CFO Payment Pulse

Commercial payments

healthy optimism, healthy potential

ixaris
Perfect Fit Payments

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Commercial payments

healthy optimism, healthy potential

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- CFOs cautiously optimistic about benefits of automation
- Continued drop in cheques and cash for payments

Welcome to the first edition of the CFO Pulse, our periodic healthcheck on the trends, use and adoption of B2B payments by CFOs and treasurers. The world of B2B payments is going through a period of innovation, transformation and occasional disruption. FinTech companies are cutting through old orthodoxies and creating innovative propositions to solve once-intractable B2B payment problems, leveraging APIs, data and analytics in a way incumbents have struggled to, encumbered as they often are by legacy technology.

Europe's Open Banking ethos is encouraging greater collaboration between established financial institutions and new market players. Analysts at Gartner are suggesting that bank CIOs develop their own ecosystems of start-ups and niche players to integrate these new services into more traditional offerings.

This period of creative turmoil has led to challenges and opportunities in the financial sector. But how far has it touched the shores of the corporate treasury and the office of the CFO? As the results show, opportunities for innovative new commercial payment technologies and methodologies are opening up among corporate treasuries who are looking to control both costs and risks, and deliver greater value to the business as a whole.

No.1 Cost reduction top priority for CFOs in 2017

Testing new products and services moving up the agenda

The same – but different

The first point to make is that even in a period of rapid change, business fundamentals remain in place. The top business priorities for CFOs surveyed remain cost reduction, risk mitigation and improving competitiveness. Indeed, the smaller the company, the more important the competitiveness angle becomes: it scored much more highly among companies with a turnover of less than $10 million than with larger firms.

However, there is evidence that CFOs and their teams are becoming more interested in innovation and the role of new approaches in the treasury. Testing new products and services, and increasing outsourcing and collaboration with suppliers now outrank the desire to restructure existing relationships and supplier rationalisation.

Smaller firms tend to show greater interest in collaboration and outsourcing, but across the board CFOs want to know how they can derive more value from isolated pools of data distributed throughout the business, drive efficiency in their own operations, improve automation and create value for the wider business.

> "If payment systems providers want to be successful, they are going to have to identify specific sectors, and work with senior treasury executives at target clients to show how their solutions will solve problems."
>
> Head of commercial cards, ING

As always, providers need to choose their market carefully and understand the priorities and incentives that drive decision-making among potential prospects. As these preliminary results of the CFO Payment Pulse show, there can be some surprises and the occasional curve ball to negotiate.

Business priorities for CFOs, CPOs and Treasury in 2017

Top-3 answers (total of all scores)

	All companies	Turnover > $10 million	Turnover < $10 million
Cost reduction	200	88	112
Risk mitigation	175	76	99
Improving competitiveness	170	60	110
Increasing supplier collaboration & outsourcing	90	44	46
Restructuring existing relationships	76	38	38
Testing new products and services	73	35	38
Supplier rationalisation	57	18	39

