

## Get Paid Quickly and Efficiently with Automated Clearing House Processing

### Dear Friends:

The method of payment that your customers choose can make a substantial difference in your cost of doing business. Checks and credit cards, respectively, top the list of preferred methods in the media industry. We believe, however, that now may be the time to depose the number two choice, the credit card, and replace it with Automated Clearing House payment processing. This issue's feature discusses the pros and cons of ACH, as well as what you need to do to implement the program.

Our spring calendar begins with the MFM/BCCA 54th annual conference, "Media Finance Focus 2014," on May 19-21 at the Hilton Hotel in Miami, Florida. Szabo is pleased to sponsor the opening night party at Nikki Beach, South Beach. We also look forward to attending the Georgia Association of Broadcasters Awards Program on June 6 here in Atlanta.

Best wishes for a wonderful spring,



Robin Szabo, President  
Szabo Associates, Inc.

Many of today's credit and collection challenges are the same challenges that managers have always faced. Customers who pay late or never, dispute and discrepancy issues, bankruptcy . . . the list goes on. One challenge that current technology may allow us to meet head-on with relatively little effort and a very high percentage of success, however, is payment processing. The media industry generally has relied on traditional forms of payment, such as checks and credit cards, and manual systems of payment processing that require significant time and expense. In the meantime, the volume of paperless financial transactions has continued to grow in industries and businesses seeking to increase their efficiency and lower their costs.

The most important piece of this paperless puzzle is the Automated Clearing House, or ACH. The ACH is a secure computer network designed to connect individuals, businesses and banks through the Federal Reserve System, enabling currency to securely move from sender to recipient in a fraction of a second.

### A Brief History.

ACH was created in the early 1970s, when the mountain of paper checks was overwhelming available computer systems. The Federal Reserve agreed to provide systems capable of handling ACH transactions between financial institutions. In 1974, the National ACH Association (NACHA, also known as the Electronic

Payments Association) was formed from regional organizations to establish rules and standards for ACH transactions. NACHA Operating Rules govern the ACH Network, guiding risk management and creating payment certainty for participants.

Historically, the ACH Network has been used for payroll direct deposits and U.S. Government payments to vendors and Social Security recipients. In 1999, the Federal Reserve opened the Network to corporate use. This effort was initially met with meager acceptance by consumers and low adoption by businesses; however, early adopters realized the benefits of ACH in lower costs and higher profits.

### How ACH Works.

The ACH process begins when a "Receiver" authorizes an "Originator" to issue an ACH debit or credit to an account. The Originator (which may be a person, an organization, or a company) must receive authorization from the Receiver in written, verbal, or electronic form, depending on the ACH transaction. The written authorizations include ARC (accounts receivable conversion), a consumer check converted to a one-time ACH debit, and POP (point-of-purchase), a check presented in person to a merchant as an ACH entry rather than as a physical check. The difference between ARC and POP is that ARC can take place with a mailed-in

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check, while POP must take place in person. The third type of written authorization is PPD (prearranged payment and deposits), which are used to credit or debit a consumer account. PPD is widely utilized for payroll direct deposits and preauthorized bill payments. A direct payment processed as an ACH credit pushes funds into an account, while a direct payment processed as an ACH debit pulls funds from an account. Verbal authorization, or TEL (telephone-initiated entry), allows the issuance of an ACH entry such as checks by telephone. Electronic authorization, WEB (Web-initiated entry), uses the Internet to create the ACH entry.

Once the Originator receives authorization, it creates an ACH entry to be transmitted to an Originating Depository Financial Institution (ODFI), which can be any financial institution that offers ACH origination. The entry is then sent to an ACH Operator, which may be either FED (FedLine, operated by the Federal Reserve) or EPN (Electronic Payments Network), the only private-sector ACH Operator in the country. The ACH Operator then passes the entry to the Receiving Depository Financial Institution (RFDI), where the Receiver's account is either credited or debited.

The final step of the transaction is "settlement," the actual transfer of funds from one financial institution to another. The NACHA Operating Rules require that ACH credits settle in one to two business days, and that ACH debits settle on the next business day. Transactions are posted to the Receiver's account on the date specified in the Originator's file.

### The Benefits.

The steady increase in ACH volume over the past decade affirms the advantages, in both cost and risk management, of this type of payment processing. The number of ACH payments in 2003 was approximately 10 billion; in

2012, the number was over 21 billion, totaling \$36.9 trillion. *Cost.* While you may think your method of payment processing is efficient and inexpensive, consider the following question: Efficient and inexpensive compared to what? Traditional forms of payment and payment processing are expensive. Paper checks, the most common form of payment to media, require multiple time-consuming steps. First, an employee accepts the check. Then another employee, possibly engaged full time in this capacity, reconciles the payment. The process of depositing the money is also costly, requiring employee time as well as bank charges and fees. This assumes, of course, that you received the check in the first place.

