BEST PRACTICES GUIDE

Accounts Payable Payment Methods

Contents

Introduction

Today's accounting professionals have an increasingly unique opportunity to create meaningful change in their clients' businesses. As more firms expand upon the services they provide—beyond just tax and compliance—they're discovering that improving the bottom line for their clients can have a direct impact on the bottom line for the firm. It can even get you through tax season a bit faster with year-long efficiencies in place.

In our first best practices guide of the series, 'Accounts Payable Approval Workflows,' we took a deep dive into evaluating a client's end-to-end payments process, how to track progress using key performance indicators (KPIs), and how to determine and implement a process that can save them time and money.

Now, it's time to look deeper into the business to business (B2B) payment methods your clients are using and the processes (or lack thereof) in place to keep their payments organized, efficient, and adverse to fraud. This guide will walk you through the steps of client analysis, help you understand payment method pros and cons, and assist you in determining the right payment method(s) for your individual clients' needs.

In this guide, we'll share a step-by-step approach and best practices that will help you recommend scalable payment options for your clients, including how to:

- Evaluate your clients' current payment methods
- Manage vendors and their payment terms
- Explore various available payment methods
- Determine the right payment method(s) for your client
- Implement a scalable payments process into their approval workflow

Evaluate your clients' current payment processes

Business-to-business (B2B) is a transaction between two businesses, often a purchase of goods or services (e.g., a manufacturer developing product for a wholesaler or a wholesaler selling stock to a retailer). These transactions carry a complexity and cost greater than a client's typical business-to-customer (B2C) relationships.

Also included in our clients' lists of bills to pay will be some important operating costs, such as the brick-and-mortar lease payment, any rental agreements such as equipment or transportation, and of course the utilities—gotta keep the lights on, after all!

Trying to keep every transaction organized, staying on top of cash flow, and growing the business can be a daunting task for any small- to-medium-size business (SMB) owner. This is just one of the many reasons accounting professionals can provide immense value to their clients with an outsourced bill pay service. You have the power to help your clients streamline back-office tasks with simple changes in the way they conduct business.

As with any worthy process change, let's start by reviewing their current payment processes. This will help you better understand the following and more:

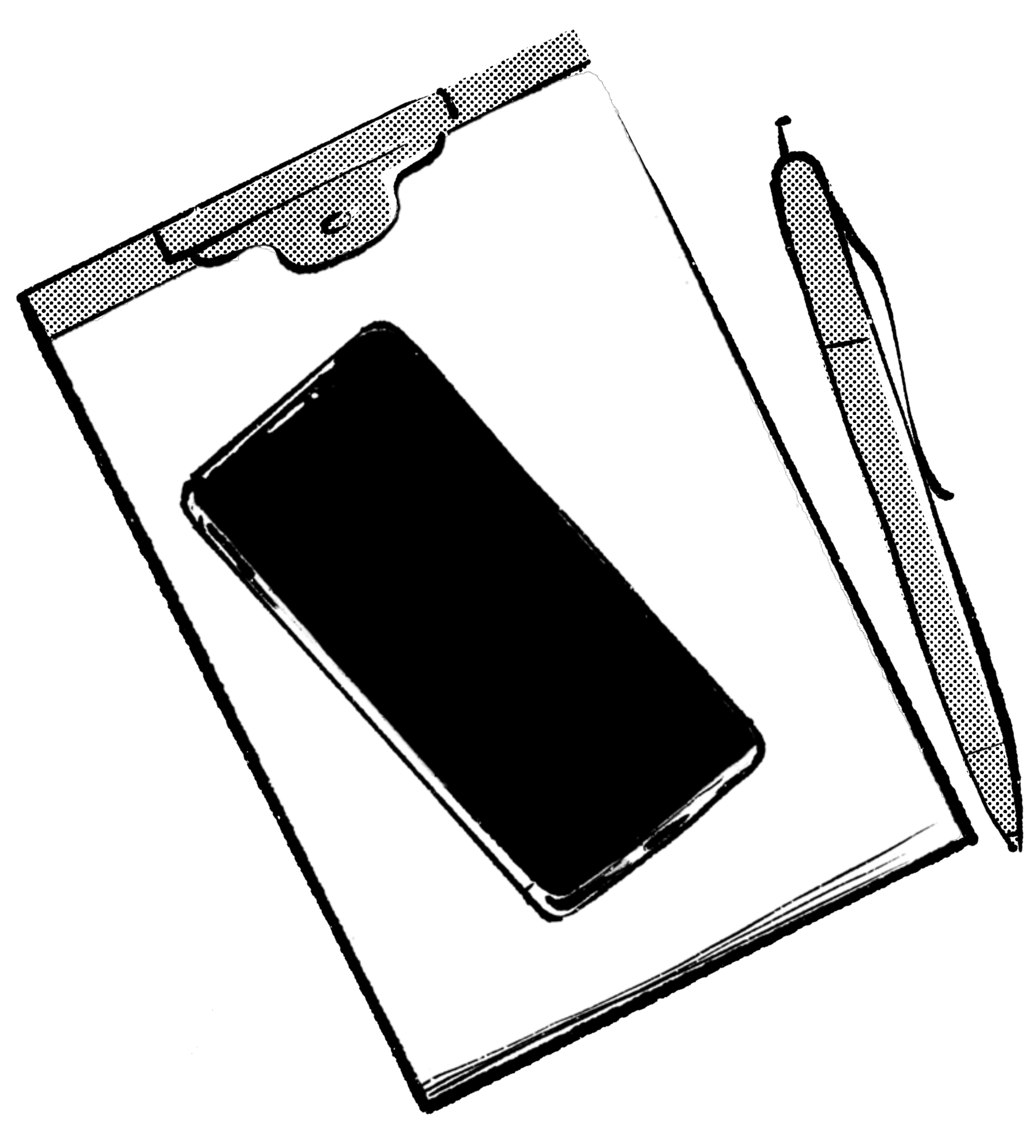
1. **How are vendors being onboarded and managed?**
2. **What funding sources are being used to make payments?**
3. **How are payments being disbursed?**
4. **Is their payments process susceptible to fraud?**
5. **What is the cost to my client to make payments?**

How are vendors being onboarded and managed?