Source: CFO Payment Pulse Survey 2017

The current state of play

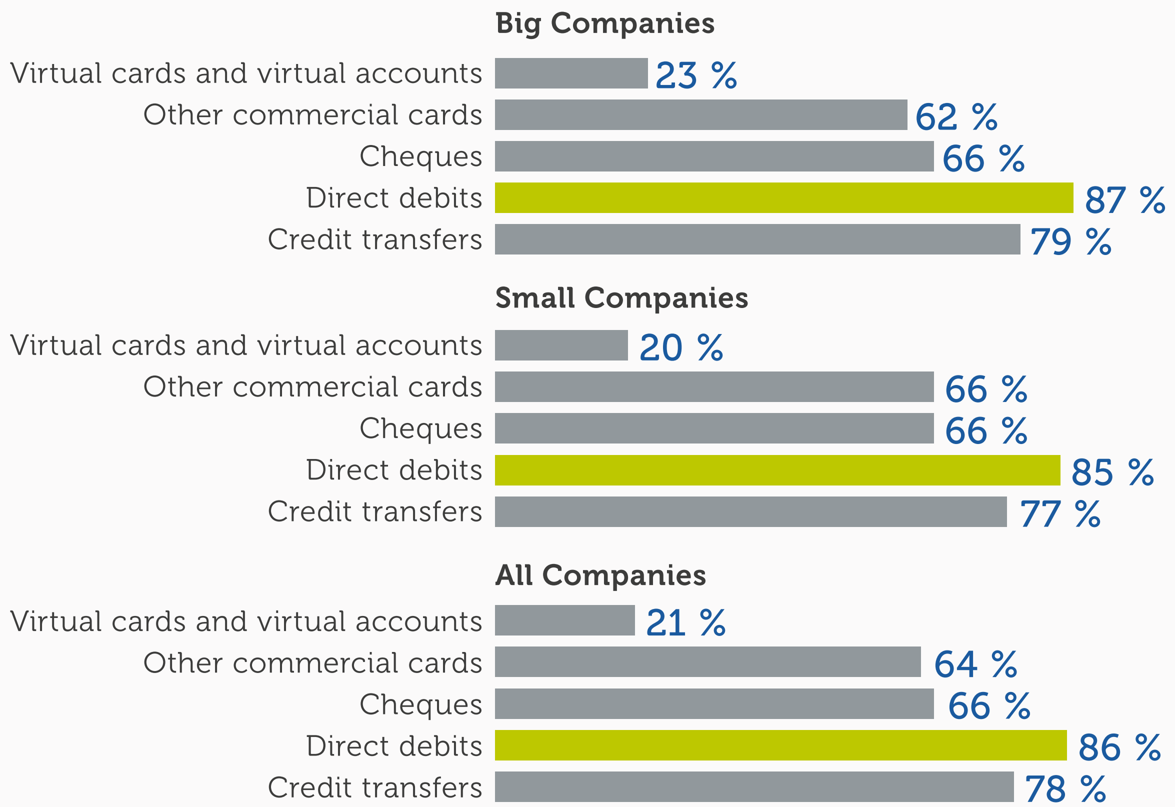
So, what are corporate treasuries and CFOs using right now? Perhaps not surprisingly, a significant majority of respondents use direct debits (86 per cent) and credit transfers (78 per cent). Nearly two thirds (64 per cent) are using commercial cards. More interesting perhaps are the 21 per cent who are using virtual cards or virtual accounts of some sort, and the 11 per cent who, when it comes to commercial card use, are reliant solely on virtual cards or virtual accounts.

In general, the size of the organisation makes very little difference when it comes to these payment types. Companies whose annual turnover is less than $10 million are slightly more likely to use commercial cards than their larger counterparts, but there are only a few points in it. CFOs also like to keep their options open: more than three quarters of all firms surveyed use three or more of these payment types.

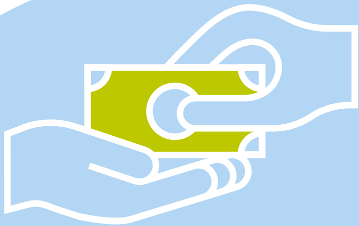
Respondents were also asked to describe how frequently they use other payment methods, including wire transfers, cash, lines of credit, credit-card balances and supply chain finance. Among these, wire transfers are the most popular: nearly two thirds (65 per cent) use them very frequently. At the other end of the scale, supply chain finance is used very frequently by only nine per cent of respondents, and moderately frequently by a further 16 per cent. 63 per cent say they do not use it at all.

However, there are some striking differences between larger and smaller companies, when it comes to arrangements like lines of credit, which smaller companies are significantly less likely to use. Perhaps more interesting is that a great percentage of smaller companies than larger ones do not use cash at all.

Which of the following do you currently use?



Source: CFO Payment Pulse Survey 2017



77% companies rate ease of card use over cost reduction.

Commercial cards preferred over direct debits and credit transfers

Cost and convenience

As we know, only two thirds of organisations use commercial cards, but those that do rate them highly: they were the preferred choice for small companies, and the second preference (after direct debits) among larger ones.

