



## B2B payments report 2018

In cooperation with Mastercard, we asked 100 senior finance executives within FTSE 350 companies and large public sector organisations what they thought of the state of B2B payments. These are their insightful views.

# Optimising payments

**How digital payments technology  
can transform the inefficiencies  
and cost of B2B payments**



## Survey overview

**60%**

of the organisations interviewed don't receive any financial reward from their bank or credit card provider on payments they make

**49%**

of organisations interviewed misdirect or duplicate payments to suppliers

**£3m**

is the average annual figure for payments misdirected by the organisations who admitted misdirections in the survey

**£40bn**

is the amount paid late by organisations surveyed

**£60m**

is the personnel cost associated with the payment reconciliation process of all 107 companies interviewed

**£16.3m**

is the average lost revenue opportunity for each surveyed organisation not receiving any financial reward on payments\*

# Contents

<b>Executive summary</b>	Page 4
<b>Methodology</b>	Page 8
<b>B2B payments today</b>	Page 9
<b>The top 5 challenges for B2B payments</b>	Page 11
1. Reducing errors, misdirected payments and supplier enquiries	Page 12
2. Advancing reconciliations with automation	Page 14
3. Reducing accounts data complexity for safer payments	Page 15
4. Using digital technology to make B2B payments pay	Page 17
5. Remodelling customer satisfaction and supplier relationships	Page 19
<b>Research recommendations</b>	Page 20

# Executive summary

Large UK organisations have told us that vast numbers of B2B payments are not being dealt with as efficiently as they could be. This is the view of more than 100 senior finance executives, working in large FTSE 350 companies and organisations employing more than 1,000 people. Their opinions are rarely heard in public, but research commissioned by Optal and conducted by Davies Hickman Partners has captured their experiences.

These large organisations, covering various sectors, deal with hundreds of suppliers and thousands of invoices each month. Their finance teams processing these transactions are struggling with manual and legacy systems, which are cumbersome and inefficient, and frustrate employees, suppliers and customers alike.

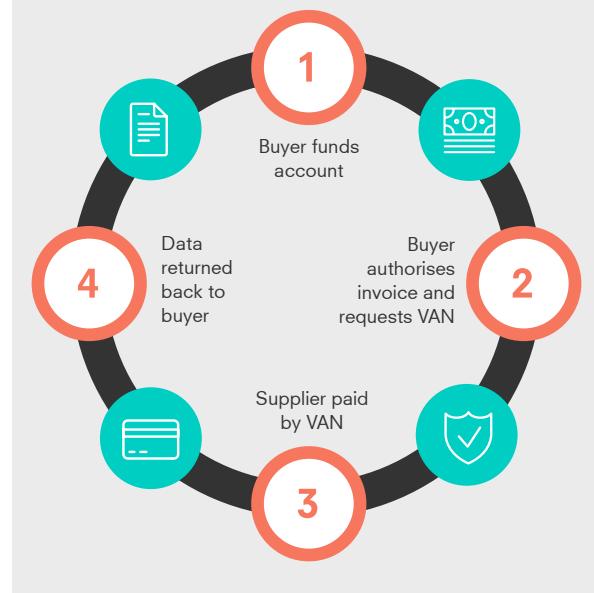
While the consumer market has seen a wealth of innovation in payments, be it Apple Pay, Android Pay, wearable, contactless or others, innovation in B2B payments is lagging behind. Providers often tempt consumers with benefits and rewards for using their payment service, but what is on offer in the B2B payments world?

## Virtual Account Numbers

With Virtual Account Numbers the days of making aggregated payments, manually reconciling those payments and dealing with lengthy payment disputes are over.

Buyers use automatically generated single-use Mastercard numbers to automate payment processes, remove payment inefficiencies, and ensure precise matching of payments to the underlying invoice or invoice line item.