A client's AP process requires efficient vendor management, which includes obtaining and keeping up to date vendor records like contact information, tax information, contracts and payment terms, electronic payment authorization, and possibly more based on industry. Ask your client about their current onboarding process for vendors and how documents are kept.

In order to maintain a healthy vendor relationship, it's important to create a simple and organized onboarding process, and it all starts with the W-9. Having every new vendor fill out a W-9 form can save a lot of time and hassle during tax season. It helps to ensure all tax documentation is already on file and their 1099s are filed accurately and on time.

Your client should also have visibility into signed contracts and payment terms. Consistent late payments or breaching of payment terms can create tension in the vendor/client relationship. This can lead to more strict contractual agreements, possible loss of the vendor, and even damage to the client's reputation. Having transparency and easy access to vendor documents can help clients avoid these unfortunate consequences.



What funding sources are being used to make payments?

In today's economy, businesses have access to a variety of cash and lending accounts to fund payments. How they choose their funding source is often based on necessity and cash flow needs.

When talking to your client about their source of funding its important to understand the benefits and restrictions of each:

Bank Account

The most common source of funding is, of course, the business bank account. "Cash is king," as the saying goes, which is referring to the importance of liquid assets. After all, if a client doesn't have the funds to cover expenses, there are currently 'bigger fish to fry' than their payments process.

This funding source requires a keen eye on 'money in' and 'money out'. Cash flow needs to be closely tracked to ensure the business isn't at risk of funding issues and that every transaction can be easily accounted for. Many of today's online general ledger solutions come equipped with bank feeds for just that reason.

Using the company bank account can be quite limiting in some cases. Smaller operations and even some mid-sized businesses may require more flexibility in their spend in order to invest up front and pay later, once more revenue has been generated. Which is why many SMBs also use a...

Credit Card

Cash may be 'king,' but using a credit card to make monthly payment runs has quickly become one of the most popular funding sources on the market and can be a great asset to any client's cash flow. When it comes to 'money in' and 'money out,' this allows the client a bit more time for cash to accrue between payments—enabling them to make bulk payments to the credit card provider every 30–60 days, rather than moving money from the bank account for every individual transaction.

There is also a long list of benefits a client can possibly accrue from using a credit line consistently. Here are just a few common benefits business owners are taking advantage of:

- Increased credit confidence and available balance
- Greater eligibility for business loans (and better APR)
- Accrued sky miles for business travel
- Car rental discounts
- Retail discounts (think office supplies and more)
- So much more, depending on the card provider

At BILL we know that not every vendor is inclined to accept credit cards just yet, so we've provided a way for businesses to use **Pay By Card** as their funding source while still disbursing the payment as an ACH or paper check. The best of both worlds to meet the client and their vendor where they need us.

e-Wallet (Electronic Wallet)
Another up-and-coming contender for funding sources is a pre-loaded electronic wallet. The ability to budget out and completely separate B2B payment funding from the bank account can make a world of difference in cash flow visibility and organization. Doing this has allowed many businesses to keep their other operating costs like payroll and employee expenses separate from the costs of goods and services.

A new feature within BILL called 'balance' allows businesses to wire money in up to $100M and make payments of up to $10M at a time. It even allows a business that uses the platform for receivables to fund their balance with those incoming transactions and use those funds for outgoing payments—completely separating our AR and AP from a business' other expenses.

How are payments being disbursed?

Whether paid by paper check, bank wire, credit card, or any other form of payment, all transactions have to be processed and recorded in detail to be reconciled later in the general ledger. Many business clients will use multiple forms of payment depending on each vendor's payment terms, so this requires some serious organization to keep accurate records.

Be sure to document how payments are being made and tracked, as well as who has access to these forms of payments. It is a best practice to ensure no one person has the ability to create bills and pay them. This protects both the business owner and employees from the consequences of fraud and costly mistakes.

Is their payments process susceptible to fraud?

Small business clients aren't always aware of the processes and workflows available to help mitigate risk as they pay bills and spend money. Here's a quick checklist to help you determine if their AP process could be putting their business at greater risk of fraud:

Paper Checks
Paper checks contain all the information fraudsters need to steal a client's money. Paper limits transparency, can be easily manipulated, can be stolen or destroyed, and often slows down critical processes.

No defined AP workflows
Paper isn't the only place fraud happens. Business email compromise (BEC) attacks use email systems to impersonate someone from within. If a clearly defined workflow with user roles isn't established and followed, the business leaves themselves open to BEC attacks.

Sharing banking account login information
People come and go. When clients share confidential information such as banking logins, every person who has it carries a risk and requires a change if a person leaves the business.

