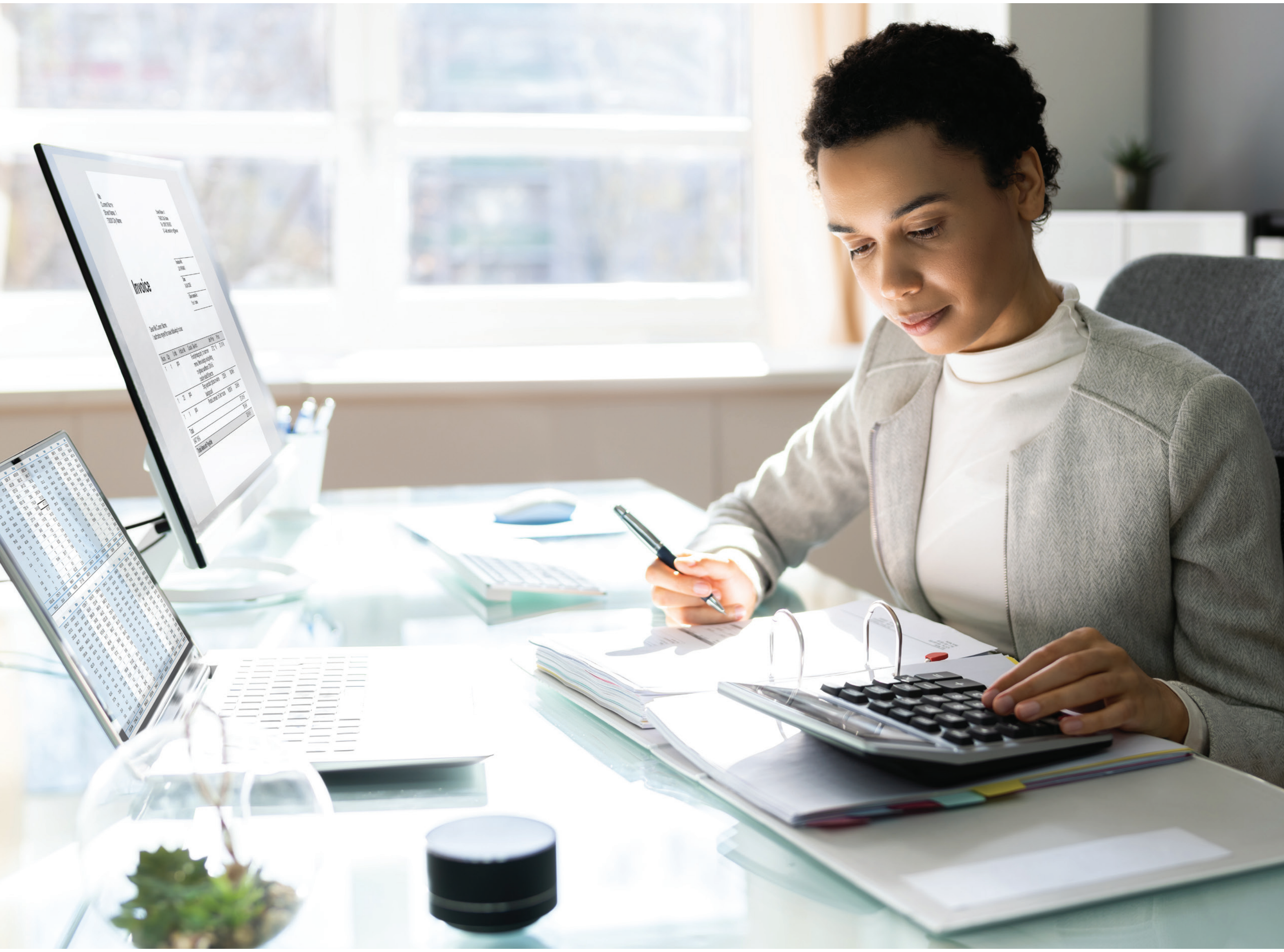
HOW TO DETERMINE YOUR TRUE COST TO PAY SUPPLIERS



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HOW TO DETERMINE YOUR TRUE COST TO PAY SUPPLIERS

Determining the cost of paying suppliers can be tricky.

Many organizations oversimplify or “merge” the variables that affect the cost of making different types of payment. Other organizations overlook “hidden” costs such as the time involved in fielding calls from suppliers, reconciling payments, making paper check payments, or initiating ACH transactions. Some organizations simply don’t track these costs at all.