### VAN payment process

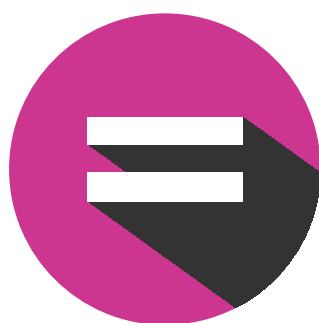


# Top 5 B2B challenges facing large organisations

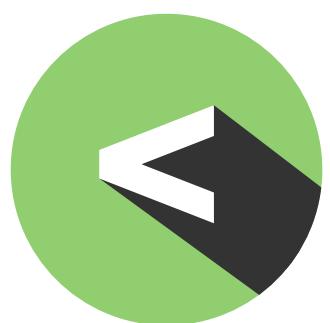
Our research was designed to find out whether VANs can address 5 of the biggest challenges facing finance executives in large organisations today:



**1. Reducing errors, misdirected payments and supplier enquiries**  
(Page 12)



**2. Advancing reconciliations with automation**  
(Page 14)



**3. Reducing accounts data complexity for safer payments**  
(Page 15)



**4. Using digital technology to make B2B payments pay**  
(Page 17)



**5. Remodelling customer satisfaction and supplier relationships**  
(Page 19)

Making life easier (and more profitable) for large organisations comes down to understanding their finance journeys and the needs of their suppliers. The research shows how employee frustrations with B2B payments are neither contributing to the success of their organisation's supplier relationships, nor the highly valued customer experience.

# What are the biggest frustrations with B2B payments?



We asked senior finance executives to tell us their biggest frustrations with B2B payments. They cited:

- Human errors/mistakes
- Tracking missing payments
- Financial details and data not always being accurate
- Suppliers chasing payment
- Keeping and maintaining details of supplier payment accounts
- The process of preparing payments being slow
- The time taken for staff to administer payments
- Lack of clarity of the overall financial information (eg isolated transaction data)
  - The risk that their business reputation would be impacted by inefficient payments
  - Payment delays

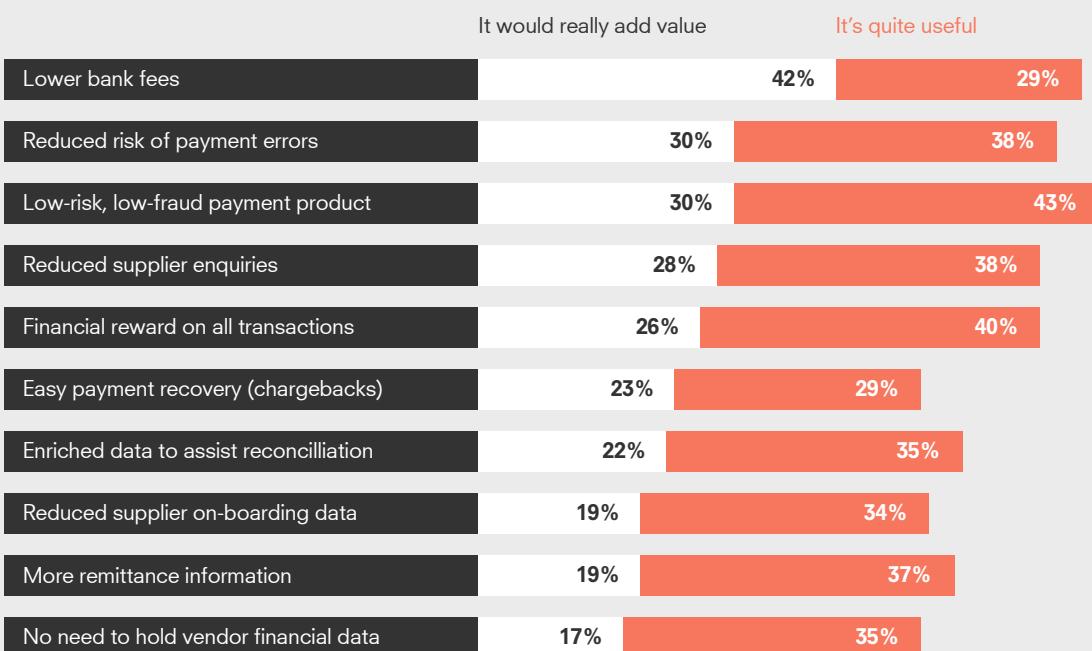
# Easier, faster, safer and more rewarding payments

Respondents made it clear that they want B2B payments (whether UK or international) to be cost effective, easier, faster and safer. What's more, they want to use new technologies such as VANs to improve their financial ecosystems and payments to suppliers. They recognise that VANs offer some solutions to the frustrations of accounts payable departments.

