

REIMAGINING BUSINESS PAYMENTS:

How Digital Lockboxes Unlock AR Efficiencies

Reimagining Business Payments: How Digital Lockboxes Unlock AR Efficiencies, a PYMNTS and Billtrust collaboration, offers financial professionals a play-by-play look at how to collaborate with business partners to streamline their receivables and eliminate the pain points that plague manual payments.



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TABLE OF CONTENTS

- Introduction 01
- The Rising Tide Of Digital Payments 03
- Upping The Collaborative Commerce Quotient 07
- Case Study: Cooper Electric Taps Digital Lockboxes To Scale 11
- Case Study: SmileDirectClub On Winning Customer Trust 15
- Conclusion 17

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The Reimagining Business Payments: How Digital Lockboxes Unlock AR Efficiencies Playbook is a collaboration with Billtrust, and PYMNTS is grateful for the company’s support and insight. PYMNTS.com retains full editorial control over the following findings, methodology and data analysis.

INTRODUCTION

The ways in which companies conduct business have dramatically changed in just a few short years, especially when it comes to making and receiving vendor payments. The pandemic and the widespread shift to remote work are likely to remain the status quo for the foreseeable future and have forced both buyers and suppliers to reinvent their accounts receivable (AR) and accounts payable (AP) processes to accommodate what has become a digital-first business environment.

Businesses in the United States racked up record-setting debts during the pandemic as consumer spending and company revenues dropped. PYMNTS' research found that non-financial companies accumulated some \$11.2 trillion in debt in the months after March 2020, a number equivalent to almost half of the U.S. economy.¹

Paper checks' allure has diminished severely as companies look to improve their cash flows,

streamline their AR and AP processes and strengthen collaborations with trading partners. These businesses instead are turning to digital payments.

Trading partners that use digital means to make and receive payments report increases in overall customer satisfaction, more flexibility in the payment options they offer and increased book-balancing efficiency. Digital processes eliminate manual tasks such as data entry, striking human error from these tasks. According to PYMNTS' research, about 71% of chief financial officers (CFOs) say their organization has accelerated payments digitization efforts during the months since March 2020, with 38% doing so to improve their balance sheets.

Digital payments also empower businesses to automate their AR and AP processes, further reducing the need for human intervention. Digital lockboxes can receive payments and quickly match remittance information while sending the information almost simultaneously



to enterprise resource planning (ERP) systems. The result is a high match rate of invoice payments and more easily balanced books, which can each help improve customer satisfaction.²

The desire to speed up payments and make existing business systems more streamlined has motivated banks and business organizations to work together to convince payors to shift from paper-based payments to digital alternatives.

The Reimagining Business Payments: How Digital Lockboxes Unlock AR Efficiencies Playbook, a PYMNTS and Billtrust collaboration, provides a roadmap for financial professionals who seek a more collaborative process to reduce the receivables frictions that paper-based payments create.

This is what we learned.

¹ Business Payments Digitization: A Path To A Better Balance Sheet. PYMNTS.com. 2021. <https://www.pymnts.com/wp-content/uploads/2021/11/PYMNTS-Business-Payments-Digitization-November-2021.pdf>. Accessed January 2022.

² Author unknown. What is Cash Application? Billtrust.com. <https://www.billtrust.com/resources/blog/what-is-cash-application/>. Accessed January 2022.

THE RISING TIDE OF DIGITAL PAYMENTS



Perhaps because of its longevity, ubiquity across trading partners and low cost of acceptance, many financial professionals say the trusty old paper check still is the way to go. This payment method can be fraught with challenges, however. Checks need to clear, and this process can cause delays and lead to availability issues. A paper check mailed through the postal service can experience prolonged travel delays or be stolen, and bank policies can hold up checks. Many organizations, therefore, are reducing their use of manual, paper-based payments such as cash and checks, and instead are fast-tracking their adoption of digital payment methods.

PYMNTS' research shows that 53% of businesses that use checks have been making and receiving fewer check payments since prioritizing payments digitization. Among firms that use cash, 87% use cash less often.³

Statistics show that businesses are open to new ways to pay and be paid. A May 2021 study suggested that 93% of businesses will try at least one new payment method within the next year, including contactless payments, QR codes or cryptocurrencies, and reported that 63% already had tried a new payment method since March 2020.⁴



³ Business Payments Digitization: A Path To A Better Balance Sheet. PYMNTS.com. 2021. <https://www.pymnts.com/wp-content/uploads/2021/11/PYMNTS-Business-Payments-Digitization-November-2021.pdf>. Accessed January 2022.

