Reconciliation: The What and the Why

We believe there is a greenfield opportunity to help such businesses streamline their finance operations for everything that happens after the consumer has paid

By Ashish Aggarwal

It has been never as easy to start and run a digital business as it is today. Businesses of any size have multiple options to accept payments across different channels, and across geographies.

In addition to retail commerce moving online, we have seen emergence of true digital first business models. Each such business model is unique and often has individual nuances specific to the vertical/ problem statement. Examples include, mobility (Uber, Lyft), travel (Airbnb), ticketing (Ticketmaster, GetYourGuide), Food delivery (Deliveroo, Doordash), marketplaces, BaaS providers etc.

While a lot of innovation and value creation has happened (and continues to) at the payment acceptance layer, we believe there is a greenfield opportunity to help such businesses streamline their finance operations for everything that happens after the consumer has paid.

The challenge for the finance teams is not just limited to the sheer explosion in transactional volumes (which is breaking spreadsheets), but equally driven by:

1) emergence of multiple sales channels (offline, online, marketplaces, social) with businesses expected to offer consistent and seamless “omni-channel” experiences
2) acceleration of adoption of new payment models, including subscriptions, instalments, real-time bank payment rails such as UPI (IN), Pix (BR). Every new method = new integrations and settlement flows
3) usage of numerous cloud-based SaaS or API solutions versus monolithic on-prem solutions. The data today resides across the various internal and external systems
4) heightened regulatory scrutiny on businesses which are involved in money movement
5) finance orgs struggling to build in-house FinOps engineering talent, which often get de-prioritised in favour of “core” product priorities

At PayPal Ventures, we have been tracking this trend closely and often hear the similar set of challenges from founders and CFOs, which not surprisingly transcends geographies.

While this note focuses on **reconciliation,** we believe reconciliation can be a powerful entry wedge for a company to land and expand across the “Office of the CFO”.

What is reconciliation?

Reconciliation is the “matching” process to confirm that data in your system of record (which could be your internal accounting ledger, Snowflake database or third-party ledger as a service, etc.) matches with data across your banking and payment partners and internal transaction database(s). It may sound obvious, but for a business that moves money, there could be regulatory, business, and technical challenges if reconciliation is not accurate or not done in a timely manner (ideally real-time).

Reconciliation is often combined into “Finance Operations” (FinOps) as a category. FinOps refers to the operational processes that help the finance team deliver on typical responsibilities such as revenue collections and recognition, pricing, payable management, accounting, reporting, compliance etc.

Why is reconciliation important? It allows companies to:

1) **Track** real-time visibility into the company's cash balances, receivables, and payables to avoid errors that could put company liquidity at risk
2) **Create** an audit trail of transaction data and customer balances, which is necessary when engaging with banking partners, payment providers, and regulators
3) **Deliver** real benefits beyond the finance team by leveraging automation to minimise support tickets, and minimize resources being directed to manage customer complaints
4) **Ensure** clean data set across financial and non-financial metrics, to empower your finance and business teams to make informed decisions
5) **Build** a unified view of your customers, to help offer a great experience and also identify opportunities to drive customer lifetime value

What are the different types of reconciliation?

Theoretically, any exercise that requires the matching of one dataset against another could be defined as reconciliation. Some of the most commonly practiced reconciliation processes include:

1) **Transaction reconciliation:** reconciliation on a per transaction level between the various systems being used by a merchant, e.g., webstore software, shipping providers, accounting platform, inventory management software, payment providers, etc. There could be different objectives of such exercise, from making sure that the transaction amounts are consistent across the systems, or making sure that the transaction metadata (SKU type, time/date of transaction, payment method etc.) is consistent across the various systems
2) **Bank reconciliation**: reconciliation between the company's bank balance (or bank statement) against the internal system to make sure the actual cash position is consistent with the expectations (and if there's an inconsistency, to help identify potential issues)
3) **Fee (Vendor) reconciliation**: reconciliation between the invoices payable against the agreed fee schedule with the vendor. For example, this is particularly relevant for e-commerce businesses with thousands (if not millions) of transactions being billed per month and often across different PSPs and across different volume tiers
4) **Others**: reconciliation processes specific to certain verticals (or use cases), e.g., ticketing, healthcare, or lending businesses