The features of VANs that appeal most to finance executives are lower bank fees, reduced risk of payment errors and low-risk, low-fraud payments. However, interest in a range of other benefits of VANs shows the strong desire for change in the B2B payments world.

## How digital payments technology improves B2B payments

Which of the following features of VANs would be of interest to your organisation?



# Our research suggests 8 ways to optimise your B2B payments

1

Develop processes and procedures so that accounts departments can report errors and reduce misdirected payments and the time spent on reconciliations

2

Build in-house capability and expertise around risk, fraud and the value of security to suppliers, partners and customers

3

Understand the accounting journeys of suppliers, partners and customers and build better relationships

4

Create a payments strategy suited to your organisation, driven from the top

5

Keep your eye on changing payment regulations, standards and requirements

6

Remedy basic operational errors and failings

7

Review charges and rewards and choose trusted payment partners

8

Explore new technologies that provide a revenue stream, reduce risk and increase automation

# Research methodology

Optal commissioned data and insights consultancy Davies Hickman Partners to explore the challenges businesses face with B2B payments and to understand the potential role of Virtual Account Numbers (VANs). Optal would like to thank all those who gave their time to participate in the research.

This research, conducted in December 2017 and January 2018, is based on telephone and online surveys with 107 senior accounting and finance executives who were familiar with the B2B payments of their organisations.

Their job titles ranged from Chief Financial Officer to Group Head of Finance, Finance Director, Accountant, Finance Manager and Accounts Payable Manager, among others.

We conducted interviews with accounting and finance executives from top UK FTSE 350 companies and other large organisations. The executives were from companies with more than 1,000 employees, and some large public sector organisations.

## We interviewed people from the following sectors:

Aerospace, Defence	Engineering,
Automobile, Transportation	Construction, Industrial Media, Support Services
Banking, Financial, Life Insurance	Bio-tech, Chemicals, Mining, Oil & Gas, Pharma
Electricals, Electronics, Technology, Telecoms, Utilities	Non-Life Insurance Public Sector
FMCG, Healthcare, Home, Personal Goods	Real Estate, Retailers



# B2B payments today - in need of innovation?

B2B payments have been lagging behind innovations in the consumer market, where fintech has led to an explosion of payment options – including Revolut, Monzo, PayPal, contactless, Facebook Messenger payments, Apple Pay, Android Pay, wearables – driven by consumers who want to make easier and safer payments. Although the value of B2B payments vastly outweighs that of B2C payments, large organisations have been slower to adopt innovations.

One of the biggest complaints of accounting executives was that their payment systems are cumbersome and not easy to work with. Many felt resigned to a second-rate payment experience as their teams struggle to keep up with the thousands of payments they make each month.

When thinking about the future, accounting and finance executives in large organisations want B2B payment systems to be easy, fast and low-cost.

**Human errors/mistakes are the top frustrations for finance executives when making B2B payments to suppliers.**

## How could VANs improve B2B payments?

VANs are a recent digital innovation that could offer enormous benefits to companies in terms of efficiency and business relationships. With VANs buyers use automatically generated single-use Mastercard numbers to automate payment processes, remove payment inefficiencies, and ensure precise matching of payment to the underlying invoice or invoice line item. Yet our research showed that only 1 in 4 finance executives were aware of VANs.

Evidence increasingly suggests that the key to strong business performance is employing people who really engage with their work and understand the business and its customers. Yet B2B payment systems regularly frustrate the employees who use them. We also know that today's customers judge organisations not just on the quality of their products and services but on how they treat their suppliers, partners and customers. Given this context, optimising B2B payments should become a priority for many large organisations.

**What are the top 5 frustrations you and your colleagues experience when making payments to suppliers?**

**29%** **26%**

Human errors/mistakes regularly occur

Tracking missing payments

**25%**

Financial details and data  
are not always accurate

**22%**

Suppliers chasing us for payment

**21%**

Keeping and maintaining details  
of supplier payment accounts

## Top 5 challenges facing large organisations today



Our research with 107 finance executives identified 5 challenges that are impacting the ability of organisations to run efficient B2B payment departments. We also tested whether accounting and finance executives know about, or have experience of using, VANs.

The following pages explain our findings in greater detail.



