NEXT-GEN Digital Payments REPORT

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The Next-Gen Digital Payments Report, a PYMNTS and Transcard collaboration, examines the trends, technologies and key players that are bringing novel banking services to market.

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ACKNOWLEDGMENT

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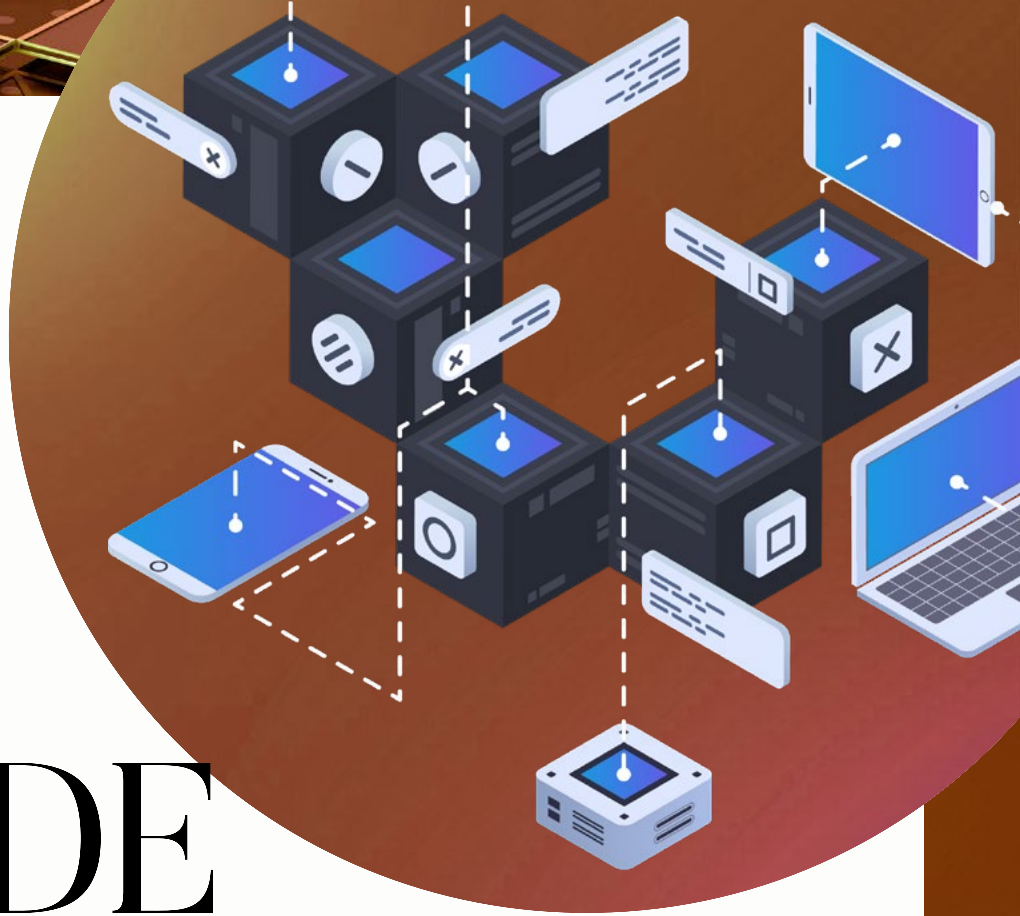

WHAT'S INSIDE

The need for speedy, seamless and digital payment processes has increased significantly for businesses across all industries in the past year. Migrating previously manual accounts payable (AP) and accounts receivable (AR) processes to digital channels is only the first step companies can take to ensure they meet this need, however. Most organizations handle their business-to-business (B2B) payments through a variety of methods, channels and tools, such as paper checks, automated clearing house payments or virtual cards, all managed through separate accounting systems.

Dealing with this type of fragmentation is growing more frustrating for businesses, though, and chief financial officers charged with keeping payments running smoothly are facing a growing number of challenges to keep clients satisfied. Many firms cite long wait times to receive payments as their most critical pain point, and 24 percent of organizations in the education, technology and travel sectors claim these wait times make their overall payment operations less efficient. Reducing these pain points is key for businesses. One PYMNTS study found that 42 percent of companies are moving to innovate their payment processes to expand or improve their relationships with suppliers.

Implementing solutions that allow businesses to reduce the inefficiencies, complexities and risks in AP and AR processes is becoming a top priority for chief financial officers, driving up interest in tools such as payment solutions that are integrated with enterprise resource planning (ERP) systems. Tightly integrating payments and ERP systems helps aggregate all payments and remittance data in one place, making AP and AR processes easier for businesses and speedier and more convenient for customers and suppliers. These systems' usage is expected to pick up over the next few years, and the ERP software market is predicted to reach a value of more than $78 billion by 2026. Integrating payments capabilities with their ERP systems may be an essential step for chief financial officers looking to provide the next-gen AP and AR processes their organizations need to stay competitive in a world where seamless payments are rapidly becoming table stakes.

