Boosting AP Savings by Moving to Electronic Payments

An IOFM white paper IOFM INSTITUTE *of* FINANCE & MANAGEMENT

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About Nvoicepay

Nvoicepay delivers strategic payments solutions to automate accounts payable. We enable customers to pay 100 percent of their invoices electronically, while realizing the financial benefits of payment optimization. By paying the right suppliers with the right payment type at the right time, our cloud-based technology and vendor payment services help customers reduce costs, increase efficiencies and maximize card rebates, all with minimal effort. Nvoicepay transforms accounts payable departments from cost centers into strategic contributors. Learn more at www.nvoicepay.com and follow us on Twitter at @Nvoicepay.

About IOFM

The Institute of Finance & Management (IOFM) is the leading source of information, tools and resources for finance professionals across our focus areas. For more than a quarter of a century, our newsletters, reference publications, online information services and conferences and events have provided authoritative guidance to corporate managers across a wide range of disciplines. Visit www.iofm.com.

About The Accounts Payable Network

With a network of more than 50,000 AP process owners in the U.S. and around the world, and a host of membership benefits, The Accounts Payable Network (TAPN) is the world's largest AP-focused organization. The AP Network's deep, comprehensive resources for executives and managers who oversee accounts payable give you point-and-click access to exclusive accounts payable knowledge base help. Focus areas include best practices for every AP function; AP metrics and benchmarking data; tax and regulatory compliance; solutions to real world problems; AP automation case studies; member Q&A networking forums, calculators, and more than 300 downloadable, customizable AP policies, flowcharts, templates and internal control checklists. To learn more, visit www.theaccountspayablenetwork.com.

Boosting AP Savings by Moving to Electronic Payments

The move from paper to electronic payments has been a steady one for consumers, with fewer checks finding their way into the mail each year. But this move to e-payments hasn't been matched in the business world.

An average of **61 percent** of all disbursements are still being handled by check, according to the IOFM' report *Benchmarks: The State of Accounts Payable 2014*.

There are explanations for why AP departments have been slow to embrace electronic alternatives to paper. However, the savings a company can realize by doing so are substantial — in the order of hundreds of thousands of dollars.

This white paper examines barriers to change and the options for making payments that lower annual expenditures.

The Challenge of Supplier Payments

Let's start with spelling out the options available to businesses to pay their suppliers, and then we'll look at some of their costs.

Electronic payments typically include:

- ACH/EFT – Automated Clearing House and electronic funds transfer.
- Payment cards – from basic credit cards to P-cards and virtual cards.
- Wire payments – especially prevalent for international payments.
- Electronic checks – outsourced to a third party.

The numerous card options available to AP departments today include:

- P-card – a physical plastic card that acts like a company charge card.
- Ghost card or virtual card – a credit card number that is specific to each company department for use by anyone in that department.
- AP card – a single, 16-digit virtual account number, usable only once and approved only for the amount to be paid.

- Single-use card number, or disposable credit card or card number — the same as an AP card, except without a predetermined amount to be paid.
- Credit card – the familiar plastic cards issued by banks and businesses that allow purchases on credit.

While each card type has its advantages, they are all processed the same way by the supplier.

But what makes all of this so hard is that suppliers aren't standing still. Statistics show an 11 percent supplier churn rate each month, meaning that new suppliers have entered your system and/or current suppliers have changed the payment types they will accept. Many of these changes are advantageous to the AP department, but tracking them requires a dedicated effort and many staff hours. There are no ready-made methods for a company to monitor those changes on its own.

It's no wonder so many departments throw their hands up and stick with the familiar process of writing checks.

Small Savings, Multiplied Thousands of Times

If you look at the actual costs of paper transactions in particular, you can see why ideally AP departments want to stop doing them altogether and move to a paperless environment. Consider the typical expenses of preparing a check to pay a supplier:

Material Costs

- Check paper stock ($0.34)
- Envelopes ($0.09)
- Postage ($0.49)
- Printer ink and toner ($0.12)

Labor Costs (dependent upon salary levels, based on surveys conducted by Glassdoor)

- AP staff preparer (AP specialist national average salary: $44,387)
- Signer 1 (AP manager national average salary: $62,000)
- Signer 2 (Controller national average salary: $96,425)

Fees

- Bank check-clearing fee ($0.10)
- Optional positive pay/positive payee ($0.30 to $0.60)
- Bank image fees for cleared checks ($0.15 to $0.30)
- Potential stop-check fee ($30)

Add it up and you see that you're spending several dollars each time you mail a check — easily costing $5 to $8 per check when the labor costs are factored in. And if you're in a very large organization, all the time spent collecting approvals pushes the costs higher. According to The AP Network, the average enterprise organization incurs costs of $20 to pay a supplier by check.

At the opposite end of the spectrum are the card options that provide a rebate for their use. These cards earn an AP department between 1 percent and 1.5 percent. Essentially, the supplier is willing to bear the cost of processing a card in return for getting money transferred to its account virtually instantaneously rather than experience the delays associated with checks or even ACH/EFT payments. Studies show that 21 percent of suppliers prefer to be paid this way because it streamlines their accounts receivable processes.

