B2B Payment Processing: The Efficient Frontier

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Question to the audience

Does your company actively track metrics such as DSO?

- YES
- NO
- I don’t know
Question to the audience

Does your company plan to promote electronic payment options in the near future?

- YES
- NO
- I don’t know
Payment Landscape
Current Payment Landscape

How Payments are Made

Electronic: 39%
Paper: 61%

Trends Over Past 18 Months

- ACH: 9.7%
- P-Cards: 8.2%
- Wires: 7.4%
- T&E Cards: 6.7%
- Checks: -5.3%

Source: Aberdeen Group, June 2008

* Card payments within AP is the fastest growing payment option and are expected to surpass ACH B2B volume by 2012
Top business reasons driving the focus on “electronifying” payments?

- Reduce overall payment costs: 82%
- Remove paper from AP department: 42%
- Reduce risk of payment fraud: 40%
- Better cash management: 32%
- Access to benefits of new technologies: 20%

Source: Aberdeen Group, June 2008
# Aberdeen’s Maturity Framework: Electronic Payments

<table>
<thead>
<tr>
<th>Definition of Maturity Class</th>
<th>Mean Class Performance</th>
<th>Cost*</th>
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</thead>
<tbody>
<tr>
<td><strong>Best-in-Class:</strong></td>
<td>80% of overall payments processed by electronic methods</td>
<td>$1.05</td>
</tr>
<tr>
<td>Top 20% of aggregate performers</td>
<td></td>
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<tr>
<td><strong>Industry Average:</strong></td>
<td>30% of overall payments processed by electronic methods</td>
<td>$6.76</td>
</tr>
<tr>
<td>Middle 50% of aggregate performers</td>
<td></td>
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<tr>
<td><strong>Laggard:</strong></td>
<td>7% of overall payments processed by electronic methods</td>
<td>$23.70</td>
</tr>
<tr>
<td>Bottom 30% of aggregate performers</td>
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</tbody>
</table>

*Overall processing cost per payment

Source: Aberdeen Group, June 2008
KCP&L Focus on e-Payments and Process Automation
KCP&L Background

• Founded in 1882
• Electric only investor owned utility (NYSE: GXP)
• 820,000 customers in Missouri and Kansas
• 18,000 square mile service territory
• 15 generating stations – 6.1 MW
  – Nuclear
  – Coal
  – Gas
  – Wind
KCP&L Payment Options

- Automatic Payment
- Budget Billing
- Online Account Access
- Paperless Billing
- Pay by Mail
- Pay by Phone
- Pay in Person
- Pay Online

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Residential Payments (YTD Oct. 10)

2010 KCP&L Residential

- On-line Banking Portal, 19.5%
- Credit and Debit Cards, 8.3%
- Electronic initiated by KCPL, 26.2%
- Other, 1.1%
- Lockbox, 40.9%
- Pay Stations, 3.7%
- Electronic initiated by Customer, 0.2%
Residential Electronic by Channel

Residential Electronic Payments by Channel

- Consolidators: 43%
- Recurring Debit: 23%
- KCPL Web Site: 25%
- IVR or CSR: 9%
- Other: 0%
Previous C2B Payment Issues

- Multiple 3rd party vendors offering electronic payment alternatives to our residential customers
  - Some vendors still sending check & lists
  - Separate files sent to us by multiple vendors with different formats
  - No validation of customer account numbers/data
  - No visibility into payments received when asked by our customers
  - Received payments meant for another biller
How KCP&L automated its C2B Payments
Current State of C2B Payments with automation

- Single source for all on-line bill payments
- Processing features enable faster, accurate processing of payments
  - On-line decisioning for returns/corrections
  - Cross-references to handle recurring errors
  - Posting to multiple billing systems
Commercial Payments (YTD Oct. 10)

2010 KCP&L Commercial

- On-line Banking Portal: 10%
- Electronic initiated by KCPL: 13%
- Electronic initiated by Customer: 9%
- Pay Stations: 1%
- Credit and Debit Cards: 0%
- Other: 3%
- Lockbox: 64%
Previous B2B Payment Issues