AROUND THE DIGITAL PAYMENTS SPACE

Boosting their firms' growth in 2021 is of primary importance for 42 percent of United Kingdom-based chief financial officers, and many are reexamining how they handle previously routine payments and other processes in light of the past year's developments. Interest in how both customer relationship management (CRM) and ERP systems could potentially facilitate further growth is therefore increasing among these executives. Many now view implementing these systems as essential: 41 percent agree that incorporating CRM and ERP systems is a critical part of improving financial processes.

More chief financial officers are also analyzing how ERP systems could be paired with emerging technologies — most notably the cloud — to grant firms more advantages as they accelerate their plans for digital transformation. One recent report expects the cloud ERP market to grow at a compound annual growth rate (CAGR) of 10 percent over the next four years, for example. Europe and North America will largely take the lead in this rise in adoption, according to the report, which expects ERP penetration to continue more slowly within the Asia-Pacific and Latin American regions. Certain industries are also implementing cloud-based ERP systems at higher rates than others, as 21 percent of manufacturing firms state that they are utilizing these solutions and just 16 percent of financial services providers say the same.

Automation is also growing in importance among chief financial officers. Nearly 90 percent of these executives identified a lack of automation as well as errors originating from employees conducting manual processes as the main barriers to seamless financial processes. Automation is helping many businesses overcome this obstacle, but many are still facing challenges. Seventy-eight percent of firms that are in their early stages of digital transformation reported facing challenges that entities further along in their digitization journeys are not, for example. Incorporating necessary technologies in a way that does not introduce more friction is therefore key for chief financial officers.

Read more about these stories and other headlines in the News and Trends section (p. 12).

HOW 2020 CHANGED THE PROPERTY MANAGEMENT PAYMENT SPACE

The real estate world was just as significantly affected by the events of the past year as most other business segments, with property management players and landlords of all sizes adjusting everything from how they collected rent to how they paid expenses. Figuring out how to smoothly and seamlessly track incoming and outgoing payments within this environment is critical as the space continues to shift toward digital channels, which means creating more payment flexibility is key for all industry players. In this month's Feature Story (p. 6), Eachan Fletcher, CEO and co-founder of rental property management app NestEgg, discusses why more property owners and managers are looking to take their payment processes virtual as well as which tools can help them do so.

DEEP DIVE:
WHY INTEGRATED ERP SYSTEMS ARE KEY TO SMOOTHING FRAGMENTED B2B PAYMENT PROCESSES

The events of the past 15 months have impacted businesses in various ways, causing many to make swift adjustments to how they send and receive B2B payments. The sudden shift to remote operations as well as the speedy adoption of digital payment methods presented businesses with key opportunities to innovate these processes but also highlighted lingering frictions. Most businesses support multiple payment options, which have historically required the use of systems that are often inoperable with one another. This is no longer acceptable in a world where digital payments have become the norm, meaning businesses must find ways to tie these previously separate payment systems together. This month's Deep Dive (p. 18) analyzes how integrating payments capabilities into ERP systems can help businesses connect previously fragmented AR and AP operations to eliminate inefficiencies and complexity, ensure smooth B2B payments experiences and improve visibility into cash flows.

EXECUTIVE INSIGHT

What are some of the most significant challenges chief financial officers must solve for smooth AR and AP processes?

"There never seems to be enough hours in the day for AP and AR professionals. They spend their days on manual, repetitive activities such as keying data, shuffling paper and chasing down information. A lot of the blame can be laid at the feet of poorly integrated payments and ERP systems. It does not have to be this way. Integrating payments capabilities into an ERP [system] wipes out most of the friction that bogs AP and AR teams down. Payments can be made and received in any method. Remittance data can be uploaded directly to an ERP without human operator intervention and reconciled in real time, and decision-makers always know where things stand with their cash flows."

Greg Bloh
CEO Transcard
www.transcard.com

5 FIVE FAST FACTS

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24%

Share of **education, technology and travel firms** who say the long wait times to receive payments hinder their payment operations

42%

Portion of businesses aiming to enhance their payment processes **to expand their relationships with vendors**