Ignoring fraud prevention tools
Mitigating risk isn't a manual process; something is bound to be left behind. Clients should be aware of the tools that can help.

Here are some tips and tricks to help protect your client from fraud.

BILL offers the ability to still send paper checks to vendors who require it without exposing your clients' financial information–and without the hassle of postage and manual process. All transactions are handled seamlessly in our online platform and BILL sends the check to the vendor on your clients' behalf.

What is the cost to my client to pay the bills?

Finding the right balance of time, cost, speed, and security is essential for a successful business payment process. Your client will likely use a mix of different payment methods to maintain strong vendor relationships and help streamline their business.

All of these payment types have associated costs per transaction–a key performance indicator (KPI) we discuss in-depth in our Approvals Best Practices guide. Use this opportunity to calculate how much clients are spending to 'pay the bills' by breaking down each payment-type cost multiplied by the amount of payment transactions they are making each month, of that type.

It can be a very sobering stat to provide clients to show how much money they may be throwing away on manual payments vs. digital. Here are some key considerations when evaluating the associated costs of your clients' current payment methods:

Manual Checks
tend to be less efficient, paper-intensive, and prone to human error. This can drive up costs with postage, productivity, canceled check fees, and late fees.

Credit card and ACH payments
also tend to have transactional fees associated with them, though the costs for these payment types are most often lower than the wasted time and money used for paper checks.

Domestic and international wires
are less common for day-to-day transactions but are nonetheless important for businesses, especially when making larger-than-normal payments or dealing with cross-border currency exchanges. Banks tend to have a static cost per transaction for wires but also may have amount limitations that require multiple wires for a single transaction.

Digital payment platforms
like Venmo and PayPal are more common in very small businesses, mostly for the convenience of making B2B payments without dipping into the bank account directly (though they are often connected to one). The transactional fees for these types of platforms are often much higher than other common payment types.

And so before you make recommendations on how to create cost efficiency for your clients, it's time to...

Explore benefits and considerations of B2B payment methods

As businesses and suppliers continually evolve and innovate, so do their needs for new payment methods. Today, businesses have a wide range of B2B payment methods to choose from, but it's not always clear what payment method is the best for each business situation. It is important to understand what your options are and what payment methods work best for your clients and their vendors.

This section will give you a brief overview of different payment options so you can find the right balance of cost, payment speed, and security—and ensure that you're using the right payment method at the right time.

Above all, you should work with your clients' vendors to see what methods they prefer, helping you to improve vendor relationships and make the process easy for employees at both companies. Your team will likely use a mix of these payment methods to keep operations running smoothly.

PAYMENT TYPE:

Paper checks

The most traditional form of payment, paper checks are becoming less popular for a variety of reasons in this digital age. The process of paying by check is slow and requires excessive, manual effort. Written checks can also pose a security risk and provide a lack of visibility into payments—the kind of visibility that is essential to proper cash flow control.

Because paper checks use a check clearing system to process payments, it can take several days to clear the batch process. Checks also require a lot of extra work (from approvals to mailing) and create an overwhelming stack of unnecessary paper. Perhaps the biggest issue with checks is the need to mail them through the postal system. This can lead to a real lack of transparency in the process, meaning that businesses are lacking tracking information for checks sent and received. Traditional paper checks also include the sender's banking information, creating a security risk if the checks are lost or stolen.

Average payment time

Depends on check clearing process and delivery method

Cost

Cost of paper checks, mailing supplies, stamps, manual labor, etc.

Advantages

- Familiar payment method that some vendors still require
- Doesn't require recipient banking information

Other considerations

- Time-consuming, manual process
- Slow—generally dependent on USPS mailing time
- Less secure than digital payment methods
- Can be lost in the mail
- Usually no tracking (less transparency)

Optimal use case

For vendors who don't accept digital payments and still require checks

PAYMENT TYPE:

ACH (e-payments)

ACH payments are digital payments made through the Automated Clearing House (ACH) network, a secure system for bank-to-bank transfers. The system processes payments in batches, so it can take several days to process an ACH transfer; therefore, these transactions do not happen in “real time” as some might think, but they are faster and tend to involve less manual labor than paper checks and incur lower fees than credit cards.

Average payment time

3–5 business days

Cost

Typically less than $1
(only $0.49 in BILL)

Advantages

- Inexpensive
- Fast
- Less manual labor
- More secure than checks

Other considerations

- Generally used for domestic payments, as only a few banks support international ACH
- Not all vendors accept ACH payments
- Cut-off times for same-day or next-day payments
- $1 million same-day maximum transfer limit

Optimal use case

A low-cost, secure digital payment option to domestic suppliers who accept ACH payments, and when you don’t need to make a payment immediately

PAYMENT TYPE:

Credit card

Credit cards are a popular form of payment for businesses that want to optimize cash flow by deferring payments to their next credit cycle. They're also popular as many allow you to collect credit card perks—such as points, miles, or rebates—while you pay your vendors. Credit cards provide one of the fastest payment options but are generally more expensive.

Average payment time
Next business day

Cost
Fees typically a percentage of payment

Advantages
- Common payment form
- Fast payments
- Defer payments to next credit card cycle for better cash flow management
- Earn rewards

Other considerations
- Some vendors don't accept credit cards
- Standard credit card fees charged to either business or vendor

Optimal use case
For businesses that want to earn credit card rewards on bill payments and defer payments to better manage cash flow

PAYMENT TYPE:

Virtual card

A virtual card is a 16-digit, one-time-use credit card token that functions as a proxy for a physical credit card with a perpetual number. Virtual cards offer a layer of protection and security to card payments because the card number/token can be used only once, and they also specify the amount of the payment and expiration date. Virtual cards are typically distributed to the vendor in an email that contains relevant remittance information about the invoices being paid. Once received, the vendor enters the single-use credit card number into their credit card system to get paid.