Fifteen percent of organizations admit that they’re either “somewhat aware”, “not very aware” or “not aware” of the cost of paying suppliers with paper checks[1]. A similar percentage of organizations are not aware of the payment costs for ACH credits. Awareness of the cost of credit cards, debit cards, and virtual card transactions is even lower. Card-usage costs can be cumbersome to understand. Card pricing—which can be bundled or unbundled—does not always use the same service code conventions as cash management fees.

You can’t improve what you can’t measure. Accounts payable (AP) leaders who want to migrate from paper checks to electronic payments need to understand their current costs in order to make a strong business case to justify the investment. In this white paper, we seek to help AP leaders determine their total cost to pay suppliers, reveal the hidden costs of supplier payments, and detail strategies for reducing payment costs.

What does it cost to pay suppliers?

Benchmarking payment costs helps organizations identify areas of focus, build a business case for automation, and track their progress in reducing those costs.

Use the payments benchmarks below to see how your AP department measures up against its peers.

- **Issuing paper checks.** The median cost to issue a paper check ranges between $2.01 and $4 per check[2]. The more checks an organization issues, the lower its costs are likely to be as it achieves economies of scale. Compared to other payment methods, paper checks typically have the highest labor costs, due in large part to the controls and manual reconciliation that they require. Other factors that impact the cost to issue a check include wages, check stock, printing, postage, lockbox fees, positive pay services, and escheatment tracking.
- **Printing and mailing paper checks.** Check printing and mailing accounts for a significant portion of the cost to issue a check. The median cost to print and mail a single paper check ranges between $0.51 and $1, with postage representing a large portion of that cost[3]. The high cost of issuing checks, combined with the complexity of printing and mailing paper checks when staff work remotely, will likely put more downward pressure on check volumes.
- **Initiating ACH transactions.** Organizations are making more payments via ACH credits and debits. ACH credit transactions—often used for supplier payments and payroll—send payments directly to a payee’s account. ACH debit transactions—commonly used for recurring payments—pull payments from a payor’s account, as directed by a predetermined mandate. The median cost to initiate a single ACH transaction ranges between $0.26 and $0.50[4]. When calculating the cost to initiate an ACH transaction, an organization must consider external costs such as monthly bank fees, ACH fees, and reporting charges, as well as internal costs such as labor, service centers, IT technology, fraud liability, vendor validation, voids, and reissuing. It’s important to note that fixed costs have a big impact on ACH transaction costs.
- **Initiating wire transfers.** Like ACH transactions, wire transfers are electronic fund transfers from one bank account to another. Unlike ACH payments, a wire transfer system is a real-time gross system that provides immediate and final settlement that is irrevocable—a big selling point for lower-volume, time-sensitive transactions that are usually of a higher monetary value. But that convenience comes at a cost. The median cost for initiating a domestic or international wire transfer ranges between $10.01 and $15.00, although some organizations may pay over $50 for a wire transfer while others may pay only a fraction of that[5]. International wire transfers typically carry a higher cost because they have more bank correspondents to route the wire through.

1 AFP, 2022 Payments Cost Benchmarking Survey

2 AFP, 2022 Payments Cost Benchmarking Survey

3 AFP, 2022 Payments Cost Benchmarking Survey

4 AFP, 2022 Payments Cost Benchmarking Survey

5 AFP, 2022 Payments Cost Benchmarking Survey

Wire transfers are the payment method of choice for settling many capital market activities, acquisition payments, real estate closings, and foreign exchange settlements.

- **Making card transactions.** Historically, organizations have used cards for lower-value goods and services or department-based purchases. But in recent years, card usage has increased dramatically, expanding into areas where checks have traditionally been used. In some organizations, capturing card rebates has become a key part of the overall disbursement strategy. The median cost to make a card payment ranges between $1.00 and $1.99. For nearly two-thirds of organizations, the cost to make a card payment is less than $2.00.
- **Initiating Real-Time Payments (RTP).** Real-Time Payment (RTP) platforms offer both immediate, 24/7 interbank fund transfers, and the capability to have rich remittance data sent with a payment. Ideal for time-sensitive transactions such as payments to suppliers and gig workers, the use of RTP is likely to grow. The median cost for initiating and receiving an RTP transaction ranges between $0.01 and $2.50[6]. Sixty percent of organizations spend less than $2.50 to initiate an RTP transaction, with large organizations more likely to spend less than $2.50 compared to their smaller peers.

