



# Master the Payments Mix: How A/R Can Reduce the Cost to Serve Customers and Improve Profitability on Every Transaction

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# Agenda

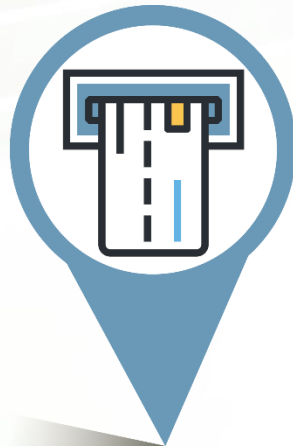
- Alphabet Soup: EFT, EDI, ACH, NACHA
- The Importance of Payment Cost Metrics
- Opportunities and Tactics for Credit/AR to Reduce the Cost to Serve Customers and Improve Profitability

# EFT



EFT (Electronic Funds Transfer) is a general term designating a system or process for electronically transferring funds from one bank account to another.

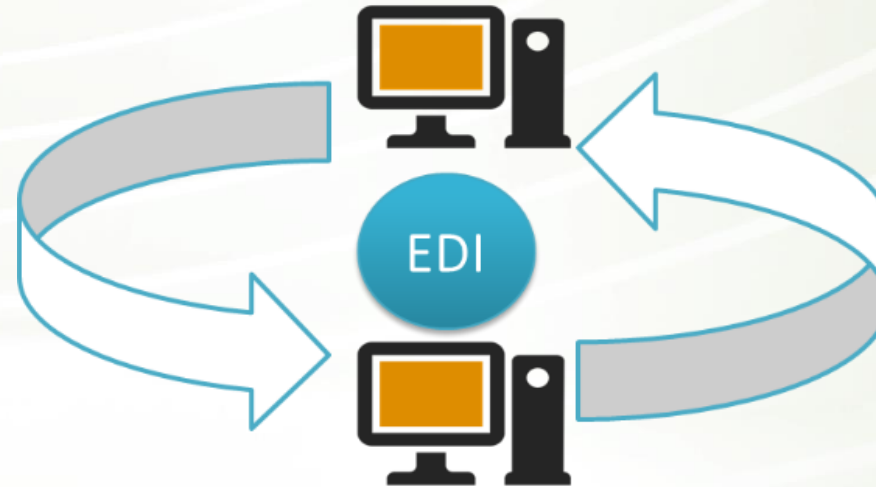
- EFT can refer to ACH, payment cards, wires, SWIFT, and any other electronic means for transferring funds



# EDI



EDI (Electronic Data Interchange) is a data format that is used for machine-to-machine exchanges of data and messages for a range of payment and related processes. In the payments world, EDI can be used to format invoice, payment and remittance information



See Payments Help Desk blog:  
“Call it EFT or ACH or EDI – But They’re Different and It Matters”  
at <http://go.nacha.org/paymentshelpdesk>

# ACH

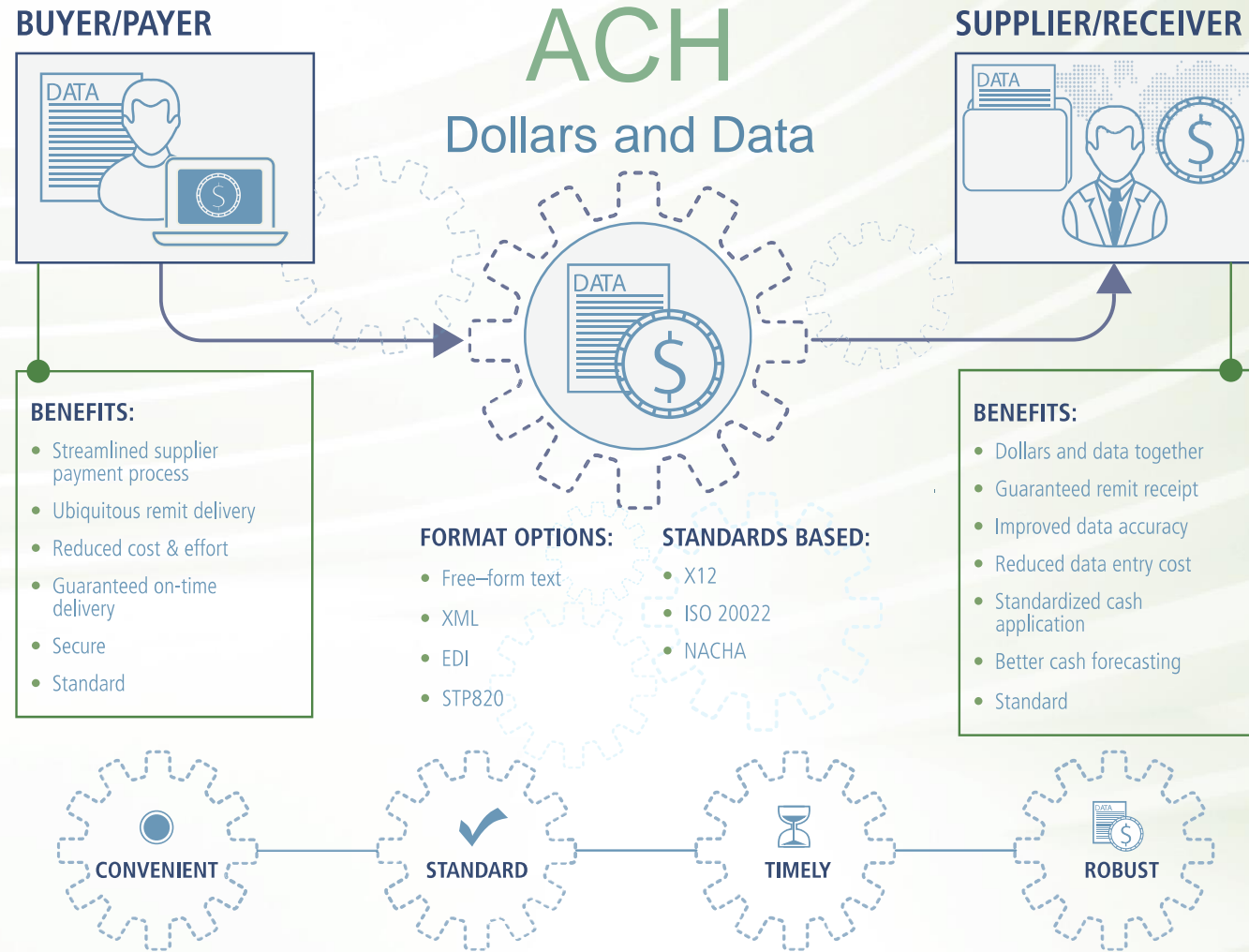
ACH (Automated Clearing House Network) refers to a specific electronic payment network.

- The ACH Network is used for business, government and consumer domestic and international payments
- Funds are moved between bank accounts by the banks
- Payments settle within 1 day for “Classic ACH”; payments settle in the same day for “Same Day ACH”
- The Network is governed by NACHA–The Electronic Payments Association