⁴ Author unknown. Mastercard New Payments Index: Consumer appetite for digital payments takes off. 2021. Mastercard. <https://www.mastercard.com/news/press/2021/april/mastercard-new-payments-index-consumer-appetite-for-digital-payments-takes-off/>. Accessed January 2022.

Digital integration, digital solutions

Buyers and suppliers for years have relied on inefficient AR and AP processes limited by outdated legacy computer systems and software. Often, this lack of interoperability results in delayed business-to-business (B2B) payments, errors, fraud, a lack of payment data, cash flow challenges and other problems that can prevent companies from delivering the type of instantaneous financial transactions that their business partners expect.

Inefficiencies such as these are driving businesses to adopt more digital B2B payment methods. PYMNTS' research has found that credit card-enabled digital payments made via supplier portals or digital wallets have experienced the largest increase in usage of any payment type since the pandemic began. Eighty-five percent of CFOs surveyed say their businesses are making more card-enabled digital payments than they were in March 2020.. Digital payments made via direct deposit or through account-to-account (A2A) methods such as PayPal follow, as 71% and 62% of CFOs say their organizations' usage of these two payment methods, respectively, has increased since March 2020.⁵

Digital payments technologies such as these can strengthen enterprise organizations looking to simplify and streamline their payments flows. Ninety-one percent of CFOs say accelerating their organization's payments digitization has made payment operations more efficient, and 96% say they believe optimized AR and AP processes are highly important to maintaining healthy balance sheets.⁶

Many organizations fast-tracking their digitization efforts also are turning to digital lockboxes to secure those digital payments.

A digital lockbox essentially serves as a central clearinghouse that can automate and process payment remittance information that it receives from direct and indirect channels such as email, phone, AP portals and self-service portals. Digital lockboxes offer speed, security and interoperability, giving both buyers and suppliers a way to align payment choice and streamline payments via one integration across multiple AP providers, card issuers, banks and ERP systems.



⁵ Business Payments Digitization: A Path To A Better Balance Sheet. PYMNTS.com. 2021. <https://www.pymnts.com/wp-content/uploads/2021/11/PYMNTS-Business-Payments-Digitization-November-2021.pdf>. Accessed January 2022.

⁶ Ibid.

UPPING THE COLLABORATIVE COMMERCE QUOTIENT



Being a good business partner means looking out for more than just your own organization's success and well-being. Effective business partners must work to establish processes that reflect each other's aligned interests and financial boundaries. As more businesses shift to a remote and mixed working environment, they must find new ways to support their symbiotic relationships online.

Collaborative commerce is a term describing a type of process that is gaining popularity; Gartner defines it as "electronically enabled business interactions among an enterprise's internal personnel, business partners and customers throughout a trading community."⁷ A digital lockbox can help organizations improve the collaborative commerce quotient with their customers by encouraging collaboration between buyers and suppliers as well as optimizing transactions and reducing the work involved in sending, receiving and reconciling payment information.

A digital lockbox can help businesses take a collaborative approach to generating and processing invoicing and payments. Goodwill and collaboration go a long way in maintaining long-lasting business relationships in today's connected eCommerce environment. Digital lockboxes can ensure payments arrive quickly and securely with remittance data integrated directly into an AP or ERP solution, ready to be reconciled in the monthly books.

Utilizing a digital lockbox as a central collection and distribution point for incoming payments can lead to some transformative changes, including the following:



⁷ Author unknown. Gartner Glossary: Definition of Collaborative Commerce (C-commerce). Gartner. <https://www.gartner.com/en/information-technology/glossary/c-commerce-collaborative-commerce>. Accessed January 2022.



Improved overall customer satisfaction:

A digital lockbox can give a client more flexibility for remittance for electronic payments, whether through email, AP systems integration or an online portal.



Reducing manual tasks:

A digital lockbox can automate many tasks that traditionally would be handled by accountants and other AR staff. Tasks that were once paper-based, such as invoicing, writing checks and budget reconciliation can be automated, freeing staff to tackle higher-value tasks.



