n virtually every healthcare organization, there’s a reservoir of cash trapped on the balance sheet that when freed, can be redirected toward the mission of providing high-quality care. Although the location of this money can vary depending on the organization, the accounts payable (AP) function is a good place to look for some untapped dollars.

Healthcare organizations can struggle to find the right cadence for their accounts payable activities. At one end of the spectrum, buyers may fail to negotiate advantageous payment terms and be forced to make payments sooner than they'd ideally prefer, potentially eating into working capital reserves. On the other end of the spectrum, healthcare buyers may turn their unpaid invoices into de facto sources of interest-free financing on the backs of their vendor partners, which can jeopardize important relationships. Slower payments can mean delayed shipments, sluggish responses, and less advantageous payment terms.

To effectively manage the accounts payable function, organizations must strike a balance between these two extremes and preserve cash flow while still meeting the needs of vendors. This requires a certain degree of payment diversity—the ability to make disbursements through a variety of channels and mechanisms that suit both buyers and vendors. Payment diversity brings the AP function out of the paper age and into a new, streamlined world characterized by cost savings, efficiency, and electronic transactions.

“Today’s accounts payable is all about having options,” says Brent Beaulieu, vice president of finance for Baptist Health, a 10-hospital health system and Arkansas’s largest healthcare provider. “A larger institution might have more cash on hand and financing opportunities, so it might adopt different payment strategies than a smaller health system that doesn’t have the same sort of balance sheet. Likewise, a growing portfolio of vendors might create demand for a range of payment types. Whether it’s a check, an ACH payment, or some other form of electronic payment, today, organizations must offer choices to support their needs and enable their strategic visions.”

As offerings proliferate, it’s important for financial leaders to find an optimal blend of payment methods that balance cycle times, costs, vendor preferences, and more. Following are some key steps for selecting the proper payment mix to fully optimize accounts payable.

**Step One: Examine the Current State**

Before diversifying payment options, organizations should take stock of how they currently pay invoices and pinpoint the strengths and weaknesses of these processes. If an organization predominantly uses checks, for example, it should fully understand the consequences of relying on paper. This payment form presents a litany of hidden and not-so-hidden time and materials costs. It is estimated that the complete cost of a check payment can run from $5 to $10 per check. There are the familiar and obvious printing and postage expenses, but the subtler costs can add up even more, including errors that require reissuing a check; postal delays that stretch payment cycles too far; stop-payment fees for lost checks; complicated reconciliations; and manual tasks that can lead to errors, delays, and elevated costs. There are also security and storage considerations. Blank checks are a high-risk asset that must be carefully monitored, and intercepted payments can also be a concern.

At Baptist Health, the cost and frequency of the checks they issued led the health system to take a step back and analyze other options. “You have to get a handle on the checks you’re writing,” Beaulieu says. “Who are they issued to? How often are they cut? What are the dollar amounts? How frequently is a certain vendor paid? Once you have some of these answers, you can begin to think about different payment methods. In our case, we found that with one of our most important vendors, we were cutting and mailing five or six separate
checks for them each week. We identified this as a clear opportunity to make improvements.”

In addition to reviewing the types of payment your organization currently uses, you should also check that your processes for payment are well designed. Providing different payment options won’t fix any fundamental issues with accounts payable workflow. Organizations must first make sure their workflow is efficient and appropriate, and then onboard new payment methods—such as electronic solutions—can be an easier task.

Organizations should assess their culture and determine whether they are ready to make a shift to more diversified payment options. Gaining staff buy-in and support is crucial to successfully implementing new payment methods, especially if these options shift the organization away from paper. Leaders should commit time to educating staff about the benefits of new models and describe how these solutions can address some of the old problems of paper. You should respond to any concerns about whether new technology will displace accounts payable staff. Change can be hard, and making sure you lay the groundwork for it is critical to ensure a smooth transition.

**Step Two: Consider Electronic Options**

Increasingly, the downsides of paper checks are making them a less appealing payment method for payer and payee alike, leading many health systems to more aggressively pursue a range of electronic options, each of which presents diverse features that are suitable to different disbursement scenarios and situations. The following sections take a closer look at some of the choices.

**Automated Clearing House (ACH).** This option can be an entry into the e-payment world. With ACH payments, the payer taps into a secure and private nationwide network that transfers payments between financial institutions. Initially designed for bulk payments, such as employee payroll and consumer bill payments, healthcare organizations are now using this technology for recurring payments to vendors as well. Compared to the $5 to $10 cost for checks, it costs about 30 cents to send an ACH payment.

