

# *The B2B Outlook: From Check to Electronic Payments*

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# *Agenda*

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- Who We Are
- Research Approach & Objectives
- Current State of B2B Payments
- Barriers to Electronic B2B Payments
- Initiatives to Address Barriers
- Conclusions & Future Outlook

# Who We Are:



- Operates global portfolio of brands; committed to growth & innovation
  - Best Buy, Geek Squad, Magnolia Audio Video, Pacific Sales, Future Shop, Five Star, Audiovisions, & Speakeasy
- Sells consumer electronics, home-office products, entertainment software, appliances, & related services
- 1200 stores in U.S., Canada, Puerto Rico, & China; generates about \$40 billion in annual revenue

# *Who We Are:*



- Federal Reserve (FR) Banks provide payments services to U.S. government & financial institutions (FIs) including ACH, cash, check, funds transfers, & securities transfers
- FR Board promulgates regulations that govern payments; oversees banking supervision program
- FR System seeks to ensure integrity, reliability, accessibility & stability of payments systems

# Research Approach

## **AFP:**

- Member survey in September 2007
- 500 responses, representative of membership
- Typical respondent's organization has annual revenues over \$1 billion
- Wide range of industries represented; largest percentage in manufacturing

## **FRB:**

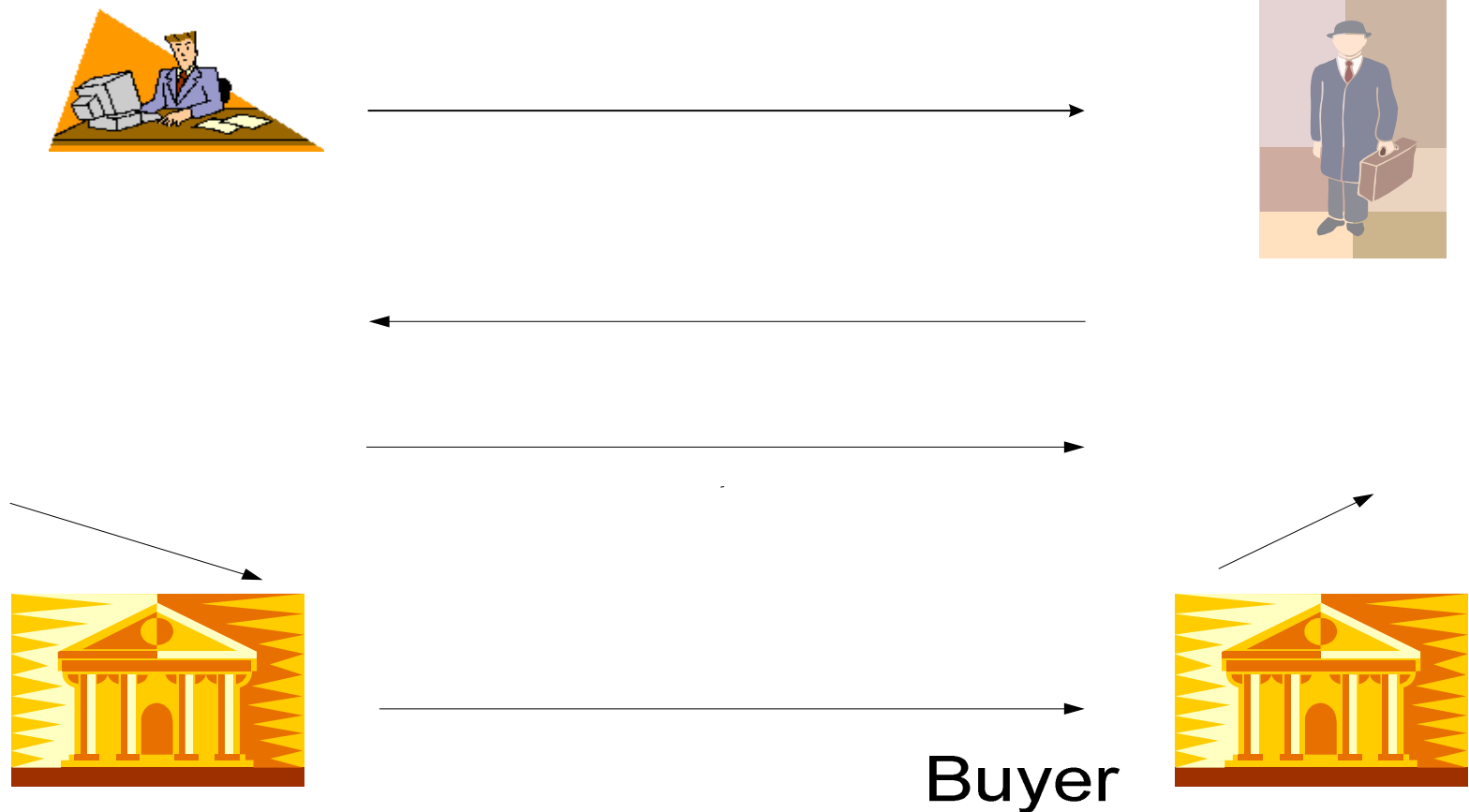
- Reviewed recent, relevant studies of B2B payments by Fed staff & industry groups
- Focused on aggregate data & trends, including comparison of results of FR Retail Payments Studies in 2001, 2004 & 2007

# *Research Objectives*

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- Assess migration of B2B payments from checks to e-payments
  - Measure changing attitudes to adoption among end users
- Identify barriers to/benefits of making & receiving e-payments versus checks
  - Initiatives trying to address these barriers

