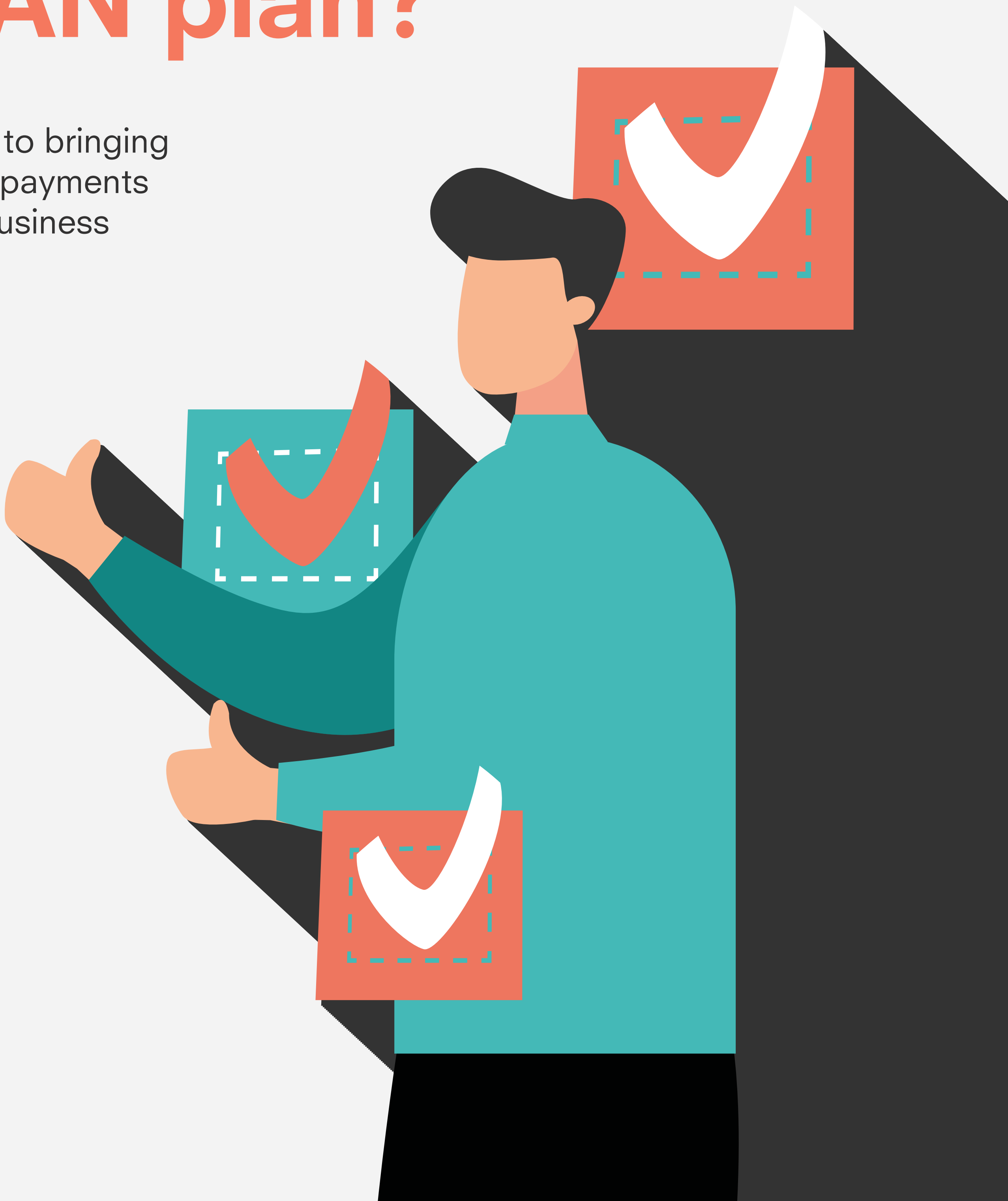
Do you have a VAN plan?

Four steps to bringing alternative payments into your business



Every area of the finance world has undergone major transformation over the past few years. Mobility is changing the way people bank and AI is making finance more intelligent. The impact of automation is so great that **McKinsey** says it will soon take care of 10-25% of tasks across banking and finance functions.

The bywords for future finance are dynamism, intelligence and speed. Businesses want systems that they can trust to take care of tactical, nuts and bolts tasks, so their smartest people are freed up to focus on strategic work that makes a big difference.

But to get there, businesses need a radical rethink when it comes to something that *should* be simple: their payments processes. Most businesses still rely on conventional methods like BACS, SWIFT, cheques and cards to pay suppliers. As a result, some of the key issues businesses face when making payments – like accuracy, capacity for human error, and supplier problems – remain unchallenged.

