

**HOW
ELECTRONIC PAYMENT
PROCESSING
CAN DRAMATICALLY
INCREASE PRODUCTIVITY
&
DECREASE THE COST OF
YOUR PAYMENT PROCESSING**

A White Paper Report
Prepared by



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TABLE OF CONTENTS

<i>Increase Productivity and Reduce Costs</i>	3
<i>Electronic Checks and ACH Payments can Increase Your Profit</i>	3
<i>ACH Background</i>	4
<i>Electronic Payment Processing: “Is It Right For Our Organization?”</i>	4
<i>“What is your current cost of payment processing?”</i>	4
<i>The Cost of Invoicing</i>	5
<i>“How much productivity can we gain?”</i>	6
<i>“Where will I save time and money?”</i>	6
<i>“Is my organization large enough to justify the capital expense?”</i>	7
<i>What Are Your Options?</i>	7
<i>About Creative Cash Flow Solutions, Inc.</i>	8

Increase Productivity and Reduce Costs

Electronic payment processing can dramatically increase the productivity and decrease the overall cost of your payment processing. Virtually any business, from Point-of-Sale retail to web merchants to billing processors, can benefit from adding an electronic check/ACH payment system. Bank-based payment systems are familiar and comfortable, but not the efficient and cost-effective methods they have been made it out to be.

Businesses now realize cost-savings from the emergence of electronic payment processing systems. Backed by the Federal Reserve and governed by NACHA (National Automated Clearing House Association), electronic check and ACH payment processing has provided a definite source of cost savings for U.S. businesses. If you accept payments from your customers or clients, you can benefit from this “new” technology.

In 2003, 10.4 billion payments were processed by the ACH network. This represents \$27.4 TRILLION (Source: NACHA) and a considerable movement towards an all-electronic payment system. The growth in consumer acceptance of electronic payments has obviously jumped in the last 2 years. Corporate users who have added ACH payments to their payment stream have realized the inherent cost-savings electronic processing offer. You can profit by adding them to your payment stream.

Regardless of the size of your company, there are bound to be inefficiencies in your payment chain. Data entry errors . . . multiple handling of payments at each stage of the process . . . days spent waiting for customers to send and the banking system to process each payment. At any point a mistake can be made, money held or even lost. With the move to electronic processing, the control of the payment is shifted back to you, the originating company and away from the customer and the banking system.

Electronic Checks and ACH Payments can Increase Your Profit

“My current payment system seems efficient. Why would I put my company through the trouble to change it?”

Electronic check and payment processing is a more efficient, and therefore more profitable, method of processing payments than the “normal” methods. The most common misperceptions regarding payment processing are that:

- 1) Manually processing payments is efficient and
- 2) It doesn't cost very much.

If these common beliefs are true, why are so many companies moving to electronic ACH payment systems?

The simple answer is that the shift in Consumer use is helping businesses justify adding electronic check and ACH services.

ACH Background

The ACH Network has historically been used for payments such as Direct Deposit of payroll and U.S. Government payments to vendors and Social Security recipients. 1999 saw the Federal Reserve open the Network to corporate use and expanding the number of ways corporate users can accept electronic payments. This was met with limited acceptance/use by consumers and limited adoption by businesses. The early adopters did derive significant cost-savings and profit, even with minimal usage. (When compared to credit cards rates, the cost of accepting Electronic Checks or ACH Debits is ••• that of credit card rates, thus making ACH processing inherently more profitable.)

In 2003 (last full year of data), more than 10.7 Billion ACH payments were made, with a combined worth over \$27.4 Trillion. The electronic check has finally become a necessary part of business.

Electronic Payment Processing: “Is It Right For Our Organization?”

To really answer this question, there are a few questions that you need to ask:

- What is your current cost of payment processing?
- How much productivity can you gain from an electronic system?
- Are there any areas of your system which could benefit from streamlining?

“What is your current cost of payment processing?”

To assess the actual cost of processing, we need to look at the payments from when they are received to the time the funds clear the bank. This process can be divided into three steps:

- Accepting the Payment:
 - Accepting the payment requires considerable employee time. You know the actual time your employees spend on this. Check payments require the greatest amount of time per payment and are the highest-risk form of payment. (High-risk to the point that many businesses decide not to accept checks.)
- Reconciliation
 - Reconciling is a full-time, high responsibility position, often involving an entire (and costly) department. When each payment has to be handled and data-entry performed by more than one employee, there will be errors regardless of the quality and training of the employees. It is inevitable...and expensive
- Preparing and Delivering The Deposit.
 - Delivery of the deposit is also expensive. How high is the risk to your money and your employee? How reliable are all of the employees at all of the banks which ultimately handle your deposited checks? How much do you spend on bank charges and fees?

How many hours each week do you have employees sorting, handling, tallying, performing data entry on or delivering your check payments? Is it cheap? Is it even actually cost effective?

Here is a brief formula to help you figure your cost...

- _____ Number of employees responsible for processing payments
- _____ Number of dedicated hours
- _____ Salary dollars actually spent
- _____ Number of payments Received and processed
- _____ Actual cost per payment received
- _____ Bank Fees
- _____ Bank Charges

The Cost of Invoicing

How Much More Does It Cost To Create Invoices Instead of ACH Debits.