Jeffrey Winchenbach, senior director of fiscal services at MaineHealth, an eight-hospital health system headquartered in Portland, Maine, says ACH payments are appealing because of their flexibility. “We like this kind of payment because it is cheaper for us to produce internally,” he says. “There’s no paper, printing, or postage hassles, and we can stage our payments weeks in advance. For instance, we can send an ACH file as much as 30 days before a payment is due and simply tell the bank when we want the funds to be available in the vendor’s account. That means we can actually give vendors advanced notice of payment to help them forecast their cash flow.”

In a similar way, wire transfers allow for immediate payments. Wire transfers are generally more expensive than ACH payments and are used less frequently, but they meet an important need for transactions that require instantaneous settlement, greater controls, and tight security. For example, hospitals and health systems might use these for high-dollar-amount payments, such as for land acquisitions or capital equipment purchases.

**Purchasing Cards (Pcards).** Health systems are also turning attention to options beyond ACH and wire transfers to alternatives that support their various purchasing needs, automate disbursement cycles, and optimize cash flow. For instance, health systems can deploy Pcards to consolidate and simplify their high-volume, low-dollar preapproved purchases of everyday business items while still benefitting from built-in, front-end, and back-end transaction controls.

With a Pcard, you can carefully define spending limits based on any combination of supplier, industry, commodity, transaction, or employee, which means your point-of-sale purchase transactions will comply with your policies and approvals. For example, you can issue a Pcard to one of your delivery drivers who’s allowed to make purchases of less than $100 for gasoline from a preferred list of suppliers, or, alternatively, block all travel and entertainment expenses and leave the card open for everything else. Similarly, one of your office managers can make purchases of up to $250 per month from an office supply store. At the end of the monthly period, you simply pay the card issuer (perhaps using an ACH payment) for the items that were charged during the previous 30-day statement.

A Pcard represents a better alternative to petty cash because it allows you tap into complete reporting to see itemized transaction details, analyze your spending patterns, and ensure policy compliance. From a cash-flow perspective, a growing number of Pcards offer financial incentives based on the program’s volume. Many health systems also find that Pcards can extend days payable outstanding by up to two weeks.

“We’ve found it helpful to take advantage of Pcards,” says Baptist’s Beaulieu. “In some cases, we may not want to add a vendor into our financial system solely because we have made a small, one-time purchase. Like any health system, we have a lot of low-dollar, infrequent, and immediate purchasing needs. For instance, a maintenance worker might require a part or materials
on the spot to make an urgent repair. In that case, it’s much smarter to go buy those items at a local hardware store, and Pcards cards are great for those situations. We’ve also recognized that Pcards can be an ideal mechanism for us to improve our days cash on hand without introducing additional costs into our processes.”

**Single-use virtual payment.** Building on the convenience and control of Pcard payments, a newer innovation called single-use virtual payment is gaining momentum by focusing on higher-dollar transactions where security is more important. This payment method is a virtual credit card solution that allows the payer to complete a purchase transaction through the use of a one-time-only credit card number issued by the bank or card issuer. The single-use virtual payment can be further controlled through additional payer-defined transaction parameters, such as time period (i.e., the card number is only valid on a specific date for a certain number of days), merchant/vendor, or amount. Once that single purchase transaction is completed and reconciled, the card number becomes invalid.

Like their Pcard counterparts, single-use virtual payments can extend days payable outstanding by as much as four weeks, and many card issuers offer financial incentives or rebates, which can be significant depending on quarterly or annual charge volume. Winchenbach says single-use virtual payments are a go-to choice for MaineHealth. “We actually prefer to make payments this way,” he says. “First, there is a float of possibly three or four weeks depending on the card’s billing cycle, which can improve our cash flow, and we also find that our rebates—for both Pcard and single-use virtual payment transactions—can add up. We received $500,000 in the last year in payment rebates, and we expect that to increase as we build volume and hit higher rebate percentage thresholds.”

**Buyer-Initiated Payment (BIP).** This is a push payment solution that can be an organization’s first exposure to automated payments or complement an existing Pcard or single-use virtual payment program. BIP enables health systems to make automated electronic payments to a different segment of vendors that may not accept Pcards or single-use virtual payments from within their existing finance workflows and processes. Some suppliers don’t accept credit card numbers and prefer a push payment and remittance detail that can be uploaded into their accounts receivable system. With BIP, the health system’s accounts payable team receives an approved invoice and creates a payment instruction file (PIF)—directly within their current financial system—and sends it to the payment provider on a daily or weekly basis. This file lists all vendors to be paid, the payment dates, the specific amounts to be paid, and other remittance information. The payment vendor disburses the amounts as instructed and sends a monthly statement to the healthcare organization that lists the payments made for that month. The healthcare organization then makes a single payment to the BIP vendor to settle the account.