Those ACH/EFT payments represent a middle ground in costs. At roughly 50 cents per transaction, they're not as costly as checks but not cost-free or even revenue-earning, as the cards can be.

Another option we haven't mentioned yet: electronic printing of checks. With this option, you simply provide the relevant data to an outside resource that prints and mails checks for you. There's a cost, of course, but it's much lower than doing it all internally.

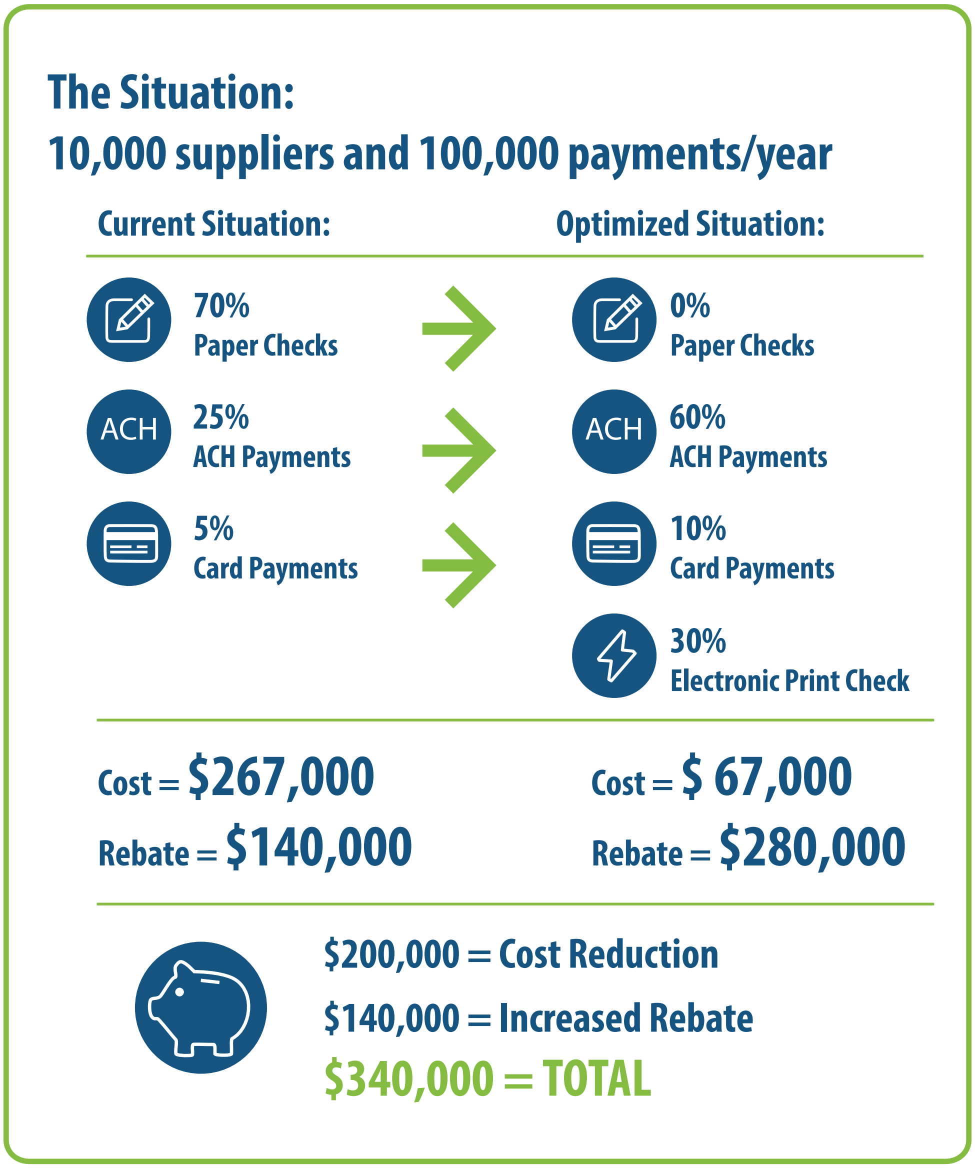
An Example of the Potential Savings

Very few organizations can move all of their suppliers to accepting a single payment method. Yet we know that some payment methods cost AP departments a lot more than others. What's a realistic expectation of the benefits of what we might call an "optimized situation" — one in which you shift suppliers to accepting electronic payments?

In Figure 1, we've started with an AP department making 100,000 payments a year to 10,000 different suppliers. This department, like its peers, makes 65 percent of its payments in the form of paper checks, 25 percent via ACH payments and 10 percent by card. The rebates earned from cards are covering the check and ACH payment expenses, but just barely. This illustration, by the way, is based on information gathered from 1,000 separate AP departments.

Suppose we eliminate the check payments, at least double the levels of the other two methods and add an electronic print check function? In this case, we've knocked down costs by $200,000, or 76 percent, and added $140,000 more in rebates. The change results in a $340,000 advantage to the company each year.

Figure 1



Moving Toward a More Cost-Effective System

There are two basic ways of changing your approach to payments: internal or external. Here are some suggestions on how to go about one or the other:

Internal

The objective of an effective payment system is to make everything as easy as can be for your suppliers. This is basic to having sustained relationships in business, of course, but it's also critical to making your operations work well.

