sage AP Automation
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Does your AP automation system pay for itself?

Getting started with virtual credit cards
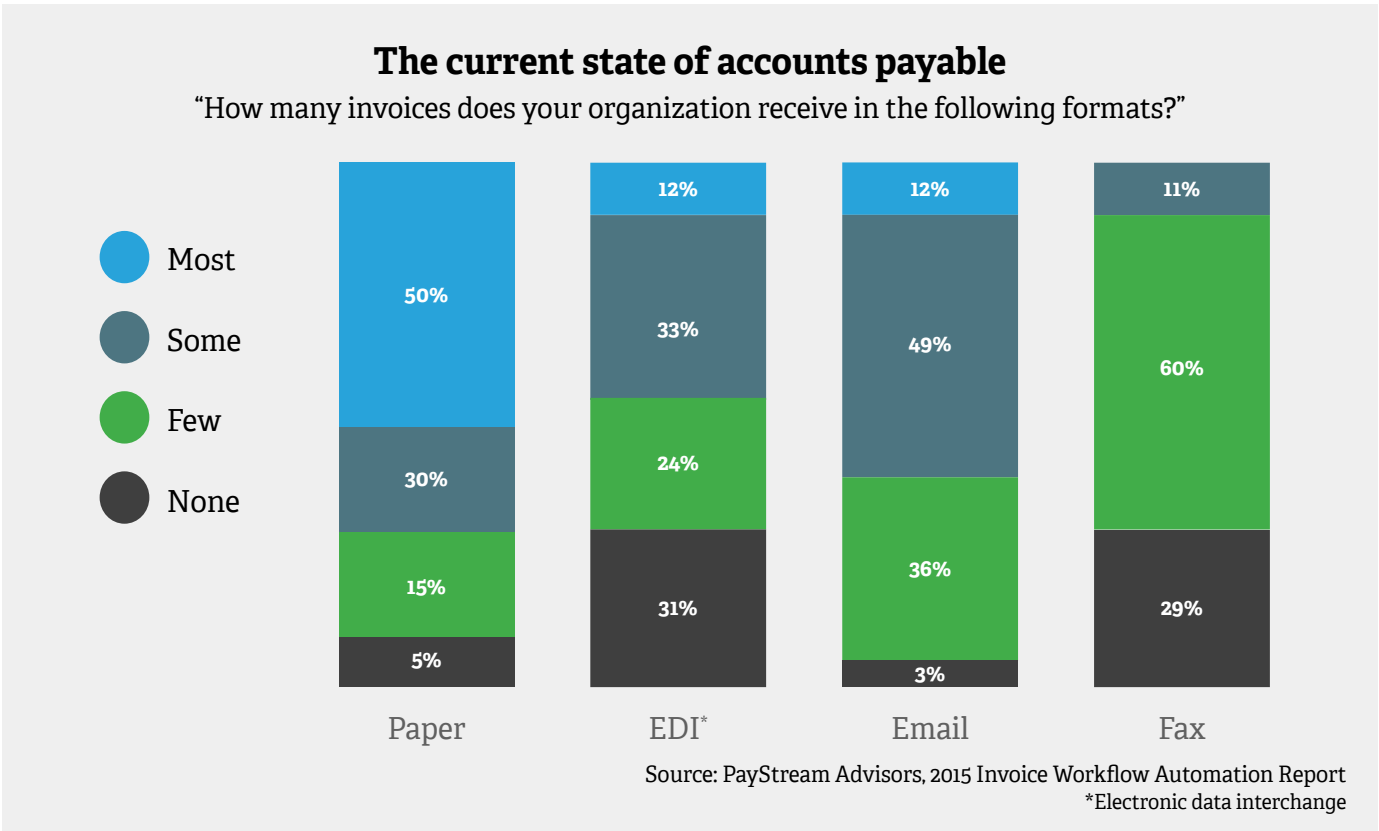
Introduction

When it comes to optimizing the accounting workflow, it's no surprise that organizations are moving away from paper in favor of digital and paperless accounting processes.

According to a PayStream Advisors[1] report, organizations now receive their invoices in a multitude of formats, but paper is still at the top of the pile. Half of organizations surveyed said that they receive most of their invoices in paper format.