# B2B Characteristics



Buyer

**Making & receiving B2B payments part of broad, complex business process;  
objectives of buyers & sellers; collecting & paying FIs often differ.**

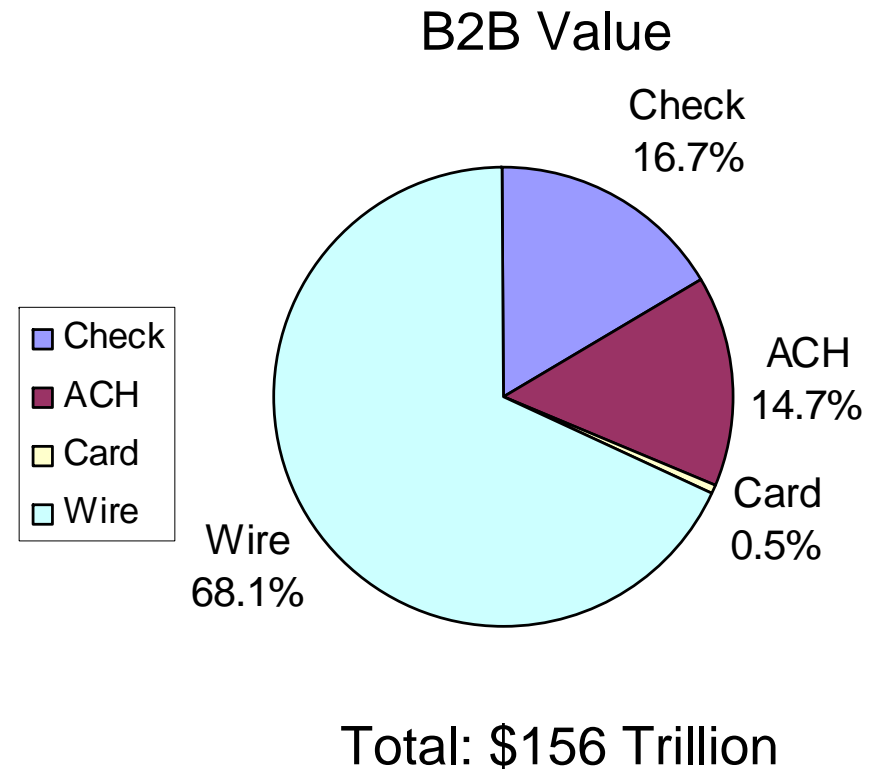
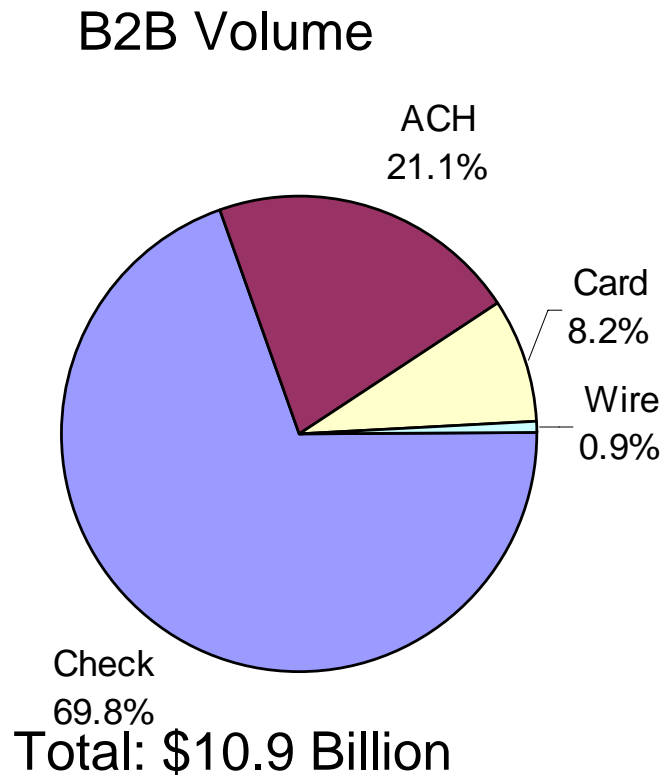
# B2B Characteristics

**B2B payments: few in number, large in value & costly to process, vis-à-vis consumer-related payments (C2C, C2B, B2C)**

	<b>Total Noncash Payments</b>	<b>Consumer-related</b>	<b>B2B</b>
<b>Volume</b>	93.5 Billion	88% or 82.5 Billion	12% or 10.9 Billion
<b>Value</b>	\$187 Trillion	16% or \$31 Trillion	84% or \$156 Trillion

