



SMART SOLUTIONS E-COMMERCE: INTEGRATED PAYMENTS

Synopsis

Streamlining financial operations and shifting payment processes from paper to electronic methods are easier and provide a greater return than ever before. The synergies of Y2K-compliant accounting systems, the ACH payment network and accepted data exchange infrastructures (wide area networks, direct dial modems, etc.) provide unique opportunities.

The ACH system has evolved beyond direct deposit and pre-authorized debit transactions to facilitate corporate trade payments. Corporations continue to adopt electronic payments with related remittance information at a growing rate. Enhancing this trend are federal government electronic payment mandates and processes.

Traditional barriers to electronic processes include accounting system capabilities, costs and trading partner acceptance. Using experience accumulated over trillions of transactions and taking advantage of Y2K customer accounting systems, major cash management providers can help with the analysis and implementation of streamlined financial operations for corporate trading partners.

Introduction

With all the hype about electronic commerce, the Internet, Y2K, etc., one might ask the question: "What practical options can reduce my operating costs and do not require an entire consulting staff to implement and maintain?"

This is a timely question since the financial industry has promoted the shift to electronic payments for years, yet the volume of paper checks continues to slowly grow. Electronic payment mechanisms such as direct deposit of payroll have

seen widespread acceptance due to the reliability and relative ease of use of the Automated Clearing House (ACH) system. Capacity is adequate; most banks can accept consumer ACH transactions, and employers have access to ACH initiation services through data transmissions to bank systems or PC-based software. The format of the transaction is also simple — it is just the payment. The pay stub is printed by the employer or a third party and distributed to employees.

Electronic corporate payments have been much more difficult to implement. The theory of standardizing a payment format through financial EDI sounded promising, but fell off the priority list of most corporations. The process was just too difficult, suppliers and customers resisted changing and there was an uncertain payback.

Accounting Systems are Capable

Today's new technology has simplified the transition to electronic corporate payments and paved the way for more efficient processing. Y2K accounting system upgrades or replacements use open standards, which enable tightly coupled information integration. As a result, financial information flows across different business units or companies are seamless, eliminating the processing errors associated with human intervention. Additionally, many rote processing tasks are no longer necessary, speeding business decision information.

The important benefit for financial processing is that data has only one point of entry, compared to older processes and systems where data is handled and entered multiple times. Communication networks have also separated the location of physical processing from the data storage and reporting locations.

Electronic Corporate Payments Made Easy

Corporate financial executives find themselves challenged to provide more value-added business analysis in addition to everyday financial processing. Studies by Arthur Andersen and the Economist Intelligence Unit have found that executives would like to see a 50/50 split between tasks consisting of value-added analysis and processing of transactions, instead of today's

29/71% split. Reducing internal processing costs by changing processing methods provides a roadmap for many forward-looking companies.

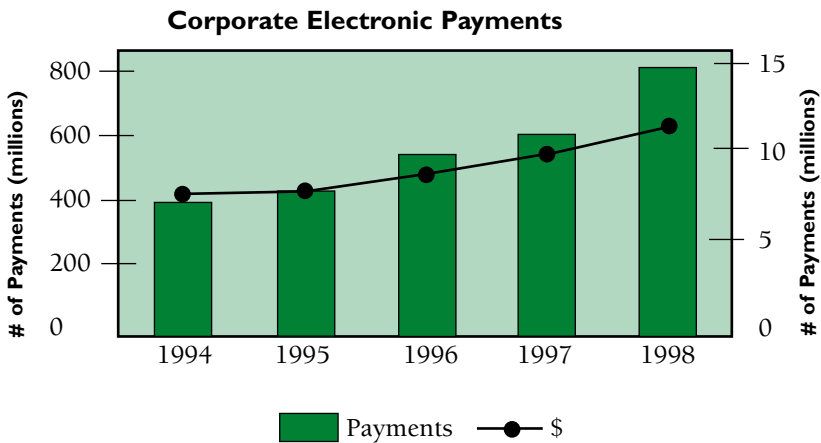
Examining business trends may provide some answers on today's leading practices. Consider the business-to-business ACH payment mechanism:

| % of Companies Making Trade Payments through the ACH System | 1994 | 1996 | 1998 |
|---|------|------|------|
| \$100 - \$500 Million in Revenue | 25% | 34% | 42% |
| \$500 Million and above | 40% | 54% | 60% |

Source: Phoenix-Hecht, 1998

The ACH payment network has developed beyond direct deposit of payroll as a result of one important feature: the ability to send detailed remittance data with the ACH payment. The expected value of electronic payments (lower cost, cash flow timing certainty) has become a reality for many companies.