Increased flexibility:

Digitizing payments processes can help large businesses and small to mid-sized businesses (SMBs) simplify workflows, control costs, speed up transaction processing and reconciliation, remove manual paper processes and offer valuable spend data and insights to optimize not only their own processes but those of their business partners.⁸



Better overall financial processes:

A more transparent payments process improves visibility into working capital and the customer information it collects, such as buying habits and payment behaviors, which can provide invaluable information for future interactions.



More effective problem solving:

Digital lockboxes can help deal with “lost” or partial payments by making sure remittance data travels with the payment, resulting in fewer transactions being help up. This also makes for an easier bookkeeping experience as payment information goes directly into a firm’s ERP system or AR solution.

Digital lockboxes allow businesses to streamline electronic B2B payments’ delivery to vendors’ application programming interfaces (API) and AR platforms. APIs are sets of computerized functions that allow the capabilities of one program to be used by another. By making it easier for businesses to exchange information, APIs can help improve the integration of third-party software into legacy systems, enhance the customer experience and help automate tasks.

A payments network, through which a digital lockbox can be administered, provides a directory of suppliers’ digital payment preferences to enterprise buyers’ AP providers. This gives the AP providers insight into which forms of payment their customers’ suppliers will accept and enables the providers to initiate payments (once the buyer approves the invoice) without needing to manually enter data such as payment preferences, email addresses and remittance information.

The payments network allows suppliers to receive multichannel digital payments into a digital lockbox without needing to worry about finding uncoupled remittance data. The digital lockbox then moves funds into the supplier’s bank and sends remittance data to the supplier’s ERP solution for cash application, cutting out the need for human interaction and time-consuming processing tasks.

What is a digital lockbox and how does it work?

A digital lockbox can be considered a digital alternative to a physical mailbox in a local post office. Physical mailboxes are handy for those who receive a lot of mail but may not be reliable enough (or secure enough) as a method of accepting check payments from multiple customers.

Companies that receive many payments cannot rely on the mail, and many payments are processed through a broad variety of digital channels, such as a website, wire service or automated clearinghouse (ACH) transfers. Accessing the money also can be complicated, requiring the receiver to open an email, process a file or capture payment instructions.

A digital lockbox can help, as it essentially is a central clearinghouse that can automate and process payment remittance information coming in from direct and indirect channels such as email, phone, AP portals and self-service portals. Using technology such as robotic process automation (RPA), a digital lockbox can electronically connect to a firm’s AR, AP and ERP system, making sure the money received matches up with invoices and is ready to help balance the books. Thereafter, receiving payments can be simplified using electronic means such as contactless card payments, Automated Clearing House (ACH) transfers and wire payments. Payments on both sides are made more quickly and easily, and customers gain a sense of trust knowing their payments have been made securely.

⁸ Ellis, B. Collaborative commerce: the next evolution of B2B payments. Visa Navigate. 2021. <https://navigate.visa.com/na/money-movement/moving-beyond-payments-execution-and-into-collaborative-commerce/>. Accessed January 2022.

Case Study

COOPER ELECTRIC TAPS DIGITAL LOCKBOXES TO SCALE

Like many businesses that receive payments from myriad customers every day, electrical distributor **Cooper Electric Supply** has been challenged with tracking the increasing numbers of ways in which customers like to pay their invoices.



Cooper Electric, a family-owned business at its inception, has grown to employ more than 1,000 workers in 53 branch locations throughout New York, New Jersey and Pennsylvania by acquiring companies such as Friedman Electric Supply and City Electric. This growth has sparked further growth, expanding the size of the company's customer base as well as the number of ways in which the company receives payments. Melinda Kilonsky, one of Cooper Electric's regional credit managers, said while some customers still prefer to pay by check, many more are beginning to turn to credit card payments and digital means.



Unlocking more payment options

Many companies have used physical lockboxes, which direct customers to send payments to a bank-operated mailing address. The bank opens the incoming mail, deposits all received funds in the company's bank account and scans the payments and any remittance information.

The downside of this physical lockbox solution is that organizations cannot accept the electronic formats (PDF, CSV, HTML) that accompany most digital payment types, such as through ACH, for instance.

A digital lockbox transforms remittances into a format that an ERP solution can import.

