

The Healthcare CFO's Guide

Freeing Up More Cash with an Integrated Payables Solution



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Introduction

The CFOs of healthcare organizations must feel like they are on treadmill.

Each year, they must find new ways to free up cash on their existing revenue.

One of the biggest opportunities to free up cash on existing revenue is lying under the CFO's nose:

— *Optimizing the way that their organization pays for healthcare supplies, insurance, legal services, property expenses, reimbursements, settlements, tax and financial services and other purchases.*






The way that most healthcare organizations disburse funds is far from optimal. **Approximately half of all business-to-business payments are made with inefficient paper checks.**

Healthcare organizations and other businesses spend

over **\$25 BILLION** a year processing checks.



Several reasons why healthcare organizations drag their feet on electronic disbursements:

-  Concerns that suppliers won't accept electronic payments
-  Lack of IT resources to support the project
-  Lack of department resources to collect supplier banking account details
-  Concerns that their legacy systems won't support electronic payments
-  Compliance and security concerns

However, the biggest reason that many healthcare organizations haven't migrated to electronic disbursements is **the misperception among senior finance executives that their organization's cash flow will be negatively impacted by paying suppliers electronically.**

Healthcare organizations are so focused on the 7 to 13 days of float that they typically gain by paying suppliers via check, that they overlook the cost savings and cash that they can free up by disbursing funds electronically.

Healthcare CFOs are focused on EBIDTA (Earnings Before Interest Depreciation, Taxes and Amortization). But that's what makes the industry's reluctance to pay suppliers electronically so puzzling.

— ***Optimizing payments to suppliers offers healthcare organizations a unique opportunity to reduce costs while generating more cash from their existing revenue base.***

Freeing up cash enables healthcare organizations to:

-  Borrow less
-  Use less credit
-  Pay down high-interest debts
-  Invest more
-  Pay dividends

With borrowing rates standing at **3.5%**, freeing up cash on existing revenues can make a big difference for healthcare organizations.



**THIS WHITE PAPER WILL SHOW YOU HOW
HEALTHCARE ORGANIZATIONS CAN FREE UP
MILLIONS OF DOLLARS IN CASH
BY DISBURSING FUNDS TO SUPPLIERS
ELECTRONICALLY WITH AN INTEGRATED
PAYABLES SOLUTION**

Checks are Losing Their Grip on Disbursements

After years of false starts, more healthcare organizations are evaluating electronic disbursements.

75%
OF BUSINESSES

are increasing the percentage of payments to suppliers that they make electronically.

All business segments including businesses with

\$1 BILLION
IN ANNUAL SPEND

are leading the charge towards electronic B2B payments.

93%
OF BUSINESSES

can pay suppliers via ACH.

Automated Clearing House (ACH) payments and virtual card transactions (plastic-less, one-time use card transactions) are the most effective methods of payment.

According to the Association for Financial Professionals (AFP) research

What's motivating healthcare organizations and other businesses to ditch paper checks?

Manually printing, stuffing, mailing and reconciling check payments to suppliers is a tremendous burden to businesses.

88%

OF FINANCE PROFESSIONALS

point to **increased efficiency** as their primary reason for transitioning to electronic payments from paper checks.

82%

OF FINANCE PROFESSIONALS

are migrating to electronic payments to **reduce costs**.

More than **one-third of finance professionals** want cost savings of **10%** to move to electronic payments.

32% of financial professionals are looking for even greater cost savings.

Among privately held businesses, **37%** would switch from paper checks to electronic payments for cost savings of least **10%**, AFP finds.

These cost savings are within reach for businesses.

— *The opportunity to free up additional cash is really what healthcare CFOs should be excited about.*

An Integrated Approach to Payables

Most healthcare organizations use dedicated systems to print checks and make electronic payments. In many cases, healthcare organizations use a different provider for each payment system they use.

INTEGRATED PAYABLES SOLUTIONS PROVIDE A SINGLE PLATFORM FOR DISBURSING FUNDS VIA:

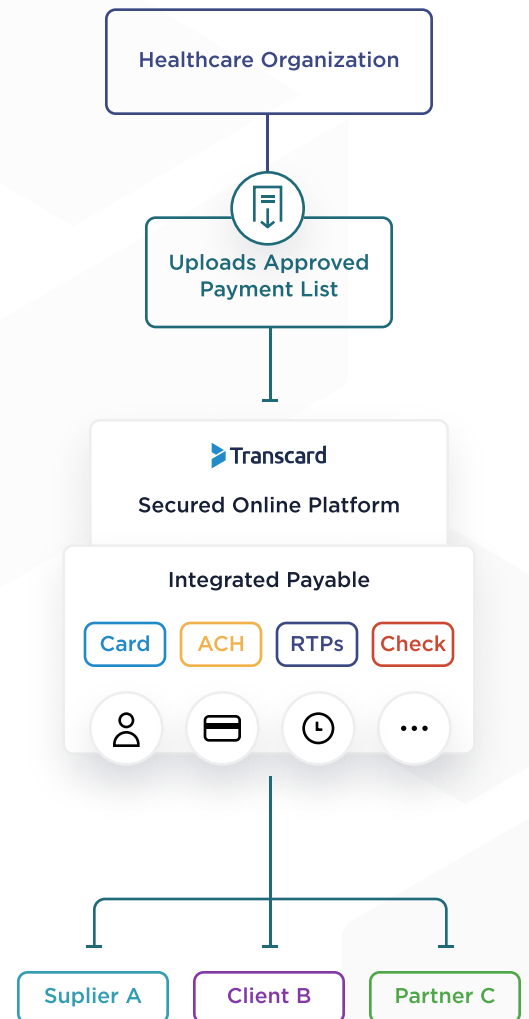
- ✓ **VIRTUAL CARDS**
- ✓ **AUTOMATED CLEARING HOUSE (ACH)**
- ✓ **REAL-TIME PAYMENTS (RTP)**
- ✓ **PAPER CHECK**

1. The healthcare organization uploads a single file of approved payments.
2. Payments are disbursed via the Integrated Payables solution following the parameters set by the healthcare organization.
3. Payments are made instantly and detailed reporting is available in real-time.

Companies can also issue some payments as real-time payments, meaning they are also immediately reconciled to the appropriate ledgers. Payments can also be scheduled days, weeks, and months in advance.

No matter how payments are made, they can be configured to be accompanied by rich remittance details such as a payment number or invoice data.

More financial technology providers (fintechs) and banks – typically in partnership with a fintech – offer integrated payables solutions and services tailored to the needs of healthcare organizations.



Disbursing funds via an integrated payables solution provides compelling benefits:



LOWER COSTS

Disbursing funds via check costs thirty times more than electronic payments, according to the National Automated Clearing House Association (NACHA). Electronic disbursements eliminate the costs associated with printing checks, including labor, paper, supplies, postage and couriers.

Electronic payments also are less likely to result in fraud losses. And having a single platform that supports all payment methods makes it easier for healthcare organizations to migrate suppliers from checks to more cost-effective electronic methods.



HIGHER PRODUCTIVITY

Check disbursement is an antiquated, time consuming, and expensive process. Choosing payments that are optimal for both businesses more efficiently uses the time of employees. Payments can be issued from one user-friendly portal in single or bulk payments. Payment issued are immediately reported, allowing decision makers to use up to the minute data when making financial decisions.



ENHANCED VISIBILITY

Integrated payables solutions provide healthcare organizations with real-time visibility across the payment lifecycle, from submission through reconciliation. Accessible reports enable users to monitor cash flow and corporate spending.



FUTURISTIC TECHNOLOGY

Integrated payables solutions eliminate the administrative burden of managing multiple systems for disbursing funds via different payment methods. And the open APIs built into leading integrated payables solutions enables them to be deployed fast and easily integrated with legacy practice management systems or other applications.



GREATER SECURITY

Administrators of an integrated payables solution can restrict access to payment information and activities, mitigating the risk of fraud and safeguarding sensitive information. The funding accounts for virtual card transactions also can be kept confidential. And leading integrated payables solutions undergo strict periodic audits. Virtual cards also are plastic-less, meaning there is no physical card that can become lost or stolen. What's more, virtual card numbers can only be used once, recipients only receive 10 of the 16 digits of a virtual card, and each transaction can be restricted by recipient, amount and time period.

— ***The most tantalizing benefit of an integrated payables solution is how it helps healthcare organizations free up new cash on its existing revenue base.***

How One Healthcare Organization Freed Up \$9 Million

Healthcare organizations can free up millions of dollars in cash with an integrated payables solution.

CASE OF A HEALTHCARE ORGANIZATION WITH
\$1.2 BILLION
IN ANNUAL SPEND

97%

of its supplier payments are made via check. ACH transactions represent the remainder of the healthcare organization's disbursements

The organization points to the seven days of cash float that it gains from making payments to suppliers via check as a reason that it has been reluctant to migrate to electronic disbursements. The organization currently picks up a bit more than **\$1 million a year in cash** from the cash float on its check disbursements.

While more than \$1 million in cash pick-up is nothing to sneeze at, the healthcare organization's case for disbursing funds to suppliers via paper check doesn't look nearly as good upon closer inspection.