As to the reasons for preferring these commercial cards, more than three quarters (77 per cent) of respondents cited ease of use – far ahead of all other options among companies of all sizes. The next most popular preferences were cost per transaction (42 per cent) and then supplier acceptance and supporting cash flow management (35 per cent each), suggesting that treasuries give fairly equal weight to cost reduction and convenience when it comes to selecting commercial card programmes.

However, although both large and small companies agreed on the convenience and cost drivers, nearly

> "The main issue faced by large corporates operating across multiple countries and interfacing with multiple banks and clearing systems is the lack of standardisation. Different standards, systems and payment set-ups for a diverse set of suppliers and clients add to the enormous complexity for businesses."
>
> CFO,
> Global technology firm

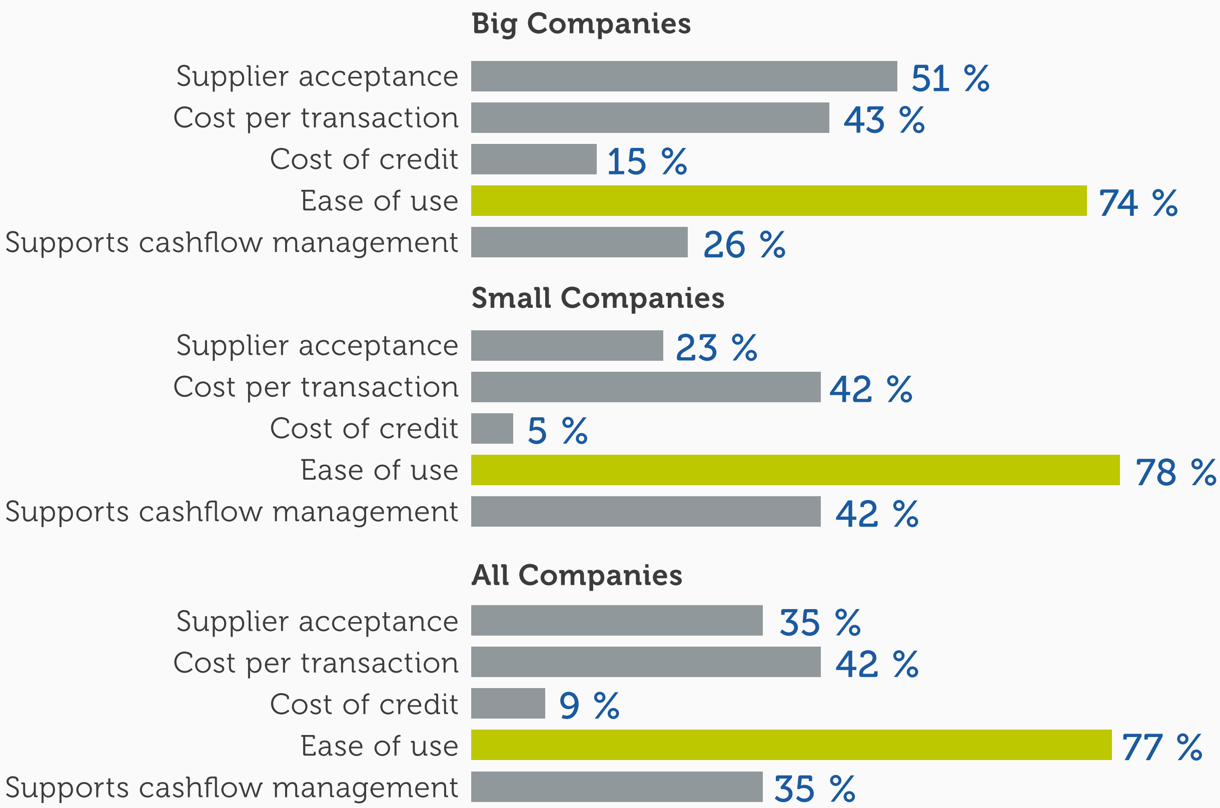
half of all larger firms also felt supplier acceptance was important. That number falls to 40 per cent of smaller firms. A gap also appears when it comes to supporting cash flow management: a third of smaller firms said this was why they preferred their chosen payment types; a quarter of larger firms agreed.

