eBOOK

The Payment Advantage

How finance teams can maximize the financial return of supplier payments



Supplier payments represent one of the largest recurring movements of cash for most businesses. Yet, for many finance teams, the objective remains largely operational. Pay the right supplier the right amount at the right time.

The reality is that how an organization pays suppliers has a direct and significant impact on operational costs, cash flow, and working capital. Consider these payment decision points:

Method	A check can cost roughly 4–15x as much as an ACH payment.
Timing	Take a company with $200,000 in monthly supplier payments that routinely pays 30 days earlier than required. At a hypothetical 5% annual return/cost of capital, that's about $822 of opportunity cost per month. That's almost $10,000 per year.
Discounts	On a $10,000 invoice with 2/10 net 30 terms, paying $9,800 on day 10 instead of $10,000 on day 30 saves $200. The standard trade-credit calculation implies an annualized cost of approximately 37.2% for foregoing the discount, using a 365-day convention.
Fees/late payments	Commercial supplier agreements commonly include late-payment provisions; for example, some impose charges of 1.5% per month, equivalent to 18% annually, on overdue balances.
Rebates	Virtual card payments can deliver rebates of up to 1% for qualified payments. In addition, they are more secure than other payment methods, and provide greater control over payment timing.

When these decisions are multiplied across hundreds or thousands of payments, their financial impact becomes significant.

Small differences in transaction costs become meaningful at scale. Late payment penalties and missed discounts accumulate. Cash consistently released earlier than necessary affects liquidity. Payment methods that generate rebates can turn an expense into a source of financial return.

The opportunity isn't theoretical. It's embedded in payments the business is already making. Capitalizing on this opportunity starts by treating payment strategy as a financial discipline rather than simply a step in the AP process. And within that discipline are three key levers: **cost**, **cash,** and **working capital**.



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The High Cost of Partial AP Transformation

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The cost lever

Reduce the cost of moving money

A dollar paid to a supplier is a dollar paid to a supplier. But the cost of making that payment can vary considerably.

Checks, ACH, virtual cards, wires, and other payment methods carry different transaction costs, processing requirements, security considerations, and economics. Some require more manual work. Some carry higher bank or transaction fees. Some generate rebates.

And yet the payment method is frequently determined by something much less strategic: *That's how we've always paid this supplier.*

It's convenient, but it probably isn't optimized for the business.

A finance-led approach starts by looking at the total cost and economics of each payment method.

- **What is the transaction cost?**
- **What types and volumes of exceptions are created?**
- **What manual effort is required?**

The objective isn't to identify a single payment method and use it everywhere. Different suppliers have different requirements and preferences. Transaction sizes vary. So do costs, risks, and economics.

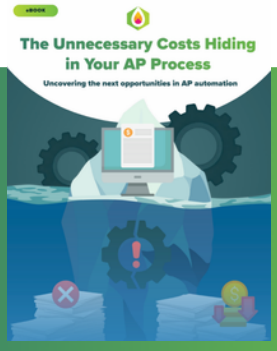
The goal is to actively manage the payment mix to:

- **Move payments away from unnecessarily expensive methods**
- **Reduce manual effort and exception costs**
- **Minimize avoidable transaction and banking fees**
- **Generate rebates where appropriate**
- **Increase supplier adoption of preferred payment methods**
- **Re-evaluate payment mix as economics and supplier preferences change**

Digitizing payments can reduce costs. Optimizing payments goes further by continually asking whether the current payment mix is producing the best possible financial outcome.

PAYMENT PRINCIPLE

Payment mix is a financial decision, not a processing preference.



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The Unnecessary Costs Hiding in Your AP Process

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The cash lever

Get more value from payment timing



Choosing how to pay is only half the equation. Finance also controls when cash leaves the business.

Every supplier payment presents different considerations depending on the supplier, and any contractual agreements that might be in place:

- **Take advantage of early payment discounts (if available)**
- **Retain cash until payment is due**
- **Avoid any late payment penalties**

The answer depends on the economics.

Consider a $20,000 invoice due in 30 days. Paying on day 15 without receiving anything in return takes a big chunk of cash out of play unnecessarily.

But a 2% discount for payment on day 10 changes the equation. The $400 return may more than justify giving up those additional days of liquidity.

Waiting beyond agreed-upon terms presents another calculation. Holding cash longer may appear beneficial, but late fees, lost discounts, damaged supplier relationships, and potential supply disruptions can quickly offset any short-term working-capital benefit.

Payment timing, in other words, shouldn't be automatic. Finance should be weighing the value of using cash against the value of retaining it.

This can mean:

- **Capturing economically attractive early-payment discounts**
- **Retaining cash until payment is due when there's no financial benefit to paying early**
- **Reducing late-payment fees and other penalties**
- **Aligning payment schedules more closely with liquidity requirements**
- **Improving visibility into upcoming cash needs**
- **Balancing supplier requirements against corporate cash priorities**

This isn't about paying earlier or later. It's about paying **intentionally**.

PAYMENT PRINCIPLE

Every payment-timing decision is a small capital-allocation decision.



The working capital lever

Manage payment terms as a portfolio



Individual payment timing is about cash flow. But the bigger question is: How should we deploy cash across the entire supplier portfolio?

The easy answer is to keep it as long as possible.

But maximizing days payable outstanding (DPO) doesn't necessarily optimize working capital. The objective is to make payment terms serve the company's broader financial strategy.

That requires finance to recognize that suppliers, and the economics surrounding them, aren't interchangeable.

