The Benefits of Going Paperless and How ACH Works to Lower DSO

Making the switch to electronic payments (e-Payments) from traditional paper checks can be anxiety-inducing—and yet, consumers have overwhelmingly made the switch much quicker than have business creditors. Nearly two-thirds of all business-to-business (B2B) payments are still made by physical checks, according to a recent FinTech Market Landscape study. By just switching payments to ACH, days sales outstanding (DSO) can decrease by 20% after full remittance increasing cash flow and making budgets more flexible, as stated in a recent *Receivable Savvy* webinar hosted by Senior Director, Product Management and Strategic Corporate Relations for NACHA, Robert Unger.

“Not only is ACH a way to move money between bank accounts [company’s account to seller, etc.], you can push payments and pull payments from a seller,” Unger said in the webinar. “More importantly, it supports a boatload of remittance information. It describes what the payment is about, what kind of deduction is being made, that sort of stuff.”

According to a survey by NACHA, more than 50% of respondents in the study said less than 20% of all remittance information is processed automatically with the help of ACH, meaning most back-office functions are still performed manually. When so many tedious tasks are performed by employees, talents become wasted and the margin of error for processed reports increases. Not only is this use of employees for back-office tasks a waste of time, it’s also a waste of money, Unger said. Staff taking care of back-office assignments is at greater risk for human error; their skills can be better employed on other tasks.

“How do we cut expenses without eliminating personnel?” said Gary Mulherin, CCE, ICCE, in an interview with NACM. “There are additional savings to be had if the business looks carefully into talking to their bank to see what options they have. Sometimes they don’t want to or they don’t have the time to.”

With ACH, customers also have the option to trigger payments or have them debited, according to Unger. Using debit transactions, payments can be made almost instantly from one company to another. Instead of waiting for a check to reach the post office—or dealing with the dreaded, “The check is in the mail” excuse—suppliers have access to money from the customer readily available. This permission can be granted when negotiating terms with a customer.

“When you talk about certain customers not being able to send you ACH payments, remember this: With their permission, you can pull funds from their account, too,” Unger said. “Don’t overlook the B2B debit: one-third of all B2B transactions are debits, where one company is pulling funds from another company.”

Even after lower DSO, the benefits continue: Using an ACH provider is cheaper than working with physical checks. Third-party senders—one of the many options for ACH payments—still need to finance their companies; the fees associated with using their services are usually up to the business: Businesses can pass some costs off to the customer or pay their own costs, Senior Manager of Credit Administration at Grainger, Ed Bell, CBA, ICCE, said in an interview with NACM.

“It’ll save you money because you’re not doing the function. We’ll charge the actual supplier for the cost,” Bell said. “If we, the supplier, are willing to accept those third-party offerings, it will save money for the end-user customer.”

—Christie Citranglo, editorial associate