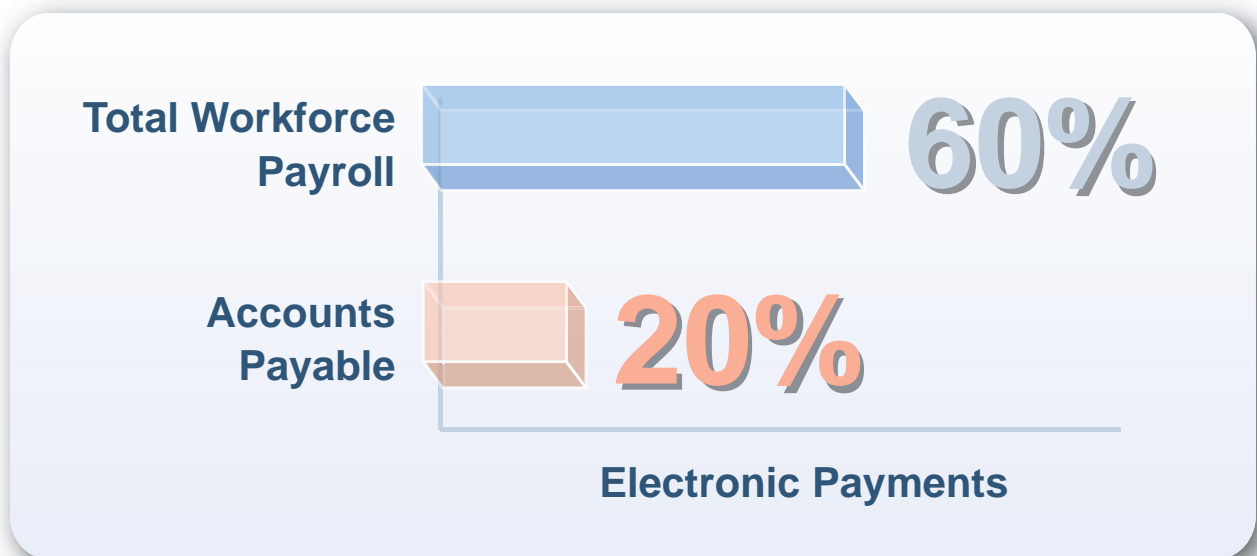


A look into the *REAL* reason many organizations don't pay vendors electronically... and how they can and should.



- **60 percent** or more of the total workforce payroll is now done by direct deposit (ACH)
- However, only **20 percent** or less of mid-market invoices are now paid electronically (via ACH)



Why the enormous disparity in payment philosophy between Payroll and Accounts Payable (AP) departments?

According to estimates, some 60 percent of U.S. private and public employees are now paid electronically, their compensation deposited directly in their bank accounts. No paper checks, no trips to the bank, no delays in the mail, no security compromises, no hassles of any kind. Confirmation comes in the form of an Advice of Deposit slip that details amounts and deductions ... often delivered electronically.

For management, the benefits are obvious: lower printing and processing costs, greater security through reduced vulnerability to fraud, less manual activity and greater staff productivity, increased transparency in the payment process, and better cash management.



With all of these advantages, you'd think that AP would quickly follow suit, right?

Far from it: resistance to using the Automated Clearing House (ACH) network for AP payments has been steadfast, with an estimated adoption rate of less than 20 percent in the mid-market. This, despite the fact that cost of processing an accounts payable check can range from \$1.50 to \$2.00 and even more when factoring in processing, check stock, envelopes, handling and postage. Conversely, an electronic solution brings cost-per-payment down to 15 cents or less.

Extended, this means that an organization that processes 2,000 accounts payable checks per month could potentially reduce its monthly payment costs by \$3,700 (or \$44,000 per year) with 100 percent vendor compliance.



Organizational resistance: why?

With hard ROI savings easily demonstrated, the answer clearly lies elsewhere. Here is the real reason: organizations fear that getting enough vendors to participate (and to justify an ACH initiative) could prove prohibitive in terms of the effort, time and money involved.