Businesses need better payments choices. They need alternatives to legacy methods that give them immediate buyer and supplier control, while removing friction from the payments process.

Virtual Account Numbers (or VANs) do just that, offering the ability to automate reconciliations, reduce payment misdirection and errors, simplify accounts data, and enabling businesses to derive additional revenue. In fact, recent research suggests that two in three finance executives are interested in VANs. What's needed now is a clear plan for how to bring VANs into the business.*

*All statistics (and references hereafter) are taken from our 2018 B2B payments report. For more information, see page 12.

The payment problem

Businesses that work with a number of suppliers have a set of common problems when it comes to making B2B payments. These are split across three areas:

1. Supplier relationship management

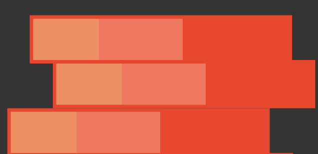
Almost a quarter (22%) of businesses face issues with suppliers chasing them for payment – unsurprising, given that 49% also report making misdirected or duplicate payments. This is liable to damage supplier relationships over the long term. And when a business has a lot of suppliers, that's a big risk to take.

2. A lack of automated processes

Managing payments requires a lot of manual work. According to the businesses surveyed by Optal,* the average amount misdirected annually sits at £3 million. And of the invoices that go through their systems, just 4% require no additional attention from the accounts department. This kind of inaccuracy and corrective manual input is untenable in the long term.

3. The risk and inaccuracy of payments

Payments is an arena filled with risk. Not only are businesses working with money, they're working with data. So, businesses that deal with a lot of suppliers requiring payment by BACS, SWIFT or cards have to be extremely cautious. Supplier onboarding processes require them to take responsibility for large amounts of sensitive accounting data – a problem that's exacerbated even further when dealing with overseas suppliers, due to different regulations and requirements across jurisdictions.



VANs can help

It’s a lot to balance. But VANs can help with all of these issues. An impressive 77% of finance executives believe that using VANs will positively impact their customer relationships. Almost three quarters of finance executives think VANs could positively impact their business by creating efficiencies and reducing rework. And 73% of finance executives say that a ‘low risk, low fraud’ payments alternative would appeal to them.

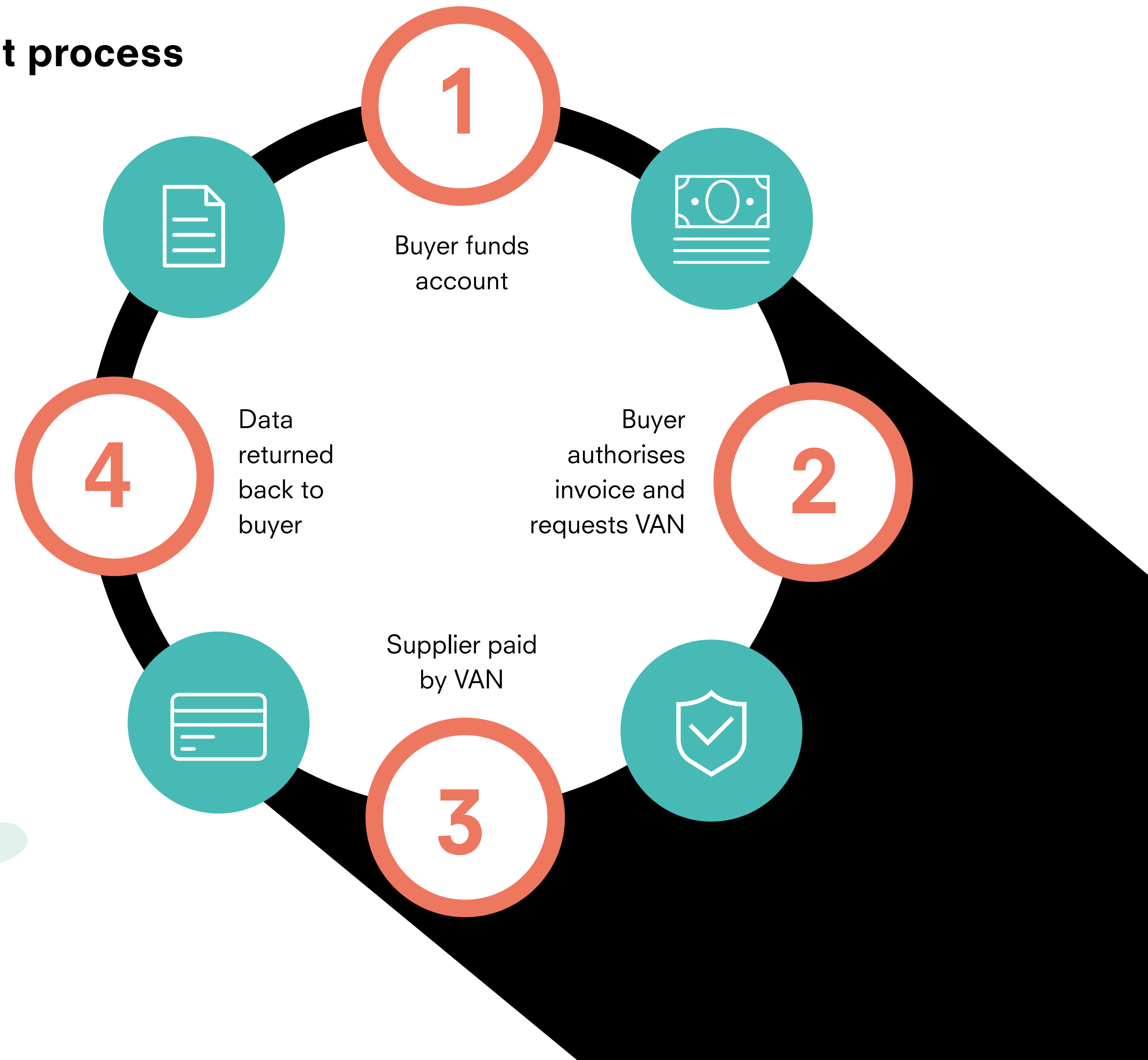
That’s why many finance leaders are introducing VANs as part of their wider transformation plans (or even after a transformation programme has been completed). VANs are ideally suited to businesses working with a broad range of suppliers, and those who face the pertinent challenges of payments today.