A similar pattern is seen again when firms were asked about incentives for using new payment technologies: business process automation and efficiency came top, closely followed by reducing costs or making savings. Both easily outranked all other categories.

This suggests three things.

1. CFOs want convenience. Regardless of the other benefits on offer, a new payment product or service that is not easy to use is unlikely to achieve significant market penetration.
2. Providers must choose their market wisely. A business with less than $ 10 million in turnover has different needs and priorities to one with $ 200 million or more.
3. The larger the firm the more important supplier acceptance is. CFOs need solutions that fit into their broader ecosystem, indicating that collaboration, partnership and open technologies are key success factors.

Why are these your preferred payment methods?



Source: CFO Payment Pulse Survey 2017

43% companies increasing card spend

Cheques still going down – credit transfers going up

What happens next

Broadly speaking, CFOs are planning to become far less reliant on cheques, maintain their use of direct debits and commercial cards, and increase their use of credit transfers.

Two thirds of participants (66 per cent) still use cheques to make payments – although none of the larger companies and a negligible number of smaller companies expect their use of cheques to increase in 2017. This is in line with less than a quarter of companies (24 per cent) who say they currently use cash frequently or moderately frequently. All the evidence illustrates the ongoing decline in the use of non-electronic payment methods.

However, commercial cards themselves are an interesting case. Just over half (53 per cent) said their card spend would stay the same in 2017, while 43 per cent said it would increase. Of that 43 per cent, around half said the level of increase in spend would remain below 20 per cent. In this case it is larger companies that are more likely to anticipate an increase in commercial card spend: 48 per cent, compared to 38 per cent of smaller companies.

This appears to be something of a missed opportunity, with commercial cards still confined to T&E expenses. But card products, notably virtual cards, when deployed across the right platforms can become a core element in the treasury's arsenal to the benefit of the business as a whole. More work is needed to convince CFOs of the convenience, ease of use, and cost-cutting benefits that such cards offer.

66% companies that want payment integration with banking and accounting systems

Growing desire to test and trial what's in the market

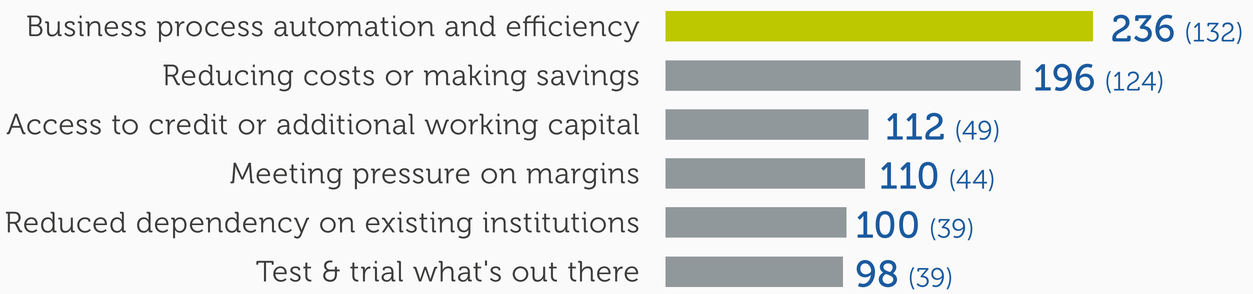
What's driving change?

When it comes to the incentives for using new payment technologies, business process automation and efficiency comes top of the list – just beating cost reduction or making savings. This pattern is repeated across organisations of all sizes. The need for automation beats access to credit or additional working capital streams, addressing the pressures on margins, and reducing dependency on existing institutions.

What is really interesting for providers of services, however, is the next category: the desire to test and trial what's out there in the market - particularly when it comes to smaller businesses. Respondents were asked to choose their top three considerations and rank them in order. Smaller companies gave it a total score greater than access to credit or additional working capital. What's more, all businesses who chose this category as one of

What are your incentives for using new payment technologies?