Sources: Federal Reserve, NACHA, CHIPS, 2006 & 2007 data

# B2B: Current State

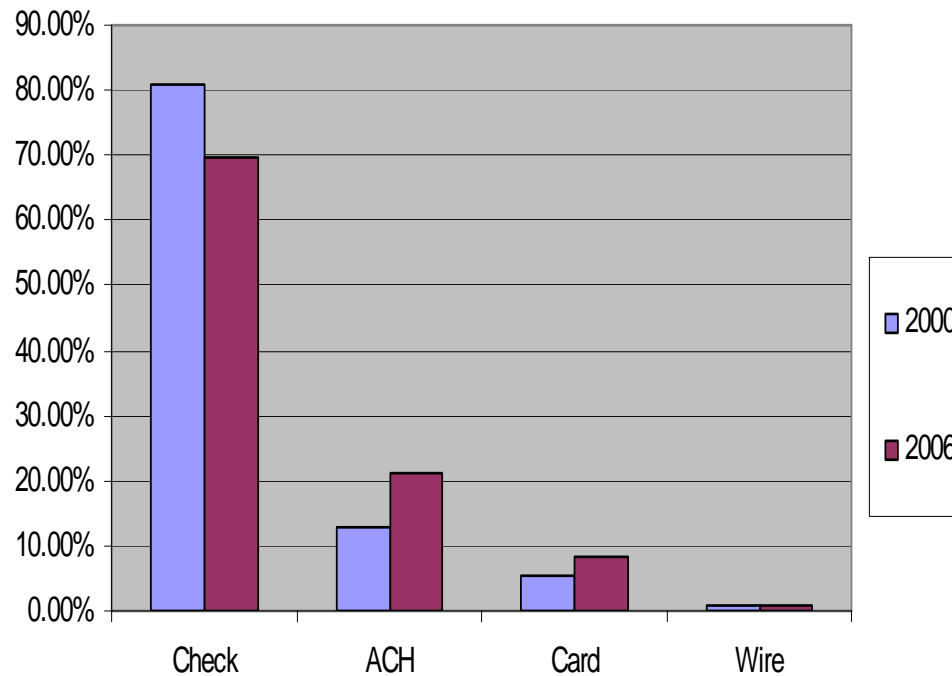


Sources: Federal Reserve, NACHA, CHIPS; 2006 & 2007 data

# B2B: Usage Trends

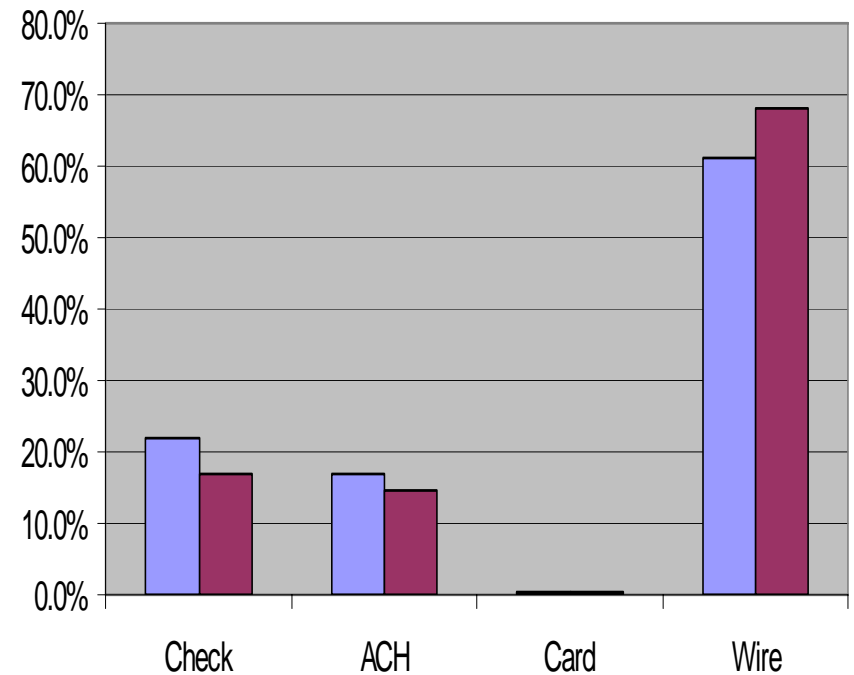
## B2B Volume

Volume Growth 2000 - 2006



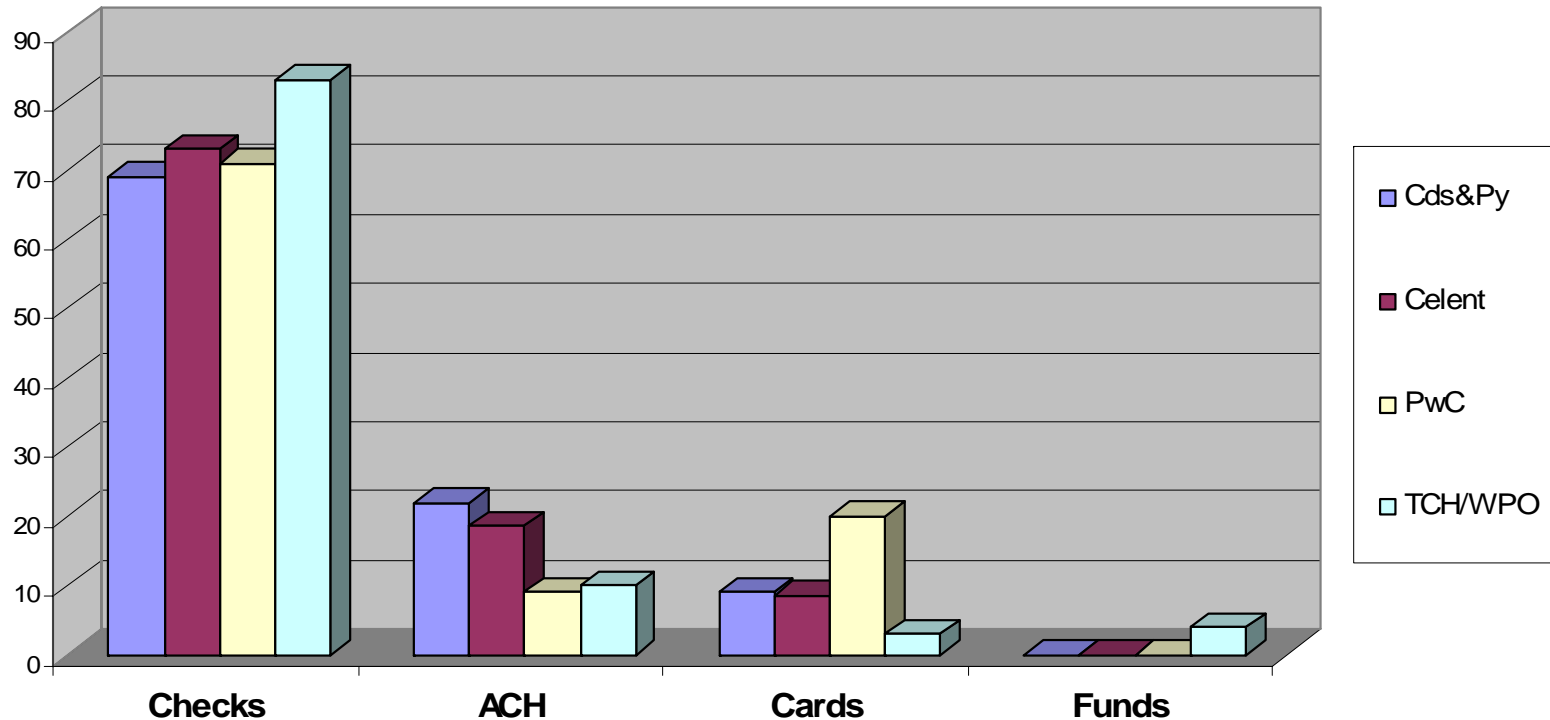
## B2B Value

Value Growth 2000 - 2006



Sources: Federal Reserve, NACHA, CHIPS; 2000 & 2006 data