How do VANs work?

VANs are single use virtual cards that can transform your supplier payment strategy. They work by offering third party suppliers immediate payment through a Virtual Account Number. Optal VANs are backed up by Mastercard, giving businesses one-to-one payment matching that brings an end to mass, aggregated payments. This means users can ensure precise supplier payment, with no inefficiencies, and easy invoice and data management.

No plastic, full transparency, and fully digital – VANs are a smart alternative to traditional payments solutions.

VAN payment process



Building a VAN plan: four things to consider

The benefits of VANs are clear. Here's the four key things you need to assess.

1. Who benefits in your supply chain (and business)?

A first key step in implementing a VAN plan is to identify who in your supply chain could benefit from enhanced payments processes. Chances are, this will be most of your suppliers. When Optal spoke to businesses about their payments issues, we discovered that half of them deal with more than 500 suppliers in any one month, while the majority are processing upwards of 2000 invoices a month.

That kind of scale is hard to handle for any business, and the continued growth of payments and attendant pressure on payments systems is creating difficulties – like delayed payments, the number of disputes that arise as a result of errors, and basic mistakes. All of this is especially complicated for long-tail and mid-tail suppliers.

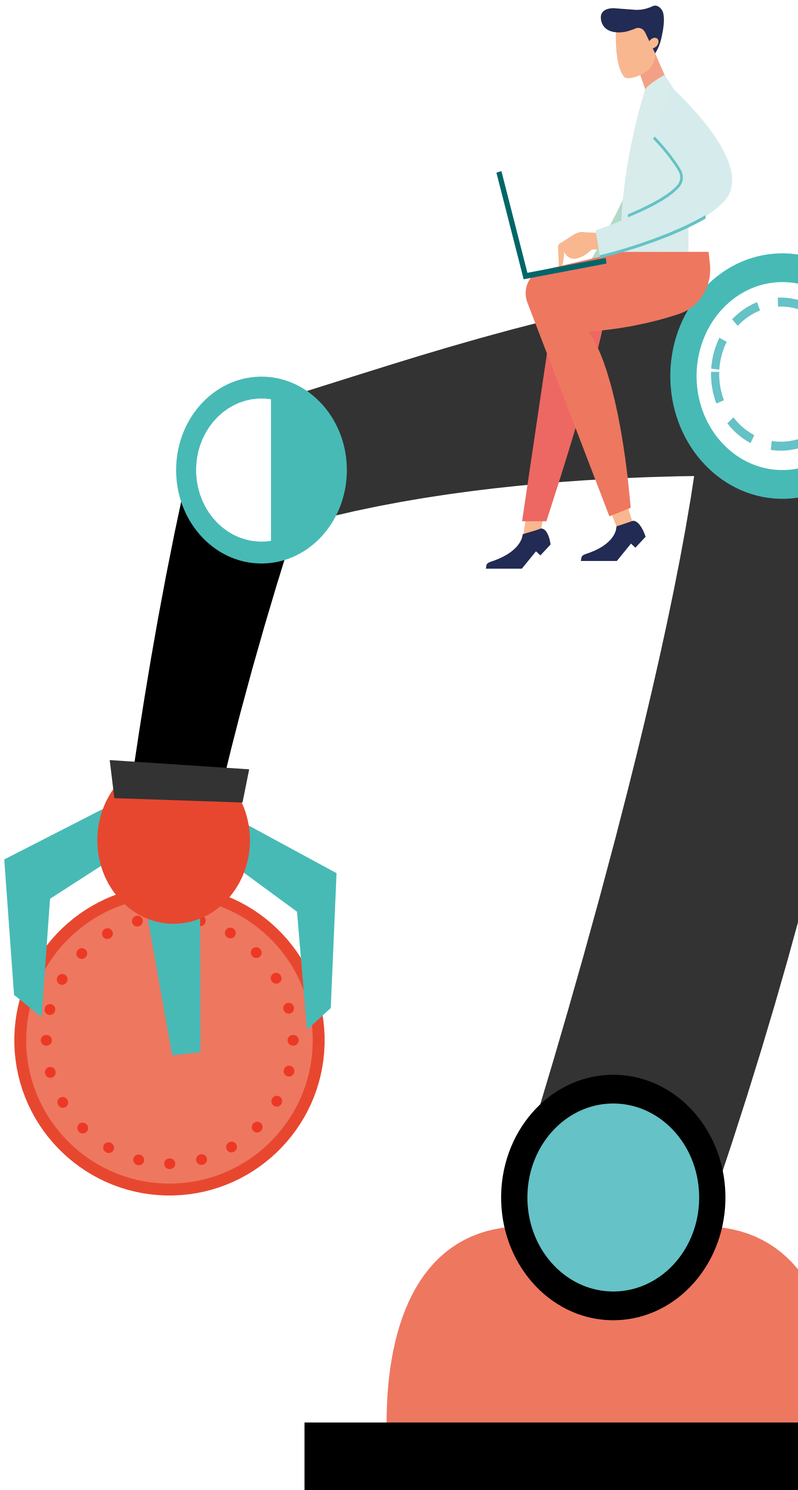
So, take the time to examine your supplier relationships, and assess where improvements could be made. At the same time, think about who in your direct business will benefit from smarter supplier payments. Whether that's digital transformation leaders, accounts payable teams, finance executives, or procurements strategists.

2. Understand where automation can generate quick wins

Almost a third of payments executives admit that human errors occur regularly in their business, something that they partly attribute to unwieldy B2B payments systems. While a third admit that payments often take over 31 days, even when agreed terms state 30. These sorts of problems are easy to minimise with a highly automated process like VANs, so consider what quick wins you could enjoy.

With VANs, reconciliations can be managed without high levels of human input. Payments automation means finance workers can stop spending a lot of time managing manual reconciliation (in doing so decreasing the chance of human error). Instead, they can be more strategic in their roles.