Average payment time
Typically delivered within 1–2 business days. Actual receipt of payment depends on when vendor processes payment

Cost

- No cost to the sender
- Standard card processing fees paid by recipient

Advantages

- Faster than checks and ACH
- More secure than credit cards, checks, and ACH

Other considerations

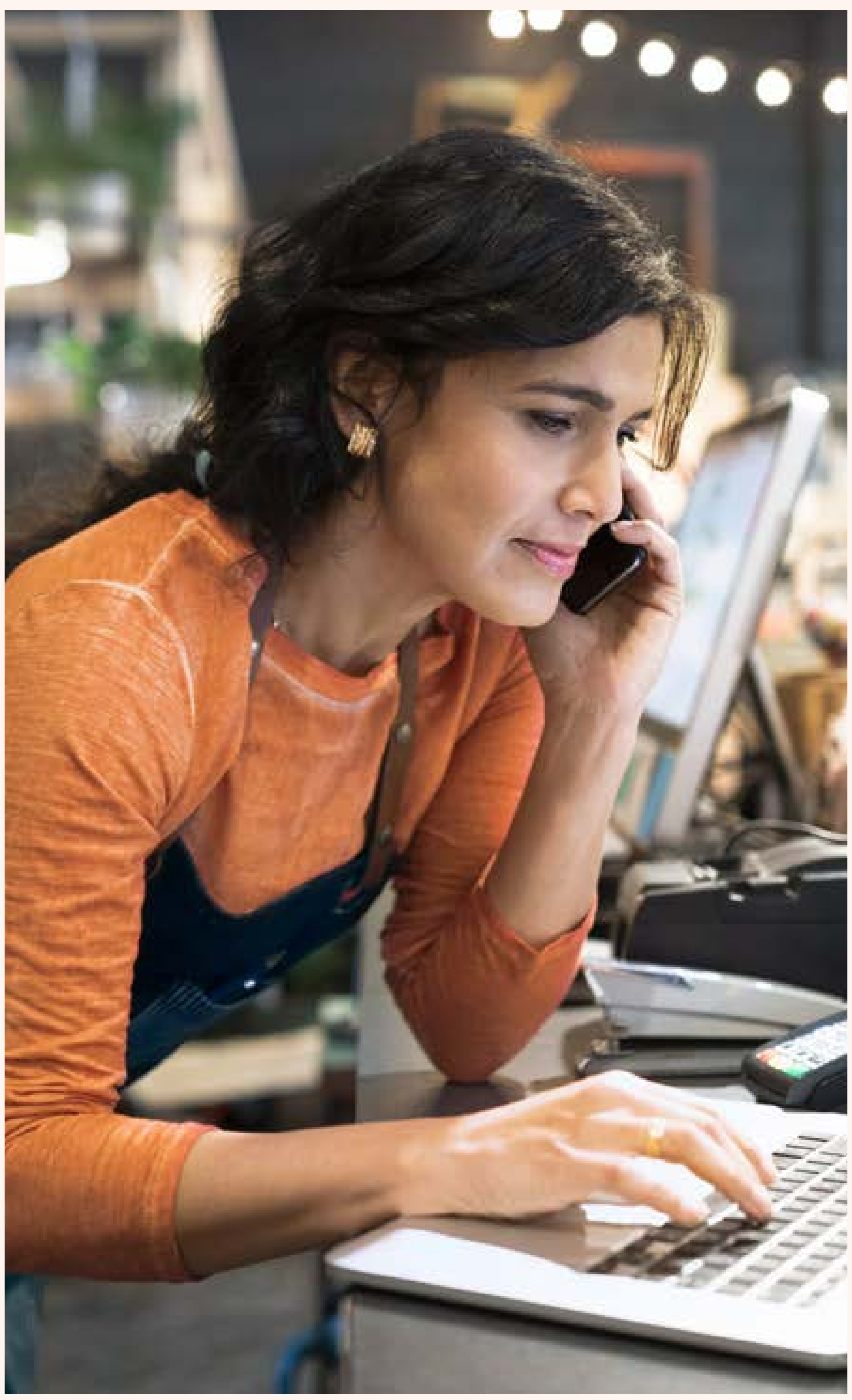
- Not all vendors accept credit cards
- Requires vendor to process payment once info is received

Optimal use case
When you want a secure, free, and fast way to pay vendors who accept credit cards

PAYMENT TYPE:

International wire

International wire involves sending electronic payments to a payee in a different country—either in local currency or US dollars. If sent via a bank, an international wire may run as much as $60 per transaction and usually involves completing time-consuming wire transfer forms. Whether paying in local currency or USD, intermediary banks will often add lifting fees. While domestic wires are nearly instantaneous, international wires can take anywhere from 1–5 business days.



Average payment time
Typically 1–5 business days

Cost
$38 wire transfer fee in local currency (industry average)*

Advantages

- Faster, easier, and more secure than paper checks
- Can pay in local currency or USD

Other considerations

- Can be more expensive, especially if using a bank wire
- Requires recipient to provide banking account information to payer

Optimal use case
For payments to international vendors, typically for large amounts

*Based on average published fee for outgoing international wires in local currencies, charged by the top 10 US banks according to the FDIC. This fee excludes currency conversion rates.