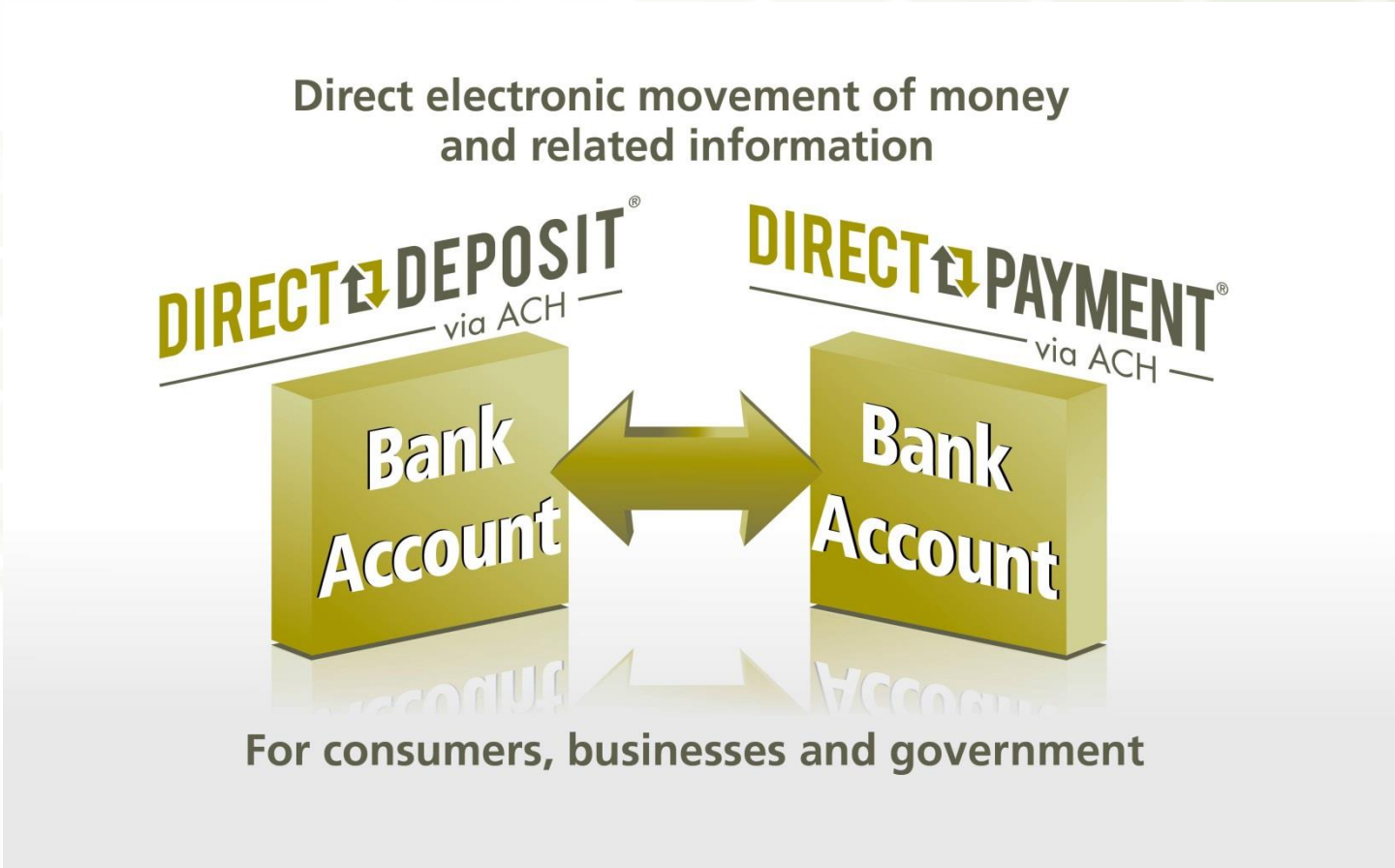


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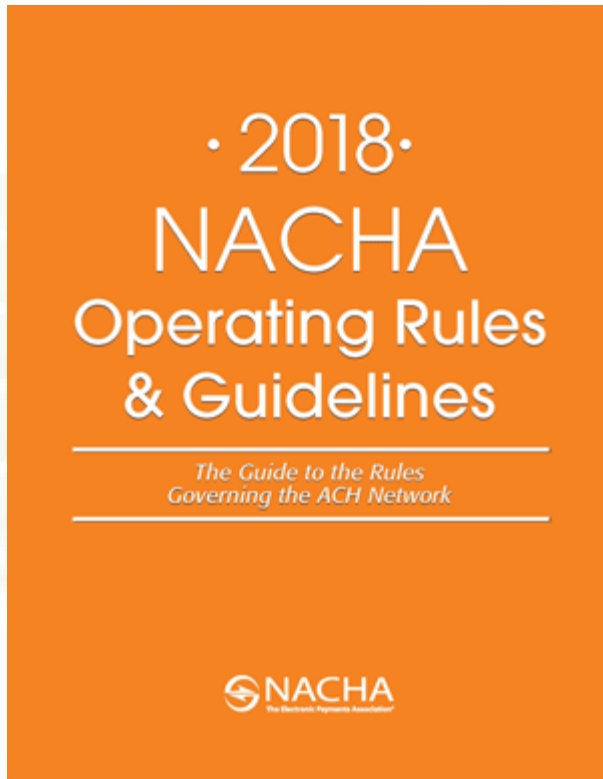
# The ACH Network – Payments Plus Information



# Background NACHA and the ACH: The ACH Network Annually Moves 25+ Billion Payments, \$40+ Trillion



# NACHA – The Electronic Payments Association: ACH Network Administrator



Provides a common set of rules and formats



Establishes the legal foundation for the ACH Network



Creates certainty and interoperability



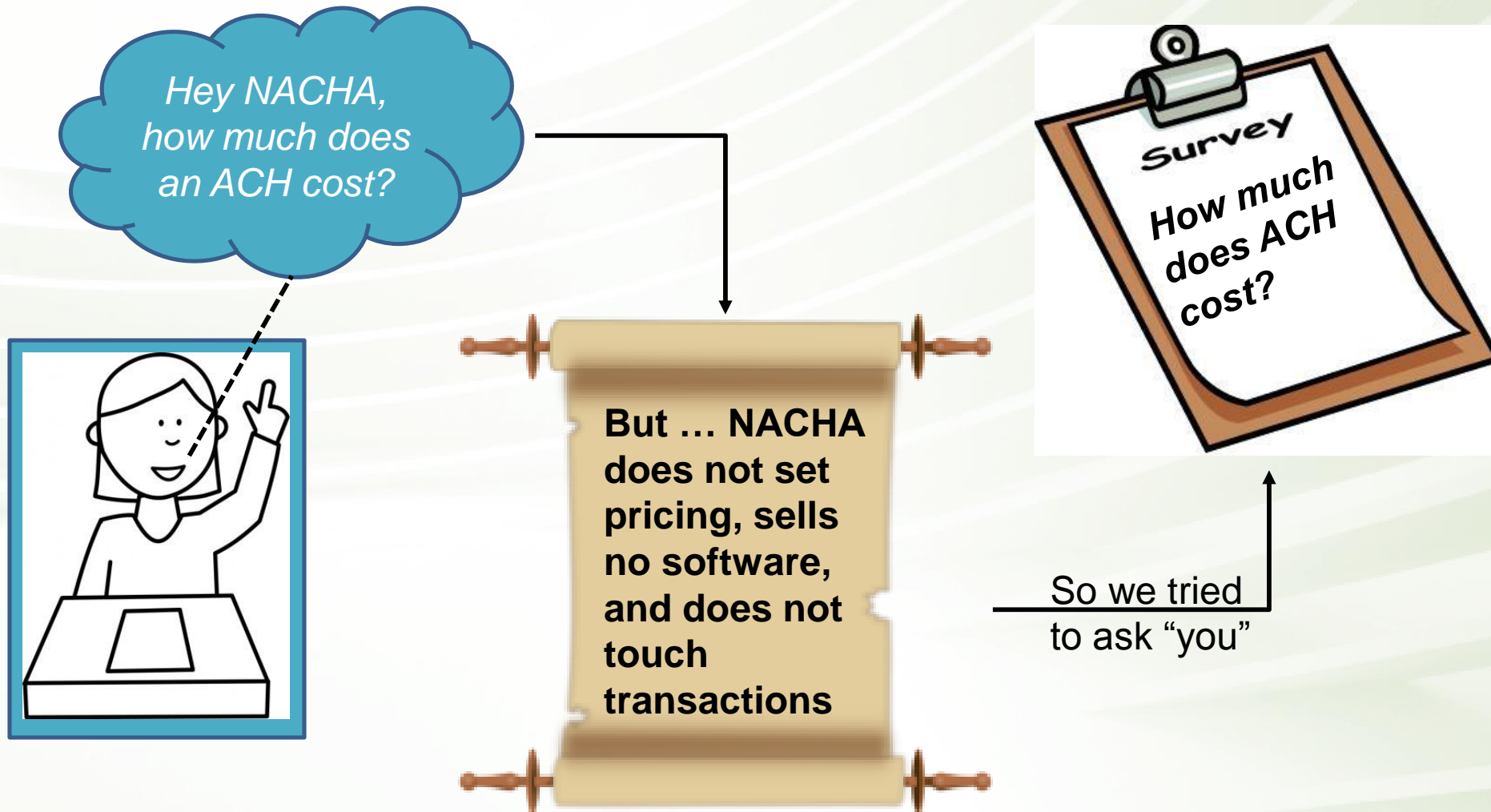
Defines roles and responsibilities

<https://www.nacha.org/rules>

[www.nacha.org](http://www.nacha.org)