Businesses will surely use same-day ACH as a lower-cost alternative to Fedwire for larger B2B transactions.

Assessing your costs to pay suppliers is a first step towards optimizing your payments mix.

The hidden costs of supplier payments

Many AP leaders are surprised to learn how much it costs their organization to pay its suppliers.

But transaction costs tell only part of the story.

While the transaction fees for different types of payments are clear (they may even be printed on a bank's monthly fee statement), there are some hidden costs that can significantly change the equation. Here's what to consider when assessing the cost for your organization to pay suppliers:

- **Fielding calls from suppliers.** Few things bog AP staff down like fielding calls from suppliers. Almost two-thirds of organizations surveyed during September 2021 had fielded calls from suppliers in the past 30 days[7]. Many of these calls involve changes to banking account details and issues with shipping or delivering goods. No matter the reason, responding to calls and issues from suppliers pulls AP staff from their work, and can consume a surprisingly big portion of their workday.

Seventeen percent of organization have fielded calls or dealt with issues from suppliers more than six times in the past month.

- **Reconciling payments.** Every treasury department wants to reconcile its payments faster. For starters, the sooner an organization reconciles its payments, the sooner it can close its books at month's end, and the sooner it can identify potentially fraudulent transactions. But the changing payment mix has made payment reconciliation more time-consuming. In fact, 30 percent of organizations spend more than four hours per week reconciling their payments[8]. The root of the problem is that check, ACH, Fedwire, RTP and card payments all have unique ways of reporting payment information. While large organizations spend less time than their smaller peers reconciling data, any organization could benefit from the increased staff productivity and enhanced reporting that comes from reconciling payments faster.

Forty-seven percent of organizations with annual revenues of less than $1 billion spend between one and three hours per week reconciling payments.

6 AFP, 2022 Payments Cost Benchmarking Survey
7 AFP, 2022 Payments Cost Benchmarking Survey
8 AFP, 2022 Payments Cost Benchmarking Survey

- **Time spent processing ACH payments.** Processing supplier payments, municipal tax payments, payroll, and other payments can be time-consuming, especially if an organization doesn't have an automated ACH solution. One quarter of all organizations spend more than four hours each week processing ACH payments[9]. The smaller an organization, the more time it likely spends processing ACH payments each week. Without automation, AP staff must spend a lot of time screening suppliers against the Office of Foreign Assets Control list, collecting and validating bank account details, gathering payment approvals in compliance with Sarbanes-Oxley, manually uploading payment files to a bank, and reviewing exceptions.

Almost half of organizations with annual revenues of less than $1 billion spend between one and three hours per week processing ACH payments.

- **Time spent processing checks.** A lot of AP staff time goes into getting paper checks into the hands of suppliers. Twenty-seven percent of all organizations spend at least four hours per week processing checks[10]. AP staff must gather the necessary approvals, print the check and remittance document (if it's being mailed with the check), review the issuance file, track down signatures for checks that exceed a certain amount, and stuff envelopes. In the event of a positive pay exception, staff must also issue a stop payment followed by a new check.

Organizations with between $1 billion and $4.9 billion in annual revenues spend the most time processing checks each week[11].

These tasks, hidden in plain sight, can have a major impact on your total cost of supplier payments.

Organizations want to reduce the cost of payments

Every business wants to do more with less.

And automating supplier payments is a good place to start.

Seventy-three percent of organizations are currently in the process of transitioning their B2B payments from paper checks to electronic payments[12].

Seventy-three percent of organizations are transitioning their B2B payments from paper checks to electronic transactions[13]. Before the pandemic, the use of ACH already was nearing parity with check usage[14]. It's safe to assume that many organizations sped up their migration to ACH and other electronic payments when their staff couldn't get into the office to cut checks during the pandemic.

Check volumes are down by approximately half since 2015[15].

Organizations overwhelmingly cite both increased efficiency and reduced costs as the primary reasons for transitioning from paper checks to electronic transactions[16]. Sixty-three percent of organizations would replace paper checks with electronic transactions if there was a cost benefit to doing so. One-third of organizations would transition to electronic payments for any amount of cost savings.

Organizations are embracing ACH to streamline their workflows, reduce exceptions, and achieve Straight-Through Processing (STP). Tellingly, many organizations with over $5 billion in revenues are automating payments to suppliers as part of their enterprise workflow automation initiatives.