23%

Share of **AR department staff members** typically allocated to manage payments

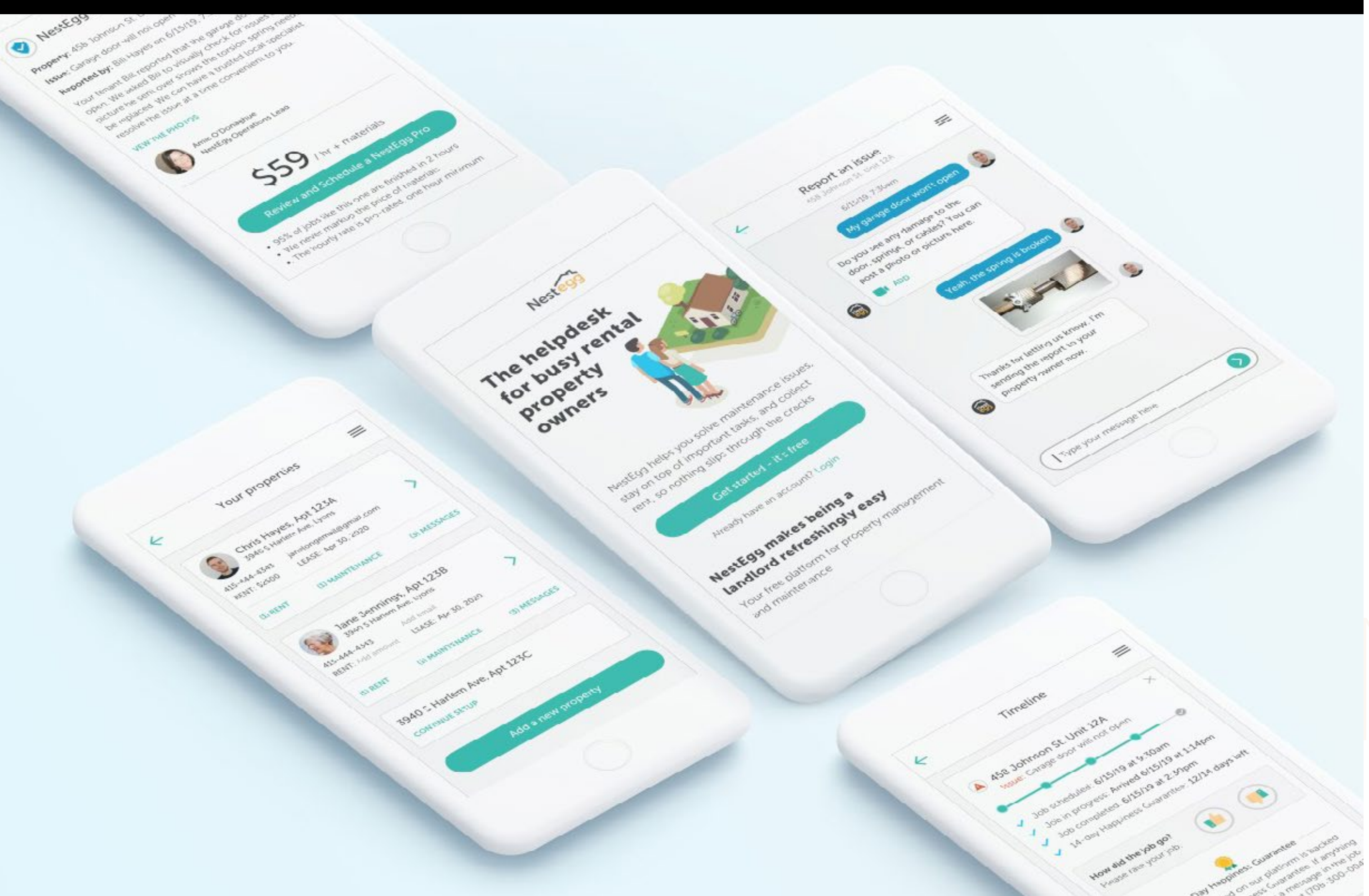
50%

Portion of firms that state that **high operating costs** are their biggest challenge to managing AR

79%

Share of companies that claimed incorporating AR automation **improved their teams' efficiencies**

NESTEGG: WHY 2020 CHANGED PROPERTY OWNERS' PAYMENT OPERATIONS FOR GOOD



THE REAL ESTATE INDUSTRY,

like most others, has hustled to adapt to an environment in which most interactions and payment processes are handled remotely rather than in person. This has included adjusting even for routine transactions such as collecting rent from tenants, a process that remains largely manual for many property owners, said Eachan Fletcher, CEO and co-founder of rental property management app NestEgg.

"Even today, I think it is a little below 80 percent of landlords [who] still collect rent in cash or check," he said. "Then, obviously, early in the pandemic when no one wanted to see you … face-to-face, everyone was figuring out, 'Oh, no, how do we get my rent check without having to go there [in person]?'"

These new needs have made it a top priority for property owners and managers with portfolios of all sizes to reduce their reliance on manual payment options and create support for more seamless digital payments. Ensuring the easy collection of payments and management of outgoing expenses during interactions with tenants and industry partners is a must for property management firms as they begin shifting toward a more virtual environment.

> "Searches for property management apps were sitting at 200,000 to 300,000 unique searches a month on Google for a long time, and it is now between **1.1 [million and] 1.2 million unique monthly searches.**"

DIGITAL-FIRST REAL ESTATE

The real estate space has been ripe for innovation for some time, but the events of the past year have pushed many to reconsider which tools they use to send and receive funds. A growing number of landlords are interested in solutions that allow them to take charge themselves without hiring costly property management firms, Fletcher said. This is particularly true for the smaller property owners with between one and 10 units, which is NestEgg's primary market.