To do so, ideally you would set up a portal for suppliers to indicate how they would like to be paid. You might help educate them on options if they're not aware of them and have a way of tracking any changes in their approach from month to month.

Note, however, that you don't want to allow suppliers to control all facets of the information you need. A self-service model can lead to fraud and misrepresentation if it's not managed properly. You're teaming up with them, but you're not handing them the keys to anything.

You'll need a payment support system to help them out when there's a jam. According to supplier network statistics, 2 percent of all payments fail. And you'll need a robust security system to be sure the transaction doesn't go astray anywhere along the line.

While it is possible to make these changes internally, it's much easier — and more cost-effective — to hand the task over to someone else. Just by freeing up an accounts payable specialist to do other pressing tasks, you've gained a lot of efficiencies.

External

Many organizations — from banks with familiar names to third-party consultants you've never heard of — say they can manage payments for you. But the details of their services need to be examined closely to make sure you're getting what you expect from a third-party supplier of this function.

For example, banks may expect you to set up your suppliers to receive electronic payments and maintain this information as it changes. They'll provide the funds-transferring pipelines, but you've got to figure out what's going in and out. That's not much of a help. And this can burden the AP department rather than streamline it.

Others will be happy to grab your information and run with it, but you'll want a lot of reassurance that they'll keep things tightly secured and safe. The first question to ask is whether they're fully bonded and insured. Difficult situations can arise, and you want to make sure the operation you're dealing with is prepared to cover any costs itself.

More important, you want to be sure the organization you hire is in compliance with the most stringent security requirements that are critical to safeguard your information and your suppliers' information.

You'll also want to be sure the company you hire has a strong customer-support operation. This is essential not only for managing your suppliers, but also for helping your organization reap the benefits of an external supplier.

For example, we've discussed how suppliers change their payment methodologies by 11 percent each month. An external operation will have technology and personnel assigned to dynamically implement these changes. So if a supplier switches to accepting a card payment when it previously wouldn't, the change can benefit AP Department A that does business with that supplier. But the solution provider likely has other clients doing business with the same supplier. So the solution provider can also update the supplier payment information for AP Departments B, C, D, E and F at the same time. This is an example of the type of technological and information efficiencies that are possible with a third-party provider of these AP payment services.

Evaluating Service Providers

Choosing an electronic payment provider can be difficult. They all seem the same on paper. Here are some points to consider when evaluating and choosing one that is suitable for your organization:

1. **Always request a demo of the solution**. If the provider cannot produce a demo, it probably does not have a software solution.
2. **Understand how the supplier-enabling process works.** Who sets up the suppliers? Does the provider set up all of the suppliers or just the largest? Who maintains the supplier data?
3. **Understand how payment failures are handled.** Industry statistics show that 2 percent of all payments fail. Who resolves these failures — your AP department or the provider?
4. **What payment types are offered?** To move to an all-electronic payments system, you need to offer choices to your suppliers. Does the provider use a payment mix (cards, ACH/EFT, e-checks, others) or just cards or ACH? Are these payment types managed in the same process to create the easiest workflow for your staff?
5. **Who pays the transaction costs?** Are you paying fees per transaction or per time period, or do your suppliers absorb the costs of accepting electronic payments?
6. **Who do you and your suppliers go to for trouble-shooting?** Will your payment provider answer any questions your suppliers have? Will you have an account representative you can reach when needed?

The Time is Right

As you can see, the potential savings and revenue to be gained by rethinking how your AP department pays suppliers are significant. In today's cost-sensitive environment, that's important.

The changes will require some strategic thinking and planning. But payments are a monthly, weekly or even daily part of your business operation, so it's best to take advantage of different methods and technology sooner rather than later. When you do so, you'll reap the very real financial benefits of a more advanced system and be able to use your team on other initiatives.

Sponsor's Perspective

Nvoicepay is pleased to have sponsored this white paper, *Boosting AP Savings by Moving to Electronic Payments*. This white paper supports many of the observations we have seen among our customers as the leading provider of strategic payment solutions for the enterprise.

The payments process is known for being manual and archaic, but it doesn't have to be this way. By looking at solutions available, businesses can make an immediate significant impact to their bottom line. The payments process has risen to the level of being strategic because of the huge impact it can make in terms of the cost savings and revenue generation.

For payments processes to become strategic, they must have three pieces:

The first is the ability to optimize each payment made. Optimizing means paying the right supplier, with the right payment method, at the right time. Optimizing payments enables customers to reach the greatest return.

The second is supplier services. Without supplier services to handle the questions from suppliers, and manage the payment communication between suppliers, it's just not possible to get to a minimal-effort, efficient solution.

The third is having an opportunity to earn a rebate back as part of the process, and not a separate process. When you include the next-gen technology, single-use card programs, as part of that, they generate a rebate back to the company that can help automate other parts of your business.

We believe strategic payment solutions should be simple to get started and not require any IT resources. Our solutions can be activated in 45 days of calendar time and require only eight hours of customer time to start.