# Agreement on Trends

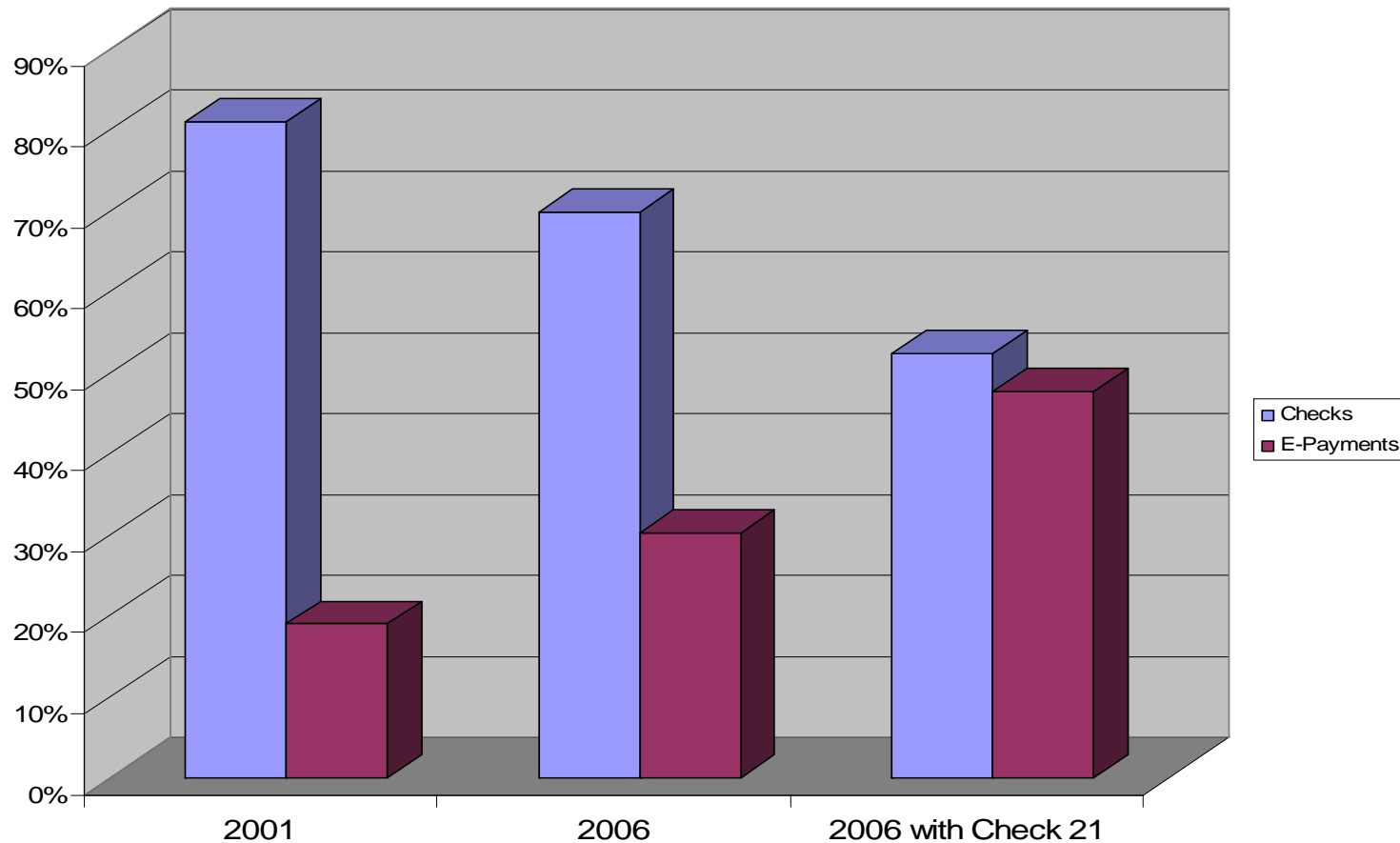


## Studies:

- Cards & Payments: 2006 "Card Issuers Finding it Tough to Crack B2B Payments"
- Celent: 2006 "Crossing Frontiers in B2B Electronic Payments"
- PriceWaterhouseCoopers: 2006 "Electronic Payments as a Risk-Reduction Tool"
- The Clearing House & FR Bank of NY Study: 2007 "B2B Wire Transfer Payment"