## 1. Reducing errors, misdirected payments, supplier enquiries

# 96%

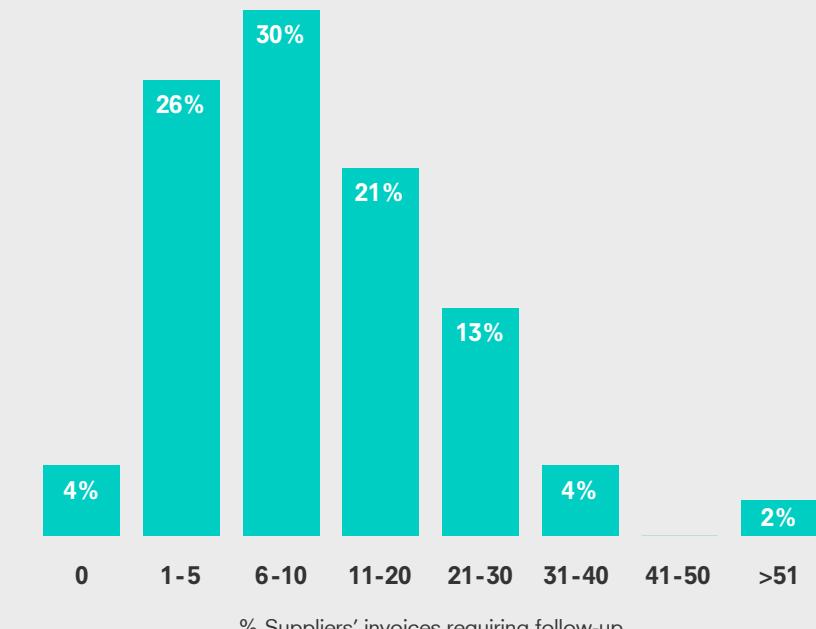
of organisations say some invoices require additional attention from accounts departments before any payment is made

# £3m

the average amount misdirected annually by the organisations who admitted misdirections in the survey

Our research showed that only 4% of invoices required no additional attention from the accounts payable department before payment. This is a huge inefficiency – nearly 1 in 5 organisations have more than 36 people dedicated to following up issues. Also, nearly 1 in 5 large organisations reported that more than 20% of their invoices need follow-up action.

**Approximately what percentage of invoices from your suppliers require some form of follow-up action?**



Further adding to the cost and time spent processing invoices, our research showed that 1 in 2 large organisations admit to misdirecting payments or making duplicate payments to suppliers. This accounts for 0.3% of their total spend on average, resulting in many millions of pounds being directed to the wrong supplier and untold difficulty in reclaiming these amounts. In fact, the research shows that on average, large organisations are misdirecting payments worth £3m each year.

Of the large organisations that took part in our research:

# 53%

are spending more than £20m per month on B2B payments

# 2,000

or more invoices are processed every month by 80% of the organisations

# 500+

suppliers are dealt with per month by 50% of all surveyed organisations

# 66%

say all of their payments are handled in-house with only 3% outsourcing all payments to third party providers