There are numerous advantages to a BIP program:

- **Low costs.** BIP limits AP transaction costs by reducing the number of checks to issue, track, and reconcile. The AP process is smoother and faster with fewer errors.
- **Effective cash management.** Buyers can optimally time their payments to vendors to improve their days cash on hand, days payable outstanding, and cash management.
- **Seamless reconciliation.** With the accounts payable department tracking thousands or tens of thousands of payments each year, BIP can be automatically reconciled, dramatically streamlining back-end reconciliation by eliminating rekeying and errors.
- **Strong vendor relationships.** A BIP program also initiates a discussion about payment methods, in addition to terms and conditions, and has the opportunity to strengthen relationships.
- **Improved productivity.** The efficiency and speed of a BIP program enables the finance team to get more out of its staffing resources, who can then focus on exceptions and devote more time to other urgent and/or important tasks.
- **Increased revenue.** BIP providers offer financial incentives to encourage organizations to engage more suppliers and channel more charge volume through this platform. This directly lowers the cost of purchasing and raises the profit margin accounts payable into an actual revenue-generating department.

“For our organization, the financial incentives have been instrumental in helping to offset other unforeseen supply chain increases,” says Leigh Ann Thompson, controller for Sanford Health, Bismark Region, in Bismark, N.D. “The incentives compound on top of the workflow efficiencies gained.”

**Step Three: Put a Team Together**

Decisions about payment options should not be made in a vacuum, but instead take into consideration the viewpoints of the various stakeholders involved with business-to-business payments. Having a broad range of perspectives can be quite valuable when selecting different payment methods. Not only does a multifaceted group build awareness for the need for new and different solutions, but team members also can identify and
resolve any roadblocks that need to be addressed before moving forward.

“A senior financial leader—such as a CFO or someone similar—should spearhead the decision-making process because this individual will be instrumental in driving the overall strategy,” says Baptist’s Beaulieu. “Such a leader will be able to provide a more global perspective on how the various payment methodologies fit within organizational workflow and processes, and avoid any unintended consequences.”

An organization should also involve those departments that are more on the front lines, including purchasing, materials management, and other departments that receive a large number of invoices or invoices with a substantial dollar volume. The purchasing department’s input is particularly vital because this area holds a lot of vendor relationships and will have unique insight about what vendors are looking for and how they might respond to different payment choices.

“If the organization is going to pursue a buyer-initiated payment system, the IT department should also be engaged for implementation and testing the output of payment instruction files from the organization’s current financial technology,” says Sanford’s Thompson. “This group can expect a couple hours of work each week, with a 30-minute meeting once a week for 6-8 weeks, to smoothly implement a new system.”

In addition to seeking opinions from internal stakeholders who manage strategic supplier relationships, organizations may want to reach out to their peers and see what tools they are using, how well they work, and how the organizations approached implementation. These discussions can reveal benefits that your internal staff may not have thought about, as well as advice to accelerate the learning curve and vendor engagement process.

Step Four: Engage Vendors

When trying to shift vendors toward electronic payment options, it is essential to complete a spend analysis. This may involve segmenting vendors based on their transaction volumes, average size of transactions, and the available knowledge regarding their preferred methods of payment. The more suppliers that participate in an electronic payment program, the more efficient the healthcare’s AP processes can be.

“The whole point of payment diversity is choice, so we want our vendors’ input on what form they prefer,” says MaineHealth’s Winchenbach. “Like most health systems, we’re still predominantly check-based, but larger companies want their money electronically, so we have a significant ACH money flow. We steer clear of wires as much as possible, but sometimes we have a vendor—such as one that is selling a sophisticated and expensive device—that will dictate payment terms and require a wire. Overall, we’re seeing many vendors not only accept credit cards, but prefer them. One reason for that preference is that our suppliers are willing to pay that small transaction fee—and provide us with a discount—in exchange for earlier payment. We have no hesitation in making a payment in five or 10 days instead of 30. Last year, we moved $40 million through these newer electronic channels, and, thanks to the financial incentives, we’re eager to keep expanding.”

Diversity is the Watchword

Multiple payment methods in purchasing and accounts payable can help an organization optimize working capital, boost cash management, and add value to supplier relationships. Taking the time to explore different options and implement comprehensive business-to-business payment solutions can not only improve efficiency and performance, it can also enable the organization to save more money and time as healthcare evolves.