The Experience of Food Distributors in Utilizing and Updating Remittance Formats:

A Market Segmentation Analysis

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Overview of the Remittance Coalition and its Vendor Forum

The Remittance Coalition is a voluntary association of banks, corporate practitioners, consultants, solution providers, payments associations, Federal Reserve Banks, and other interested parties who work together to foster electronic business-to-business (B2B) payments, remittance information and straight through processing (STP) of B2B transactions. The Coalition includes more than 400 members.

In 2013, the Coalition formed a subgroup called the Vendor Forum that includes approximately 60 members. The Remittance Coalition's Vendor Forum seeks to increase awareness and engagement by vendors/solution providers in efforts that promote automation and electronification of B2B payments and remittance information. As the marketplace has continued to evolve, the Forum has focused on highlighting barriers and opportunities that corporate practitioners face when they try to adopt more standard ways of making and receiving payments and remittance information.

Standard Formats for Remittance Information

Many large U.S. corporations and their service providers (e.g., electronic payment solution providers and financial institutions) currently use legacy X.12 Electronic Document Interchange (EDI) standards to enable automated, electronic exchange of key business information associated with payment processing – e.g., invoice and remittance information, deduction and adjustment codes, and more. EDI standards materially improve the efficiency and effectiveness of B2B interactions between buyers and sellers that have implemented them. However, these standards are based on dated technology and are expensive and difficult to implement and maintain – especially for smaller and newer businesses.

In contrast, ISO 20022 is a standards framework for financial services based on XML and other contemporary technologies. The ISO 20022 repository holds many payment message standards and recently has approved message standards that can replace some legacy EDI standards for interested businesses. For example, in 2014, two new ISO 20022 messages were

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[1] The Remittance Coalition is chaired by Claudia Swendseid and staffed by Katy Jacob, both of the Payments Information and Outreach Office of the Federal Reserve Bank of Minneapolis. The Vendor Forum of the Coalition is chaired by Tammie Calys, Transformation Management Consulting, with Lyle Wallis of the Credit Research Foundation serving as co-chair.

established to carry remittance information: 1) REMT1 in which remittance information is sent with the payment; and 2) REMT2 in which remittance information is sent stand-alone.

The Need for Market Segmentation

Through its work in promoting the adoption of standard formats such as those available through ISO 20022, the Vendor Forum identified a variety of complex issues preventing some U.S. companies from migrating to these newer standards. These issues tend to vary by industry segments. Consequently, the Forum decided to research issues preventing change by industry segment, beginning with food distributors and manufacturers given their volume of customers and associated B2B transactions.

Payment terms are normally short for these organizations, given the nature of the deliverable (i.e., perishable food items), which leads to hundreds of invoices and associated payments and remittance advices weekly. Payments must be processed timely in order to prevent any type of order hold scenarios for their customers that would impede business. The sheer volume of payments processed by this industry segment heightens the need for accurate and timely remittance data and efficient posting to accounts receivable platforms. Thus, increasing STP to streamline payment reconciliation is a key focus of these organizations.

To capture this industry's perspective on these challenges, the Forum completed in-depth interviews with three large food distributors during fourth quarter 2015.[2]

The interviews focused on:

1) Current standards and other formats in which food distributors receive remittance information today;

2) Challenges with using these standards and formats relative to applying cash and clearing open accounts receivables (A/R);

3) Use of, or plans to use, ISO 20022 remittance formats;

4) Pros and cons of moving to a remittance standard such as ISO 20022;

5) Methods to reduce barriers for moving to a standard remittance format, whether ISO 20022 or others.

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[2] Companies interviewed include: Pepsico, Performance Food Group and Ventura Foods.

Payment Types Received

Interviewees reported that their companies receive remittance information for payments in various ways. Checks are still a common form of payment, in which case companies have their lock box bank key check stubs and transmit remittance information in an EDI 820 format. When receiving ACH payments, remittance information may be received in conjunction with the payment in either a CTX or EDI 820 format along with the payment. Also, interviewees noted that sometimes remittance detail is sent as a PDF or spreadsheet attachment to an email, and then must be keyed manually. Wire transfer payments often include minimal, if any, remittance detail, which makes these payments harder to reconcile.