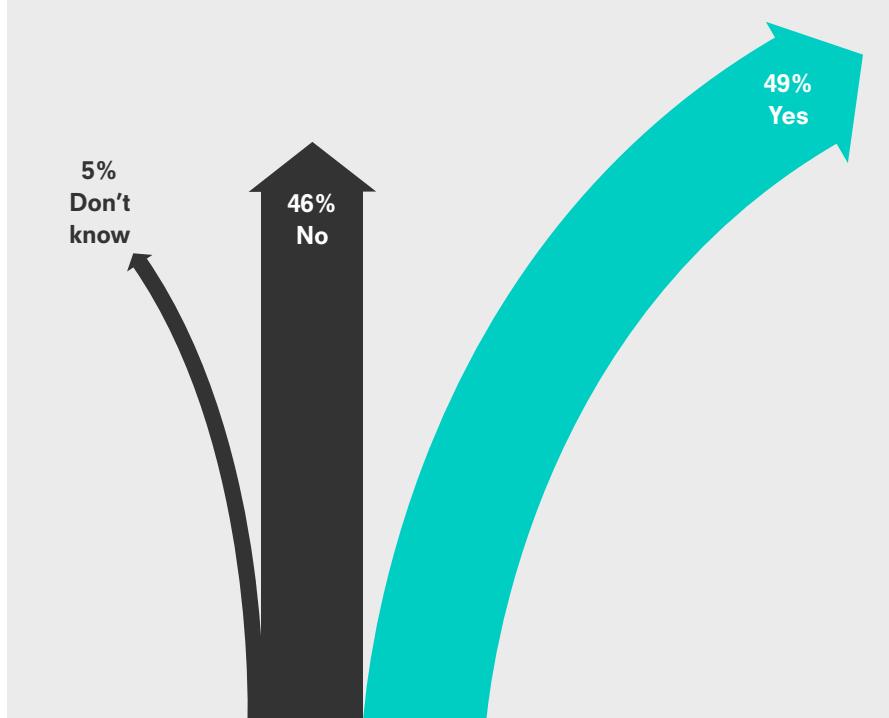
# 70%

of external spend (on average) is triggered by a purchase order

# 68%

of finance executives say reducing risk of payment errors would be of interest to their organisation

**Do you sometimes misdirect payments to suppliers or make duplicate payments to suppliers?**



These errors and the follow-up needed to resolve them add significantly to what is already a huge task: processing thousands of invoices each month and making payments on time. The value of the spend involved and regularity of payments mean there are significant gains to be had from improving efficiency.

## How could new B2B payment technology help?

Accounting and finance executives value the potential benefits of VANs, rating 'reducing the risk of payment errors' as its second highest feature. More than 2 in 3 surveyed organisations - 68% - see this as a benefit, reflecting their top frustration about the regularity of human errors or mistakes.

72% say VANs could positively impact their key performance indicators (KPIs), including creating efficiencies and reducing rework. Furthermore, reducing invoice problems and supplier inbound enquiries are another popular feature of VANs, with more than 50% of finance executives saying this would really add value or be useful to their organisation.



## 2. Advancing reconciliations with automation

For the surveyed organisations we researched:

**11%**

had 50 or more employees dedicated to payment reconciliation

**16**

staff (on average) were dedicated to payment reconciliation (ranging from 1 to 150 people)

Large organisations put a huge amount of effort into reconciliations once B2B payments have been made, which is not surprising, given the number of errors, misdirected payments and manual processes.

### Automating the reconciliation process with VANs

How can new B2B payments technology reduce the time and effort involved in reconciliations? 57% of finance executives are attracted to the ability of VANs to provide enriched data to enable faster reconciliations. The data associated with many current payments systems (BACS, SWIFT, etc) is extremely limited, which further increases the likelihood of errors, misdirected payments and problems with reconciliations.

Additionally, 4 out of 5 organisations agreed that improving Service Level Agreements eg timely payments, would be one of the most appealing attributes of payment systems such as VANs.

**£60m<sup>1</sup>**

**spent on reconciliations across our survey of 107 organisations, costing on average more than £560,000 for each organisation**

<sup>1</sup>With large organisations employing 16 employees (on average) dedicated to payment reconciliations, the total wage bill could be approximately £415,000. Additional employees' costs (eg training, overheads) would be approximately 135% of wages.

