The Ultimate B2B Payment Guide

How to Choose the Right Payment Methods for your Organization

The business case for electronic payments is clear.

But what isn't so clear to many finance leaders is how to determine the best way to pay suppliers. Finance pros know that choosing the right payment method for their suppliers is not a one-size-fits-all endeavor. But unraveling the intricacies of each payment method can be overwhelming.

This guide is designed to help organizations optimize their payment mix.

From Automated Clearing House (ACH) payments and virtual card transactions to wire transfers and paper checks, this guide delves into the pros, cons, and ideal use cases for each payment method. We break down each payment method and provide a comprehensive overview of its functionality.

Whether your organization is looking for a way to pay suppliers for everyday expenses, high-dollar purchases, or recurring bills, this guide will help you determine the most suitable payment method.

Your electronic payments journey starts here!

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Not all payments are created equal

Selecting the right payment method for paying suppliers is an important decision that impacts various aspects of an organization's operations, finances, and supply chain. It requires careful consideration of factors such as cost, efficiency, security, and compliance to ensure optimal outcomes for both parties. The strategies in this guide will help organizations choose the right payment methods.

Automated Clearing House (ACH)

An electronic payment that is made from one bank account to another.

Pros:

- **Ease.** ACH transactions can be initiated with a few clicks of the mouse, saving staff time.
- **Simplicity.** Funds are deposited directly into a supplier's bank account.
- **Availability.** Suppliers can receive ACH payments faster than checks sent through the mail.
- **Cost.** ACH transactions typically have lower fees than checks and wire transfers.
- **Repetition.** ACH transactions can easily be scheduled for recurring payments.

Cons:

- **Time.** ACH transactions may not be instantaneous, potentially delaying payments.
- **Risk.** ACH transactions require the collection of banking details from suppliers.
- **Reach.** ACH is primarily designed for domestic transactions, not international payments.

Use Cases:

- Recurring payments such as monthly invoices, subscription services, and service fees.
- Routine operational expenses like payroll, utility payments, or rent.
- Large batches of payments initiated simultaneously.
- Regular payroll transactions for employees.
- Domestic transactions where speed is not a critical factor.

ACH+ (or Network Payments)

A payment processed through the ACH Network with additional features.

Pros:

- **Simplicity.** Funds are deposited directly into the supplier's bank account.
- **Details.** Suppliers receive rich remittance data for fast posting/reconciliation.
- **Cost.** Buyers may not pay a fee to initiate ACH+ transactions to suppliers.
- **Rebates.** Buyers earn cash-back rebates on qualifying ACH+ transactions.

Cons:

- **Expense.** Suppliers must pay an additional fee to receive ACH+ transactions.
- **Time.** ACH+ transactions may not be instantaneous, potentially delaying payments.
- **Risk.** ACH+ transactions require the collection of banking details from suppliers.
- **Reach.** ACH+ is primarily designed for domestic transactions, not international payments.

Use Cases:

- Alternative to checks in cases where suppliers will not accept virtual cards.
- Ideal for suppliers who require additional remittance details.

Virtual Cards

A digital version of a physical credit card with cash-back rebate opportunities for buyers.

Pros:

- **Security.** Virtual cards are the most secure way to pay suppliers.
- **Cost.** There is no cost for buyers to pay suppliers with virtual cards.
- **Control.** Buyers receive granular detail into the organization's spending.
- **Visibility.** Buyers can instantly see the status of virtual cards.
- **Efficiency.** Virtual cards can be issued instantly and reconciled automatically.
- **Rebates.** Buyers can earn cash-back rebates on qualifying transactions.

Cons:

- **Acceptance.** Achieving optimum supplier adoption requires a formal enrollment program.
- **Resistance.** Some suppliers may push back on paying the fees to receive virtual cards.
- **Integration.** Reconciling virtual cards can be burdensome for buyers that use an electronic payments solution platform that is not integrated with their ERP or accounting system.

Use Cases:

- One-time payments.
- Recurring payments.
- Payments for on-demand deliveries.
- Employee travel expenses.
- Corporate expenses such as team and client lunches.

Purchasing Cards (or P-Cards)

A specialized type of credit card designed to simplify the procurement of goods and services.

Pros:

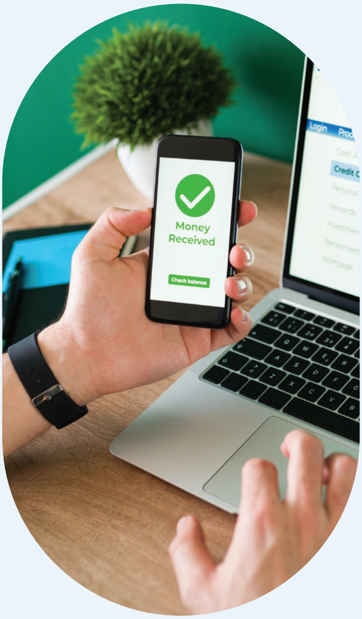
- **Simplicity.** P-cards reduce the paperwork and administrative hassles in purchasing.
- **Control.** Organizations can set spending limits, control where cards can be used, and assign cards to an employee, division, or location. And spending reports can be instantly generated.
- **Reporting.** Organizations can monitor p-card purchases in real-time 24/7.
- **Speed.** Suppliers are paid instantly for purchases made with a p-card.
- **Security.** P-cards offer built-in security features such as chips, PINs, and usage restrictions.
- **Rebates.** Organizations may earn cash-back rebates on qualifying transactions.