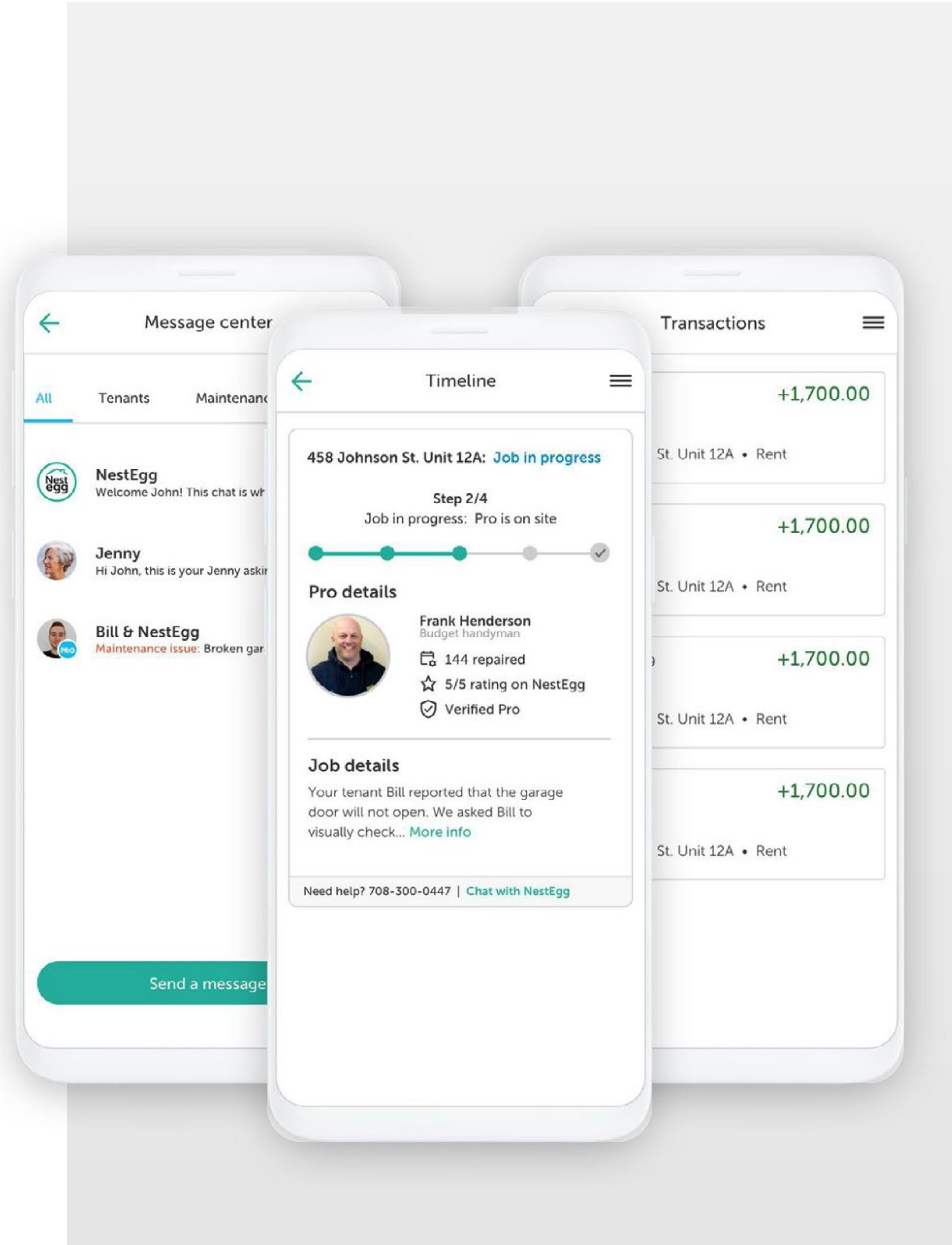
"Searches for property management apps were sitting at 200,000 to 300,000 unique searches a month on Google for a long time, and it is now between 1.1 [million and] 1.2 million unique monthly searches," he said. "We believe a lot of that appetite [for] technology solutions to try to do more for themselves has come from the fact that [many landlords are] like, 'Hey, if I can figure out how to [manage] this myself, I can put between $200 and $400 a month per unit back in my own pocket.'"