# B2B Checks & Image

Check 21 fueling rapid adoption of image clearing for B2B checks



Sources: Federal Reserve, Celent, Cards & Payments; 2001 & 2006

# AFP: B2B Checks

Typical Organization	2004	2007
% of B2B payments = Checks Written	81%	74%
% of B2B = payments Checks Received	75%	64%

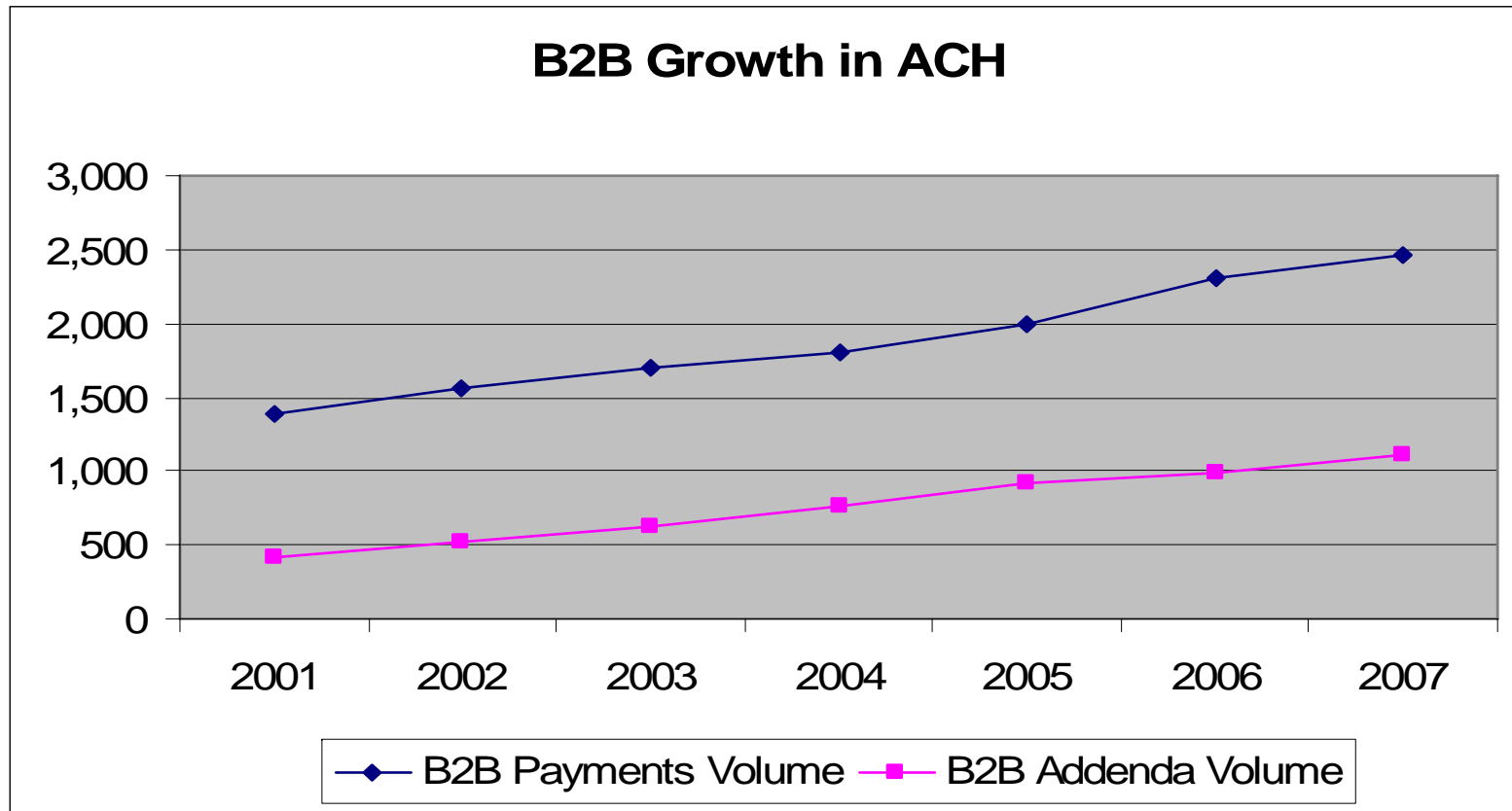
- Check's share of B2B payments declining
  - Even smaller share of payments at larger organizations (> \$1B)

# *Corporate Views*

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# B2B Payments: ACH



ACH B2B exceeded 2.5 billion in 2007; up 11% from 2006 & 64% from 2002  
ACH format accommodates payments & remittance data

Sources: NACHA & Federal Reserve

# *AFP: B2B ACH*

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- ACH credits more likely used:
  - Organizations w/ annual revenues > \$1 billion
  - Organizations w/ monthly payments > 5,000
  - Payments between major trading partners
  - Payments received versus disbursed
- Multiple ways to deliver remittance data
  - EDI, e-mail, fax, mail

# B2B Payments: Cards

## Volume Trends

- **Fastest growing B2B e-payment**
  - **Estimates of 25%+ annually**
- **8% of B2B payments in 2006**
- **In 2006, 53% of U.S. businesses made payments w/ corporate P-cards & 44% accepted**