Some food distributors engage the services of cash pre-processors.[3] Others have set up their own customized bank portal remittance systems. Also, some distributors' customers have their own portals with remittance information, which requires the distributor to retrieve the information from those portals and enter it into their accounts receivable (AR) platform. In summary, food distribution companies are paid in various ways, and the remittance detail is an even more varied part of the process—often requiring manual, labor intensive work.

Challenges with Current Remittance Detail Processes

Interviewees identified a number of problems that arise due to the lack of standard ways in which remittance detail is provided with the payment. Different remit sources make it challenging to standardize or optimize cash application and require manual intervention to clear open A/R. When remittance detail is submitted by email, many companies have no automated way of convert the information into an electronic format, so the company must manually key the remittance detail to apply the cash. Then, the company may be able to capitalize on a cash pre-processor to match the payments to the open invoices in the system.

Another problem identified is the lack of complete and accurate remittance detail provided. Interviewees reported often receiving remittance information that is incorrect or has data missing. Optical Character Recognition (OCR) technology[4] is used by some companies to assist in payment detail capture but the algorithms developed within OCR or auto-cash technology platforms are not always adequate to determine proper cash application, which leads again to manual processes to resolve/post the payment.

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[3] A cash pre-processor is a solution provider that takes a myriad of remittance data that comes into a particular organization and translates it into a standard format that can be posted seamlessly to the AR platform.
[4] Optical Character Recognition is a computer program logic that translates typed, handwritten or printed paper documents into information that can be captured electronically into a system. It works by scanning the document, and, based on what's presented a particular field within the document, translating that into the key data fields to be automatically posted.

Would Standards Help?

Interviewees said that a standard remittance format would help address the problems they identified with the current process–but with caveats.   If all food manufacturers and their buyers used a standard electronic remittance format, all parties would benefit—e.g., manual intervention and related costs would decrease, the cash application process would be streamlined, and investments in advanced algorithms and OCR technology would be unnecessary. However, to achieve a standard electronic remittance format, diverse buyers/customers would need to implement a common A/P standard, which is unlikely. Moreover, many small trade partners do not even use AP software and rely on paper checks and money orders to remit payment.

The marketplace for food distributors is diverse and complex. "One size" with respect to payment methods and providing remittance detail is impractical. As one interviewee asked, "Do remittance standards under ISO 20022 target equally large and small businesses or is adoption of standard formats more likely among trading partners of similar size?" In turn, solution providers will only adopt and promote a new remittance standard if the customers they serve find value in using such standards.

Suggestions for Steps that Would Lead to Standards Implementation

Interviewees agreed that adoption of standard remittance formats is desirable but difficult to achieve. All are still using a mix of legacy ERP platforms and none are using ISO 20022 remittance formats.

Interviewees are interested in exploring the adoption of ISO 20022 remittance standards as a way towards greater standardization. To this end, they provided guidance on steps that would ease the challenges associated with implementing a remittance standard:

- As a first step, work with vendors that can transform manual data into an electronic format that can be sent directly to the company's bank and integrated with all other remittance data;
- Make new future standard remittance formats free to all users;
- Promote among software vendors the value of integrating standard formats into all versions of their products as a common practice.

The Remittance Coalition's Vendor Forum will form a new workgroup in 2016 to explore these ideas in more detail and to assess whether common issues and suggested paths forward exist in other industry verticals as well. Efforts will also be made to inventory current resources available that educate corporations about ISO 20022 for B2B transactions and provide guidance to interested companies on migrating from EDI standards to ISO 20022 alternatives. Once resources are identified, the Vendor Forum will explore any gaps that exist with the current tools and pursue avenues for making those tools more readily available to corporates, banks and solution providers.