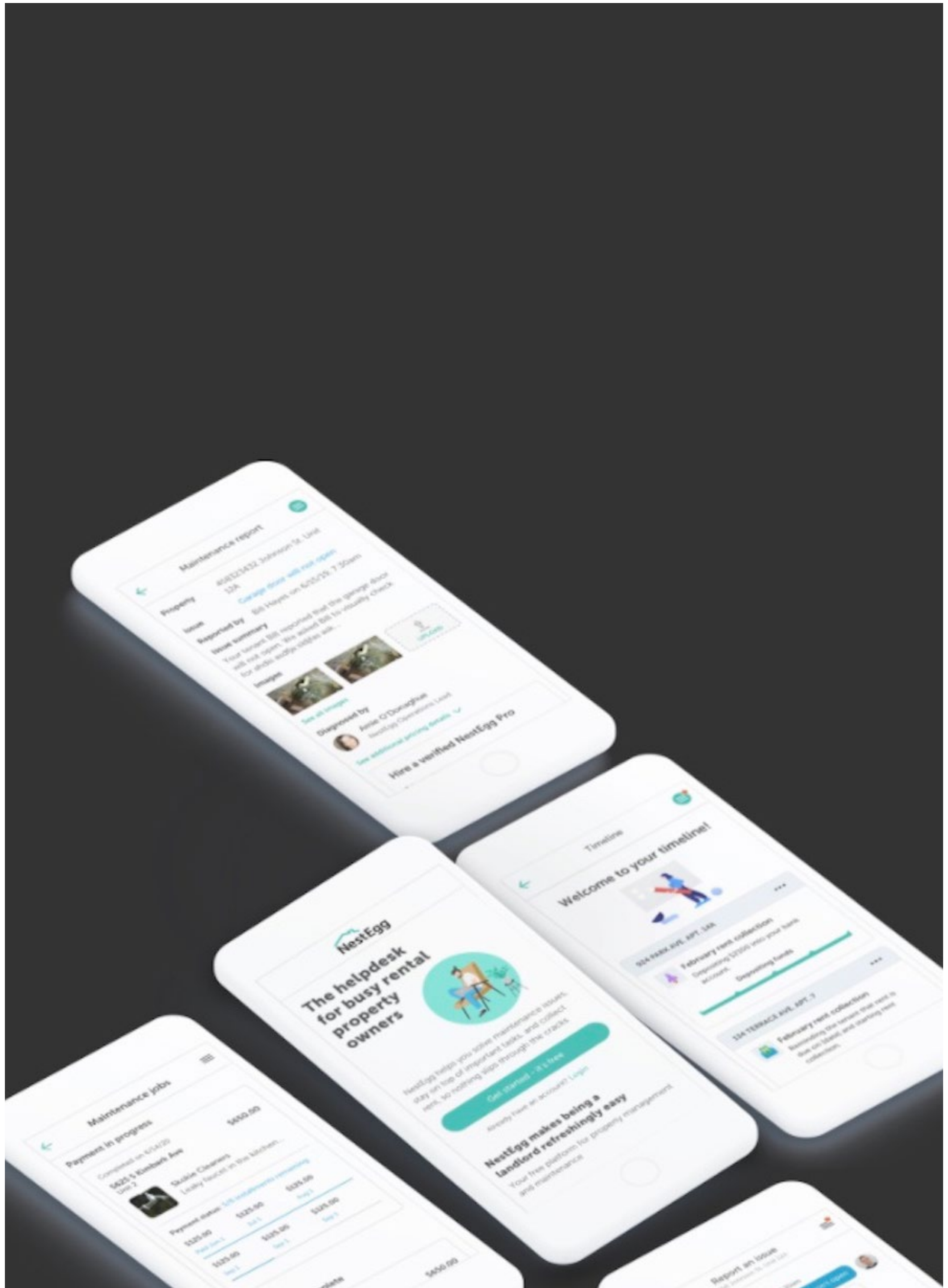
This can represent gains of between $5,000 to $7,000 per month for some of these smaller portfolio players, he continued, a significant draw, considering the financial hardships faced by property owners and tenants alike over the past year.

Figuring out how to simplify even routine incoming and outgoing payments should thus be top priority for landlords. NestEgg offers a solution called NestEgg Pay on its app that enables more flexible payments among tenants while also allowing landlords to manage expenses like building maintenance more easily, he said.

"So let us say [there's a] leak in the roof [or] plumbing, [and the landlord] needs to go around and fix it," he said. "You can do that through our platform … [and if] it is $600, instead of that $600 coming out of your account right now, effectively you pay nothing this month. As next month's rent comes through, we take $100 a month from the next six rent checks over six months until your balance is effectively repaid, so there is no credit check."

Even simplifying such routine payments can benefit property owners and their tenants, giving smaller real estate players the transparency and speed they need to compete in the broader real estate world. Larger entities within the space may have an advantage over smaller players when it comes to adjusting how they operate in this expanding digital environment, however.





THE ERP ADVANTAGE

Large-scale property management players often manage sprawling real estate portfolios that come attached with more expenses and more complexity than the landlords that make up NestEgg's userbase, Fletcher said. These players can also build out robust, innovative technology stacks that enable them to stay on top of all these moving parts. They utilize tools such as ERP systems that can aggregate disparate organizational processes into one place to smooth out their pain points, for example.

"When you have a pretty vast organization where you have a lot of logistics, a lot of organizational tasks, a lot of resources in a lot of different places, being able to organize all of those things into sensible, productive workflows and understand where you are oversubscribed and undersubscribed … is super essential," he explained. "And in large real estate businesses … the big corporations that own the huge high-rises, that is what they live and breathe every day: ERP systems to help manage … the sprawling domain that they have right now."