\$2.50

is the price for each check payment the organization makes to suppliers



\$1.9 MIL / YEAR



in spendings to make \$776,000 payments to its suppliers via check

\$858,754 / YEAR



Importantly, the cost of disbursing funds to suppliers via paper check more than wipes out the cash pick-up the healthcare organization gains from check float. All told, the healthcare organization was shocked to learn that check disbursements cost more than \$800,000 a year

BUT THE REAL WAKE-UP CALL CAME WHEN THE HEALTHCARE ORGANIZATION DISCOVERED THAT IT COULD FREE UP \$9.4 MILLION A YEAR IN NEW FREE CASH IF IT DISBURSED ITS FUNDS WITH AN INTEGRATED PAYABLES SOLUTION.

Based on industry benchmarks collected by [Transcard](#), healthcare organizations that disburse funds with an integrated payables solution typically see the following adoption in payment modalities:

- **VIRTUAL CARD:** 35% adoption
- **ACH+:** 25% adoption
- **ACH:** 25% adoption
- **DEBIT CARD:** 10% adoption
- **CHECK:** 5% adoption



Achieving these benchmarks would have big cash flow implications for our healthcare organization.



VIRTUAL CARD/CARD

Disbursing funds via card enables healthcare organizations to free up cash by extending their Days Payable Outstanding (DPO), without impacting their existing terms with payment recipients.

Healthcare organizations also can earn rebates based on the amount of spend they pay with a card. And when you consider that disbursements for supplies, utilities and most other expenses can be made with a card, a healthcare organization could potentially earn sizeable rebates from cards.

What's more, the detailed financial data on card payments made via an integrated payables solution enables the senior financial executives to better manage their healthcare organization's cash.

And since payments made via virtual cards go through an accounts-payable approval process, healthcare organizations can better manage payment timing as well as corporate spending.

Among a healthcare organization's typical spend categories, supplies related to care, indirectly purchased services, and IT and support services typically see the highest rate of card conversion.

Based on our healthcare organization's spend profile, it can expect to convert **36.5%** of its overall spend to disbursements made via virtual card or card.

USING THE AVERAGE INTERCHANGE SHARE THAT A HEALTHCARE ORGANIZATION COULD EXPECT TO RECEIVE AS A REBATE (IN THIS CASE, A FIXED 140 BASIS POINTS - OR BPS - OUT OF A MARKET AVERAGE OF 245 BPS), OUR HEALTHCARE ORGANIZATION STANDS TO GAIN

\$6.1 MILLION IN NEW FREE CASH

BY MAKING PAYMENTS WITH CARDS INSTEAD OF PAPER CHECKS.



ACH+

Our healthcare organization can free up more new cash by leveraging ACH+ transactions.

ACH+ transactions, or Real-Time Payments (RTPs), are faster, more secure and accompanied by more robust remittance detail than normal ACH transactions - all for an additional fee. Healthcare organizations typically convert 25% of their overall spend to ACH+, with supplies related to care, indirectly purchased services and IT and support services representing the highest conversion rates.

Transcard's research shows that reimbursements, settlements, taxes and finance-related expenses are not ideal candidates for ACH+.

Based on our healthcare organization's spend profile, it can expect that 22.8% of its overall spend will be reimbursed using ACH+.

USING THE STANDARD INTERCHANGE SHARE THAT A HEALTHCARE ORGANIZATION COULD EXPECT TO RECEIVE AS A REBATE (IN THIS CASE, A FIXED 25 BPS OUT OF A MARKET AVERAGE OF 110), OUR HEALTHCARE ORGANIZATION WILL

FREE UP \$2.3 MILLION IN NEW CASH

BY MAKING PAYMENTS WITH ACH+ INSTEAD OF PAPER CHECKS.



ACH

ACH payments are a cost-effective way for healthcare organizations to pay for expenses such as finance-related charges, property expenses, insurance and legal costs, taxes and more. Our healthcare organization can reduce its cost to pay suppliers from \$2.50 (per check payment) to \$0.25 (per ACH payment). ACH payments also offer opportunities to capture early-pay discounts.

Based on our healthcare organization's spend profile, it should convert 25% of its spending to ACH transactions - in line with healthcare industry benchmarks collected by Transcard.

BETWEEN COST SAVINGS AND NEW OPPORTUNITIES TO CAPTURE EARLY PAYMENT DISCOUNT OFFERS, OUR HEALTHCARE ORGANIZATION CAN

FREE UP \$765,000 IN NEW CASH

AS A RESULT OF MAKING PAYMENTS WITH ACH.