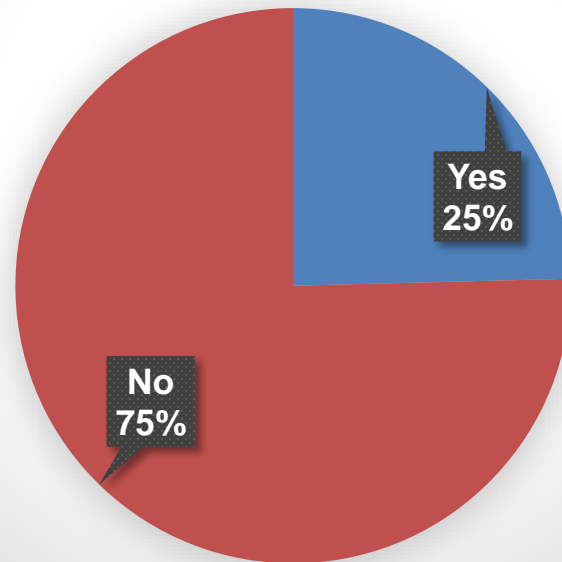


# Payment Costs



# Companies Mostly Do Not Track Payment Cost Metrics

*Does your company track metrics for calculating “all in” (e.g., bank/vendor fees, labor, software/hardware/equipment, customer service, etc.) payment receipt costs?*



*NACHA-Credit Research Foundation survey:  
Payment Trends, Preferences & What Works for Credit-Receivables Professionals  
See - <http://go.nacha.org/crfsurveyresources>*

## One Problem with Metrics ... *What Metrics?*

- *“If there is one thing that credit executives agree upon, it is that they cannot agree on which measures to use in evaluating individual, departmental, and company performance.”*
  - Credit Research Foundation - <https://www.crfonline.org/orc/ca/ca-7.html>

## Another Problem with Metrics ... *How and Why?*

- Payment metrics are seldom tracked, owing perhaps to:
  - complications with gathering data;
    - “All in” payment acceptance cost is more than just bank fees
  - or maybe uncertainty around the impact.
    - Many believe it’s just the cost of doing business

## Who Tracks .....

- Cash flow/cash position
- Hurdle rate
- Days sales outstanding (sales weighted, best possible ...)
- Average days delinquent (delinquent DSO, percent age over X days)
- Collection effectiveness index
- Cash application cycle time/hit rate
- Houston Astros wins and losses
- Cost per payment received
- Cost to serve/customer profitability/cost per sales dollar
  - Is cost per payment received a component?

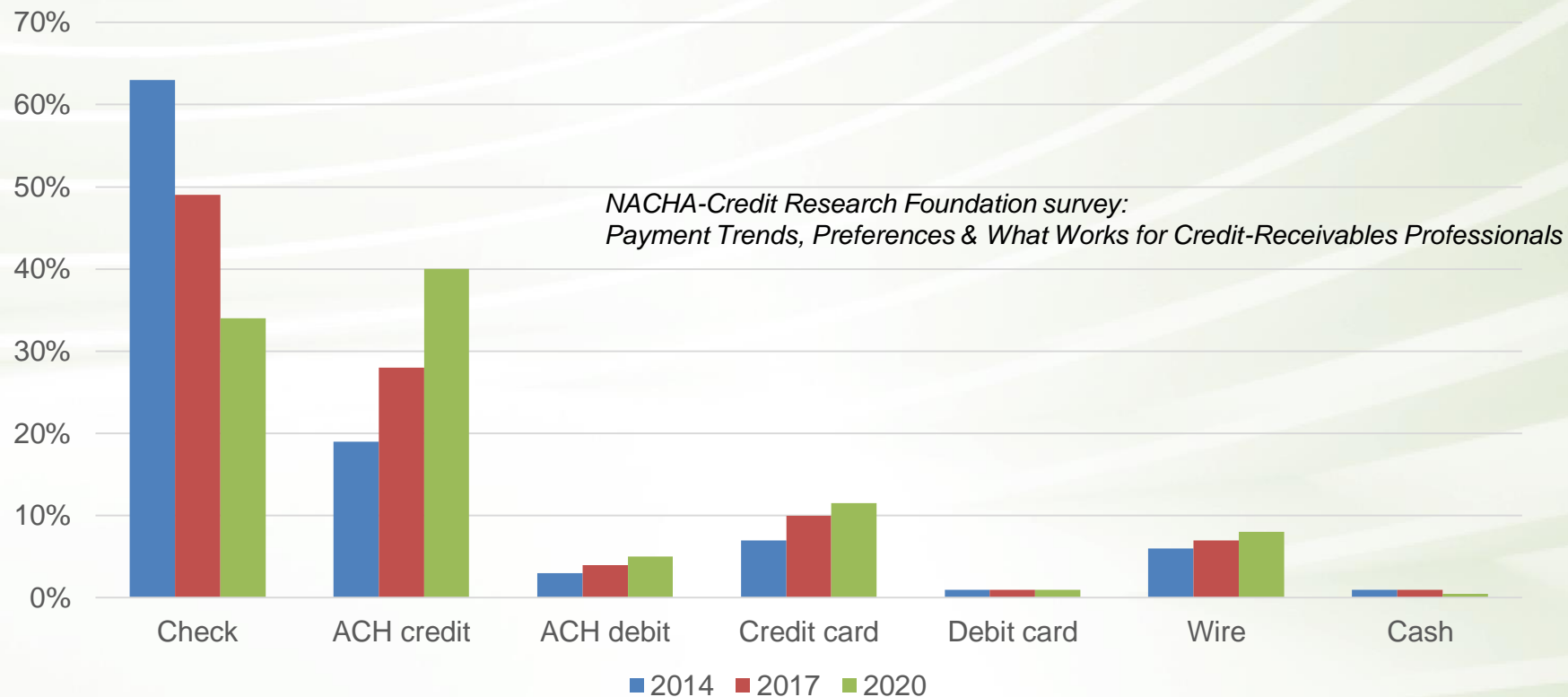
Does how a customer pays (i.e., payment type), provides remittance (i.e., email/PDF) and when the customer pays impact any of these metrics?

Treasury/Accounts Receivable/Collections Metrics	Do “Payments” Have Impact?
Cash flow/cash position	Yes
Hurdle rate	Yes
Days sales outstanding (sales weighted, best possible ...)	Yes
Average days delinquent (delinquent DSO, percent age over X days)	Yes
Collection effectiveness index	Yes
Cash application cycle time/hit rate	Yes
Cost per payment received	Yes
Cost to serve/customer profitability/cost per sales dollar	Yes

# Payments Tsunami Coming: Payments Mix: 2014 – 2017 - 2020

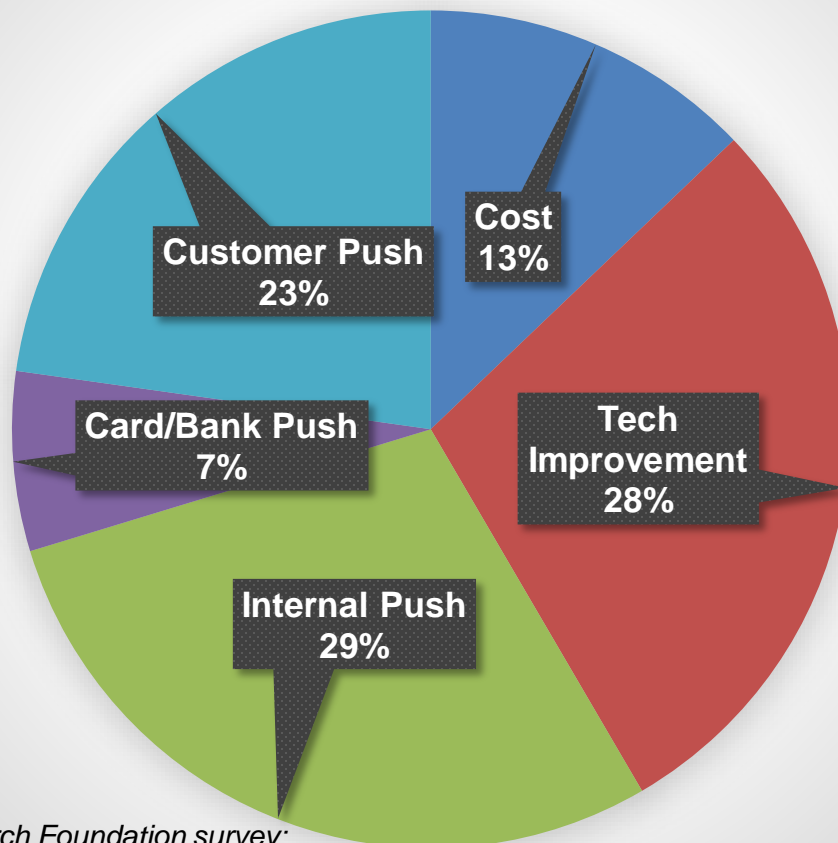


Payment Mix Check, ACH Credit, ACH Debit, Credit Card,  
Debit Card, Wire, Cash



# Reasons for Shift in Payment Mix

## Causes for Shift in Payment Mix



*NACHA-Credit Research Foundation survey:  
Payment Trends, Preferences & What Works for Credit-Receiveables Professionals*



