Referring to or amending contracts
- Analyzing flow data sheets

All of which costs precious money and time. It poses a dizzying array of complications for those managing these transactions, especially if one or more unique circumstances exist between the buyer and the supplier. Static payments do not enable trading partners to control the money flow, nevertheless predict with any degree of accuracy, what actual cash position or actual cash flow will be on a given day.
According to Ardent Partners, the top challenges in Accounts Payables for 2014 are as follows:

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Delay in receiving (or lack of) matching information</td>
<td>44%</td>
</tr>
<tr>
<td>Invoice/payment approvals take too long</td>
<td>43%</td>
</tr>
<tr>
<td>High percentage of exceptions</td>
<td>40%</td>
</tr>
<tr>
<td>Lack of visibility into invoice and payment data</td>
<td>27%</td>
</tr>
<tr>
<td>Getting the budget to invest in automation</td>
<td>24%</td>
</tr>
<tr>
<td>Processing an invoice takes too long</td>
<td>23%</td>
</tr>
<tr>
<td>Late supplier payments</td>
<td>21%</td>
</tr>
</tbody>
</table>

*Figure 2: Top challenges for AP in 2014 – Ardent Partners*

A static payment method would be perfectly adequate in a transaction scenario where terms and conditions remained fixed throughout the lifecycle; where all parties use identical processes; where all data types and formats are consistent; and where the same bank handles the funds for the buyer and supplier.

Of course, the reality in today’s dynamic business world is that static conditions rarely exist. Business requirements in transactions often change. And as variables change, the flexibility and nimbleness enabled by B2B commerce networks is severely blunted. Even the handling of basic remittance and reconciliation is a headache, impeded by the realities of static payment methods. Languishing under the bloat of a static systems’ inability to adapt to dynamic business conditions, companies are losing billions of dollars and tarnishing their reputations for fast, responsive service.

*Figure 3: Ironically, in today’s 24/7/365, uber-connected era of business, most businesses still have little control or visibility into the status of their payment processes—and the consequences are staggering.*

**B2B Dynamic Payments: The Path Forward**

Dynamic Payments is a fundamentally new category and paradigm of secure, electronic B2B payments. It is the long-awaited disruptive innovation in B2B payments that the industry has been calling for. Unlike static payments, Dynamic Payments combines the best of secure digital banking, rich electronic data interchange, and modern cloud-based technologies to achieve massive flexibility and scale. It executes, clears, and settles payments in real time, 24/7/365, anywhere, anyhow, and directly connects into and monitors the transaction via an adaptive rules-based engine, making use of any type or size of structured or unstructured data and remittance in the process.
What’s more, since Dynamic Payments integrates directly into existing B2B commerce network platforms, payment finally becomes part of the actual P2P, O2C, and ERP process, instead of a disconnected process on its own. With this integration comes instant responsiveness to new data, changing business conditions, and event triggers in real time. As changes occur, all data, track-and-trace visibility, and details of the transaction are kept synchronized, and the payment is executed and settled accordingly.

Dynamic Payments provides a way to complete the last mile of the transaction with full transparency—and this means a true transformation in the way businesses pay and get paid. This capability goes above and beyond what’s possible with common B2B commerce networks – such as SAP’s Ariba, Tungsten’s OB10, Basware, and similar – and their offerings. Dynamic Payments enables a truly complete end-to-end solution for B2B transactions, and a new strategic weapon for businesses to optimize working capital, liquidity, and cash flow.

Clearly, Dynamic Payments presents a compelling option for progress in accelerating and simplifying B2B transactions. But what’s standing in the way of progress?

Traditional banks and financial institutions handle the vast majority of B2B payments today, but most banking systems, offerings, and points of view on what is required to handle modern global transactions have fallen far behind. This is due to a variety of factors including:

• Reluctance to swap out aging and fragile technology, core banking, and account management systems to more modern infrastructure;

• Hyper-fragmented organizational structures that keeps information compartmentalized—blocking the flow of transparent communication, and preventing a 360-degree view of the customer; and

• Lack of global reach, due to decentralized and non-standardized correspondent banking models and poor collaboration between banks and financial institutions.

None of these issues is an easy or fast fix—especially when you consider the sheer amount of work involved in trying to adapt such antiquated systems to meet the needs of global commerce and the demands of what has become a digital marketplace.

**Traxpay B2B Dynamic Payments Platform: Overcoming the Obstacles**

Traxpay recognized early on that in order to provide a solution that fully delivers on the promise of Dynamic Payments, you’ve got to start fresh—build a system from the ground up—specifically tuned for the needs of B2B. That vision is the catalyst for the development of the Traxpay B2B Dynamic Payments Platform. We’re looking at the big picture of the future of B2B commerce, and we put our banking, payments, and enterprise software expertise to work in creating a truly groundbreaking solution to an age-old problem.

The Traxpay B2B Dynamic Payments Platform redefines the way businesses pay and get paid in today’s connected economy. The patent-pending platform uniquely combines secure, flexible, real-time 24/7/365 electronic payments with any and all structured and unstructured data related to the transaction.

In addition, Traxpay brings an “always on” channel of communication and transparency across the supply chain, opening up the ability for real-time collaboration. What further sets Traxpay apart from all others is its unique and configurable workflow engine that automatically monitors and dynamically implements changes to the who, what, when, where, why, and how of payments, while keeping all the data, changing business conditions, and the transaction synchronized.
The modular, scalable, cloud-based architecture of the Traxpay platform is built around three key components that work in concert to enable a broad suite of payments features:

1. A native core banking and account system, allowing for fund transfers and final settlement in real time, 24/7/365.
2. A rich communication and data aggregation facility capable of handling information of any type, size, or format.
3. A configurable workflow engine that connects seamlessly to business processes and data streams across the supply chain to monitor and dynamically react to changes in the business.

The flexibility and combined capabilities of the Traxpay B2B Dynamic Payments Platform delivers new opportunities for companies to better manage working capital, liquidity, and cash flow, and to get the most out of their B2B commerce networks. New value-added services like supply chain financing, factoring, dynamic discounting, foreign exchange, and related services are now made possible through Traxpay—accelerating global commerce with faster, safer, smarter B2B transactions.

Using Traxpay, buyers and suppliers can finally get the visibility, predictability, flexibility, and control of their business they’ve been demanding.

Conclusion

There is an unstoppable seismic shift happening in the $300 trillion annual worldwide market of B2B financial transactions and payments. Business continues to grow in complexity; relationships and conditions between buyers and suppliers are always changing; and the need to gain insights and make better, faster decisions has never been so critical.

Business can be unpredictable, but a company’s financial position shouldn’t be. If transactions and related payments aren’t handled quickly, securely, transparently, and with total flexibility and control, businesses pay the price in missed opportunities, lost revenue, frustrated customers, and a tarnished reputation and brand. While significant gains have been made by B2B commerce network providers, the last mile of the transaction—the execution and settlement of the payment itself—remains static, inefficient, costly, and inflexible. That has to change, and Traxpay is changing it with the world’s first and only B2B Dynamic Payments Platform.

1 Global Payments Report 2013, BCG.