## Value Trends

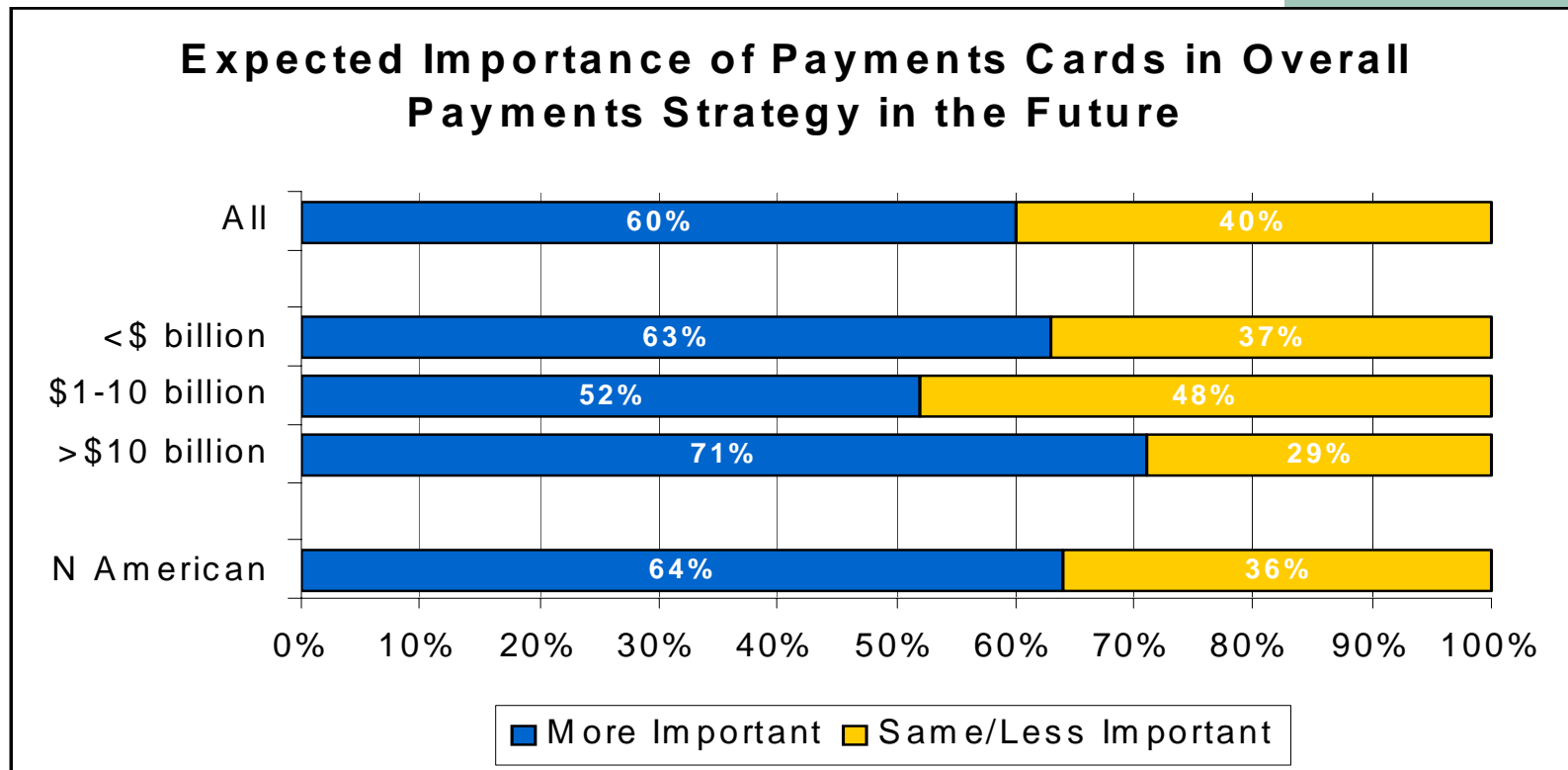
- **Aggregate value of P-cards growing**

2003	\$80 Billion (actual)
2005	\$110 Billion (actual)
2010	\$185 Billion (est.)

- **Original target low value purchases; now promoted for higher value**

Sources: Purchasing Management Group & VISA; 2005 & 2007

# B2B Cards Growing



Adoption Reasons: Financial incentives  
Reporting & risk management services  
Eliminates paper

