Part I. The ROI of Migrating from Checks and Manual ACH to a B2B Payment Solution Provider
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Innovative B2B Payment Solution Providers Challenge Traditional Payment Methods

Financial and accounting professionals have traditionally relied on labor-intensive paper check operations and manual electronic payment (ACH) services to pay vendors and suppliers. But a number of innovative B2B payment solution providers have emerged to offer fully automated or outsourced check and/or ACH processing to deliver significant efficiencies and cost savings. As a point of reference, Bill.com customers typically save at least 40% when they convert from paper checks to its turnkey check and ACH solutions.

The significant cost savings alone should compel P&L-focused leaders to assess the financial impact of migrating their payment operations to one of these new payment providers for checks and ACH. But many businesses underestimate the costs of using checks and manual ACH services since they do not capture all the staff, equipment, and material costs — which, in turn, leads to an underestimation of the ROI of B2B payment solutions.

Moreover, the new payment providers vary significantly in the capabilities they offer. Some providers offer innovations that boost collaboration with customers and vendors; others provide automated workflows and full payment audit trails; still others deliver built-in fraud prevention. Any prospective customer should consider all of the features and benefits delivered by these solution providers before committing to one.

To help finance and accounting leaders assess the costs and benefits of payment solutions and develop a business case for them, this document assesses the cost drivers of manual check operations, manual ACH services, and the new B2B payment providers. It will show an example return on investment (ROI) calculation of using Bill.com, a new and fast-growing B2B payment solution provider. The next document in this two-part series discusses additional factors beyond cost that a business should consider when selecting a solution provider.

Cost Drivers of Traditional and Alternative Payment Solutions

This section details the cost of staff, supplies, and equipment of using each of the payment options. As you read this section:

- Identify all the individuals who are (or would be) involved in payment-related activities for each payment option
- Determine how much time is associated with using these payment options, including responding to follow-up questions and reconciliations after payments are made
- Calculate how much it costs to pay the individuals during the time they are involved in the payment activities
- Estimate the number of checks and ACH payments your business pays per month
- Verify the associated bank fees for payments, and any auxiliary services you use, such as positive pay, check images, transaction history, ACH access fees, and return fees

Internal Check Runs

Although check payment processes are labor-intensive, this traditional payment method comprises the majority of B2B payments. Most businesses are comfortable using checks to pay bills and to get paid. In fact, some vendors require business customers to pay by check. After all, checks provide remittance information, and incur lower bank fees to the vendors relative to the merchant fees charged for credit cards. All these factors preclude checks from immediate obsolescence.

However, the inefficiencies and manual workflows of check processing are leading to the erosion of its use. Consider, for example, all of the manual steps involved in preparing for, conducting, and following up on check runs, as
All of the above steps must be repeated for every check run. If a business runs two or more check runs per week, these tasks can consume all of an individual clerk’s time or may require more than one clerk to accomplish. Payments are a separate, divergent process for the financial and accounting department, rather than an integrated component of the staff’s workflow.

Without a doubt, some factors will mitigate the steps and the associated costs. An accounting or financial system that automates approval workflows will eliminate many of the pre-check-run activities. But other factors will exacerbate the process. For example, more approvers and more complex approval rules complicate the process. More scheduled check runs per week result in repeats of these steps. And one-off or unscheduled check runs impose further time drains on staff.

Retrieving past transaction history can exact even more demands on staff time when they must address internal employees’ or vendors payment questions after the checks are issued. When those questions arise, someone must spend an indefinite amount of time hunting down the payment and invoice information and doing research on the approvals, thereby disrupting business operations. Audits can be brutal if a business lacks an organized filing system for paper documents. Yet even with good document organization, it takes time to physically find the documents in cabinets or in the
In addition to staff costs, businesses that run in-house payment operations incur expenses on office equipment such as magnetic ink character recognition (MICR) printers and envelope stuffing and sealing machines. They must also pay for postage and supplies, including highly secure check stock, MICR toner, and envelopes.

Businesses must also pay bank fees for issuing checks. These costs may be included as separate line items in their bank statements, or may be bundled with other charges. Businesses will also pay incremental charges for fraud protection, such as positive pay, check reconciliation services, and retrieval of transaction history and check images. All of these costs should be considered in calculating the total cost of printing checks. Figure 2 compares the major cost categories of processing checks in-house to other methods discussed in this document.

