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Barriers to Adopting e-Payments: Overcoming the Rube Goldberg Machine

By Vince Bahl

At one point or another, most people would have heard someone evoke the name of Rube Goldberg. Goldberg was a political cartoonist working in the early 20th century best known for a series of cartoons depicting 'Rube Goldberg Machines,' overly complex creations that performed simple tasks in indirect or unnecessarily convoluted ways.

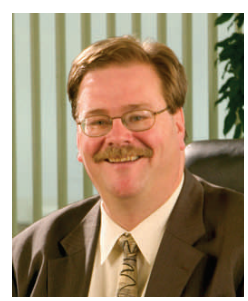
In today's global payments environment, Rube Goldberg machines are alive and well in the form of the paper check. For each check working its way from initiation to clearing, people physically handle the check an average of *54* times. The cost to process a single paper check is a staggering $5.12. One has to wonder if, even in his wildest imagination, Goldberg could ever have conceived a more complex process than check clearing as it exists today in the US.

Organizations of all sizes are frequently advised that a key AP best practice is to move away from paper checks to electronic payment methods such as ACH, wire transfers and p-cards. Although many companies still rely on checks as their method of choice for B2B payments, the adoption of electronic payments is accelerating as businesses overcome past behavioral and technical challenges. According to the *2007 Electronic Payments Survey*, just released by the Association for Financial Professionals (AFP), the average company now makes 26% of its B2B payments electronically, up from 19% in 2004.

Barriers to Adoption

In a global economy, organizations are under constant pressure to operate as efficiently and cost-effectively as possible. Through the adoption of electronic payment processes, finance departments can become an active participant in their organization's objectives for reducing costs, enhancing cash forecasting and complying with regulatory mandates. Current research indicates that the cost to process a single ACH payment can be as little as $.18. Given the hefty $5+ cost to process paper-based payment, greater adoption of e-payments can serve as a key catalyst for achieving these objectives.

Yet barriers to broader adoption of electronic payments still exist. So long as check processing provides the nation's banks and Federal Reserve system with a key



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revenue stream, and states maintain archaic laws categorizing checks as personal property that must be returned to the payer, we aren't likely to see the disappearance of checks in our lifetime. But for companies seeking to adopt electronic payment processes, concentrating on overcoming the common, smaller market and intra-company barriers is well within their ability with the right mix of determination and technology. These barriers often include:

• **Loss of Check Float:** Many organizations print checks in order to capture the benefits of check float. Checks are commonly issued off of zero balance accounts, and check liabilities invested in overnight vehicles, until the check is presented for payment, which can take from 1 to 15 or more days.

• **Check-less Society:** There will always be a need for paper-based payments, whether it's an un-banked individual, an unbanked supplier or a situation involving joint parties.

• **Determining Best Candidates for ACH:** While the more efficient and cost-effective option, ACH is simply more suitable for some businesses than others.

• **Resistance to Providing Bank Account Information:** A key requirement for electronic payments, many organizations often encounter suppliers hesitant to provide this information.

• **The Internal Sell to Executive Management:** Like any IT initiative, adoption to electronic payments requires the support of executive management, who are often hesitant to "green light" projects that affect changes to long-standing business processes and practices.

Clearing the Way

As the use of e-payments accelerates, a number of Web-based software solutions have emerged to assist organizations in making the transition. Through a pragmatic approach to overcoming these barriers, organizations can quickly realize the benefits of electronic payments, which often stretch far beyond simple cost reduction into areas such as payment risk management and fraud prevention. By leveraging standards-based technology solutions and best practices, you can:

• Counteract the Loss of Check Float: Institute a policy whereby payments exceeding a specific threshold are paid via a check, and those below the amount are paid electronically. Organizations can also adjust payment terms (2/10 net 30 becomes 2/15 net 35 for example), as well as provide their purchasing group with the ability to negotiate payment terms that reward (i.e. faster, more immediate funds) the payee for accepting electronic methods.

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• Accommodate Both Paper and Electronic Payments: Deploying a payments platform capable of handling both paper and electronic payments enables businesses to simultaneously support checks to the un-banked and joint payees, while supporting all ACH entry classes and electronic remittance delivery options for employees and vendors that wish to take advantage. This dual-platform approach also allows for incentives and other change management processes to be implemented that will, over time, seek to move more of your payee base to electronic payment vehicles.

• Segment the Supplier Base: Contrary to popular belief, determining which suppliers are best suited for e-payments doesn't have to be time-consuming. View suppliers through the lens of frequency, not payment amount or terms. Reoccurring payees are ideal candidates for electronic payments, while non-reoccurring payees (i.e. one-time or ad-hoc payments) are not good candidates based on the infrequency of their business.

• Establish Electronic Payment Requirements as a Standard Means of Conducting Business: As part of purchasing agreements, insist upon receiving this information. In reality, it's no different than a tax ID or a social security number, which businesses and employees are required to provide for various reasons. When choosing a platform, be sure to select one capable of supporting commonly accepted identification numbers i.e. NYCH (New York Clearing House Initiative), UPIC (Universal Payment Identification Code) and IBAN (International Bank Account Number).

• Build the Business Case: Moving to electronic payments isn't solely about eliminating paper and reducing costs. There is an increasing number of regulatory mandates, a need for real-time visibility into cash balances and a growing importance of being able to initiate and process payments in different languages, countries and currencies around the globe. Electronic payment platforms are quickly becoming a business necessity. As frontline users, you must assume the educator role helping ensure that the broader value of electronic payments is clearly conveyed.

Follow a Pragmatic Approach

Today's businesses are under constant internal and external pressure to manage cash more efficiently. Although paper is still important, many of the traditional barriers to electronic payment adoption have come down. As adoption of electronic payment processes continues to accelerate, the path for those yet to make the transition can become much clearer and easier through a pragmatic approach that leverages Web-based payments platforms and best practices. **AP N&T**

About Vince Bahl

Vince Bahl, Vice President of Systems Engineering, has extensive domain expertise in both corporate and wholesale payments and cash management. He has been instrumental in Bottomline's electronic payment product development. Recently, Bahl and his team were responsible for the Bottomline-produced Federal Reserve FedEDI product, used by more than 12,000 banks for financial EDI translation. Prior to joining Bottomline, he served in a variety of banking capacities including operations management for check and ACH processing, and float management at US Bank in Colorado. He also worked as Cash Manager for Oppenheimer Asset Management.