9 AFP, 2022 Payments Cost Benchmarking Survey
10 AFP, 2022 AFP Payments Cost Benchmarking Survey
11 AFP, 2022 AFP Payments Cost Benchmarking Survey
12 AFP, 2022 Payments Cost Benchmarking Survey
13 AFP, 2022 AFP Payments Cost Benchmarking Survey
14 AFP, 2019 AFP Electronic Payments Survey
15 AFP, 2022 Payments Cost Benchmarking Survey
16 AFP, 2022 AFP Payments Cost Benchmarking Survey

The shift to remote working also is contributing to the migration to electronic payments. Paper-based payments are more costly to justify in a remote-work environment, and more prone to fraudulent manipulation due to the low technology needed to produce them.

None of this is to suggest that businesses have abandoned paper checks—86 percent of organizations still use them to pay suppliers. What's more, paper checks still account for 42 percent of B2B payments disbursed by organizations. But when businesses understand the cost of making those check payments, the business case for electronic payments becomes clearer.

While the volume of check payments to suppliers has declined, the average cost to make those payments—between $1 and $2—has held steady.

How to reduce the cost of paying suppliers

There's no need to panic if your organization is spending too much to pay its suppliers.

Here are six strategies for reducing your payment costs.

1. **Make fewer check payments.** Checks are the most expensive way to pay suppliers. While switching vendors to electronic payment can be a time-consuming project, keeping to the status quo becomes even more costly in the long run. By automating their supplier payments, many organizations have reduced the number of checks they're writing by about 70 percent.

2. **Capture more card rebates.** There are lots of opportunities to earn rebates, whether by paying vendors within a certain time limit or meeting other requirements that ease a supplier's receivables workload. Between 15 percent and 20 percent of suppliers accept card payments[17],which is an excellent place to start looking for rebate potential. If even 150 vendors out of every 1,000 suppliers agree to accept virtual cards, an organization can generate rebates on hundreds of thousands of dollars each month[18].

3. **Automate the process of enabling suppliers for electronic payments.** A lot goes into setting vendors up for electronic payments. For starters, someone must reach out to each vendor to ask which forms of payment they'll accept, and collect and verify the provided information. This process typically takes about 30 minutes per supplier—meaning it would take 700 hours of enablement work to switch 350 vendors to electronic payments[19]. Few AP departments have the time for that. Leveraging a payment automation provider's enablement program can reduce this cost and the time your team spends on the process.

4. **Offload supplier follow-up and outreach.** Every year, about 25 percent of suppliers will have changes that require an update to their AP record[20]. Whether it's a change to their company's address, company name, or bank account, it takes about 15 minutes to make each update. A payment automation provider makes these changes on an AP department's behalf.

5. **Reduce payment errors.** Wherever there are manual processes, there will be errors—and initiating payments to suppliers is no exception. It takes an AP professional 45 minutes on average to resolve a single payment error[21]. That means that an organization that makes 1,000 payments per month and experiences a 1 percent error rate will spend 90 hours per year resolving payment errors[22].Automating supplier payments can help prevent most errors.

6. **Centralize your operations**. Centralized payment operations can deliver big cost savings. Organizations with less than $5 billion in annual revenues are more likely to have centralized payment operations.
   By centralizing its payment operations, an organization can achieve economies of scale, consolidate foreign exchange purchases, streamline payment flows, reduce its bank connections, and consolidate its skilled workforce in a single location.

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Nearly half of organizations deliver their payments from a single centralized corporate treasury operation.

These are some of the ways that organizations can reduce the cost of paying suppliers.

Not surprisingly, migrating from paper checks to electronic payments is key to reducing your costs.

You've taken the first step towards payments optimization

Now is the time to rethink the way your organization pays its suppliers.

The first step towards optimizing supplier payments is assessing where your organization stands with its current processes in order to get a clear picture of its total cost to pay suppliers. Analyzing your costs to pay suppliers shines a spotlight on opportunities for improvement, provides a baseline for developing a business case for migrating to electronic payments, and makes it easy to track your progress.

This white paper provides organizations with a springboard for discovering their true payment costs.

About Corpay

Corpay transforms the way distribution companies pay their suppliers with a holistic approach to payments. Their configurable AP payment solution meets the needs of companies that have complex approval workflows, multiple locations, bank accounts, and payment methods.

Corpay is designed to immediately generate time and cost savings in your vendor payment process. Join this webinar to learn how payment automation will enable you to become a key revenue strategy for your company, starting with a seamless implementation into your ERP.

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