Cons:

- **Acceptance.** Some suppliers may not accept p-cards for the purchase of goods and services.
- **Misuse.** There is a risk of unauthorized or inappropriate card use.
- **Approval.** P-card purchases do not go through an organization's invoice approval process.
- **Reconciliation.** Reconciling p-card transactions can be time-consuming and error-prone.
- **Oversight.** Robust policies and controls are essential to reduce potential risks.

Use Cases:

- Routine, low-value purchases like office supplies or software subscriptions.
- Decentralized purchases.
- Budget control.
- Employee travel expenses.
- Urgent or unexpected purchases.
- Online purchases.



Wire Transfers

A transfer of funds electronically across a network of banks or transfer agencies around the world.

Pros:

- **Speed.** Wire transfers are among the fastest payment methods available.
- **Reach.** Wire transfers are widely accepted worldwide with quick funds availability.
- **Certainty.** Once executed, wire transfers are considered final and irrevocable.
- **Direct.** Wire transfers typically do not involve intermediaries.

Cons:

- **Cost.** Wire transfers cost buyers significantly more than other payment methods.
- **Risk.** Wire transfers are susceptible to fraud and are a primary target for bad actors.
- **Details.** Not all wire transfers include detailed remittance information for suppliers.
- **Delays.** Wire transfers are subject to banking hours, which can lead to delays.
- **Complex.** Initiating and tracking wire transfers can be complex and requires training.
- **Irrevocable.** Wire transfer cannot be pulled back.

Use Cases:

- International payments.
- Urgent supplier invoices or contractual obligations.
- Emergency situations such as funding operations during a crisis.
- High-value transactions where the certainty of the funds is critical.
- Real estate transactions.

Real-Time Payment (RTP)

An electronic funds transfer that moves money from one bank account to another in real time.

Pros:

- **Speed.** RTP transactions can settle within moments.
- **Capital.** RTP transactions can significantly reduce a supplier's working capital cycles.
- **Visibility.** RTP transactions provide instant visibility into the status of transactions.
- **Accessibility.** RTP transactions can be initiated 24/7/365.
- **Efficiency.** RTP transactions are easier to initiate than paper checks.
- **Reconciliation.** RTP transactions provide suppliers rich remittance data for posting.

Cons:

- **Frequency.** The RTP network does not support recurring payments.
- **Value.** The RTP network only allows transactions up to $1 million.
- **Availability.** Not every financial institution can initiate or accept an RTP transaction.
- **Finality.** RTP transactions are irrevocable, eliminating the opportunity to correct errors.
- **Integration.** RTP transactions may require changes to a buyer's existing systems.
- **Risk.** Because of their speed, RTP transactions require robust security measures.

Use Cases:

- Salary and expense reimbursements.
- Emergency funds transfers.
- Instant bill payment.
- Quick settlement between parties in a supply chain.

Checks

Manual form of payment.

Pros:

- **Acceptance.** Checks are a widely accepted form of payment.
- **Ease.** The process of writing and depositing checks is well understood by businesses.
- **Trusted.** Some businesses, particularly smaller ones, prefer to receive paper checks.
- **Simplicity.** Suppliers do not require any special technology to accept paper checks.
- **Timing.** Businesses can control when a check is issued, improving cash management.

Cons:

- **Risk.** Checks are responsible for more fraud losses than any other payment method.
- **Cost.** Printing and mailing checks is extremely expensive (with postage costs always rising).
- **Speed.** Printing checks, chasing down approvals, and mailing paper checks can take days.
- **Loss.** Checks can become delayed or lost in the mail or intercepted by bad actors.
- **Availability.** Checks are not deposited directly into a supplier's bank account.
- **Delays.** Reconciling checks is time-consuming, potentially delaying the financial close.

Use Cases:

- Businesses that refuse to be paid electronically.
- Payments to long-standing, trusted partners that prefer paper checks.
- Small businesses that are not equipped to handle electronic payments.
- One-time or infrequent payments where the cost of enrolling a supplier doesn't make sense.

Having an invoice-to-pay platform that supports any payment method through a single file is crucial for optimizing overall efficiency, meeting supplier expectations, and adapting to market trends.

How to select the best payment method for a use case

Selecting the right payment method for a use case involves careful consideration of several factors.

- The characteristics of the transaction. Consider the amount, frequency, and urgency of each transaction and whether the payment is domestic or international.
- The speed required. Determine how quickly the payment must arrive and the implications of late payments. Remember that electronic payments can arrive much faster than checks.
- The total cost of the transaction. Understand the total cost of paying a supplier using a particular payment method, including any transaction, or processing fees and postage.

- The efficiency of the payment method. How easy will it be to initiate the transaction?
- Vendor acceptance. Use the supplier enrollment services offered by some invoice-to-pay solutions providers to understand the payment preferences and limitations of your suppliers.
- The dynamics of the supplier relationship. Weigh your organization's relationship with a supplier when considering which payment method to use to pay an invoice. For instance, long-standing, trusted suppliers may be more amenable to electronic payment methods.
- The risk of payment fraud. Prioritize payment methods with enhanced security features.
- Compliance requirements. Ensure that each payment method complies with your industry's standards. Different industries have specific laws governing financial transactions.

These considerations will help you choose the most appropriate payment method for each use case.

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