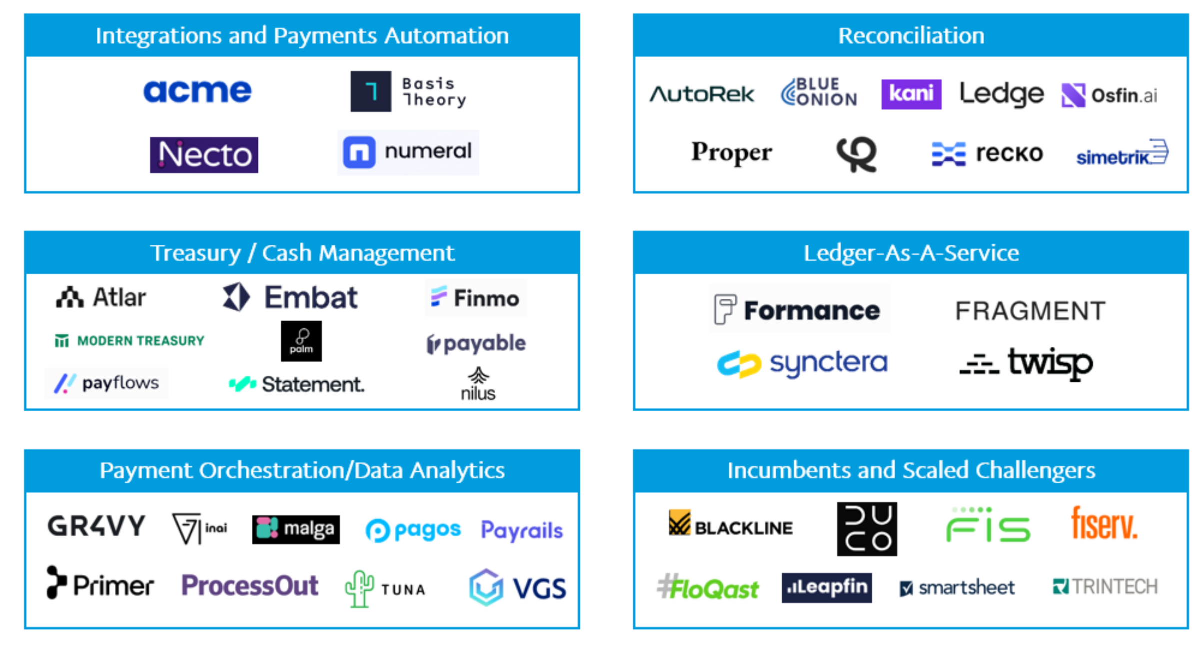
What questions does reconciliation help answer?

Another way to appreciate how critical reconciliation is for the health of businesses of all sizes and models, is to consider the following illustrative questions. Having answers to all of these questions is important for any CEO to be able to lead their business effectively.

1) What is the true liquidity position, how does it vary and what's the implied runway etc.?
2) What is the latest AR position? Which clients owe the most?
3) What is the net revenue for the period adjusted for any refunds/chargebacks/cancelations?
4) Is the business being charged appropriate fees as per the signed contracts?
5) How long would it take to close the end of period accounting books?
6) Which customers are driving the business CLTV, versus those with negative cost of servicing?
7) Do we have sufficient financial controls and audit procedures in place to respond to any requests from external parties including regulators?

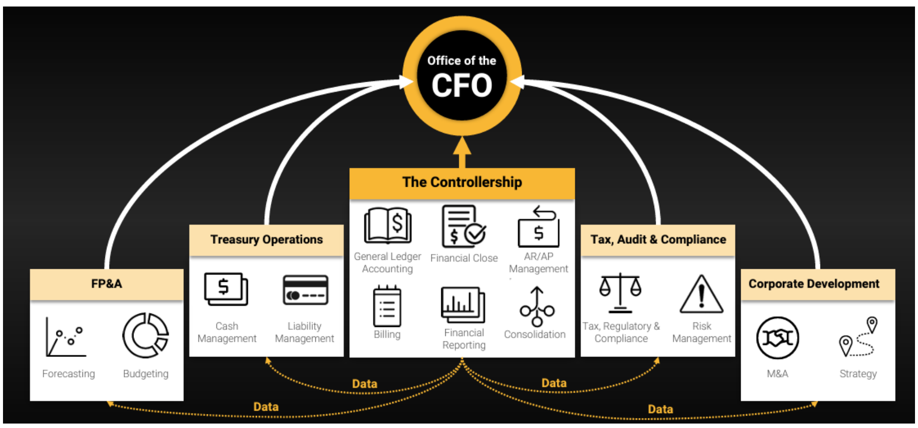
Landscape

Not an exhaustive list, but we are tracking a number of founders who are building in the broader reconciliation/FinOps/workflow automation space. This group has raised significant funding (>$800 million) which demonstrates the investor interest and confidence in the opportunity. Although despite the funding raised, we think it is still early innings in terms of scale and adoption. What we do now that is not a single CFO that we have spoken to is happy with the current state of technology servicing their teams.



Why is PayPal Ventures excited about the space?

Beyond the pain points listed above, we believe reconciliation can be a powerful entry wedge for a company to land and expand across the "Office of the CFO". For example, reconciliation can help create a "clean" underlying data layer which can power number of applications built on top, such as treasury and cash management modules, commission calculations, and payment automation, data insights, etc.



We, at PayPal Ventures, are actively digging deeper into the space and would love to engage with founders building in the space, and/or investors bullish on the global opportunity. Given the complexity we believe there is room for multiple winners to emerge with varying focus – geo, industry, size, etc. This aligns well with PayPal Ventures' international coverage model, allowing us to engage with founders across the multiple markets.