# 57%

**of finance executives are attracted to the ability of VANs to provide enriched data to enable faster reconciliations**



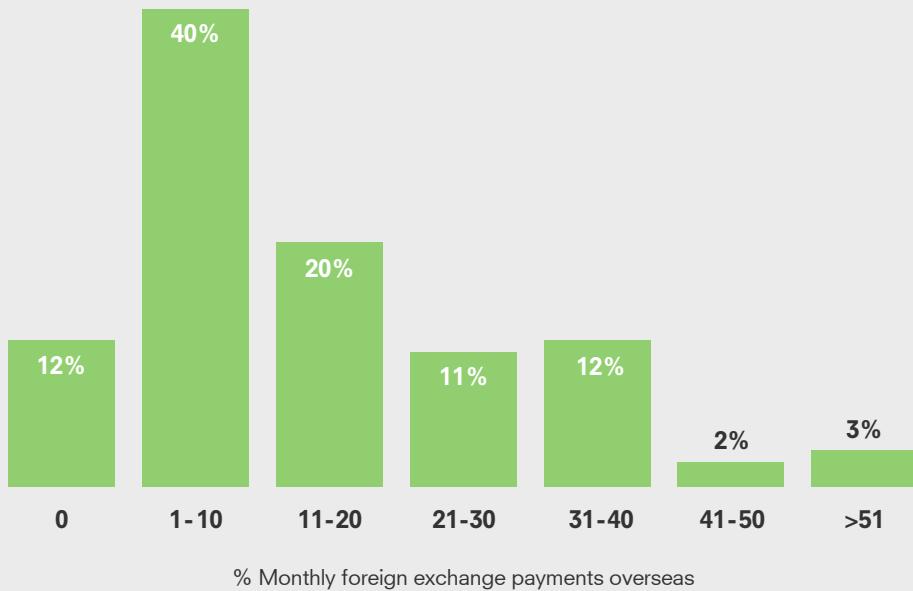


### 3. Reducing accounts data complexity for safer payments

Accounting and finance executives in large organisations are attracted to innovations that can reduce the need to maintain and manage complex data. They also want to reduce supplier on-boarding data capture and to have more remittance information. This need is even more pronounced given that 88% of large organisations make overseas payments, thereby multiplying the need to hold unfamiliar data and the chances of security breaches.

Large organisations are very concerned about data and payment security. The rise of fraud and high-profile media stories have added to accounting and finance executives' unease about the data their organisations hold. If a security breach occurs, the cost to the organisation under duress can be very high, and any associated brand damage difficult to recover from. One of the top 5 frustrations for finance executives in large organisations is keeping and maintaining details of supplier payment accounts.

**What proportion of your monthly payments are to overseas organisations, involving foreign exchange payments?**



## How VANs could help reduce data security risks and fraud

The finance executives we interviewed spoke positively about the way that digital technologies such as VANs would reduce the need for them to hold vendors' financial data. 53% like the idea of reduced supplier on-boarding data capture and better maintenance of data – benefits that VANs can offer.

2 in 3 finance executives are interested in using VANs, with 73% saying a low-risk, low-fraud payment product such as VANs would be appealing.

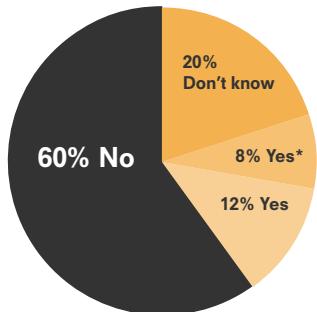


**say a low-risk, low-fraud payment product such as VANs would be appealing**



## 4. Using digital technology to make B2B payments pay

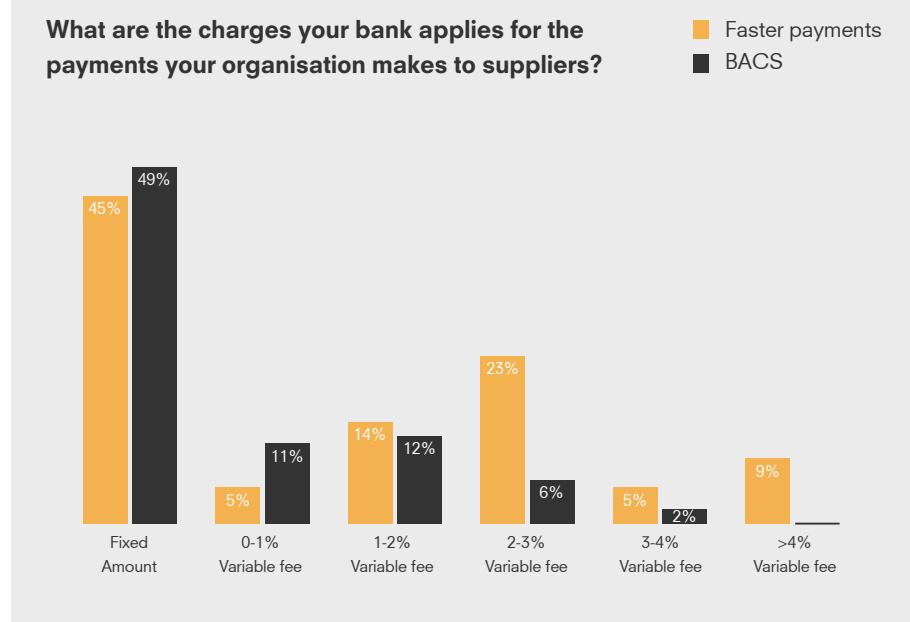
Do you receive a financial reward from your bank or credit card provider on the payments you make?