# Mastering the Payment Mix Can Positively Impact Cost to Serve and Customer Profitability

- Goal: Improve customer profitability through analysis of all costs incurred to support customer. Cost components generally include:

X Major costs: production, order/delivery/fulfillment logistics, credit, marketing/sales, customer service (*out of scope for today discussion*)

✓ Associated financial costs: how a customer pays, and related expenses to support customer payments

↑  
Today's discussion

# What Gets Measured Gets Managed

- Hypothesis: focusing on receivables financial costs and operations is “low hanging fruit” for:
  - lowering cost to serve
  - driving customer payment behavior, and
  - improving customer profitability and related financial metrics.
- This focus provides an opportunity to proactively improve rollup of costs in portfolio.
  - Treasurers, credit/AR directors, controllers, CFOs – need to know payments costs/scenarios and develop appropriate tools to influence customers
  - Don't let \$ leave the table

# Opportunities for Credit/AR Reduce the Cost to Serve Customers and Improve Profitability on Every Transaction

## 1. Measure payments costs

- Reduce credit card impact to receivables costs

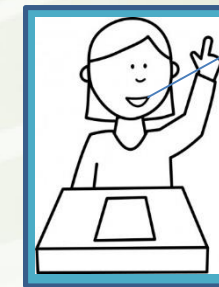
## 2. Manage Payments Mix and Improve Processes

- The 7 Habits of Successful Organizations

# How Much Does it Cost to Receive a Payment?

## “All In” Payment Costs and Metrics

- Payments impact many processes and departments, and companies are challenged to identify their “all in” payment costs considering:
  - Bank/payment network fees
  - Related services (e.g., lockbox, receivables concentration, etc.)
  - Reconciliation/cash application
  - Exceptions/disputes
  - Compliance
  - Fraud controls/fraud losses
  - Security
  - Equipment/software
  - Reporting
  - Costs/processes unique to payment type (e.g., escheatment and check stock for check payments)



Hey NACHA,  
how much  
does an ACH  
cost?

It depends on a lot  
of things:  
“Big Data” view

# AR/Credit View: Building a Payment Cost Analysis

Annual Revenue		\$0		
Annual Expenses				
Full Time Employees (FTE)	-	Count	Cost Per Item	Annual Cost
Accounts Receivable - FTE	-	-	-	-
A/R (Salary & Fringe) - Cash	-	-	-	-
Application				
Manager(s) overseeing Cash App (Salary & Fringe)	-	-	-	-
Sub Totals				
Dispute Resolution - FTE (if separate from Cash App)	-	-	-	-
Dispute Resolution (Salary & Fringe)	-	1.0	\$	-
Totals				
		1.00		\$
II. Transaction Fees & Processing Expenses				
Annual Business Payment Volume				
Paper Checks	-	Count	Cost Per Item	Annual Cost
Lockbox Services - Core Expense	-	-	-	\$0
Lockbox Services - Keystroke Expense	-	-	\$0.0000	\$0
Image Capture	-	-	\$0.0000	\$0
Image Access	-	-	-	\$0
Subtotal Check Processing Cost				
				\$0
Average Cost per Check				
				#DIV/0!
Non-Check Processing Fees				
Number Credit Card Transactions/Avg Dollar Transaction	-	-	\$0.00	
Credit Card Transaction Fees (assumes 2.5% interchange)	-	-	\$0.00	\$0
ACH -Debit Transaction Fees	-	-	\$0.15	\$0
ACH - Credit Transaction Fees (addenda \$0.05 if applicable)	-	-	\$0.15	\$0
Domestic - Wire Charges	-	-	\$15.00	\$0
International - Wire Charges	-	-	\$25.00	\$0
Other	-	-	\$0.05	\$0
Subtotal Non-Check Processing Cost				
				\$0
Cost				
				\$0
Average Cost per Electronic Payment				
				#DIV/0!
Total Payment Processing Cost				
				\$0

**Quick start – track data you should have:**

- Labor
- Payment volume/payment type
- Bank fees/payment type/service
- Calculate annual cost

# AR/Credit View: Developing and Analyzing How Payment Mix Goals Impact Costs



Targeted Business Payment Mix:	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
% of Payments via ACH Credit	0%					
% of Payments via ACH Debit	0%					
% of Payments via Credit Card	0%					
% of Payments via Domestic Wire	0%					
% of Payments via International Wire	0%					
Total % of Electronic Payments	0%				0.0%	0.0%

Impact on Full Time Employees	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Accounts Receivable - Cash Application	-				-	-
Estimated A/R Salary	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Manager Cash App (Salary & Fringe)	0.0					
Estimated A/R Salary	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Dispute Mgmt - FTE	1.0	1.0	1.0	1.0	1.0	1.0
Estimated CC Salary	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Annual FTE Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total FTE	1.0	1.0	1.0	1.0	1.0	1.0

Impact on Business Payment Transaction Fees	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Payment Processing Expenses - Check	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Payment Processing ACH Credit	\$0	\$0	\$0	\$0	\$0	\$0
Payment Processing ACH Debit	\$0	\$0	\$0	\$0	\$0	\$0
Payment Processing Domestic Wire	\$0	\$0	\$0	\$0	\$0	\$0
Payment Processing International Wire	\$0	\$0	\$0	\$0	\$0	\$0
Payment Processing Credit Card	\$0	\$0	\$0	\$0	\$0	\$0
Annual Business Payment Fees	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

**Project how payment mix changes positively impact labor and fees**

# How Much Does it Cost to Receive a Payment?

## “All In” Payment Costs and Metrics

- Payments impact many processes and departments, and companies are challenged to identify their “all in” payment costs considering:
  - √ Bank/payment network fees
  - √ Related services (e.g., lockbox, receivables concentration, etc.)
  - √ Reconciliation/cash application
  - √ Exceptions/disputes

- Compliance
- Fraud controls/fraud losses
- Security
- Equipment/software
- Reporting
- Costs/processes unique to payment type (e.g., escheatment and check stock for check payments)

***Good work so far – but if you really want to know “ALL IN” you need this data too!***

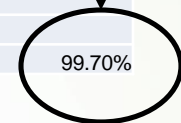
# Treasurer/Controller View: Understanding Payments and Working Capital

Scenario One: Customer Pays in Full w/in 48 hrs via Credit Card - Intrchge Pd by Supplier		
Payment received within 48 hours	\$	200,000.00
Interchange Fee paid by Supplier	\$	(5,000.00)
Working Capital Benefit of Accelerated Payment (based on hurdle rate)	\$	455.00
Net to Supplier	\$	195,455.00
% of Purchase Price Captured		97.7%
Scenario Two: Customer Pays in Full at Terms via Credit Card - Interchange Paid by Supplier		
Payment received at Terms	\$	200,000.00
Interchange Fee paid by Supplier	\$	(5,000.00)
Working Capital Cost of Borrowed Funds while awaiting payment (based on hurdle rate)	\$	(500.00)
Net to Supplier	\$	194,500.00
% of Purchase Price Captured		97.3%
Scenario Three: Customer Pays in Full at Terms via Credit Card - Interchange Paid by Customer (Supplier Surcharge)		
Payment received at Terms	\$	200,000.00
Interchange Fee paid by Customer (Supplier Surcharge)	\$	-
Working Capital Cost of Borrowed Funds while awaiting payment (based on hurdle rate)	\$	(500.00)
Net to Supplier	\$	199,500.00
% of Purchase Price Captured		99.8%
Scenario Four: Customer Pays in Full at Terms via "classic" ACH		
Payment received at Terms	\$	200,000.00
Working Capital Cost of Borrowed Funds while awaiting payment (based on hurdle rate)	\$	(533.33)
Net to Supplier	\$	199,466.67
% of Purchase Price Captured		99.73%
Scenario Five Customer Pays at Early Payment Date via "classic" ACH		
Payment received at Early Payment Date	\$	200,000.00
Early Payment Discount to Customer	\$	(4,000.00)
Working Capital Benefit of Accelerated Payment (based on hurdle rate)	\$	294.00
Net to Supplier	\$	196,294.00
% of Purchase Price Captured		98.15%
Scenario Six Customer Pays in Full at Terms via Check		
Payment received at Terms	\$	200,000.00
Working Capital Cost of Borrowed Funds while awaiting payment (based on hurdle rate)	\$	(600.00)
Net to Supplier	\$	199,400.00
% of Purchase Price Captured		99.70%