• Incomplete data prohibited prompt processing
  – No addenda information at all
  – Missing, unreadable or incorrect customer information
• Manual posting to CIS system required
  – Customers don’t receive timely credit, creating penalty charges
  – Considerable staff time researching payments
  – CIS feeds to G/L, so delay could create inaccurate statement of financial results at reporting periods
Why the Focus on B2B Now

• Improvement in Cash Working Capital means enhanced liquidity and lower borrowings – a strategic advantage
  – Reduced Float
  – Improved Days Sales Outstanding (DSO)
  – Faster posting of payments due to accuracy
TREASURY COLLECTION

- Treasury
- Accounts Payable
- Accounts Receivable
- Cash
- Purchase services, goods or raw materials
- Payment for purchases
  Production of goods
- Inventory
- Inventory holding period
- Sale of Goods
- Collection of payment
- Business

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Why the Focus on B2B Now

- **Greater Customer Satisfaction**
  - Improves efficiencies for our largest customers, often resulting in lower costs for them as well
  - Eliminates penalties for late payments
  - Accurate posting of payments

- **Better Relationships**
  - Our customers appreciate improved technology
  - We aren’t your typical utility – not difficult to deal with
  - Rate increase requests aren’t met with animosity

- **Reputation Risk**
  - News stories are positive rather than negative
  - Our community values us as a corporate citizen
Products & Services drive reputation

Figure 1: What Drives Reputation in the Global Utilities Industry? (2010)

- **Products/Services**: Utility offers high-quality products and services. It offers excellent products and reliable services.
- **Innovation**: Utility is an innovative company. It makes or sells innovative products or innovates in the way it does business.
- **Workplace**: Utility is an appealing place to work. It treats its employees well.
- **Governance**: Utility is a responsibly run company. It behaves ethically and is open and transparent in its business dealings.
- **Citizenship**: Utility is a good corporate citizen. It supports good causes and protects the environment.
- **Leadership**: Utility is a company with strong leadership. It has visible leaders and is managed effectively.
- **Performance**: Utility is a high-performance company. It delivers good financial results.

Factor Adjusted Regression: n=6,720, Adjusted $R^2=0.714$

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DSO reduction

- **Accelerate customer payments**
  - Lockbox
  - Remote Deposit Capture
  - Check conversion to ACH
  - Web Presentment and payment
  - Electronic Funds Transfer (EFT)

- **Receivables data integration** – enables business process automation
DSO reduction

- Account Receivable ↔ Days Sales Outstanding
  - DSO: average number of days to convert a sale (A/R) into cash

- Working capital drivers
- Accelerate customer payments
- Automate cash application process & reduce exceptions
Challenges faced with our electronic payment adoption

• Payment type options available
  – CCD
  – CCD+
  – CTX
• Who should we contact?
• What tools should we use in our campaign?
• How do we aggregate payment details and auto-post?
The Efficient Frontier - How KCP&L automated B2B Payments

Incoming Wires

ACH Credits/Debits

Data files

Online Bill Payments

Consolidated Data File

Lockbox Payments

Commerce Manager

Desktop Deposit®

Accounting System / ERP

Consolidated Accounting System / ERP
B2B Payments Implementation Plan

• Implementation Pilot
  – Soft roll-out to a targeted large commercial customer
    • Current user of technology
    • Conversations one year in advance of implementation
    • Worked with banking partners to smooth transition
    • Partnered with Customer Service/Marketing Reps to keep communication lines open
  – Expansion to five other commercial customers
    • Advance conversations to prepare for changes
  – Full Market Rollout
The Nominees for Contractor of the Year are
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# 5
The Nominees for Contractor of the Year are

# 4
The Nominees for Contractor of the Year are

# 3
The Nominees for Contractor of the Year are

# 2
The Nominees for Contractor of the Year are

And the Winner is
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