\*on a restricted number of payments

Changing B2B payments from a cost centre to a profit centre would be very appealing to the boards of surveyed organisations. At the moment, B2B payments are typically run as cost centres, incurring costs for the people, technology and processes needed to run an accounts payable department.

Our research with accounting and finance executives has shown that many of these costs come from invoice errors, misdirected payments and follow-up enquiries from suppliers. Bank charges (whether for faster payments, BACS, SWIFT or cheques) represent another cost, and it seems that not all organisations are getting a good deal.



Innovations in the consumer payments market have seen rewards, bonuses and cashback by way of a thank you for using digitised payment services. Yet very few large organisations receive a financial incentive from their bank or credit card provider for the B2B payments they make.

## 4. Using digital technology to make B2B payments pay

For the large organisations we researched:

# 71%

are interested in lower bank fees

# 60%

of the organisations interviewed don't receive any financial reward from their bank or credit card provider on payments they make

# £16.3m

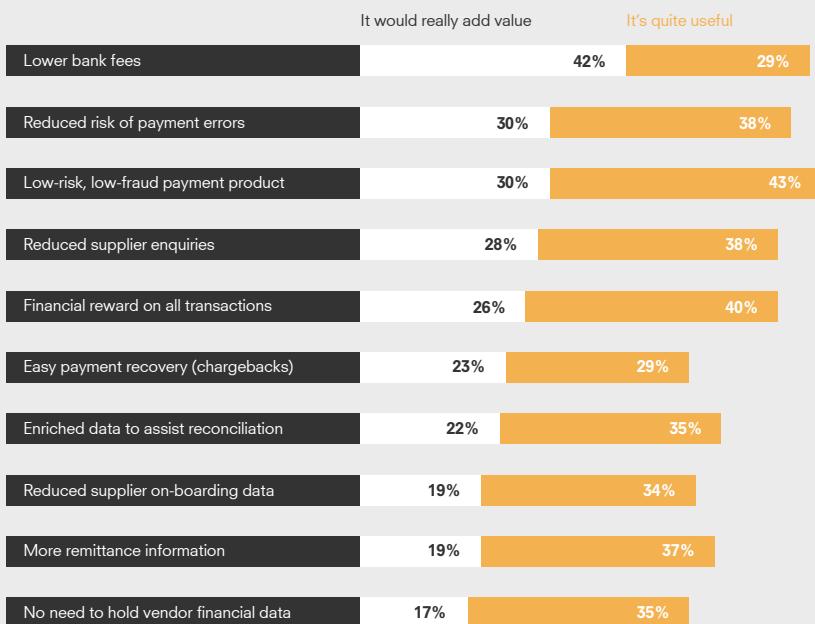
is the average lost revenue opportunity for each surveyed organisation not receiving any financial reward on payments

## Using digital technology for a profit centre

New B2B payments offer the possibility of running accounts departments as profit centres. When VANs are included as part of an organisation's digital strategy, revenue is paid to the organisation regularly. This appeals to accounting and finance executives, with 71% interested in lower bank charges – the top-rated feature of VANs.

Overall, 66% of finance executives like the possibility of financial rewards for all transactions. Given the millions of pounds of external spend each year, these rewards have the potential to match or even exceed the cost of running accounts payable departments. 76% agree that reducing departmental costs and payments overheads by turning accounts payable into a profit centre would also appeal to their CEOs and boards.

### Which of the following features of VANs would be of interest to your organisation?





## 5. Remodelling customer satisfaction and supplier relationships

**Using VANs to improve customer satisfaction**  
Our survey of 107 organisations show:

# 77%

of accounting and finance executives say they like the idea of using VANs if it could positively impact customer satisfaction due to faster payments and fewer disputes

# 1/3

of large organisations are paying invoices after 31 days or more, despite 30 days being the agreed payment terms