ERP systems enable large organizations to better track the various data and payment processes surrounding their properties, and this task is becoming more important for real estate players. Apps such as NestEgg can provide smaller landlords with the ability to more closely manage their units in a similar fashion as payments become more complex. Players of all sizes must organize their own payment processes to suit the market's demands.

NEWS &TRENDS

ERP PAYMENT **DEVELOPMENTS**

CHIEF FINANCIAL OFFICERS LOOK TO ERP, CRM SYSTEMS TO HELP GENERATE GROWTH

Bolstering growth is a priority for chief financial officers, as 42 percent cite it as their main priority for 2021. Many companies have faced significant disruption over the past year in how they manage routine sales and payments, prompting chief financial officers to reexamine how they currently handle many of these processes. A growing number of these decision-makers are working to consolidate payments as their employees', clients' and partners' needs evolve, and solutions such as CRM and ERP systems are becoming ever more appealing. Forty-one percent of chief financial officers agreed that implementing both systems was essential to improving financial processes at their companies, in fact.

Integrating these systems could reduce fragmentation in companies' AR and AP processes by aggregating their payments operations in one place. The rise in interest comes as chief financial officers move to create more efficiency at their firms: 45 percent of U.K. companies are examining how new technologies could optimize their payment processes.

FIRMS LOOK TO ERP SYSTEMS TO CONSOLIDATE DISJOINTED PAYMENT PROCESSES

Many companies are drawn to ERP systems as they begin to recognize the benefits of compiling previously siloed payment systems and applications. One recent study found that 94 percent of firms are planning to move away from legacy systems and transition to "composable" ERP strategies, for example. Composable ERP solutions consist of a core ERP system that allows companies to flexibly adopt new technologies and features and seamlessly adjust client-facing offerings and payment processes.

Composable ERP offerings also allow businesses to manage many disparate systems via one platform, an option that is becoming more important to organizations given the growing scope of digitization. Seventy-six percent of companies indicated that they are now investing in solutions that enable them to standardize and connect their applications. These types of integrated solutions allow companies to better capitalize on the data they have on hand and automate their workflows.

BRINGING ERP TO **THE CLOUD**

CLOUD ERP MARKET EXPECTED TO EXPAND RAPIDLY BY 2025

ERP solutions are expected to become more popular in the years ahead, with a recent prediction stating that the cloud ERP market will expand at a compound annual growth rate of 10 percent by 2025. It was valued at approximately $38 billion in 2019. The report stated that the market's value will expand despite dipping slightly last year. Europe and North America are expected to continue leading the adoption of these systems during that time, with ERP penetration predicted to grow more slowly in the Asia-Pacific and Latin American regions.

The report also found that certain industries are particularly likely to integrate these systems. Manufacturing firms are currently in the lead, with about 21 percent of these companies having implemented ERP software. Banking, financial services and insurance firms follow at 16 percent.

PAIRING ERP WITH THE CLOUD COULD HELP FOSTER GROWTH, STUDY FINDS

Many decision-makers are examining how pairing ERP solutions with other systems, such as those that use the cloud, can positively impact their businesses. Thirty-three percent of firms that have already moved their ERP solutions to the cloud noted increased efficiency, for example, while 30 percent said the switch helped their businesses grow. More organizations are anticipating making the jump to the cloud over the next year, with 58 percent of companies claiming that they will no longer host on-site ERP systems by the end of 2022.

Firms must overcome several barriers before they can migrate their ERP operations to the cloud, however. The top constraint many companies face is a lack of resources and funding, as 38 percent claim that budget restrictions represent the biggest challenge hindering such innovations.

NEW PAYMENT STRATEGIES **AND SHIFTS**

CHIEF FINANCIAL OFFICERS IDENTIFY DIGITAL TRANSFORMATION AS A TOP PRIORITY

Digital transformation has been a hallmark of the past year, and chief financial officers are planning to keep it high on their to-do lists for the near future. One study revealed that 80 percent of these executives consider digital transformation at their organizations to be one of their top five priorities, and 71 percent agreed that it was essential to their businesses' success. This means many chief financial officers are scouring the market for tools and solutions that enable them to move forward with their digital plans.

Chief financial officers are also becoming more discerning about the tools they intend to implement, with 67 percent stating they will not spend IT funds on tools or investments that do not "move the needle." This includes spending money on vendor-forced ERP migrations and instead integrating ERP solutions with the help of third-party support, for example.

CHIEF FINANCIAL OFFICERS INTEND TO INCREASE IT SPENDING THIS YEAR, ACCORDING TO REPORT

Chief financial officers are also looking to increase the amount they spend on emerging tools or innovative technologies over the next year. One report notes that chief financial officers' global IT spending is expected to reach $3.9 trillion as companies seek out seamless online payments and other processes to gain a competitive edge. This represents a 6.2 percent increase from their overall spending in this area last year.

Chief financial officers' efforts are aimed at matching their partners' and clients' needs as both have come to expect faster transactions or smoother online experiences. Business leaders must take care to use their funds wisely, however. The report showed that an average of 30 percent of IT budgets are squandered on innovations that are ultimately of no value to companies, underscoring why chief financial officers must spend strategically.