Payment type, timing of payment impacts percent of purchase price captured from treasurer perspective

**BUT THIS VIEW DOES NOT INCLUDE AR/CREDIT VIEW**

- *Is this why there are still so many checks?*





# Credit Card Strategy: Making Customer Payment Choice Cost Competitive

*“Payments made with general-purpose credit cards ... grew faster than other payment types from 2012 to 2015, in terms of both percentage growth and growth by number.” 2016 Federal Reserve Payments Study*

- Card payments are fueled by several payer benefits including:
  - rebates, cash flow considerations, point/rewards programs, cost savings compared to checks and convenience.
- For many companies, annual card acceptance costs exceed seven figures.
  - Credit, finance, and sales teams, with the support of management, have joined forces to evaluate card acceptance alternatives, with an eye towards making card costs comparable to other payment forms.



## Options for Reducing Credit Card Costs

- Decision to accept/not accept
- Manage/optimize your card program
  - **KEY METRIC:** Track your Effective Cost
  - Optimize interchange to provide Level III data
  - Negotiate processing fees/pass through pricing
- Options to pass expense to customer
  - Convenience fee
  - Surcharge

See “Payments Help Desk” blog for related resources  
- <http://go.nacha.org/elevation/blog>

# Opportunities for Credit/AR Reduce the Cost to Serve Customers and Improve Profitability on Every Transaction

## 1. Measure payments costs

- Reduce credit card impact to receivables costs

## 2. Manage Payments Mix and Improve Processes

- The 7 Habits of Successful Organizations

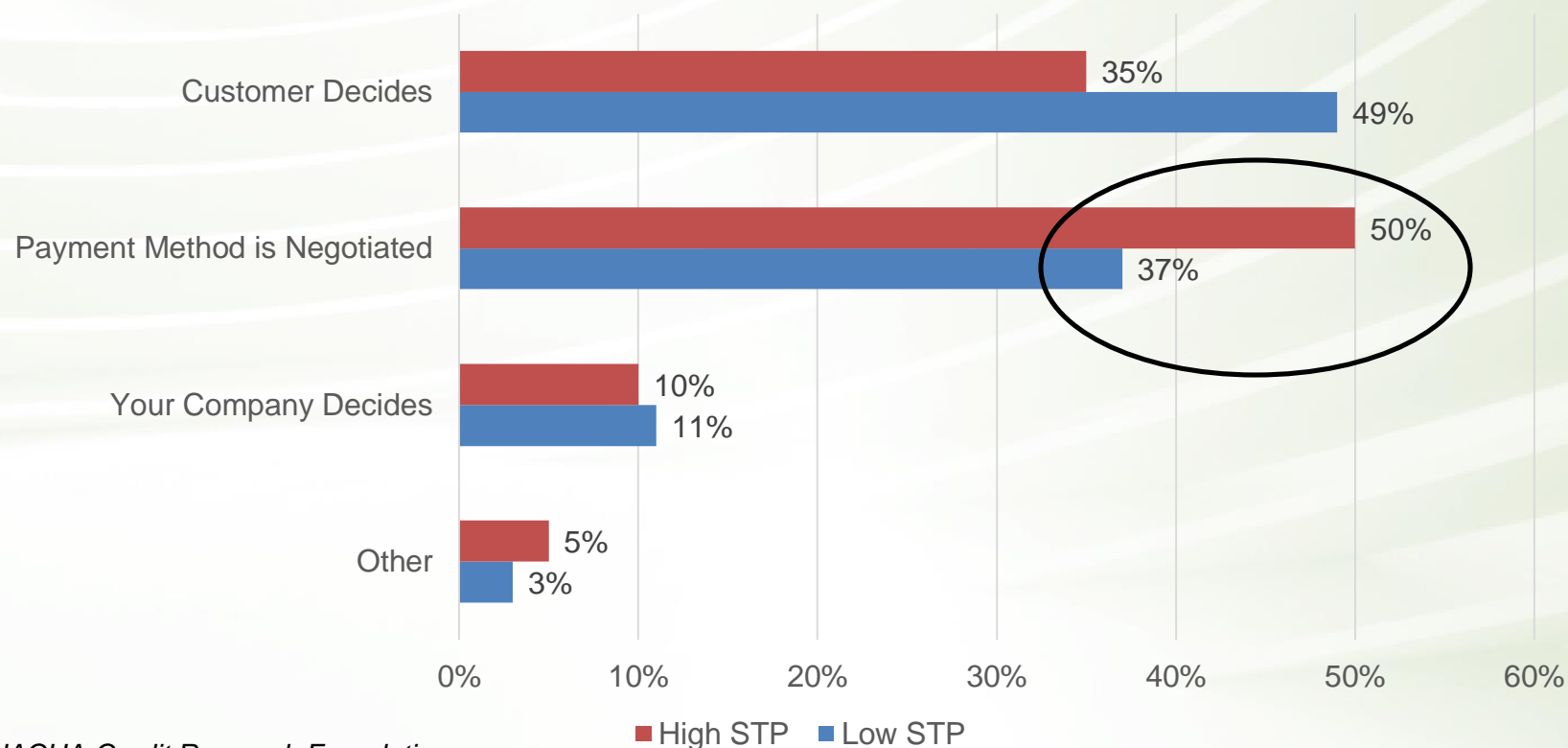
# Straight Through Processing Rate (STP/"hit rate") as an Indicator of Organizational Efficiency

- Assumption: STP (aka auto posting/cash; hit rate; cash application) is an indicator of payment operation/order-to-cash efficiency
  - Key to bridging old age (rekeying/data massaging) with golden age (machine-to-machine) data exchange
  - What characteristics distinguish and differentiate between organizations with high STP vs organizations with low STP?
- The NACHA-CRF survey uncovered the 7 “habits” of organizations with high STP
  - Compared organizations with 81%+ hit rate vs organizations with 0-20% hit rate

# Habits of High STP Organizations:

## 1. Negotiate Payment Type with Customer

*Who, or what determines which payment types and remittance advice methods you receive from customers?*



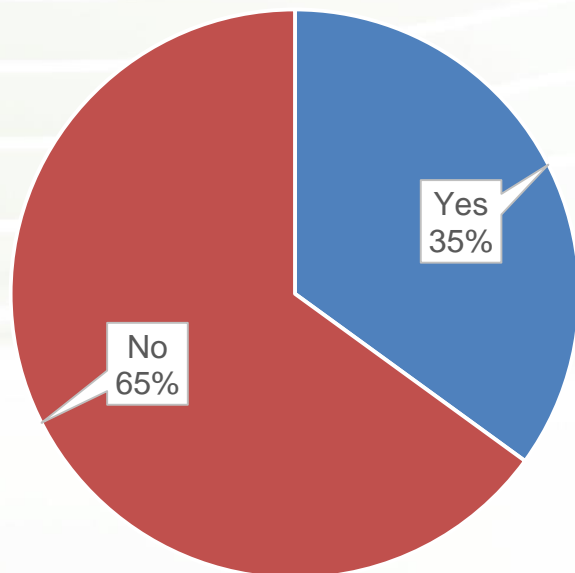
NACHA-Credit Research Foundation survey:  
*Payment Trends, Preferences & What Works for Credit-Receivables Professionals*