PAYMENT TYPE:

Real-time payments (RTM)

In 2017, The Clearing House (TCH) introduced Real-time Payments (RTP) to the United States, which allows real-time credit transfers between financial institutions 24/7, 365 days a year, including holidays and weekends. With RTP, payments are cleared in seconds so your vendors can count on near-instant payment. Roughly 60% of US bank accounts are reachable by RTP.

Average payment time
Money gets deposited in seconds

Cost
Typically 1% of payment (paid by receiver)

Advantages

- Payments typically happen in seconds
- Payments can be sent 24/7, 365 days a year, including weekends and holidays

Other considerations
For debit card payouts, debit card information is required

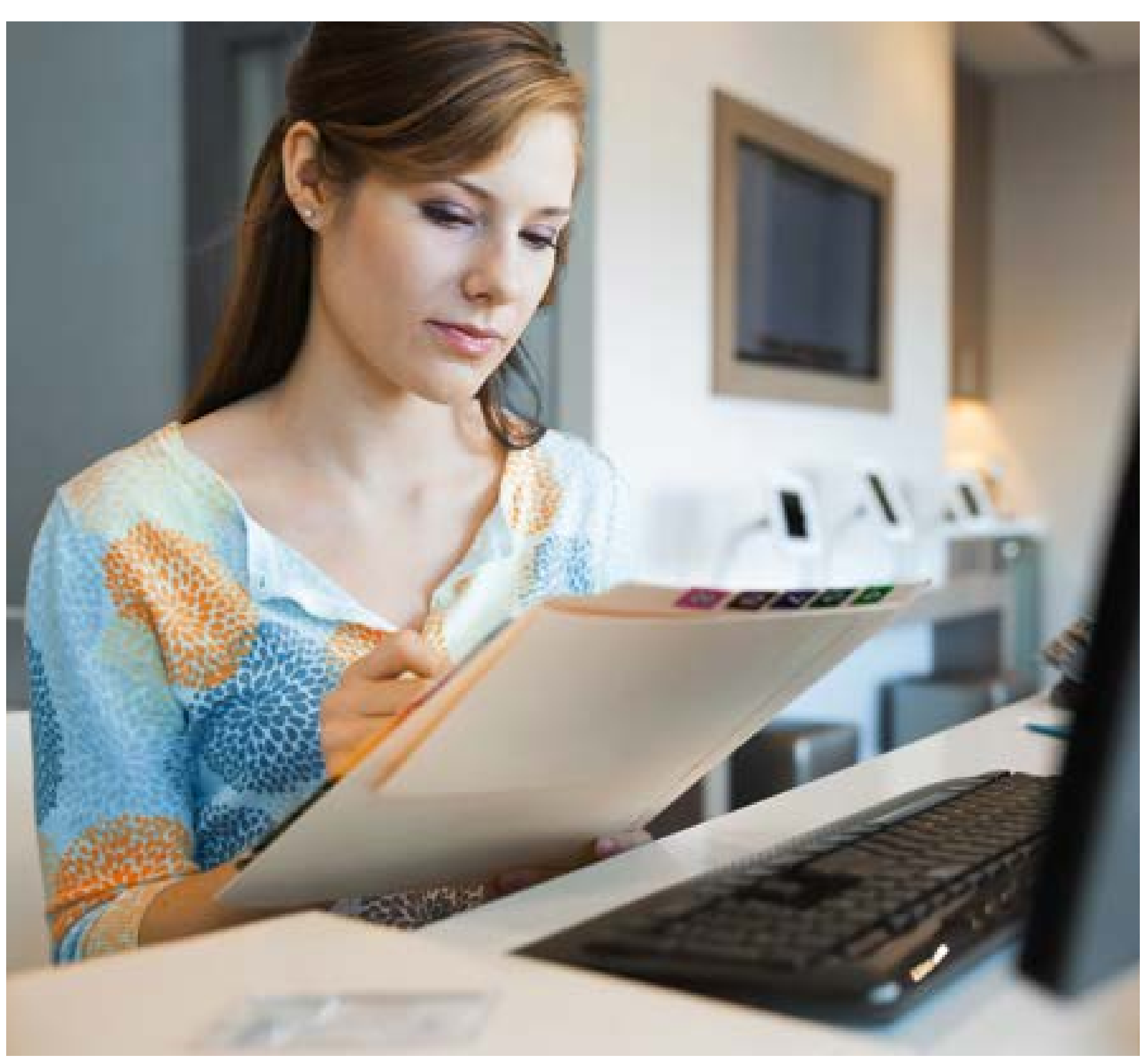
Optimal use case
For vendors who require near instantaneous payments, including on weekends and holidays

Advise your clients on payment options that best fit their needs

Now that you have a better understanding of the client's current processes, costs, challenges, and more, you can determine which payment methods and funding sources make the most sense for them. The conversation about making process changes becomes a lot easier when you review cost KPIs and show how much cash could be saved and reallocated to help the business grow.

Determine who is responsible for payment disbursement

For medium to large businesses this can mean multiple people are involved or even an entire AP department. In a small business, this may be one of many tasks of one single person in the office, an admin, or even the business owner themself.