AUTOMATION AND NEW TECHNOLOGIES

65 PERCENT OF COMPANIES PLANNING TO INCORPORATE AI INTO ERP SYSTEMS BY 2022

ERP systems are becoming more commonplace, but many companies are looking to augment these solutions with other emerging technologies to help them swiftly analyze and categorize data. One recent report predicted that 65 percent of businesses would integrate artificial intelligence (AI) into their ERP systems by the end of 2022, for example. Incorporating such technology would enable them to manage their payments and payment-related data with more flexibility.

AI solutions' effectiveness hinges on accurate data, however, making it imperative that businesses root out risky or untrustworthy information. Forty-four percent of transactional data included in ERP systems comes from external sources, such as customers or suppliers, and leaving outdated or inaccurate details in the mix can prevent firms from accurately judging their finances or making informed decisions regarding inventory and vendor orders.

LACK OF AUTOMATION CAUSES PAYMENT ROADBLOCKS

Sluggish manual payment processes that fail to incorporate AI or automation are becoming more troublesome for businesses. Nearly 90 percent of these chief financial officers cited slow work or errors originating from manual operations as well as the lack of automation as barriers to seamless financial close processes, in which companies review and finalize their transactions or balance books at the end of the day. Integrating automation and other technologies can help organizations combat these manual payment woes, but firms may find it difficult to make the initial jump. Seventy-eight percent of companies stated they need to overcome more challenges than other companies that are farther along in their digitization efforts, for example. Forty-eight percent of companies that are still in the early stages of digitization also admitted that their current automation levels were basic, representing an opportunity for solution providers as firms race to match their competitors' levels of automation.

DEEP DIVE

HOW PAIRING ERP SYSTEMS WITH AUTOMATION CAN PROVIDE **SWIFT, AGGREGATED B2B PAYMENT EXPERIENCES**

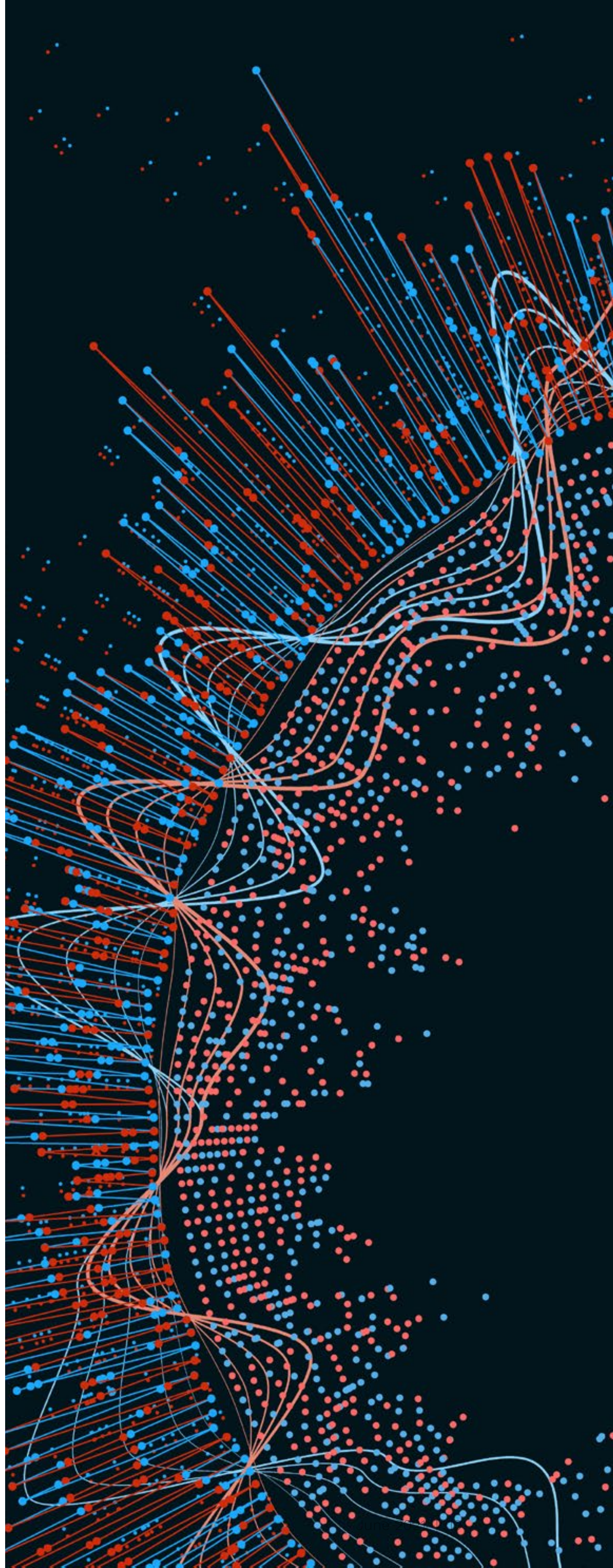
Seamlessly and cost-effectively managing AR and AP processes has become more challenging as payments have gained complexity. Firms now have a variety of payment methods from which to choose when sending or receiving funds, meaning the companies with which they conduct business must maintain multiple systems to accommodate their disparate needs and preferences. Recent PYMNTS data found that AR departments currently dedicate 23 percent of their staff to managing payments. The recent jump in the number of teams trying to manage AR or AP processes remotely due to the developments of the past year have aggravated this issue, with 22 percent of AP decision-makers agreeing it is harder to pay their vendors on time when their employees are working from home.