■ High STP ■ Low STP

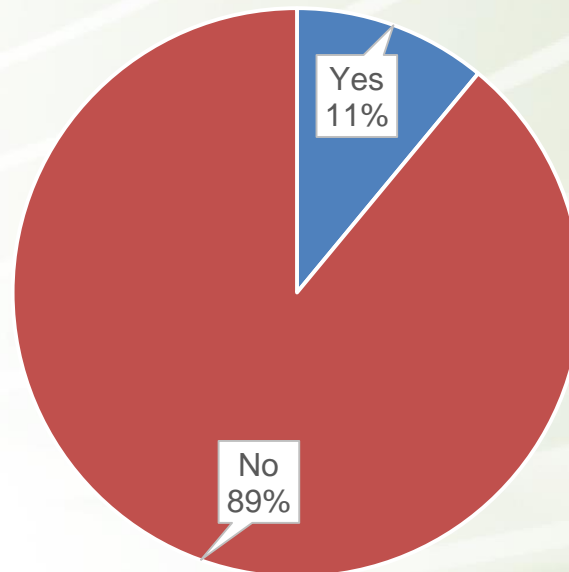
# Habits of High STP Organizations:

## 2. Track Payment Cost Metrics

*Do you track payment cost metrics?  
(High STP Orgs)*



*Do you track payment cost metrics?  
(Low STP Orgs)*

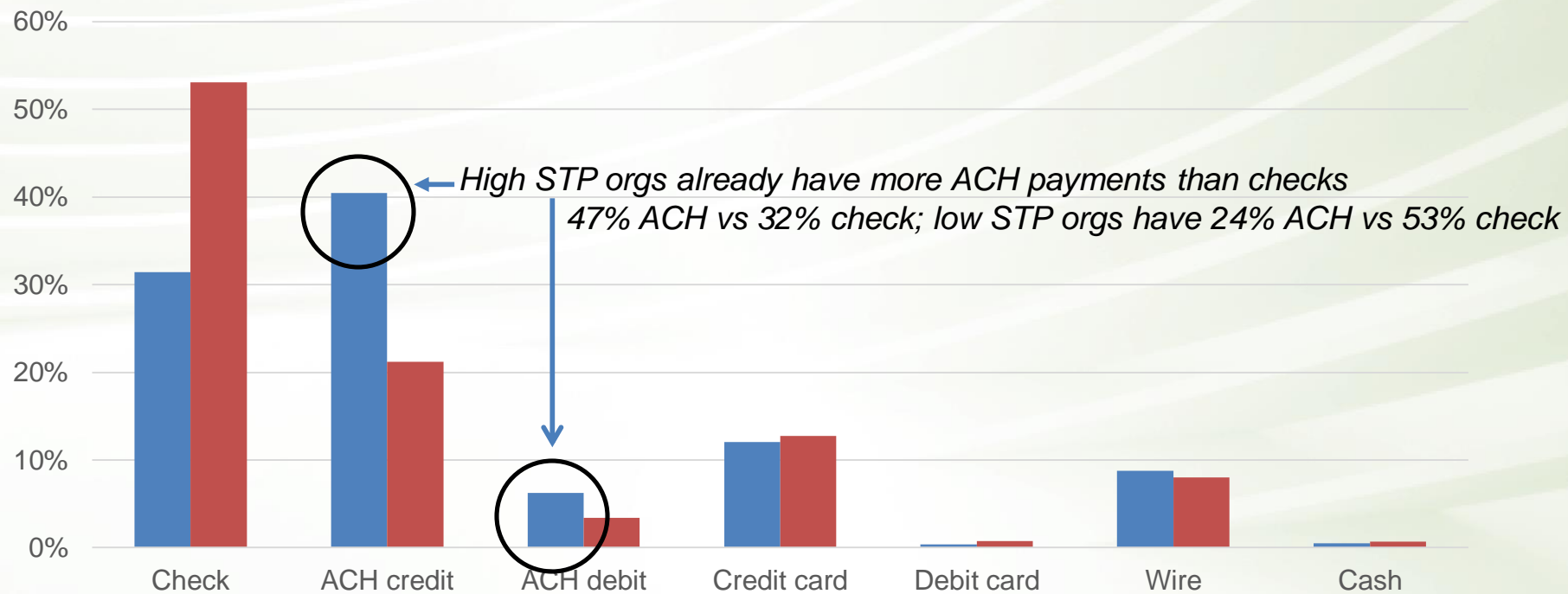


*NACHA-Credit Research Foundation survey:  
Payment Trends, Preferences & What Works for Credit-Receivables Professionals*

# Habits of High STP Organizations:

## 3. Get Paid via ACH

*High STP Organizations vs Low STP Organizations:  
2017 Payment Mix Check, ACH Credit, ACH Debit, Credit Card, Debit  
Card, Wire, Cash*

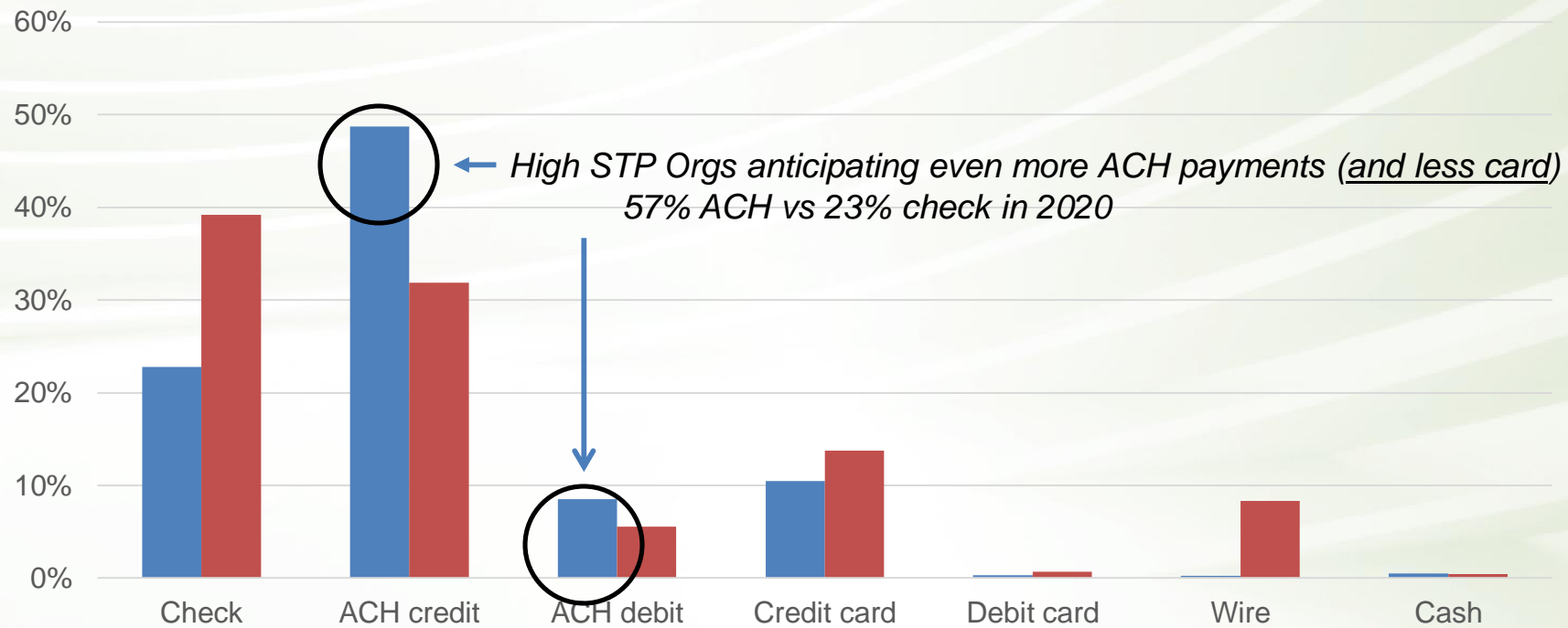


*NACHA-Credit Research Foundation survey: ■ 2017 - High STP ■ 2017 Low STP  
Payment Trends, Preferences & What Works for Credit-Receivables Professionals*

# Habits of High STP Organizations:

## 4. Continue Focus on Getting Paid via ACH

*High STP Organizations vs Low STP Organizations:  
2020 Payment Mix Check, ACH Credit, ACH Debit, Credit Card, Debit  
Card, Wire, Cash*