Total Score (Number of Rankings)



Source: CFO Payment Pulse Survey 2017

their preferences were significantly more likely to put it at the top of their list.

All of this suggests that there is an appetite among forward-thinking CFOs to explore the changing environment and express openness to experimentation with new technologies.

We see this idea again when drilling down into the most important considerations when choosing a payment solution. Two thirds of respondents (66 per cent) put integration with banking and accounting systems in their top three – a strong indication that corporate treasuries are looking at ways to break down the traditional data silos that can constrain value creation.

Payment automation to reduce manual controls comes next on the list, giving further weight to the idea that traditional ways of working are no longer delivering either for the treasury or for the business as a whole. As we discuss below, automation is essential if firms are serious about sharing data and functionalities across their financial operations, and with their other business units. (Although it is worth noting that payment automation is cited slightly less often by smaller companies, who are more likely to put availability of credit to make payments in their top three instead.)

Overall, payment approval runs payment automation a close third. However there is a sizeable gap before we get to reconciliation, availability of credit, remittance delivery, managing FX risk and consolidation of payment execution processes. It seems that CFOs are currently much more concerned with the big picture of automation and integration, and less with improvements to functional specifics.

Please select the three most important considerations when choosing a payment solution:

Top-3 answers

	All companies	Large companies	Small companies
Payment integration with banking and accounting system	66%	68%	65%
Payment Approval	53%	50%	56%
Payment automation to reduce manual controls	54%	60%	45%
Reconciliation	40%	39%	40%
Availability of credit to make payments	29%	24%	33%
Consolidation of payment execution process	17%	21%	15%
Remittance Delivery	22%	18%	13%
Multiple currency accounts to help manage forex risk	16%	19%	13%

Source: CFO Payment Pulse Survey 2017

Automation

the next big thing?

Confirming the big picture view that CFOs currently have, there was some uncertainty about where automation would benefit their operations in this area. But discounting the 'not sure' and 'not relevant' answers, the research shows that payment approval, reconciliations, and invoice approval were the most likely functions to benefit greatly from automation. In contrast, ordering and procurement was considered the function that would not benefit at all from automation.

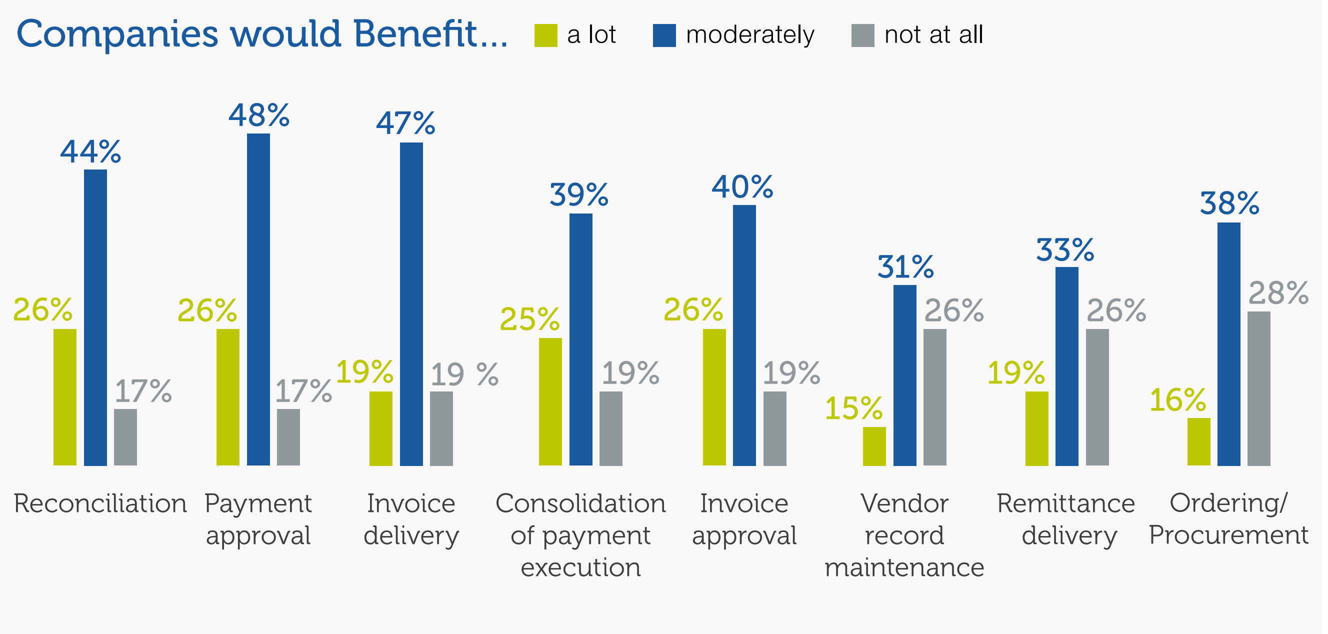
However, for companies with less than $10 million turnover, consolidation of payment execution was considered a greater beneficiary from automation than payment approval – but only just. Bigger differences can be seen among functions that would not benefit at all from automation: for small companies it is ordering and procurement, followed by vendor master record maintenance; for larger companies it is remittance delivery followed by invoice delivery and capture.