The answer may surprise you. The following information is a general assessment of these costs. Your individual costs may vary, but figures are based on real world models

ITEM	500 TRANSACTIONS / MONTH		5,000 TRANSACTIONS / MONTH	
	500 INVOICE COST PER INVOICE	500 ACH DEBIT COST PER TRANSACTION	5,000 INVOICE COST PER INVOICE	5,000 ACH DEBIT COST PER TRANSACTION
Postage	\$0.37	N/A	\$0.24	N/A
Envelope (outgoing)	\$0.07	N/A	\$0.04	N/A
Envelope (return)	\$0.07	N/A	\$0.04	N/A
Invoice / Paper	\$0.08	N/A	\$0.05	N/A
Equipment Depreciation / Supplies	\$0.03	N/A	\$0.03	N/A
Posting / Lock Box	N/A	N/A	\$0.20	N/A
Deposit Fee / Bank	\$0.05	N/A	N/A	N/A
Labor Cost (Production)	\$0.53	N/A	\$0.26	N/A
Labor Cost (Posting)	\$0.53	N/A	\$0.26	N/A
2nd Notice	\$0.09	N/A	\$0.09	N/A
3rd Notice	\$0.03	N/A	\$0.03	N/A
Additional Labor (Notices)	\$0.35	N/A	\$0.25	N/A
Phone Calls / Late Payments	\$0.21	N/A	\$0.21	N/A
Cost of Funds (Lost Interest)	\$0.14	N/A	\$0.14	N/A
Opportunity Loss	Varies	N/A	Varies	N/A
Transaction Fee	N/A	N/A	N/A	N/A
TOTAL COST PER INVOICE / BILL	\$2.55	\$0.35	\$1.84	\$0.35
TOTAL COST PER MONTH	\$1,275.00	\$175.00	\$9,175.00	\$1,750.00

Summary		
ITEM	500 TRANSACTIONS / MONTH	5,000 TRANSACTIONS / MONTH
COST OF INVOICING	\$1,275.00	\$9,175.00
COST OF ACH TRANSACTION	\$175.00	\$1,750.00
SAVINGS PER MONTH	\$1,100.00	\$7,425.00
SAVINGS PER YEAR	\$13,200.00	\$89,100.00

In summary, the cost of your payments must include not only the actual cost per transaction (transaction fee or discount rate), but also the real numbers you spend for labor and the time you wait to receive the funds. While many of these can be considered “cost-of-businesses” expenses (labor costs, settlement times and bank fees), if there was a way to reduce or eliminate these expenses (and thereby increase profits), would you make the change?

“How much productivity can we gain?”

If we equate automation with productivity, you can begin to the benefits as soon as you accept an electronic payment. The automation process starts the moment a check is offered as payment and varies by sales environment. You will see efficiency gains at every point.

Whether you are processing point-of-sale check transactions, phone sales/payments or even credit cards, electronic check and ACH payments Checks processed electronically can be and converted (truncated) immediately on acceptance and, in many cases, a paper item is not created. You remove the physical check from your payment process at the first step. The need for employees to handle the check is eliminated. This approach increases productivity right away. The process of reconciliation and deposit of the payments are now kept entirely in-house and out of the banking system. An electronic record is generated for day-end processes and the deposits are sent by key-stroke to the processing ACH House. All funds are directly deposited in the company account, within 24-72 hours. Any NSF checks are noted within 48 hours and can immediately be represented.

By eliminating the paper check from your payment process, you have also eliminated the need for sending your paper checks to your bank. Compare the electronic process, where the check is handled once, by one employee to the manual process, which entails 6 to 7 separate steps in which the checks are handled and the information can be entered many times. The productivity gain is substantial.

“Where will I save time and money?”

As stated earlier, the payment process can be streamlined by removing both time and employees from the processing system. Couple this with an automated deposit and check re-presentation system and your cost of payment could decrease by as much as 70% or 80%.

This process can be performed by a single person a majority of the time, which results in the often over looked benefit of accuracy and accountability. This combines for fewer errors and better customer service.

Electronically processing checks can range from a low cost of around 10¢ (based on substantial volume of basic ACH payments) and tops out at around \$3.50(for a fully verified check for a high-risk merchant), per transaction. How does this compare to the amount you are currently paying?

“Is my organization large enough to justify the capital expense?”

Over the past five years, electronic check processing systems have increased in availability and decreased in cost. Organizations that could afford a system five years ago usually had to resort to the expense of creating their own system, in conjunction with their bank. As a third-party processor, working with a handful of ACH clearing houses, Creative Cash Flow Solutions has made this a viable option for companies of any size. For the smaller organizations this means the increase in accuracy, labor and cost savings are now within reach. How big is big enough? You have to decide. A lot depends on your motivation for implementing a system and the options required by your organization.

What Are Your Options?

Options can include:

- **Simple conversation to an ACH debit**
- **Check 21 Conversion with Negative Data verification**
- **Automatic debit and processing of ongoing payments**
- **Out-going payments, including credits**

These options are in addition to the benefits already mentioned: error-reduction, speed and cost savings, and labor reduction. A good rule of thumb for justifying a move to an electronic check processing system would be an average current cost in the neighborhood of \$1.00 per check transaction (including transaction fees, discount rate, staff costs and any delay in funds receipt/settlement). If you spend more than that, you should consider one of the many systems available.

A move to Electronic Check Processing WILL save you money.

For additional information or a
risk-free assessment of your current payment systems,
please contact:



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