Cooper Electric's digital lockbox, administered through Billtrust's Business Payments Network (BPN), provides an electronic address for any business wanting to automatically receive payments via ACH or wire transfer. Just as most businesses have adopted physical lockboxes to automate check processing, the digital lockbox automates the acceptance of payment instructions received by email, the leading electronic payments delivery method.

Kilonsky said there are many ways in which companies can benefit from digital payments and lockboxes, and she expects many other companies will decide to implement them going forward.

"Payments networks integrate with an organization's existing AP and AR software, so it's easy to get started without major technology changes," she said.

She added that payments networks can serve as an answer for B2B organizations to reduce reliance on paper checks and outside delivery sources as mail times continue to increase.



Changing with the times

With more customers looking to pay for products digitally, Cooper Electric had to find ways to pivot and meet their demands. Offering more digital options for payment was an obvious step to improve customer service, but the digital transformation also helped the company keep better track of invoices and payments and simplified bookkeeping.

"More of our customers are using accounts payable portals to pay via email, which created more manual work for our accounts receivable team," Kilonsky said. "With BPN's digital lockbox, payment emails are forwarded into the system ... [and it] processes the cards using robotics, integrations with major card issuers and business process outsourcing (BPO) teams."

BPN automatically enforces standing business rules, and any exceptions are managed through BPN's portal. At the end of each day, the company's cash application team receives a detailed payment file for easy processing.

Many small customers still prefer to walk into one of the company's branches to pay their bills with paper checks, but Kilonsky said the company saw a huge overall increase in payments volume in 2020 since implementing the process of emailed credit card payments, and no BPN automates digital invoice delivery for 71% of the company's customers.

"We saw a 671% increase in the total dollar amount of digital customers' payments, which stemmed from a 50% increase in the number of touchless digital payments made," Kilonsky said, adding that the company was able to save a substantial amount in credit card processing fees in 2020 due to higher rates of Level 3 interchange qualification. The shift also enhanced PCI security as automation and secure processing centers handled card payments.



Case Study

SMILEDIRECTCLUB ON WINNING CUSTOMER TRUST

Organizations have tracked customer billing statements, invoices and payments with spreadsheets for decades. As tech-savvy customers who prefer digital payment options and instant funds receipt grow in number, however, many businesses have observed them steering away from using checks and manual deposits, according to Brandon Underwood, vice president of financial operations for **SmileDirectClub**, a dental healthcare provider of custom-made teeth aligners.

SmileDirectClub customers start by visiting a SmileShop location to consult with a dentist or mailing in impressions of their teeth with a special in-home impression kit. From there, the company creates a specialized plastic retainer that it guarantees will help straighten even the most crooked teeth.

Because the company operates almost entirely remotely and has a very personal core product, gaining customers' trust is extremely important. SmileDirectClub connects users with dental health professionals via its telehealth platform and has helped roughly 1.5 million patients and professionals since its 2014 inception.

The company's success did not come without growing pains, especially regarding reconciling financial books and tracking accounts receivables. Underwood said one of the biggest challenges facing accountants was integrating and connecting multiple systems and payment batches. SmileDirectClub is moving away from spreadsheeting and instead downloading integrated statements directly to the company's ERP system.

The company has adopted digital payment technologies such as digital lockboxes as part of its broader digital transformation.



"In building the technology required, we have built a tighter ecosystem and created a higher investment from both parties," Underwood said, adding that this action has forged a stable and more collaborative business connection with customers.

Underwood said he believes companies will find they can benefit from digitizing payment options and using digital lockboxes to improve their financial processes.

