Are You Ready to Embrace Electronic Payments?
How Northwestern University made the switch

With the right solutions, close collaboration and a clear understanding of your goals, you can make major improvements to the way you pay vendors.

For a host of reasons, embracing electronic payments is a step every organization will eventually have to take. For Northwestern University, that moment came in 2012 when we made a compelling case to move rapidly from check to electronic vendor payment, becoming one of the first large, private, research-oriented universities to implement the full scope of electronic payments. Doing so resulted in immediate benefits—we reduced the total cost of paying vendors, increased revenue through share of card spend interchange fees and lowered the risk of fraud.

Implementation success was largely due to how Treasury “sold” this concept internally and close collaboration with paying vendors, increased revenue through share of card payments and cash forecasting efforts. Once we shared this data with our bank, Bank of America Merrill Lynch (BofAML), started the process by analyzing and segmenting our spend file, matching it to their own database of vendors already accepting card or ACH payments. They showed us that a significant portion of our spend could be matched to their own database of vendors already accepting card or ACH payments, giving us a clear understanding of the potential for conversion. It also gave us detailed information for our e-payments project plan as a roadmap, we tackled the following:

- Working with IT to develop and test a new interface
- Developing scripts for the bank to use to recruit vendors to card or ACH
- Introducing a pilot phase for a small group of vendors
- Identifying specific areas for improvement and finding a range of solutions
- Rolling out electronic payments across the entire organization

Preparation and collaboration
The key to success for us was being prepared long before the pilot started. We asked every possible question and addressed every issue we could think of. In addition to leveraging BofAML’s expertise and insight, we conferred with peers who had already implemented some form of e-payments. For example, we had questions about vendor payment timelines, but we found, and later experienced for ourselves, that institutions were able to pay vendors who had made the switch to e-payments more quickly than before, strengthening our relationships with them.

There was significant concern at the pilot stage about whether vendors who had converted to card spend would increase their pricing to the University. However, we found that some of our largest vendors, under contract, were already accepting card payments as a matter of routine, and the interchange fee was regarded as part of the cost of doing business. None of our suppliers have increased pricing to the University to date.

Above all, what helped us throughout the process was strong teamwork. We worked hard to build trust between departments to tackle internal challenges, while BofAML’s expertise and insight, we conferred with peers who had already implemented some form of e-payments. For example, we had questions about vendor payment timelines, but we found, and later experienced for ourselves, that institutions were able to pay vendors who had made the switch to e-payments more quickly than before, strengthening our relationships with them.

Getting started
The spend file analysis was the key starting point, revealing the opportunities and where our vendor recruiting efforts should begin. The next stage was assembling a team, led by Treasury, Accounts Payable and Accounting, with members drawn from across the organization, including IT and Purchasing. We forged robust collaboration, internally and with the bank, and held weekly status meetings. Discussions ranged from how e-payments would change our process flows, to addressing areas where we saw inefficiencies. BofAML, which has extensive experience with other successful implementations, shared their expertise with us, attending meetings and offering support. Using their project plan as a roadmap, we tackled the following:

- Set goals and get management buy-in
- Prepare thoroughly and leverage the experience of other institutions
- Form a cross-organizational team and meet weekly
- Leverage your bank’s planning tools and support
- Keep up the momentum post-implementation

Exceeding our expectations
Our initial goal was to convert 50% of our checks to electronic. We began using a wide range of the bank’s electronic solutions, including virtual card, corporate credit cards, prepaid card and the electronic supplier network, PaymodeX® Connect. Today, 75% of our annual dollar volume is paid through these methods, and they also make up 43% of all payments we send. While we still make more check payments than we do electronic, we understand why there was significant concern at the pilot stage about whether vendors who had converted to card spend would increase their pricing to the University. However, we found that some of our largest vendors, under contract, were already accepting card payments as a matter of routine, and the interchange fee was regarded as part of the cost of doing business. None of our suppliers have increased pricing to the University to date.

Looking forward
Implementing e-payments is just the start of the process for Northwestern, and we continue to strive for greater efficiency and better use of our resources. We’re already exploring adding wire, international ACH payments and digital disbursements, and plan to integrate our payables capabilities onto a single platform and interface file. With the payments world becoming increasingly electronic, fully embracing new capabilities and new technologies is a good way for us to stay ahead of the curve.

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The financial benefits also exceeded expectations. The cost savings, process efficiencies and rebate have allowed us to fund additional projects and hire a full-time staff member dedicated to e-payments. The new hire manages the program and tracks electronic and check spend, helping identify new opportunities for conversion. Yet another positive result that we hadn’t even considered was safeguarding vendor data. By moving away from checks we no longer have to store vendor account information, removing a source of data risk for us.