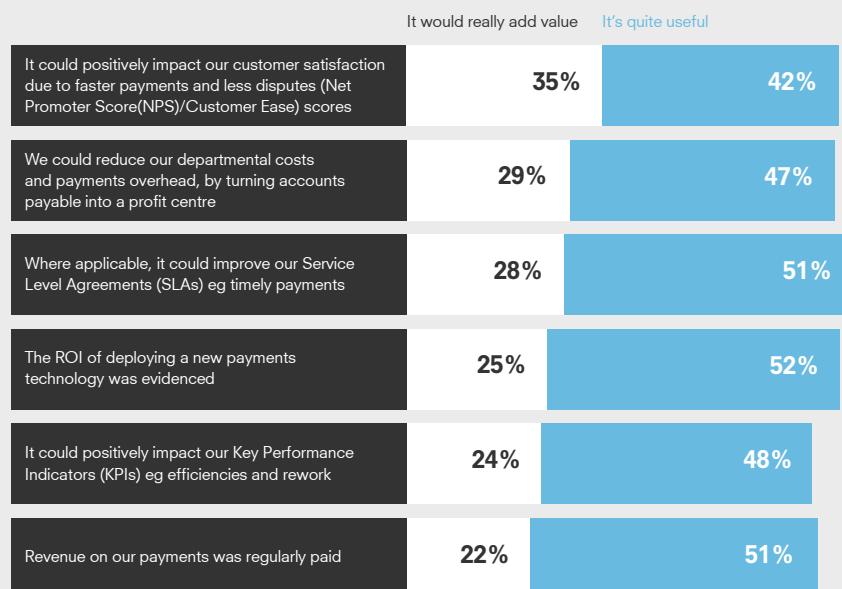
# £40bn

is paid late to suppliers annually by the organisations who pay later than 31 days

Many organisations and their suppliers experience problems with their B2B payments, which does not help brands build an effortless experience with suppliers, partners and customers. The situation has become so strained that some political parties and the media have argued for an improvement in B2B payment practices, particularly for small and medium enterprises that supply larger organisations.

In fact, large organisations risk losing some of the goodwill built up in other parts of the suppliers' journeys. Suppliers products and services can be vital to an organisation's customer satisfaction levels, and so organisations may need to rethink payments and ultimately be more open to adopting new payment methods.

**If you were going to use/have used virtual cards or virtual account number (VANs), what are their most appealing attributes to the CEO and the board of an organisation such as yours?**



Taking steps to address these 5 challenges could bring immediate gains for large organisations, not just in terms of savings and efficiencies, but in employee engagement and improved relationships with customers, suppliers and partners.

# Recommendations - optimising B2B Payments



On the following page we make 8 suggestions as to what finance executives in large organisations need to do to make their B2B payment systems more efficient and profitable.

There is no question that B2B payments need to be improved. Some legacy systems are inefficient, others are expensive to operate, and some are both. So, while large organisations still make millions of payments this way, it's highly likely that CEOs and boards will want to adopt payment methods that can provide them with tangible reassurance of their efficiency and data security.

Our research shows that organisations are not moving fast enough to make improvements or, in many cases, they are not moving with enough focus.

Individual accounting and finance executives and their teams need to address the issues within this report. The insights from our business research point to a clear strategy going forward:

**1**

Develop processes and procedures so that accounts departments can report errors and reduce misdirected payments and the time spent on reconciliations

**2**

Build in-house capability and expertise around risk, fraud and the value of security to suppliers, partners and customers

**3**

Understand the accounting journeys of suppliers, partners and customers and build better relationships

**4**

Create a payments strategy suited to your organisation, driven from the top

**5**

Keep your eye on changing payment regulations, standards and requirements

**6**

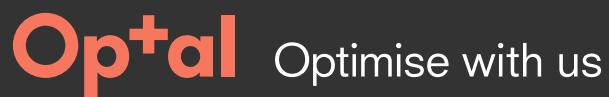
Remedy basic operational errors and failings

**7**

Review charges and rewards and choose trusted payment partners

**8**

Explore new technologies that provide a revenue stream, reduce risk and increase automation



If you would like to know more about Optal please visit [optal.com](http://optal.com)

To talk to us about how we could add value to your organisation, please contact:

info@optal.com  
+44 (0) 20 3892 4928

Mastercard is focused on improving how businesses pay and get paid. Together with Optal, Mastercard is working to bring the speed, security and convenience of VANs and other innovative payment solutions to more B2B sectors.