**Accounts Payable Outsourcing**

On the other end of the automation spectrum is a fully outsourced accounts payable process, where the outsourcer controls invoice management through payment. Outsourcing alleviates the labor, materials, and equipment costs of running internal payments. But the overall costs of using an outsourcer’s services — and managing the outsourcer — must be compared.

<table>
<thead>
<tr>
<th>Category</th>
<th>Internal Check Processes</th>
<th>Manual ACH Services</th>
<th>B2B Payment Solution Provider: Bill.com</th>
</tr>
</thead>
</table>
| Bank Fees                             | Bank fees for using check services, usually comprised of a monthly fee plus a per transaction or access fee | Bank fees for file uploads, usually comprised of a monthly fee plus a per transaction or access fee | • Monthly subscription  
• Transactional fees                                                                 |
| Pre-Payment Runs                      | Significant staff costs                                                                 | If payment review and approval is automated, limited staff costs. Otherwise, significant staff costs to route and approve payments | Payments require virtually no additional time to a user’s regular workflow. They simply choose to pay a vendor, select the date, and the payment timing |
| Payment Runs                          | • Significant staff costs  
• Check stock, signature stamps, ink, envelopes, equipment depreciation  
• Bank fees                                                                 | Staff time: upload ACH files to bank system to complete payment runs                | None; Bill.com performs the payment processes, whether ACH or check               |
| Post-Payment Runs  
(Payment Inquiries, Check Images, and Reconciliation) | • Additional bank fees for access transaction history and check images  
• Staff costs                                                                | • May involve additional bank fees for access transaction history; may be bundled in ACH access fees  
• Staff costs                                                                 | • No additional fees for check images  
• Reduced staff cost                                                             |
| Additional Costs                      | None                                                                                     | Integration services and staff time to connect business accounting system with bank system | None                                                                            |

*Figure 2. Cost Comparison of Payment Options*
against the cost of running the process internally.

Outsourcing the payments process will result in lack of control over critical decisions. Business may no longer control when a payment should be made, how much should be paid, or question whether a payment is due at all. Instead, payment decisions are hard coded when the outsourcing agreement is signed. So they will lose extemporaneous decision-making capabilities, such as delaying payments to manage cash proactively, applying credits to a specific payments, or paying multiple bills with one payment.

Accessing past transaction history to answer payment questions can strain staff time — just as they would with traditional check payments — if the outsourcer does not digitize and store payment history and/or does not provide audit trail information. And just as with checks, the business may pay for additional bank costs to retrieve transaction history and check images.

The cost structure of outsourcing arrangements will vary greatly by the contract negotiated, service level agreements (SLAs), and the performance of the outsourcer. Therefore this category of payment solutions is not included in the comparison chart in Figure 2.

**Manual ACH Services**

Businesses that use manual ACH services upload ACH files to their banks, which in turn, issue the ACH payments. ACH is far more efficient than processing checks internally. After all, the business reduces staff time spent on check runs and eliminates the expenses for supplies, postage, and equipment depreciation.

But this method requires managing a separate application and requires double data entry or data file manipulation to import files into the bank system. Getting started requires initial application and data integration to connect the business’ accounting system to the bank ACH system. The ability to upload ACH files to a bank’s system often requires the payment of access fees. And if a business wants to use more than one bank to pay its bills, it will need to establish multiple integration points with all of the relevant banks, and pay the respective bank access fees.

With two separate systems — the accounting application and the ACH system — a user will need another login and will need to manage yet another set of data. When exceptions arise, such as payment cancellations and subsequent credits, both systems need to be updated. Responding to payment questions, reconciling payment issues, and locating documents in response to audit questions are time-consuming and may require search and retrieval from two sets of systems. So while ACH may offer significant costs savings over checks, it is still manual in nature and entails duplicate data entry.

And in order to use manual ACH services, a business must obtain and maintain a vendor’s bank account information in order to issue payments to it, which poses a security concern for some vendors. In addition, the remittance information that the business can send in an ACH payment is usually limited to a few character spaces, making reconciliation of payments challenging. Thus, in addition to inefficiencies imposed on the business making the ACH payment, the vendors must accept significant risks and inferior remittance information when accepting ACH payments.