BEST PRACTICE:

Payments should be outsourced to your firm for better cash flow visibility and overall accuracy of payments, allowing the client stakeholder(s) to simply review and approve transactions. This allows the business to focus on growth and gain peace of mind by not having to interact with these tedious back-office tasks.

If the firm does not wish to take on the liability, then a single dedicated person or small department within the business can be assigned payment responsibilities. Just be sure to implement clear guidelines within the approval process and provide controls to ensure timely and accurate payments are being made.

Help reduce the cost of payments

Throughout this guide, we've taken time to discover your client's current payment process and possible pain points, payment types they use, and calculated the associated costs. We've discussed creating efficiencies in how payments are made and reduced overall risk by putting some controls in place for who can access funds and make these payments. Now, let's talk about making changes to the payment types themselves in order to reduce overall transaction costs.

As you have this conversation with clients, consider the following to make a more-informed decision:

Paper-intensive transactions will require KPIs beyond simple transaction fees. This calculation will also include 'cost of materials' (e.g., check stock, postage, etc.) and 'time it takes to process an invoice' due to manual tasks associated with this payment type. Calculating this total cost for the client can be very eye-opening.

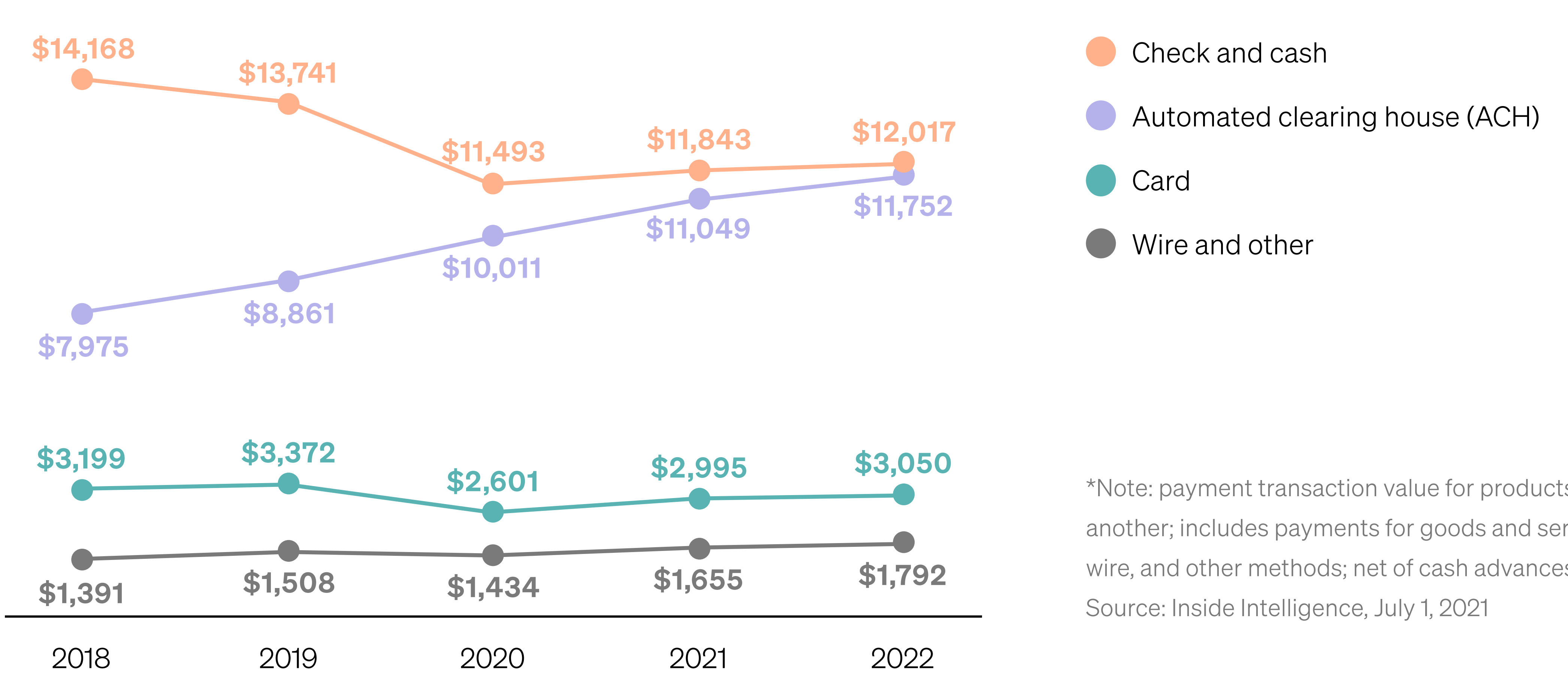
ACH/e-payments are a clear front-runner and best practice in the industry for overall cost per transaction and speed of payment to vendors. The amount of ACH business transactions have been on a rapid climb over the past few years, while paper checks continue to steadily decline.

Credit card transactions are also on a steady incline as shown below. More and more businesses are taking advantage of the benefits of stretching their cash flow beyond and reaping business rewards.