Businesses have been taking several steps to enhance their B2B payment processes, including moving on from manual or outdated payment methods, such as paper checks, in favor of digital methods. Sixty-five percent of companies noted they ramped up their transitions to electronic B2B payments over the past year, for example. Many of these companies are still relying on multiple systems or applications to manage their digital payments, invoicing or other AR and AP processes, however, leading to lingering frictions even as these firms move forward on their path to B2B digitization. Businesses must therefore find solutions that can enable them to aggregate all their payments into one place, allowing them to view and manage their AR and AP processes with more clarity.

The following Deep Dive analyzes the potential benefits that integrating payments capabilities with ERP systems could offer businesses, such as streamlined operations and greater transparency into cash flows. It will also examine how pairing these systems with other emerging tools could help companies incorporate new payment tools or related features more flexibly into their ERP systems while also improving security.

HOW ERP SYSTEMS PIECE B2B PAYMENTS BACK TOGETHER

Fragmented systems and processes are the primary cause of friction in the B2B commerce cycle. Many firms run their AR and AP processes separately or employ different systems for different departments. This is straining businesses' abilities to successfully send or receive payments and keep on top of their cash flows as the B2B space becomes more digitized. Thirty-two percent of construction firms stated their greatest challenge in delivering invoice or payment information to their own AR departments is the fact that their field and office systems lack the ability to integrate, for example. Attempting to consolidate incoming information from all these different systems and departments is also proving to be costly for businesses,



as 50 percent of companies note that high operating costs represent their biggest AR process management challenge.

Removing this complexity and reducing the costs associated with running these systems is therefore key. Innovation has been slow as firms, especially smaller businesses, attempt to tie together multiple payment systems or manage processes that are inoperable with the tools they use to run other operations. Companies that still maintain paper-based files often must scan or otherwise check them against their digital records, for example, slowing down the payments process and resulting in significant costs. One 2017 study found that it cost approximately $2,603 for companies to maintain one five-drawer file cabinet, for example. Determining how to migrate both AR and AP processes to electronic channels and how to manage both incoming and outgoing funds and data is thus crucial to firms as their reliance on fragmented, outdated B2B payment measures grows more frustrating and expensive.

This is where integrating payments capabilities with ERP systems can come in. Integrated payments solutions include multirail payment capabilities, seamless uploads of remittance data to any ERP for real-time integration and built-in supplier and customer onboarding. Integrating payments and ERP systems can help businesses stitch together traditionally fragmented B2B payments processes through one holistic platform, reducing friction and costs.

THE AUTOMATION COMPONENT

It is important for businesses to pair integrated payments and ERP systems with other emerging technologies for optimal transparency and seamlessness. Successfully aggregating ERP services into one easily managed system requires the use of APIs for ease of use, for example, and implementing automation can also help smooth out previously fragmented processes.

One recent PYMNTS study found that 79 percent of firms agreed that incorporating AR automation improved their teams' efficiency. Employing automation can also free up time and money among these teams, allowing them to focus their energies on growing business or strengthening client relationships.

Emerging automated technologies and integrated payments and ERP systems will play an essential role in the future of the B2B payments space as businesses lean more heavily on electronic payments for a wider number of these transactions. Putting the systems and technologies in place to keep funds moving seamlessly is critical to companies' success as digital trends continue.

EMERGING AUTOMATED TECHNOLOGIES AND INTEGRATED ERP SYSTEMS WILL PLAY AN ESSENTIAL ROLE IN THE FUTURE OF THE B2B PAYMENTS SPACE **AS BUSINESSES LEAN MORE HEAVILY ON ELECTRONIC PAYMENTS** FOR A WIDER NUMBER OF THESE TRANSACTIONS.

ABOUT

NEXT-GEN Digital Payments REPORT

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.

Transcard

Chattanooga-based Transcard is a SaaS funds disbursement and management platform that takes regulatory, time and cost burdens off payers while providing payees secure, self-service options for receiving their money. The company's online platform greatly simplifies payment processes for organizations across a broad range of industries including financial services, corporate disbursements, insurance, hospitality and payroll. Designed with both the institutional customer and the end payment recipient in mind, Transcard's proprietary platform greatly simplifies the distribution of money by offering such features as configurable workflows, streamlined processes for the payer and robust options for the payee. Transcard clients can rapidly deploy full-featured, customized payment products with little upfront investment through its subscription-based model.

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