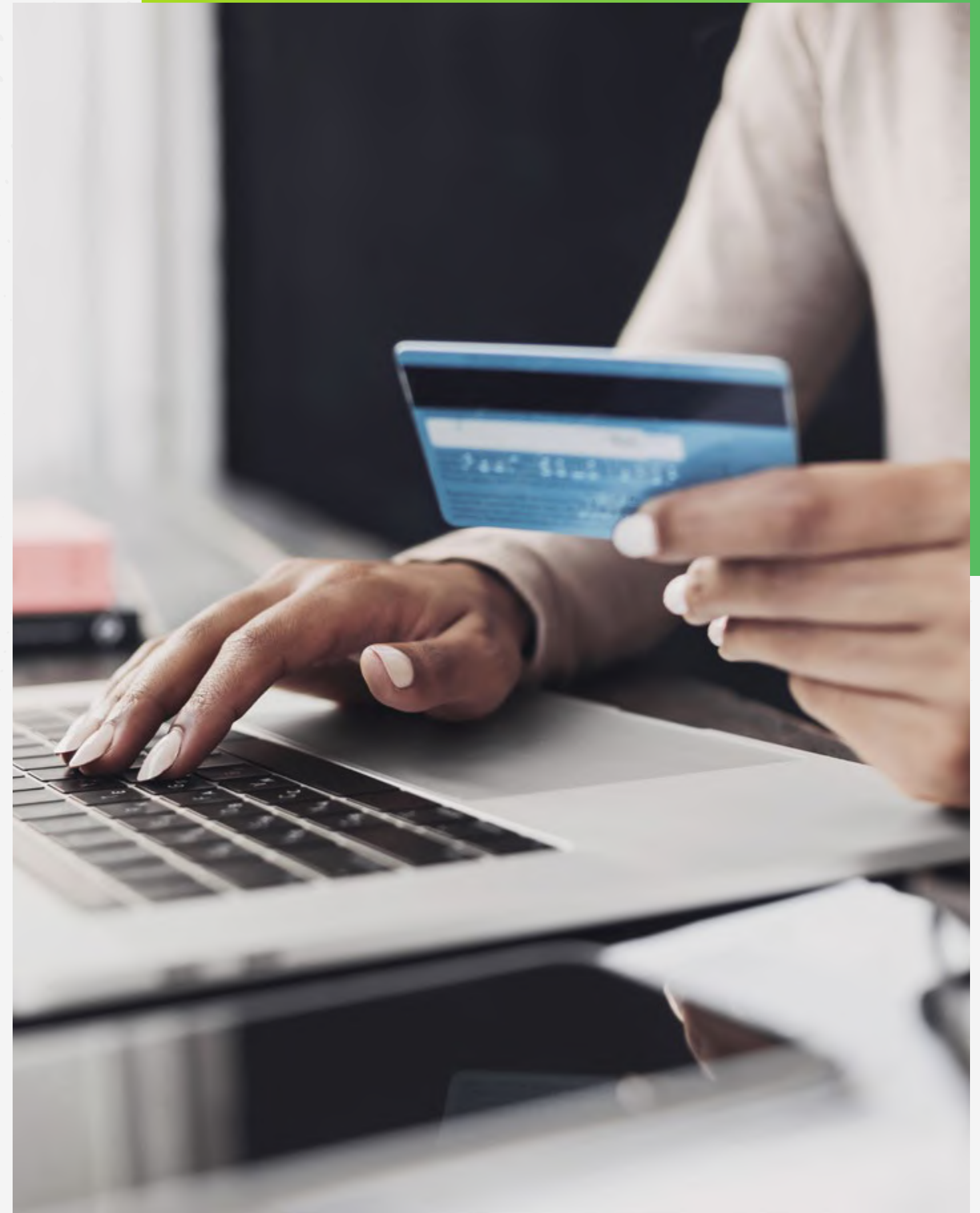
"Digital payment technologies will increase automation and reduce the time it typically takes to recognize revenue, helping to reduce monthly, quarterly and annual accounting close times," he said.

SmileDirectClub's success illustrates how digital payments innovations can streamline businesses' payments operations and position them for long-term success.

Conclusion

As the world becomes more connected and geographic proximity becomes less of a requirement for doing business, company success hinges on making sure that processes such as invoicing and payments becomes digitized so that payments can be made and received over long distances safely and efficiently.

Digital lockboxes can help organizations not only track and expedite AR and AP processes, but also optimize both sides of the payment transaction with their customers. Otherwise, the status quo of slower payments and cash application will remain slow, and that may be enough to inspire prospective customers to go elsewhere.



About

PYMNTS.com

PYMNTS.com is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

billtrust

Billtrust (NASDAQ: BTRS) is a leading provider of cloud-based software and integrated payment processing solutions that simplify and automate B2B commerce. Accounts receivable is broken and relies on conventional processes that are outdated, inefficient, manual and largely paper based. Billtrust is at the forefront of the digital transformation of AR, providing mission-critical solutions that span credit decisioning and monitoring, online ordering, invoice delivery, payments and remittance capture, invoicing, cash application and collections. For more information, visit [Billtrust.com](https://www.billtrust.com).

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