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Electronic Payments Achieve Cost Savings, Streamline A/P and Reduce Fraud Risk

Best-in-class companies process four out of five of their payments using electronic payment methods and save an average of 38% per transaction when they do so, according to an Aberdeen Group study.

The research firm designated the top 20% of its more than 300 survey respondents as "best-in-class" based on their use of payment best practices. For purposes of the second quarter 2008 "E-Payables Benchmark Series" study, Aberdeen Group defined an electronic payment as an Automated Clearing House (ACH), commercial card or wire transfer transaction.

Given the savings numbers they reported, it was no surprise that 82% of respondents said their top reason for focusing on electronic payments was to "reduce overall payment costs."

The second leading response, at 42%, was the ability to remove paper from the accounts payable (A/P) department to eliminate bottlenecks. "The majority of business-to-business payment activity is distributed via paper-based checks (65%), a method that mires the A/P department in a mess of paper-based methods that have proven to drive greater processing costs," Aberdeen Group notes in a report on the study.

Another top factor motivating companies to take their payments electronic was the ability to reduce the risk of payment fraud (40%). Nearly one-third of respondents reported experiencing payment fraud. But the percentage of companies reporting fraud related to ACH transactions (6%) and wire transfers (4%) was minimal compared to those that said they were hit by check fraud (42%).

Survey respondents were spread fairly evenly across all company sizes. About one-third were from large enterprises (above $1 billion in annual sales).

Trends in E-Payment Methods
ACH is the fastest-growing electronic payment method, the survey results suggest. Respondents reported a 9.7% increase in their use of ACH compared to two years ago.

Not far behind were purchasing cards, which grew in use by 8.2%; wire transfers (up 7.4%); and travel-and-entertainment cards (6.7%).

The rise in electronic payment activity was accompanied by a 5.3% drop in respondents' use of paper checks.

Barriers
With all of the potential for cost savings with electronic payment processing, why aren't usage numbers even higher?

Supplier resistance was cited by 42% of survey respondents as the top barrier to implementing e-payments. Aberdeen Group says some likely reasons for this resistance are fear of e-payment fraud, particularly the theft of private financial information, and reluctance to pay fees associated with accepting commercial card payments.

Other top barriers cited by respondents were the lack of integration between electronic payment and existing A/P systems (38%), a shortage of information technology resources (34%) and the company's assessment that "checks work well" (27%).

Steps to Success
The Aberdeen Group study offers a number of steps that companies can take to achieve greater success with electronic payments.

Companies that today lag in adherence to e-payment best practices can begin with simple steps such as centralizing their A/P structure, building a business case for electronic payments and seeking executive support for e-payments initiatives.

Meanwhile, companies that are farther along in their electronic payment programs — referred to in the study as "industry average" firms — can improve their performance by:

- Using spend analysis technology to segment the enterprise's supplier base into the most cost-effective and appropriate section for each payment type (ACH, wire and commercial card).
- Integrating ACH and wire transfer modules with their existing A/P structure.
- Encouraging cross-functional coordination among Procurement, Finance, Treasury and Information Technology.

Finally, Aberdeen Group advises, best-in-class performers can seek new heights of payment efficiency by developing automated communication with their financial institutions (e.g., using EDI or XML to exchange remittance information), and by integrating purchasing cards with their existing A/P systems.