A separate analysis of the volume of corporate payments through the ACH network demonstrates the transaction flows.



Source: National Automated Clearing House Association (NACHA)

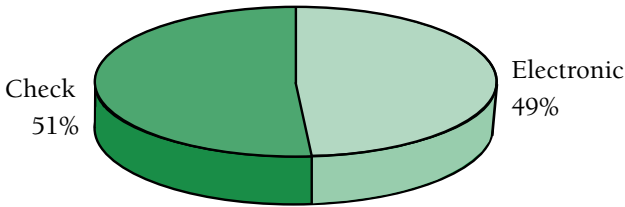


Making payments via the ACH has become a widely accepted practice. Larger corporations were the initial proponents, but as corporate accounting software has evolved and more financial service providers have developed the ability to process payments and the related remittance information, smaller and mid-level companies have taken advantage of this electronic medium.

Federal Government Mandates

Much has been made of the federal government's EFT '99 requirement that all payments be made electronically (ACH). While implementation fell behind its original schedule, the federal government has made significant progress in its transition.

Federal Government Vendor Payments, 1st Quarter 1999

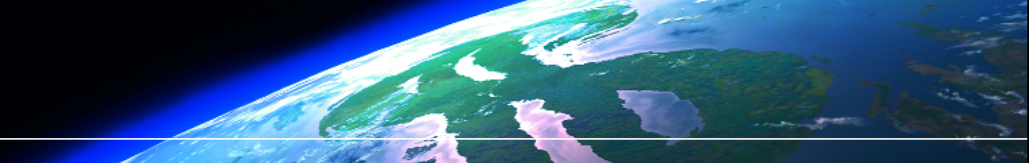


Source: National Automated Clearing House Association (NACHA)

In a survey by the Treasury Management Association (TMA), federal mandates were cited by 73% of those surveyed as “high” or “very high” in importance in the adoption of electronic payments. With the continued implementation of EFT '99, federal mandates are expected to further reinforce the shift in electronic payment growth.

Barriers to Electronic Processing

A major barrier to electronic processing noted in the TMA survey on electronic payments is the inability of many accounting systems to initiate electronic payments. Closely related is a lack of systems integration. A final stumbling block is the start-up cost of hardware, software and information systems personnel.



An ancillary benefit to Y2K investments is that many Y2K-compliant accounting software packages now provide the ability to initiate electronic payments. This functionality enables the transition to ACH payments directly from accounting systems. In many cases, a minimal investment in hardware or software security is the only additional requirement for extending today's accounting software to send and accept electronic payments and related remittance information. Automated reconciliation of bank accounts is also often a connected benefit.

Lack of trade vendor acceptance has also been cited as a major barrier to electronic processing. However, all companies are operating under the same dynamics of changing payment processes. As a result, vendors may be more willing now to enter into electronic process partnerships than at any other time.

Banks — Trusted Payment Partners

The largest cash management providers have invested substantially in electronic payment processing capabilities. These services can add value to financial processing operations by helping corporate customers construct and implement a plan to move to electronic payments and processes.

A linked benefit of these plans is significantly increased payment fraud protection. Through their procurement systems, corporations have complete control over payment timing and amounts. Controls are integral to each step in the payment process with information encryption, process acknowledgments, audit totals and validation of each payment presented to the bank. As a result, suspected discrepant payments are identified and resolved immediately.

Implementing a plan to move to electronic processes and payments is easier and far less costly than in the past. A discussion of the related issues and a cost/benefit analysis provide an appropriate starting point for most corporations. Each company can then move at its own pace to streamline its financial operations and restructure financial tasks to best accomplish its mission to support management and owners.

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