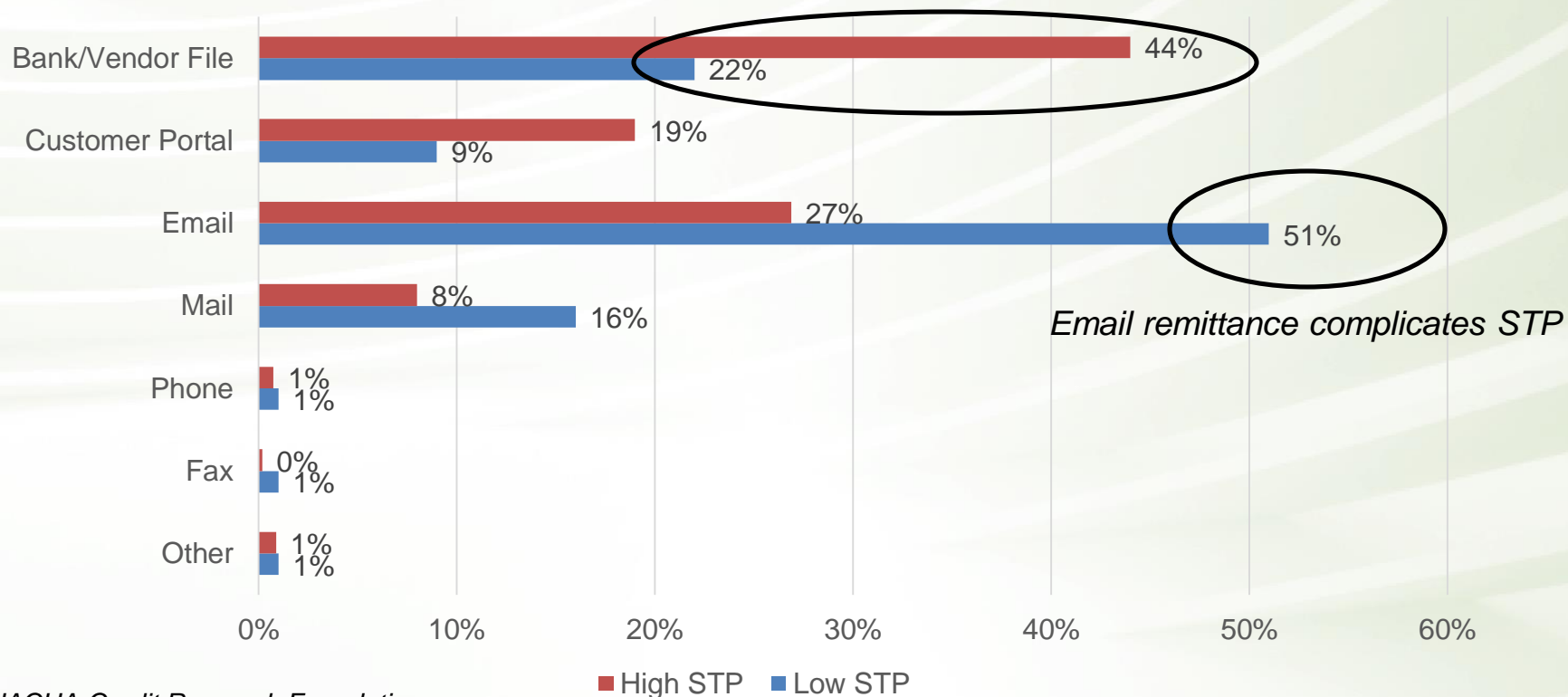
NACHA-Credit Research Foundation survey: ■ 2020 - High STP ■ 2020 - Low STP  
Payment Trends, Preferences & What Works for Credit-Receivables Professionals



## Habits of High STP Organizations:

### 5. Get Remittance File from Your Bank/Vendor

*When customers send payments, how often do you receive remittance advice (information beyond payment amount, e.g., invoices being paid, discounts applied, etc.) in the following methods?*

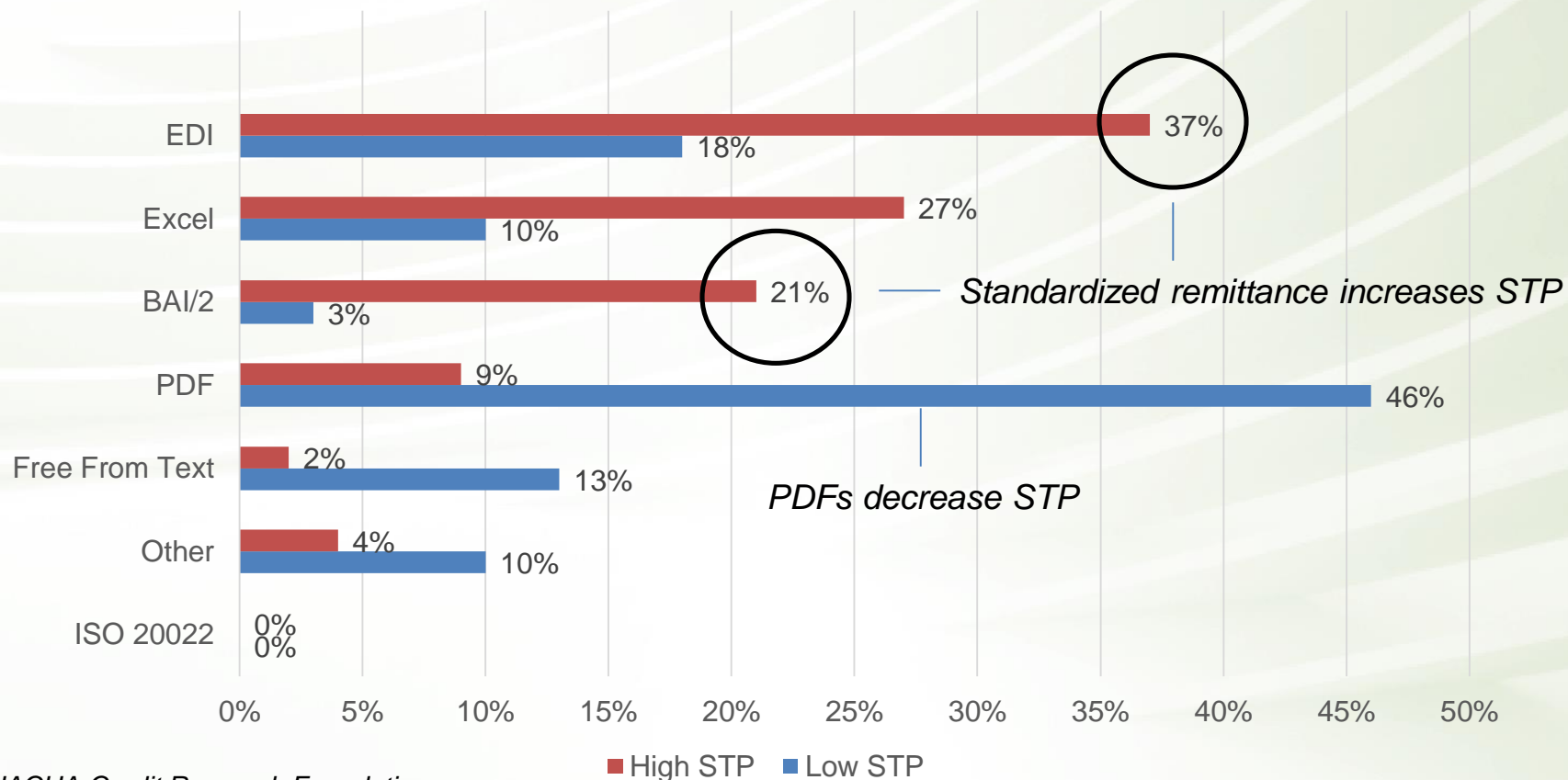


NACHA-Credit Research Foundation survey:  
 Payment Trends, Preferences & What Works for Credit-Receivables Professionals

## Habits of High STP Organizations:

### 6. Get Remittance in a Standard Format (EDI, BAI/2)

How often do you receive remittance advices in the following formats?