This is not an unreasonable concern. Our own experience supports it. ACOM deals with about 500 vendors and when we opted to move to electronic vendor payments, we assumed that all we had to do was send a letter, follow-up with an email and then cinch the arrangement with a round of phone calls. We were wrong; initially we signed up only about 10 vendors. Clearly, since we were committed to an "ACH for Accounts Payable" policy, we had to find ways to make the initiative affordable.

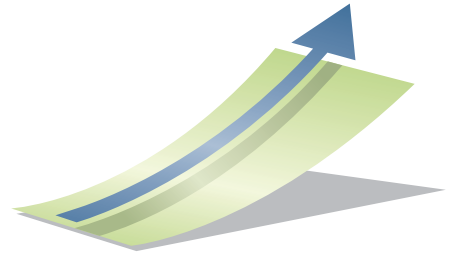


Further study revealed three essential elements

1 *The transition must be gradual:*

Moving vendors from checks to ePayments will take time. It is important to understand that the transition from paper-based payments to electronic payments will be a gradual process, never 100 percent, that requires the vendor companies to accommodate new policies and procedures.

In order for the initiative to be economically feasible, you must employ a single-platform solution that can support both checks and electronic payments.



2 *Outreach to your vendors must be automated:*

The process of promoting ePayments should take place as part of the ongoing disbursement process to avoid introducing expensive additional steps or requiring additional resources. It is imperative to automate both the promotion of the ePayment initiative and the administration of tasks required to effect the transition. Automated email and fax communications promoting the transition are critical.



3 *Vendor Registration must be automated:*

Getting vendors to sign-up for ePayments must be secured and automated in order to eliminate any fears they may have about the security of the banking information they provide for use in setting up their direct deposits.

The traditional manual method of converting your vendors to ePayments

Typically, once you are convinced that you need to convert your vendors to paperless direct deposits, and you have persuaded your vendors to sign-up, the conversion process involves a simple but time-consuming series of manual steps:

- Direct deposit approval agreements are faxed to vendors to complete, sign and return
- Once the information is reviewed and approved, it is entered into the accounting system and the vendor profile is updated to reflect the preferences for ePayment and remittance advice option (fax, email, PDF, post-to-web).
- A letter is sent to the vendor confirming e-Payment sign-up



The proposed process - automating the steps

For a smooth and efficient transition, the sign-up process must be automated. ACOM developed a suite of tools for automating the outreach as well as a self-registration module that is fully integrated with our base payment engine, EZPayManager. This automatically links the sign-up (outreach) activity with the vendor information in the database. Here's how it works.



- Vendors receive their check(s) in the mail, with a message on the remittance advice stating that their payments could already have been in the bank via ACH. They are also informed that their remittance detail could have been sent via secure email with an attached PDF. A web address indicates where they can find more information and also register.



- Besides the printed remittance advice message, an email is sent to vendors for whom you have email addresses, advising that their payments have been processed and placed in the mail. They are reminded that ACH payment and electronic remittance advice would have already been delivered. The web registration URL is again provided.



- When vendors go to the web address – essentially, a portal page -- a self-registration section allows them to input their own account and contact information, complete the registration online and submit it to your accounting department.



- Once their applications are reviewed and authorized, vendors are approved for ACH payment. The normal pre-note process follows and ePayment is ready to execute.

Vendors can update their account and contact information or change their preferred method of payment or remittance delivery (print, email, fax, ACH, web-post) at any time.

Real results

By observing the three essential elements of an electronic payments strategy, ACOM has achieved 60% vendor adoption in a virtually hands-off process. Savings and security improvements are significant, with the portal handling all outreach messaging and self-registration.

Importantly, the program includes most of our largest vendors. The 40% that have not signed up for the program represent a typical accounts payable department mix of one-time vendors, some utilities, and others that simply prefer checks.

And remember the suggestion for a payment platform that handles both ePayments and checks? Without

these 2 options and the automated tools in EZPayManager, it would not have been possible to achieve the 60% adoption rate: they were key to a solution that fully satisfies 100 percent of our vendors.

So back to the question, why don't more organizations move to ACH for their AP payments? It's the vendor-adoption hurdle, and it doesn't have to hold any company back any more.

For more information on EZPayManager ACH for AP, visit http://www.acom.com/windows/solution_ap.html.