**B2B Payment Solution Providers**

A number of innovative B2B payment service providers offer outsourced check processing and/or ACH payments to drive lower transaction costs, reduce staff labor, and eliminate equipment, materials, and postage costs. These solutions often allow customers to schedule and alter payment dates and control cash flow more proactively. Impromptu payments can be made with virtually no disruptions to workflow. This contrasts with manual check and ACH processes, which require a new set-up for a payment run or a handwritten check to be cut.

But the similarities between B2B payment providers end there. They differ drastically in the level of
automation, the ease of integration with business and financial systems, the additional features beyond payments they provide, the level of collaboration they support between businesses and their suppliers and customers, and their cost. Many payment providers market themselves as delivering “fully automated” or “complete” solutions. But it behooves a business to carefully consider what functions are automated, and to what extent.

Some of the key features that differentiate B2B payment providers include:

- **Remittance information:** The remittance information indicates the invoices against which the payment is being made, discounts taken, and credits applied — information critical to the vendor receiving the payment, and the issuing business when it wants to review payment history. ACH payments may allow businesses to include remittance information, though they may be limited to a few characters. Because checks and check stubs can provide full remittance information, many businesses continue to use paper checks. Some B2B payment providers catering to B2B payments offer full remittance information with the payments they issue.

- **Payment audit trail:** Payment audit trails make it easy to identify invoices against which a payment was made, and stores approval history, approver comments, and relevant documents.

- **Integration with accounting systems:** Payment systems integrated with standard accounting systems not only make it easy to track approval histories, but they also eliminate double data entry and data file manipulation — all of which boost efficiencies and reduce errors.

- **Fraud protection:** Banks provide fraud protection services for businesses issuing checks and ACH payments, but they typically charge extra fees for these services. New B2B payment solution providers may provide novel ways to secure payments. These key features may be included in the payment solution provider’s fees, or may be optional services that must be purchased separately. Since the cost structures of B2B solution providers vary, the comparison chart in Figure 2 highlights the cost of using one provider, Bill.com. The costs outlined in the chart are based on the following features and services:
  - Bill.com charges a monthly subscription to use its service, and a per transaction fee.
  - Bill.com provides automated approval workflows, relieving staff of chasing down approvals for payments.
  - Bill.com prints and mails checks and processes ACH payments, thereby relieving businesses of staff, postage, supplies, and equipment costs in setting up and completing payment runs.
  - Bill.com syncs with major accounting systems and integrates with all other business systems, eliminating the need for integration services to get started and double data entry to keep all systems up-to-date.
  - When a business pays a bill, Bill.com emails vendors to alert them to an incoming payment and gives the vendors access to a portal where they can review payment status, reducing the incidence of vendor inquiries about payment status.
  - Bill.com gives customers complete visibility of payment history, including check images — at no additional charge. Its document management and closed loop check processing capabilities give customers access to check images and ties them with invoice and the payment audit trail. These capabilities streamline the process of responding to vendor inquiries or post-payment-run questions and reconciliation.
  - Bill.com provides payment fraud at no additional charge.

One key Bill.com feature that reduces payment processing costs — but is not explicitly included in the bulleted list above — is its ability to boost vendor acceptance of ACH payments. With Bill.com, business-
es can invite their vendors to accept ACH payments, without requiring the vendors to share their bank account information with anyone but Bill.com. This extra measure of security reduces vendor objections to ACH payments, thereby boosting adoption. As a result, the business is able to issue ACH payments via Bill.com and eliminates check processing costs.

Calculating ROI
With your calculations of the costs of printing checks, using manual ACH services, and using B2B payment providers, you can calculate the savings of using one service over the others.

Bill.com has built an ROI calculator to compute the savings from migrating from internal check processing and manual ACH services to Bill.com services. The summary of an example calculation is shown in Figure 3. If you would like a copy of the ROI calculator, or would like to understand the model in more detail, contact us.

Note: Bill.com monthly fees can be provided by a sales representative. The monthly fees in the calculator are based on a number of factors, including Bill.com modules in the subscription, number of users, and integration with accounting systems. The calculations above assume that Bill.com will continue to process 200 checks and 50 ACH payments for this example business.

Next Steps
The costs outlined in this article should be used as a guideline for your business as you determine the cost and resources (staff, supplies, and equipment) it takes to support your current payment process, and what it would cost for any proposed new solution. But cost should not be the only factor when selecting a provider. You should also assess the alignment of the provider’s features to your business needs.

The next document in this series will provide an evaluation tool to help you determine what features and benefits in a payment provider are most important for your business.