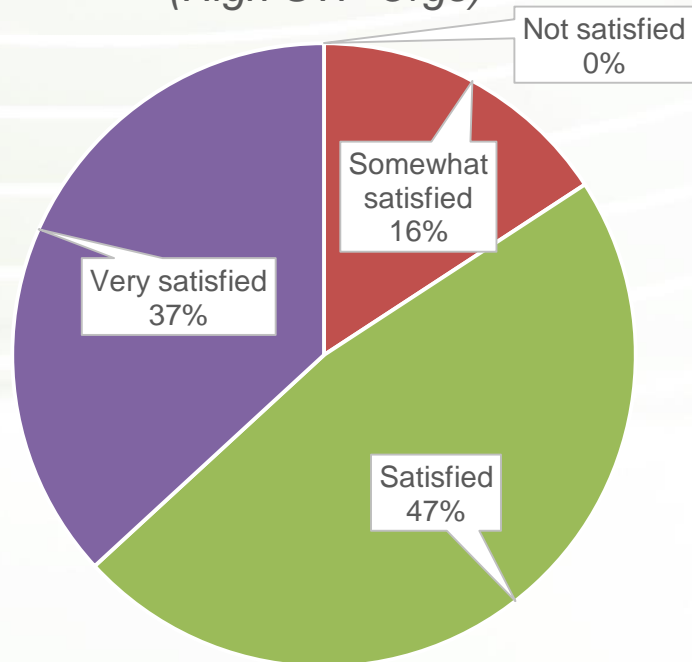


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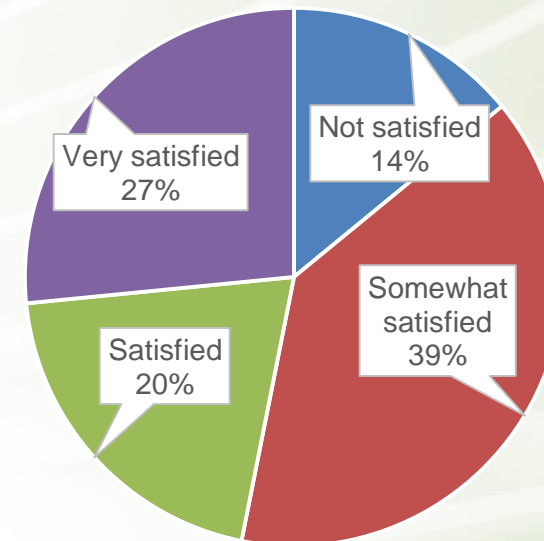
# Habits of High STP Organizations:

## 7. Get Satisfied!!

*How satisfied are you with respect to company attitude toward adoption of ACH?  
(High STP Orgs)*



*How satisfied are you with respect to company attitude toward adoption of ACH?  
(Low STP Orgs)*

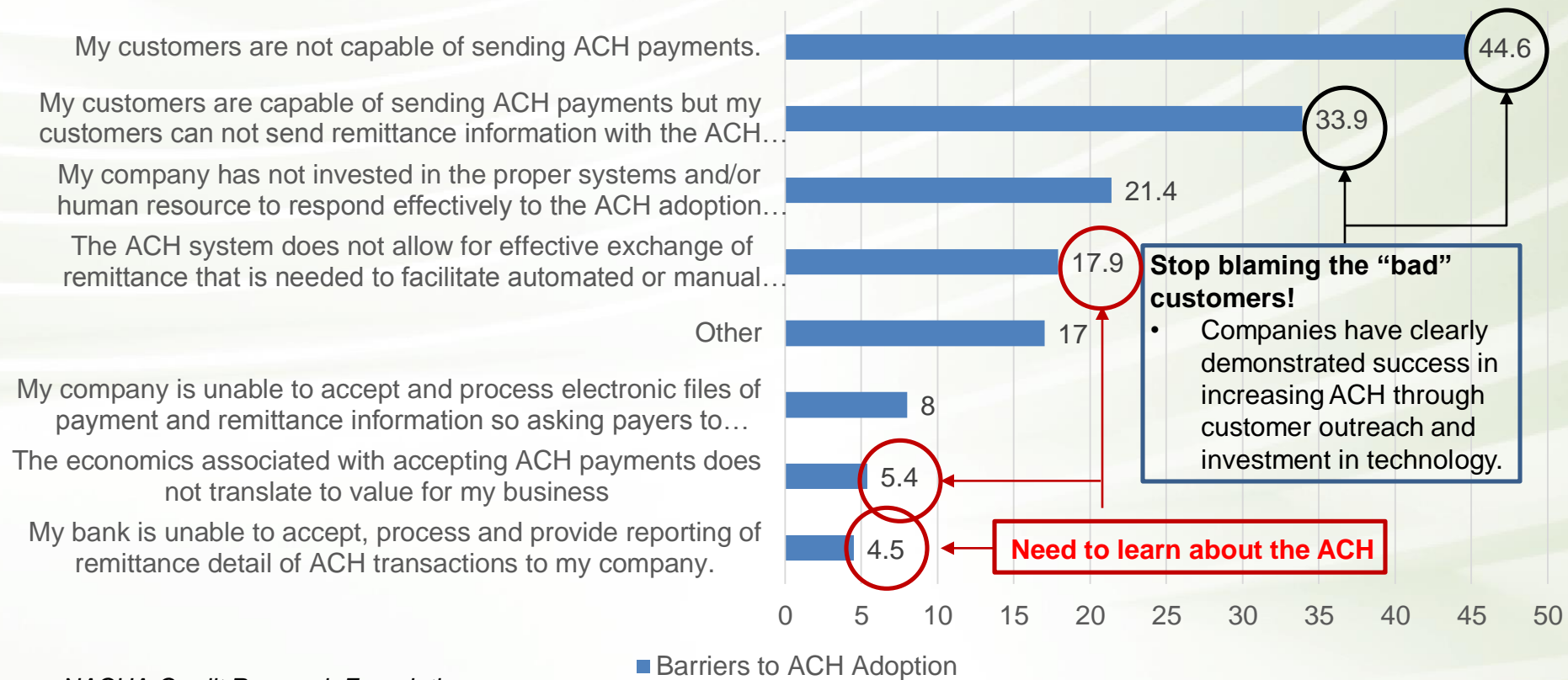


*NACHA-Credit Research Foundation survey:  
Payment Trends, Preferences & What Works for Credit-Receivables Professionals*

## Barriers to ACH Adoption

### 8. Bonus Habit: Stop blaming “bad” customers – and learn more about the ACH

*Of the following statements, which represent barriers to ACH adoption?*



#### Stop blaming the “bad” customers!

- Companies have clearly demonstrated success in increasing ACH through customer outreach and investment in technology.

**Need to learn about the ACH**

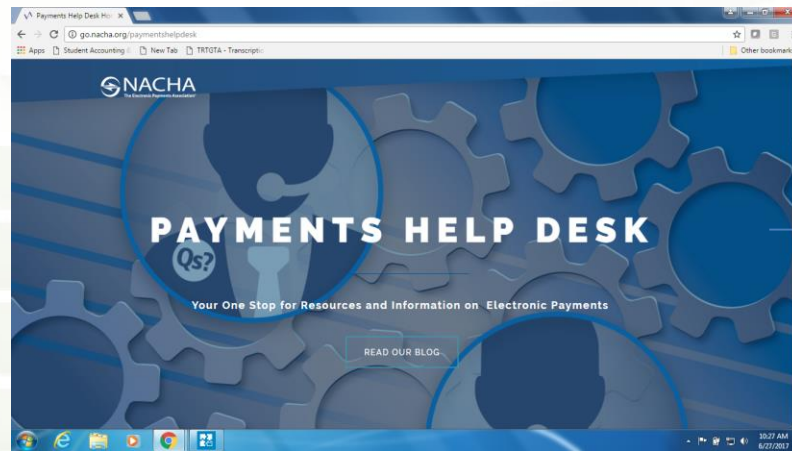
NACHA-Credit Research Foundation survey:  
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## Summary

- How a customer pays (i.e., payment type), provides remittance (i.e., email/PDF) and when the customer pays impacts the “cost to serve” and customer profitability!
- A/R can reduce the “cost to serve” and improve customer profitability:
  - Measure payment receipt costs
  - Define payment mix goals
  - Help drive process improvements

## More information/resources

### **NACHA's Payments Help Desk**



**<http://go.nacha.org/elevation/blog>**

- **Blog (free signup)**
- **Resources**
  - **ACH 101**
  - **Case studies**
  - **White papers**
  - **Webinars**



**Is NACHA's Preferred Partner for cash application**