This automation can also reduce cost and resource pressures on teams, helping CFOs shift the emphasis on payments as a cost centre. And because VANs provides richer data in comparison to systems like BACS or cheques, your business will be able to analyse processes more closely, identifying savings opportunities and controlling spend in the process.



3. Consider how to create rewards and revenue in the payment process

The majority of finance executives like the idea of deriving financial rewards through transactions (66%). Creating a VAN plan is an ideal way to do that – and the more suppliers' businesses can pay by VANs, the more revenue they stand to make.

VANs turn B2B payment processes into a revenue stream – unlike BACS, Swift or cheques, all of which represent a business cost. Those using VANs to pay suppliers can enjoy the opportunity to realise part of the payment fee as additional margin in the supply chain. This 'fee' can be recognised as revenue or re-invested in the supplier strategy to improve systems, processes and relationships.

4. Clearly communicate VANs benefits

Suppliers are always keen to realise revenues faster. But they also need to be clearly informed about changes in payment protocols – so the final step in your VAN plan should be to ensure suppliers are fully on board with the benefits they'll be receiving. Celebrate change and avoid surprises, to ensure that your organisation and its supply chain can make the most of the new payment options you're providing.

It's time to launch your VAN plan

For too long, legacy systems and payment processes have been fraught with risk, difficult to manage, costly, and liable to have a negative impact on supplier relationships. Now, finance executives have the power to change that, with a payments alternative that improves how you deal with suppliers, and turns payment overheads into smart, automated systems that offer choice.

If you want to know more about the difference VANs can make, read these stories about how four different users transformed the way they manage payments.

Learn more

To talk to us about how we could add value to your organisation, please contact:
info@optal.com

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*All Optal's statistics quoted relate to our 2018 B2B payments report. 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.