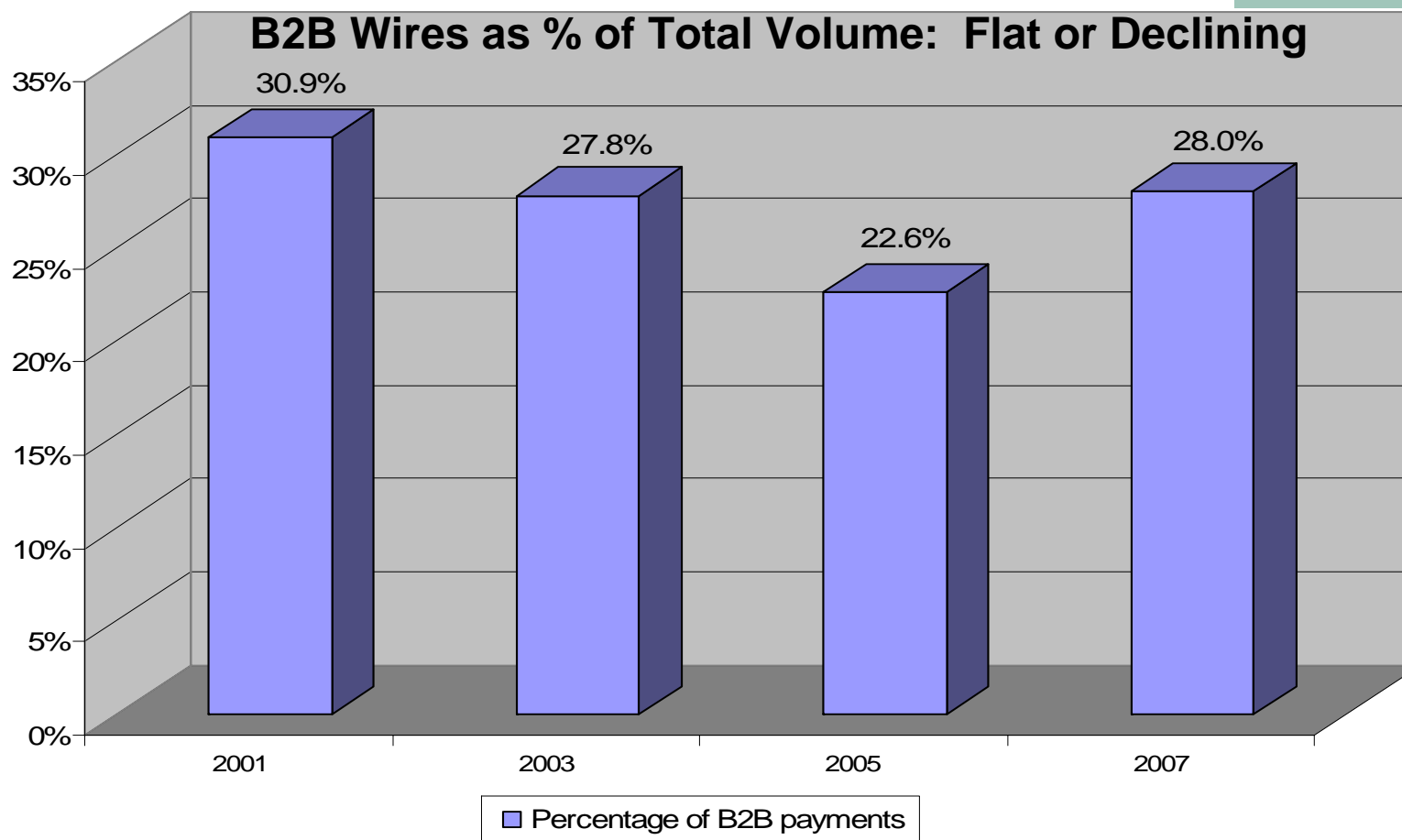
Source: VISA, 2006

# *AFP: B2B P-Cards*

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- 61% use P-cards for B2B payments
  - Most use for small dollar purchases
  - 14% use for purchases over \$5,000
- Primary benefit: reduces paper processing
  - 21% said enables integration
- 60% increased P-card use in last 2 years
- Nearly half accept P-card for B2B to satisfy customer preference

# B2B Payments: Wires



**Used w/ payments that are high dollar; require immediate funds; international**

Source: Federal Reserve, 2007

# *AFP: B2B Wires*

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- Most used method for international payments
- 43% increased wire use in past 2 years
  - Increased need for same-day & international payments
  - Smaller organizations use more wires
- 17% decreased wire use in past 2 years
  - Primary reason: High cost
  - Larger organizations use fewer wires

# *Corporate Views*

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# *Adoption Differences*

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## ■ Size Effects:

- Large businesses use more e-payments than smaller businesses & plan to adopt quicker

## ■ Relationship Effects:

- Major trading partners use more e-payments & plan to increase use faster than other partners

## ■ Functional Area Effects:

- A/R interest to speed collections
- A/P interest to slow payouts

# *Trading Partner Effects*

	<b>Disbursements</b>	<b>Collections</b>
<b>Payment Type</b>	<b>Major Suppliers</b>	<b>Major Customers</b>
<b>Check</b>	<b>65%</b>	<b>57%</b>
<b>ACH</b>	<b>20%</b>	<b>27%</b>
<b>Wire</b>	<b>11%</b>	<b>14%</b>
<b>P-Card</b>	<b>4%</b>	<b>2%</b>

Source: AFP, 2007

# *Corporate Views*

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# *AFP: Barriers to E-Pay*

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- Trading Partners
  - Can't convince partners to pay/accept e-payments
  - Partners can't send/receive automated remittance data w/ e-payments
- Technical Problems
  - Inadequate standards for remittance data
  - Lack of integration between e-payments & accounting
- Resource Constraints
  - Scarce IT resources
  - Lack of senior management support & funding

# *FRB: Barriers to E-Pay*

## **CHECKS**

- Continue providing value
- Easy to implement
- Universally accepted in B2B
- Support services available
- Float

## **Wire**

- Transactions costs high
- Integration capabilities (payments & remittance) inadequate & costly

## **ACH**

- Complex; hard to implement
- Integration capabilities (payments & remittance) inadequate & costly
- Solutions inadequate to help small companies & banks

## **Cards**

- Costly to receive
- Not accepted universally
- Some effort to implement
- Integration capabilities (payments & remittance) in single silo

# *Corporate Views*

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# *B2B Initiatives*

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- Many industry initiatives promote adoption of B2B e-payments; reflect different needs of service providers & users
- Initiative categories:
  - Improve standards
  - Increase education
  - Enhancing existing electronic payment methods
  - Promote proprietary solutions targeting B2B

# *Initiative Examples*

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## Improve standards:

- Simplify EDI remittance formats via STP 820
  - Developing & implement XML standards
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## Vendor related:

- Vendor solutions that manage all or part of “order-to-pay” process
  - B2B solutions from on-line payment service providers
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## Education & Payment enhancements:

- NACHA initiatives – e.g., ACH XML, Invoice Flipping, EBIDS
  - Federal Reserve/Clearinghouse/AFP initiative to enhance wire transfer format
  - Federal Reserve/EPN EDI translator services for RDFI/business payee
  - SWIFT initiatives such as SCORE
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# *AFP: B2B Initiatives*

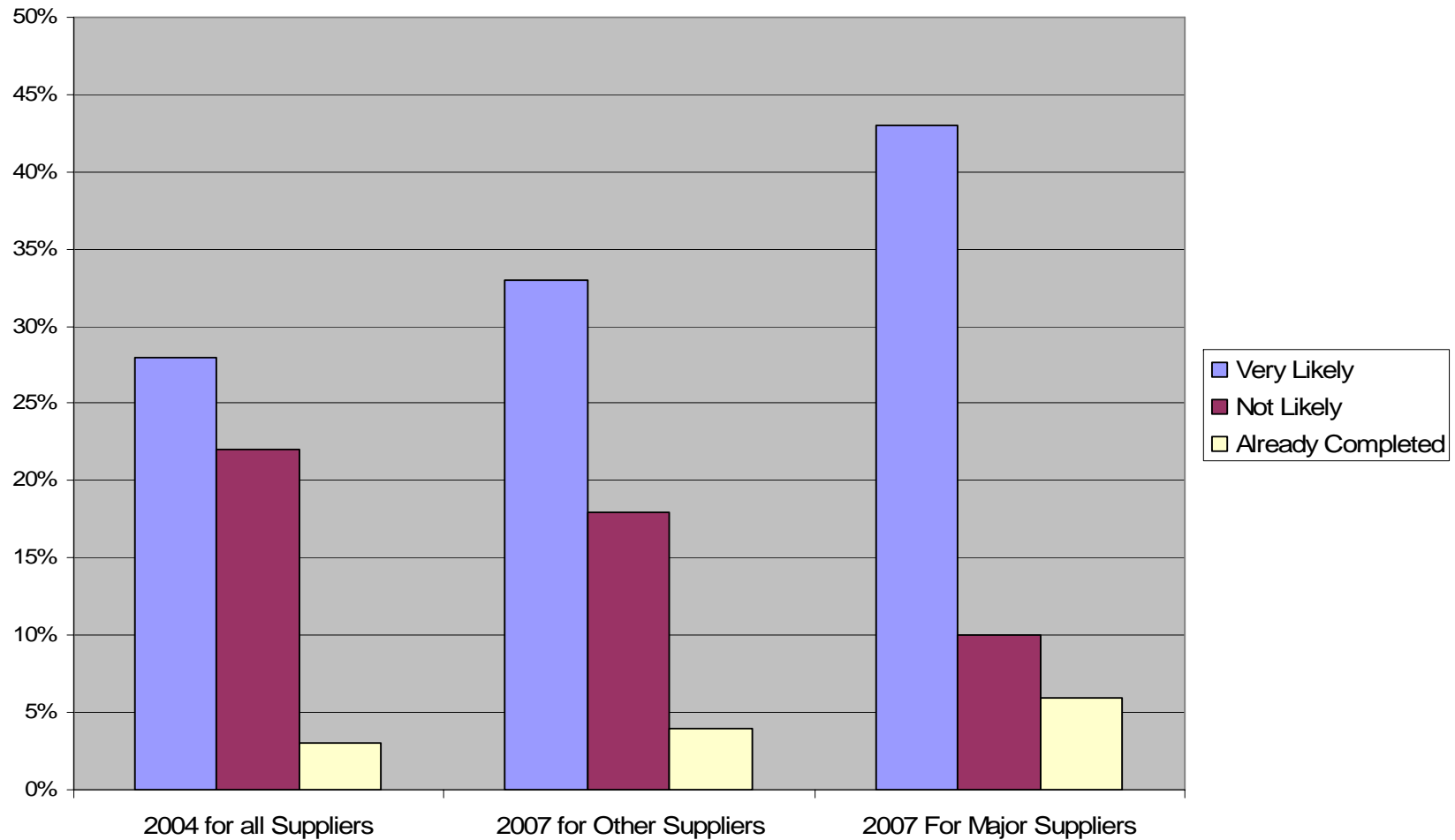
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- More organizations integrating e-payments & accounting systems
  - ACH more integrated than cards
  - A/P more integrated than A/R
  - Benefits: efficient posting/reconciliation; cost savings
- AFP Payments Advisory Group initiatives for remittance information
  - STP 820 for ACH
  - Standard format for remittance with wires

Source: AFP, 2007

# AFP: Future Outlook

Likelihood of Migrating Majority of B2B to E-Payments in 3 Years



# *FRB: Future Outlook*

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- Pace of B2B migration from checks to e-payments will accelerate
- Cost of paper check processing will continue to increase
- Use of check image & merchant remote deposit capture services will grow to clear B2B checks
- Adoption strategies & pace of change will vary among business segments



A view through a porthole showing a vast ocean under a cloudy sky. The water is dark blue with white foam from the ship's wake. The sky is filled with soft, white clouds. The porthole frame is visible at the top and bottom edges.

# What's on Your B2B Payments Horizon?

*Questions?*

# Contact Information

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## **Web Resources**

Federal Reserve Financial Services <http://www.frbervices.org>

Association for Financial Professionals <http://www.afponline.org>