

# Payables Trends: Optimizing Your Process in a Mixed Payments Environment



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Today, most companies — regardless of their size or volume of their payments — are paying the vast majority of their business-to-business bills by check. In fact, according to the AITE Group LLC\*, large U.S. corporations are still using checks for 70 percent of their B2B payments. The Bank of New York Mellon's experience mirrors those findings.

In a day and age where electronic payments have proven reliable and timely, should paper checks still be this prevalent? Or, should companies be using more electronic transactions? If you still rely heavily on checks, are you missing opportunities to optimize your payments process?

## The Changing Payments Landscape

First, let me say that you are not going to totally eliminate checks in the foreseeable future. Still, it is a good time to look at alternatives...especially if your company is like most large corporations. Aiming to create a payments mix that will support your need to accomplish timely, accurate, well documented and trackable transactions is not something you can do with checks alone.



# Don't Settle For One-Size Fits All

In days past, developing a payments solution hinged on its impact on DPO float. Today, the process is much more complex as compliance issues, regulations, investment opportunities, and new technologies increasingly factor into your planning process.

Exploring and prioritizing some basic issues can provide direction to your efforts. Ask yourself these questions:

## Do you strategically vary your payment methods?

While you can use any method of payment for transactions of any size, most companies have relied on ACH and corporate card for lower-dollar transactions and turn to wire for high-value payments. But times are changing. More organizations are exploring the potential to use corporate cards for material purchases because of the convenience and controls associated with this purchasing method. And the dollar values transacted via ACH are also on the rise. Does your company have opportunities in these areas?

## Are you looking to reduce the cost and labor associated with processing your payments?

AP is one of the most expensive administrative areas for most companies. So more and more organizations are considering outsourcing some or all of that non-revenue producing function. Case studies show that AP outsourcing has helped many companies reduce their direct operating expenses by up to 55 percent, while at the same time, improving associated controls. Likewise, “lift out” solutions, such as outsourced check issuance and payroll have proven effective in helping companies reduce the administrative and cost burdens traditionally associated with AP. Is this something your company should consider?

## Are you maximizing the timeliness of payments?

The manual process associated with writing and mailing paper checks makes it the slowest method of payment, requiring several days to several weeks to complete. The result: the potential for lost discounts, late fees and damaged vendor relationships. Perhaps you should consider card and/or ACH, which are both more predictable and timely than checks. And, if you really need to make a payment quickly, remember that wire transactions are immediate — but they will cost you the most and they cannot be reversed once issued. Can you quickly determine if it makes better economic sense to pay earlier or hold onto your cash? Again, you may also consider outsourcing the entire process — putting the onus of timely payments on a company whose core competency is payments.

## In an audit situation, would you be comfortable with the level of documentation you have in place to support your payments?

Regulations such as Sarbanes-Oxley have caused many companies to re-examine controls and documentation underlying their payments processes. Fortunately, new workflow management tools that have recently become available can help you track payments start to finish — and capture approvals in the process. On a day-to-day basis, you may want to consider adding an “Event Manager” type service wherein you can receive proactive alerts about your most important transaction as they occur via e-mail, phone or wireless device.





### Are your fraud deterrents sufficient?

For check payments, positive pay and positive payee are now the industry standards for fraud prevention — and your organization is wise to have these solutions in place. If, however, you are making more ACH payments, you need to be more aware that ACH-related fraud activity is on the rise and that this trend is likely to continue. Additional fraud deterrents — among them ACH debit blocks and daily account reconciliation — are strongly recommended.

### Are you maximizing the use of your working capital?

There is no value in the float associated with DPO — so your goal is to pay your bills when they are due — and not a moment before. But if your money is sitting idle in an account, it is not delivering that value. Consider investing it using an overnight investment service or one of the market's new Web-based portals designed specifically to help companies manage their short-term investment process. You will find a variety of investment alternatives and the automated nature of both solutions takes the burden off your staff while delivering measurable results.

## Finding The Right Solution

When it comes to payments, the bottom line is that there is no one-size-fits-all solution. But having the answers to questions like those posed above can help you and your provider design a solution to meet your specific needs. Aim high for a comprehensive solution that will enable you to accommodate changing business needs over time and:

- Address both domestic and international payments
- Make payments on time to avoid penalties
- Retain and invest cash until payment is overdue
- Reduce the cost of your process
- Create a well-documented, auditable and repeatable process
- Deliver information about payments when and where you need it
- Use a suite of payment alternatives that mesh with your payment needs
- Deter paper and electronic fraud
- Let you focus on your core competencies instead of administration

I would like to hear about your organization's payment challenges and successes—and to tell you how The Bank of New York Mellon's Treasury Services has broadened our payments capabilities to keep pace with our clients' changing needs. Call us at 1 800 424 3004 or send us an e-mail at [treasury@bnymellon.com](mailto:treasury@bnymellon.com) and we'll talk about the questions I've posed here and explore ideas that may help your company measurably improve your payments process.



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*\*Top Trends in U.S. Wholesale Payments: Much More than Processing Efficiency, November 2006. (See [www.aitegroup.com](http://www.aitegroup.com))*

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