What the survey really shows is that when it comes to automation, CFOs and treasurers might best be described as cautiously optimistic. For every function they considered, the most popular option was always "it would benefit moderately" from automation.

Ranking functions according to this measure, we get the following:

1. Payment approval
2. Invoice delivery and capture
3. Reconciliation
4. Invoice approval
5. Consolidation of payment execution processes
6. Ordering and procurement
7. Remittance delivery
8. Vendor master record maintenance

CFOs recognise that the introduction of machine-to-machine interfaces could save their businesses significant amounts of time and money – especially when it comes to reconciling transactions with e-receipts and invoices. By reducing cost, controlling data trails, and improving convenience at every stage in the process, automation is increasingly seen as the best way to deliver those business fundamentals.



Source: CFO Payment Pulse Survey 2017

Conclusion:

openness, optimism and mutual benefit

The scale of the commercial payments opportunity is encouraging news for incumbent financial institutions. It's also good news for employers of forward thinking CFOs who can expect more efficient treasury operations driving value throughout the business.

However, throughout the survey, there are a few quiet murmurs among participants who are interested in expanding their payments ecosystem and re-assessing the way they interact with current suppliers. By no means representing a majority, they are still an indication that payment service providers are operating in a new competitive landscape.

They will need to be clear about whom their target client base is, the challenges they face, and how exactly their solutions will address those challenges - particularly in the case of virtual cards where adoption remains relatively low. There is mutual benefit to be had for payment system providers and senior treasury executives – provided they work closely together to deliver value from new commercial payments products as they emerge.

The full report is available to download at www.ixaris.com/register-for-cfo-pulse/

> "The opportunities to resolve the many intractable challenges of payments across the enterprise are enormous. Banks play an important role in this and are finding ways to partner with innovators and new entrants to deliver treasury innovation."
>
> CEO, Ixaris Technologies

Methodology

The CFO Payment Pulse survey was carried out in association with Financial Director and Accountancy Age between February and June 2017. 142 companies from the UK, mainland Europe, North America, Latin America, the Middle East, Asia and Africa from a wide range of industries took part. 82 companies had a turnover of less than US$ 10 million, 39 had a turnover between US$ 10 million and US$ 200 million, and 23 have a turnover of more than US$ 200 million.

About Ixaris

Our passion is giving our clients the agility to adapt to new and evolving markets. Key to this is our technology and expertise, letting us rapidly and cost-effectively deliver solutions that perfectly fit your business and your target markets. More than 75% of our workforce is dedicated to payments innovation. This means our technology is continually evolving to keep up with your business's growth and the changing landscape of your payments environment.

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