Papers can pile up fast and, for those in accounts payable, the stacks of purchase orders and invoices can seem overwhelming at times. Emerging technologies like accounts payable automation and virtual credit cards can significantly ease the burden, but not all businesses feel they are ready to take the leap into digital.

In this whitepaper, we'll take a look at accounts payable automation and show how virtual credit cards fit into this process. You'll learn how virtual credit cards work, their benefits and challenges, and how companies earn money through rebate programs.

The current state of accounts payable
"How many invoices does your organization receive in the following formats?"

Legend:
- Most (blue)
- Some (dark blue-grey)
- Few (green)
- None (dark grey)

Paper: Most 50%, Some 30%, Few 15%, None 5%

EDI*: Most 12%, Some 33%, Few 24%, None 31%

Email: Most 12%, Some 49%, Few 36%, None 3%

Fax: None (top) 11%, Few 60%, None (bottom) 29%

Source: PayStream Advisors, 2015 Invoice Workflow Automation Report
*Electronic data interchange

What is AP automation?

Although accounts payable (AP) automation has gained popularity in recent years, there is often a lot of confusion about what the term actually means and what an AP automation solution should encompass.

For some businesses, AP automation is limited to scanning invoices into digital formats, while others use document management solutions as a means to automate a portion of their payables process.

However, true AP automation is defined[2] by four key features, from procurement to pay: The ability to integrate with accounting software, automated data entry, workflow approvals, and automated payments. Let's take a closer look at each of these features.
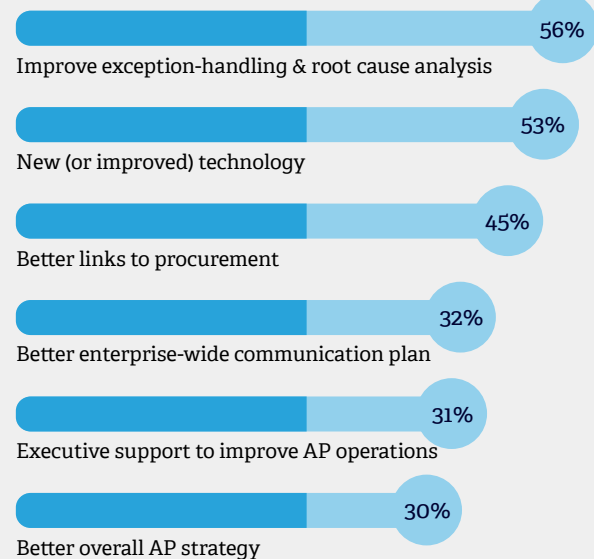
Accounting software integration

With the widespread adoption of cloud-based technologies, online accounting software is more readily seen as a silver bullet for streamlining the accounting process. Although there are definite advantages to switching to a cloud-based system, many solutions on the market today lack key components of AP automation.

For this reason it's important that your accounts payable automation fully integrates with your accounting software, be it desktop or web-based. A full integration should include syncing. Specifically, you should be able to sync data from all your invoices—regardless of invoice format. Using this data, you should also be able to follow transactions through

the workflow of your AP automation solution. Finally, your solution should also provide a way to sync all this data back into your accounting software for accurate reporting.

What do companies want the most in their current accounts payable?

- Improve exception-handling & root cause analysis — 56%
- New (or improved) technology — 53%
- Better links to procurement — 45%
- Better enterprise-wide communication plan — 32%
- Executive support to improve AP operations — 31%
- Better overall AP strategy — 30%

Source: Ardent Partners, The State of ePayables 2016: Higher Ground

Automated data entry

Past research has shown that, by automating the data entry process, accounts payable automation can cut your processing times by as much as 80%. Optical character recognition

(OCR) is widely used as a means of converting physical or electronic images of text into machine-encoded text. In theory, OCR is effective at converting several different types of digital documents, such as scanned paper documents, and PDF files, into editable and searchable data.

In practice, OCR technology accuracy rates vary widely, with some reported rates[3] as high as 99%, but this is dependent on factors such as image quality and the use of human intervention. It's important to know when looking for an AP automation solution that OCR technology is not yet reliable enough to be used autonomously. Human intervention is still required to deliver data that is accurate and meaningful.