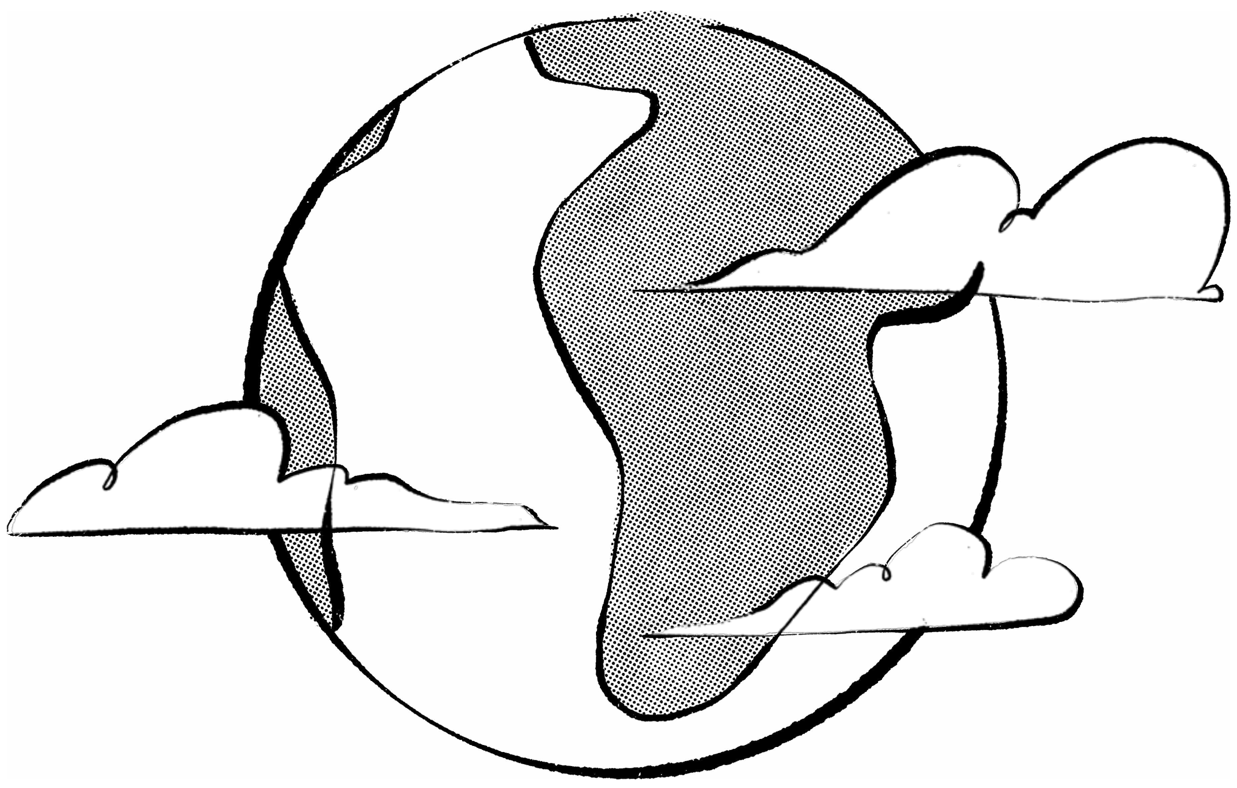
International wires are only necessary for clients making cross-border payments, but it's important to note that if they are processing these transactions manually or doing so directly through a bank, they may be wasting money on transaction costs and conversion fees. Consider using a payments solution that already has the technology built-in to streamline these payments and lower cost.

US B2B Payment Transaction Value, by Transaction Method, 2018-2022

trillions



*Note: payment transaction value for products or services from one business to another; includes payments for goods and services made via cash, check, ACH, card, wire, and other methods; net of cash advances, chargebacks, and balance transfers. Source: Inside Intelligence, July 1, 2021



BILL offers one simple process for domestic and international payments to over 130 countries with up-to-date currency exchange rates and with $0 in fees when the vendor is paid in their local currency.

BEST PRACTICE:

Using the information and KPIs we mentioned in this section, you can begin to calculate the total cost of each transaction type individually, to advise your client on better payment alternatives:

Example A
If your client is currently paying vendors with paper checks, they can eliminate the costs of check stock, postage, paper-intensive processes, and associated fees, by switching to a digital payment alternative like ACH.

Example B
If your client is only using liquid payment options such as check or ACH but need more flexibility with funding, this may be an opportunity to add a business credit card account. This allows your client to fund payments with a credit line and possibly extend their cash flow.

Example C
If your client is making very large payments frequently and/or just want to keep their payment transactions separate from their other business expenses, an e-wallet or prefunded account like BILL balance can be a great way to add more transparency and control.

Making these changes may require some payment term negotiations with vendors or simply to revisit payment contracts to see if more cost-efficient payment types are already accepted.

All of this should be recorded when you...

Keep your process document up to date

The most important part of making changes to a client's bill payment process is to create a workflow document that can be referenced and maintained by your firm and the client.

This is a process document that will need to be updated and managed over time, so while we do recommend using an AP software solution to manage the work, we also recommend using an online doc or shareable spreadsheet, outside of your software solution, to maintain a clear documented outline of what was created and how it was implemented in case changes are needed later on.

BEST PRACTICE:

Be sure to outline who is responsible for payment disbursement, their role within the organization or firm, key responsibilities, payment accounts/types they have access to, and any other important information that will make it easier to manage staff changes in the future.

With this information properly documented, it can be easier and safer to onboard a new person to this role when needed and to ensure steps are taken to remove access for employees that have moved on to other roles or companies.

Using automation technology to manage the process

As part of any efficient approval process the payments function needs to be just as streamlined as the document collection, bill creation, and transaction approvals—with a clear separation of duties throughout. For that reason among others, we recommend using a payments platform that provides end-to-end transparency and control over the payments process.