For each segment of the supplier portfolio, finance should consider:

- **Contractual payment terms**
- **Available early-payment discounts**
- **Strategic importance of the supplier**
- **Current liquidity requirements**
- **Payment method**
- **Supplier preferences**
- **The financial value of accelerating payment vs. retaining cash**

That changes the working-capital conversation.

Instead of asking "How long can we hold our cash?", finance can ask "Where does our cash create the most value?" It's a deliberate choice.

PAYMENT PRINCIPLE

Working-capital optimization isn't about holding onto cash as long as possible. It's about deploying cash when and where it creates the greatest financial value.



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Working Capital Optimization: Best Practices

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Better payment decisions require better information

That sounds obvious. And, in practice, finance has plenty of payment data. But many teams still struggle to get a timely picture of what it all means. The data doesn't provide finance with usable financial intelligence at the moment decisions need to be made.

A finance leader managing payments strategically should be able to quickly answer questions such as:

Cash/working capital

- How much cash is committed over the next 7, 14, and 30 days?
- Which payments are scheduled earlier than necessary?

Cost

- How is our payment mix affecting transaction costs?
- Where are payment exceptions creating avoidable costs?

Financial return

- How much available discount value are we capturing?
- Where would more advantageous payment methods create value?

Answering those questions can reveal how much real financial value a payment strategy is generating.

Those are very different questions from simply asking which invoices have been paid.

Greater visibility into upcoming commitments helps finance anticipate liquidity requirements rather than react to them.

Better information about discounts and payment methods reveals opportunities to improve returns.

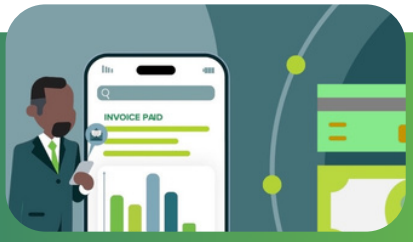
Greater insight into exceptions and payment costs helps identify where value is leaking out of the process.

And as finance makes better decisions, the payment data itself becomes more valuable. Trends become easier to identify. Results can be measured. Strategies can be adjusted.

Payment data becomes cash intelligence.

PAYMENT PRINCIPLE

Payment visibility isn't about measuring AP efficiency. It gives finance better information for managing cash.



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The Key Differences of Integrated and Embedded Payments

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Payment strategy is a continuous financial-management discipline

Ongoing improvement compounds value.

1) Assess

Establish a clear view of the current payment portfolio.

- How are suppliers being paid?
- What does each method cost?
- When is cash leaving the business?
- Which suppliers offer discounts?
- Where are exceptions occurring?
- How many payment decisions are based on deliberate policy vs. historical habit?

2) Optimize

Act on the opportunities with the greatest financial value.

- Change payment methods where the economics support it
- Capture attractive discounts
- Adjust timing
- Increase supplier adoption of preferred methods
- Reduce exceptions and unnecessary costs



4) Adjust

Do it all again.

As suppliers, economics, payment volumes, and business priorities change, finance revisits the portfolio and identifies the next opportunities. Continually optimizing payment decisions builds incremental value over time.

3) Measure

Determine what those changes actually delivered.

- How much cost was eliminated?
- How much discount value was captured?
- What rebates were generated?
- How much cash was retained longer?
- Did exception rates fall?

Better payment decisions generate better financial outcomes. Better information makes new opportunities easier to identify. Those insights enable another round of optimization.

Payment strategy stops being an AP initiative and becomes part of how finance continually manages financial performance.

PAYMENT PRINCIPLE

The greatest value doesn't come from optimizing individual payments. It comes from continuously improving the economics of the payment portfolio.



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How Supplier Payments Can Become a Strategic Financial Lever

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Measure what matters: The payment value scorecard



If payments are going to be managed as a financial lever, finance needs a different way to measure success.

Traditional AP metrics answer important operational questions. How many invoices did we process? How quickly? Were suppliers paid on time? How many payments were made? How much manual work was eliminated?

A financial payment strategy asks another question: What financial value are we creating from the way we pay?

Financial objective	Potential measures
Reduce payment costs	Cost per payment, including FTE manual effort required; digital payment adoption
Capture value	% of available discounts captured; virtual card rebates
Optimize cash flow	Payments made before terms / free cash flow
Protect margin	Late fees and other avoidable charges
Reduce operating costs	Man-hours required for monthly AP, exceptions involving manual intervention, payment-related supplier inquiries

Not every finance organization needs every metric.

A company focused heavily on liquidity may place greater emphasis on payment timing and cash commitments. An organization processing high payment volumes may prioritize payment-method costs and rebates. Another may have significant opportunities to capture discounts.

The key is to establish a baseline, choose metrics aligned with the company's financial objectives, and measure improvement over time. That gives CFOs and controllers a way to quantify the financial contribution of their payment strategy.

And it changes the conversation from: **How efficiently are we making payments?** to: **How much financial value are we creating from the way we pay?**

Make every payment work harder

The money is already moving. The opportunity is to make better financial decisions about how and when it moves.

Supplier payments aren't simply the last step in your AP process. They're another place where finance can reduce costs, improve the use of cash, strengthen financial visibility, and deliver measurable value to the business.

Helpful resources



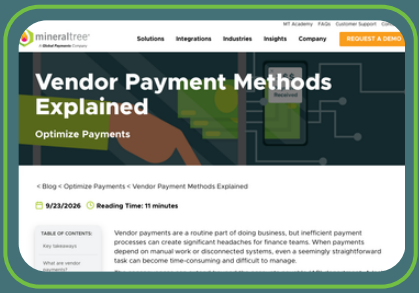
AP Automation: Starting with Payments Instead of Invoices

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Embedded vs. Integrated Payments Guide

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Vendor Payment Methods Explained

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