Workflow approval

For some companies, the extraction of data from digital documents has such a huge improvement over paper-based accounting that it is considered to be AP automation on its own. However, a key component of automating the accounts payable process is in bringing the entire workflow online, including approvals.

Accounts payable automation allows companies to move invoices through approval workflows, regardless of the approvers' own geographic location. Whether an approver is away on a business trip or located in a remote office, as long as they have an internet connection, they can access the AP automation tool and continue to help move invoices forward.

Automated payments

The final step in full-cycle accounts payable automation is automated payments. Eliminating the manual work—like signing and mailing physical checks—involved in paying vendors can bring the process full circle, and achieve a higher level of data visibility. There are several different methods by which you can pay vendors through an AP automation solution, including: Automated Clearing House (ACH), Electronic Funds Transfer (EFT), wire transfer, automated checks, and Virtual Credit Card (VCC).

By ensuring that your accounts payable automation solution encompasses all four of these key features, you will increase the odds of a smooth implementation and see a measurable return-on-investment.

What are virtual credit cards?

With every new corporate data breach in the headlines, we see how businesses are at risk of fraud and data loss. Virtual credit cards offer businesses an additional layer of protection for corporate payables.

A virtual credit card number is a randomly-generated number associated with your actual credit card. Depending on the issuer, you can set spending limits, further protecting your transaction. This feature ensures that the amount specified by the client will be the only amount that can be charged to the card by the vendor, eliminating the risk of overcharging. Clients can also set up a custom expiration date for virtual cards. With Sage AP Automation, for example, expiration dates are typically set for 90 days or less. To the online merchant, a VCC looks the same as any other credit card, but the vendor will never see the actual credit card number.

The benefits of virtual cards

Credit card fraud losses totaled $21.84 billion globally[5] in 2015 and are projected to exceed $32.82 billion by 2019. Considering the scale of these figures, security should be top of mind for all businesses. Virtual credit cards offer one of the most secure ways to pay your vendors. Their unique single-use virtual card numbers are no longer valid once a transaction is complete. This eliminates the risk of stolen card numbers or checks going missing.

There are also minimum and maximum credits associated with each transaction, which are only valid for a predetermined amount of time. Virtual credit cards are issued to a primary cardholder only, eliminating the risk of fraud through secondary card holders. If for some reason the vendor doesn't charge the card, or the client chooses to block the card, the amount is credited.

Virtual credit cards allow for full integration with your accounting system, which can ultimately lower processing costs and allow companies to implement stronger internal controls[4] on their payments workflow.

In addition to their security and integration benefits, virtual credit cards offer something that most corporate payment types cannot: cash-back rebates. Virtual credit card users are eligible for monthly cash-back rewards based on their spend. This is a simple and effective way to generate new revenue just by paying your bills.

How do I get a virtual card?

Every issuer has its own system for handing out disposable numbers, and some may give you a couple of options. Certain issuers tie disposable numbers to their online banking services and may require that you register for online banking to be able to use disposable numbers. Others may have you log into their website when you need a virtual number or give you the option of downloading a program that will pop up when you're checking out online to ask if you want a virtual number. With Sage AP

Automation, you can issue payments from your virtual credit card directly within the Sage AP Automation platform.

Anatomy of a virtual card

A virtual credit card consists of three components, each of which mimic the features you'll find on a physical credit card.

Credit card number
Like standard Visa and Mastercard credit cards, the card number consists of 16 digits.

Security code
A card security code (CSC), also called a card verification code (CVC) or card verification value (CVV/CVV2), is associated with the virtual credit card. As in standard cards, the security code is used to establish card ownership by the buyer and to authorize transactions.

Date of expiration
Virtual credit cards often expire much sooner than physically-issued credit cards. Rapid turnover prevents funds from being compromised for long periods of time.

Challenges

As with any emerging technology, virtual credit cards come with their own set of unique challenges as the marketplace works to catch up. One big challenge is the fact that not all vendors[6] are ready to accept payments via virtual methods.