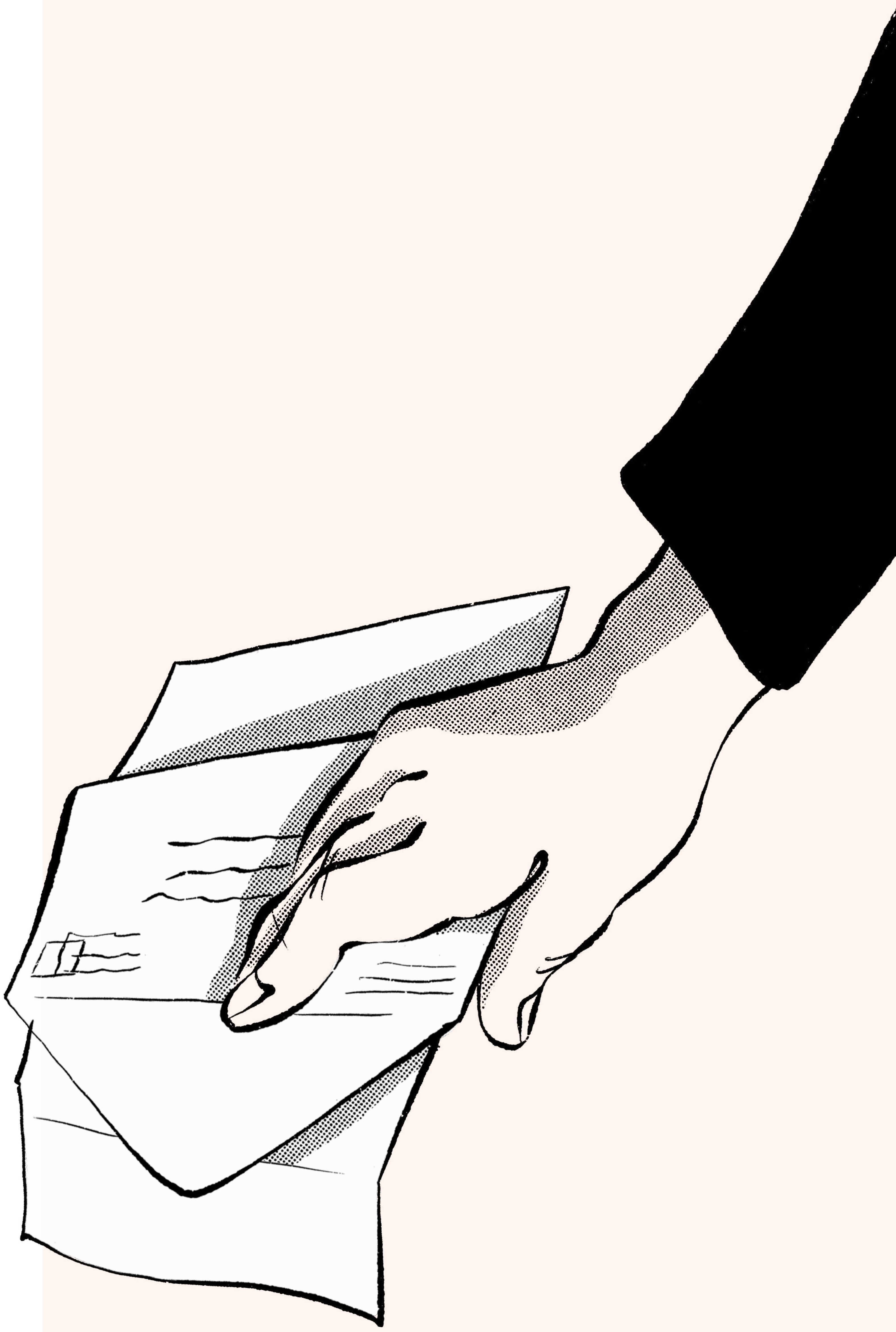
Online payment solutions like BILL allow you to manage multiple payment types like ACH, Pay By Card, virtual cards, international payments, and more—all from a single dashboard—while keeping all transaction data organized and syncing it over to leading general ledger software.

BEST PRACTICE:

Ditch the manual, paper-intensive processes for a more organized and digital experience. The ability to manage multiple payment methods and funding sources, vendor information, and all associated documents, from a single dashboard, can be an absolute game changer for a client's AP workflow.

BILL is an end-to-end payments platform that can help automate these back office tasks and more!

BILL even allows you to continue using paper checks for clients and vendors who aren't ready for change, and manages the paper processing and postage on your clients' behalf—further reducing cost and the chances of fraud.



In closing

Saving money on business operations allows our clients to use their revenue more efficiently and stimulate growth. We all have a hand in the success of our business economy, and it all starts with creating smoother processes and removing roadblocks for the businesses we serve.

Those of us in the accounting industry have a great opportunity to help improve the processes of business clients, remove cash flow barriers, and increase their chances of success. Outsourced bill pay is a prime example of that opportunity—the ability for firms to help manage their client's back office, offer peace of mind, and allow the client to focus on what they care about most—growing their business.

Here at BILL, we've designed a partnership to help you deliver that value and save your firm and clients 50% of the time it takes to manage AP. Visit us at accountants.bill.com for more great resources like these to help empower and support you in offering this solution:

- Accounts Payable Approval Workflows: Best Practices Guide
- Bill Pay Participatory Models
- AP Process Documentation Template
- BILL Payment Types