DEBIT CARDS

In today's burgeoning "gig" economy, reloadable debit cards and payroll cards are emerging as an effective way for healthcare organizations to pay contractors and others who work on a 1099 basis.

Debit cards also offer another opportunity for healthcare organization to share in interchange fees.

A HEALTHCARE ORGANIZATION CAN TYPICALLY CONVERT 10% OF ITS SPENDING TO A DEBIT CARD, WITH REIMBURSEMENTS, SETTLEMENTS, IT AND SUPPORT SERVICES, AND LEGAL FEES HAVING THE HIGHEST CONVERSION RATES. BASED ON ITS SPEND PROFILE, OUR HEALTHCARE ORGANIZATION SHOULD CONVERT 3.86% OF ITS SPENDING TO DEBIT CARDS, REPRESENTING

**\$115,800 IN NEW FREE CASH
FROM ITS INTERCHANGE FEE SHARE.**



CHECKS

Paying suppliers with an integrated payables solution enables healthcare organizations to reduce the cost of making check payments, as well as the number of check payments that they make.

It costs over 20% less to make a check payment through an integrated payables platform compared to the average cost for a healthcare organization to make the payment themselves.

BASED ON OUR HEALTHCARE ORGANIZATION'S SPEND PROFILE, IT CAN EXPECT THAT 11.26 PERCENT OF ITS PAYMENTS WILL STILL BE MADE VIA CHECK. THAT'S THE BAD NEWS. THE GOOD NEWS IS THAT THE HEALTHCARE ORGANIZATION WILL

\$115,800 IN NEW FREE CASH

BY MAKING THOSE PAYMENTS WITH AN INTEGRATED PAYABLES SOLUTION.

OUR HEALTHCARE ORGANIZATION STANDS TO GENERATE

\$4 MILLION IN NET NEW REVENUE

AND FREE UP

\$9.4 MILLION IN NEW CASH

ON EXISTING REVENUE BY PAYING ITS SUPPLIERS WITH AN INTEGRATED PAYABLE SOLUTION.

An Integrated Payables Action Plan

Without the right approach, healthcare organizations will have a hard time achieving the results described above. Here are five things to consider when preparing to deploy the technology:

LOOK BEYOND YOUR BANK

It's tempting to think that banks are the best option for sourcing an integrated payables solution. But partnering with a fintech for integrated payables enables healthcare organizations to benefit from advanced payments technology. In fact, more banks are partnering with fintechs to resell their integrated payables technology.

What's more, most of the integrated payables solutions offered by fintechs enable healthcare organizations to use their existing bank relationships to fund disbursements (a win-win!).

And leading integrated payables solutions have at least the same level of security as bank offerings.

THINK HOLISTICALLY

Many healthcare organizations deploy different types of payments sequentially. While a phased methodology to electronic disbursements may seem like a good way to ease deployment, suppliers are less likely to embrace a “one-size-fits-all” approach to getting paid and healthcare organizations are likely to miss opportunities to free up cash.

LOOK FOR A SOLUTION WITH OPEN APIS

The last thing any finance department needs are more fragmented or poorly integrated systems. That's why it's critical that any integrated payables solution includes Open APIs that will make it easy to integrate the platform with legacy practice management systems or other financial applications, with minimal IT support.

EMPHASIZE THE BENEFITS OF ELECTRONIC PAYMENTS TO YOUR SUPPLIERS

Don't assume that every supplier recognizes the benefits of being paid electronically. Some may be reluctant to receive card payments, as an example, until they understand that they will be paid faster and that they will receive the remittance details they need to streamline their cash application.

PARTNER WITH A FINTECH THAT OFFERS VENDOR ENROLLMENT SERVICES

Few accounts payable departments have the resources required to pitch suppliers on the benefits of being paid electronically, much less manage the process of making it happen. That's why it's imperative that healthcare organizations partner with an integrated payables solution provider that provides vendor enrollment services.

The vendor enrollment teams for leading solutions providers will develop campaigns to migrate suppliers to electronic payments, collect the supplier's banking account information on the healthcare organization's behalf, set up the supplier to receive payment via their preferred method, and resolve any support issues.

CONCLUSION

- Healthcare organizations are under tremendous pressure to free up new cash on their existing revenue base
- Integrated payables solutions – a single platform for making payments to suppliers via CARD, ACH or CHECK – do just that.
- The technology frees up cash while reducing costs. With the right approach to integrated payables, healthcare organization can free up millions of dollars in new cash.

ABOUT THE SPONSOR

This white paper was sponsored by **Transcard**.

1010 Market Street
Chattanooga, TN 37402

T: (423) 553-5200