This issue is seen most often when purchasing products or services from vendors who ask for a physical card as verification against fraud, like hotels that require guests to provide a physical card upon check-in or fax a credit card authorization form to confirm their booking. But as the payment industry adapts, many suppliers are making longer strides to accommodate virtual payments, and major credit card networks have begun to enable mobile wallets for corporate use, meaning that it won't be long before we see virtual credit cards merge with mobile wallets.

Implementing virtual credit cards can be an internal challenge for some companies. On the technical side, companies that sign up directly with a payment partner will work with them to implement this payment method. However, customers can leave the heavy lifting to Sage AP Automation, who will work directly with their payment partners on behalf of customers to ensure a stress-free roll out. This includes the vendor campaigning process, which can be a source of frustration for customers when not handled carefully. Sage AP Automation customers are given complete control over their vendor campaigns, including the messaging used and which vendors are contacted for enrollment.

Employee training after roll-out is another hurdle for some businesses, particularly in industries that have long relied on more traditional methods of payment. But VCC payments within Sage AP Automation are easy. After a customer's vendors are onboarded, payments can be issued from the virtual card with a single button click in the Sage AP Automation solution.

Get more value with virtual credit cards

How your AP automation solution can earn you revenue

With an AP automation solution, businesses already benefit from hours of saved time and resources, but that savings can be extended even further with virtual credit cards. Thanks to the cash rebate programs offered by VCC providers, businesses can actually earn money by using virtual credit cards, significantly offsetting the costs of AP automation. With enough repeated use, the AP automation solution will end up paying for itself each month through rebates.

Cash rebate programs operate on an agreement where the payer earns a specified percentage cashback on all qualifying transactions. Rebates are typically paid out on a monthly or quarterly basis through the program provider. While large companies would seem likely to benefit the most from a rebate program, even mid-size companies with heavy credit card use will see notable returns. The majority of large corporations (83%) and small-to-medium businesses (79%) in Canada relied on checks[7] as their most widely used method of payment last year. That amounted to a total of 620 million commercial checks issued, worth more than $3.8 trillion.

Adding in the cost of printing, postage, and hours of employee labor, checks are a significant drain on company resources. Bank of America[8] has estimated that the cost per check can rise as high as $4 to $20 each. Virtual credit cards allow businesses to turn paying the bills from a loss into a win.

Forward-looking companies will gain the security and efficiency advantages that come standard with virtual credit cards while capitalizing on an untapped revenue stream through cash rebates.

References

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Save money, reclaim time & prevent mistakes with AP automation

We take care of the data entry. You easily approve and pay invoices for one or more companies from one integrated solution.
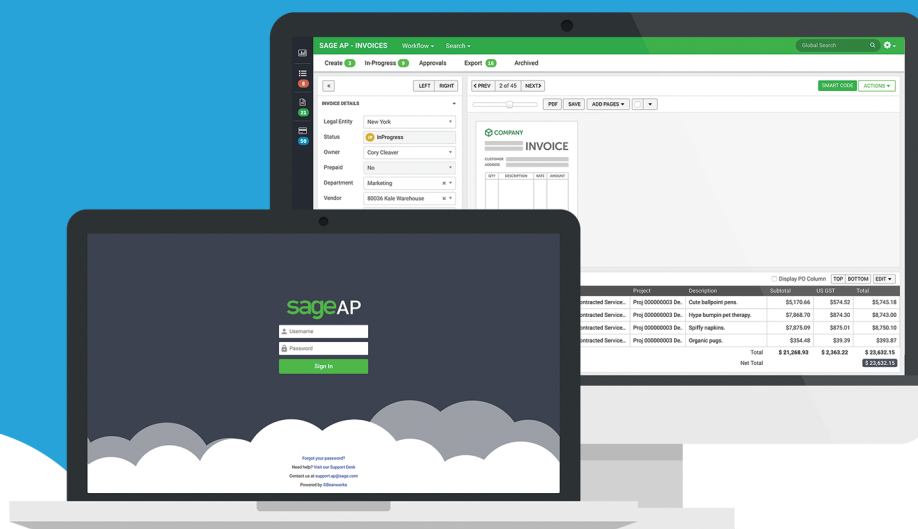
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