Besides the cost of supplies and postage to send invoices, there is the cost to send second and third notices when the bill is not paid on time. Phone calls to delinquent customers take employee time, which might be used on more productive tasks. Meanwhile, your DSO suffers while you essentially serve as a lending institution to your debtors.

The convenience of ACH processing also contributes to higher productivity. It can be set up for one-time transactions as well as recurring billing and payment plans on an agreed-upon schedule. Once authorization is granted, ACH is as easy as a credit card transaction, but much less costly.

ACH is generally the lowest cost option for accepting electronic payments. Transactions received by the financial institution during the day are stored and processed later in a batch mode. Rather than sending each payment separately, ACH transactions are accumulated and sorted by destination for transmission during a predetermined period, providing significant economies of scale.

Most ACH transactions incur a flat fee, which generally range from 25 to 75 cents per transaction. Credit card charges—interchange fees, assessments, and merchant services fees—generally run between 2% and 3%. For a \$1,000 payment, the ACH option would cost, on average, 50 cents. A credit

card transaction for the same amount would cost, on average, \$25. Credit investigation, particularly for customers who buy less than \$2,000 per month or for one-time customers, is simply inefficient. The time it takes to chase after and pore over credit applications and financial statements for these customers could be time more productively spent on larger advertisers.

*Risk Management.* Check payments are the riskiest form of payment. They can be returned for insufficient funds, the customer can stop payment, or the check can get "lost in the mail," either legitimately or by excuse. Additionally, because a paper check passes through several hands, inside and outside your organization, human error is bound to happen at some time. Credit card transactions, while less risky than checks, allow customers to initiate chargebacks on the basis of dissatisfaction with your product or service.

Electronic payments never get lost or stolen. There are limited bases for dispute; specifically, an ACH transaction can be disputed only if the transaction was not authorized, it was not for the authorized amount, or it was processed at an earlier date than authorized. ACH payments can bounce if the money in the account is insufficient to cover the payment; however, that situation becomes quickly apparent. If a payment is unsuccessful (for reasons such as a bad bank account number, insufficient funds, a dispute, and so on), notification is returned from the ACH network, usually within 2-4 business days of payment submission.

ACH processing companies have protocols for dealing with unsuccessful payments. First of all, you will receive a report that a payment was returned for NSF. You may direct the ACH processor to configure your account to automatically resubmit the transaction, although this directive carries the risk of the transaction being returned again and incurring a second ACH

return fee. You may also contact your customer to request another type of payment, or to ask for the date when the account will have sufficient funds to allow you to manually resubmit the transaction. The resubmission can be only for the original amount; the ACH return fee cannot be added. In order to collect the return fee, you must have it authorized as a separate ACH transaction. Alternatively, according to ACH processing company Pay Simple, you can include a statement in the Terms and Conditions that, at the same time the initial transaction is authorized, also authorizes a second transaction to collect the return fee for an NSF transaction.

Security continues to be an important issue among ACH providers and customers. Your customers may be reluctant to provide bank account and routing numbers, even though they gladly remit paper checks printed with the same numbers! That paper check might be lost, found by anyone and, at the very least, looked at by many people during processing. With ACH, the numbers are entered into a secure system, encrypted, and accessed only by computers during transaction processing.

This is not to imply that ACH is completely without security risk. As with credit and debit cards, ACH also carries some risk of account and identity theft. The only information that a fraudster needs to perpetrate ACH fraud is a checking account number and a bank routing number. The fraudster then uses the account and routing numbers to pay bills or make purchases.

A more sophisticated ACH fraud, accomplished by criminal rings, is instigated with a computer "Trojan" that fraudsters install on a computer, usually through a "phishing" attack (an email that fools the victim into running malicious software). The Trojan allows criminals to install additional software that logs the user's keystrokes to obtain logins for bank accounts. This information then allows them to create their own login information and transfer funds out of the account.

As the volume and processing speed of ACH transactions have continued to increase, so have demands for beefed-up security measures. In 2012, NACHA joined forces with Microsoft Corporation, the Financial Services-Information Sharing and Analysis Center (FS-ISAC), Kyrus Tech, Inc., and financial institution representatives

to plan and execute coordinated action to disrupt some of the more notorious cybercrime operations. According to NACHA, their ongoing efforts have significantly impacted the cybercriminals' infrastructure and operations.

Firms that offer ACH-related technology have been developing and enhancing security tools to include more verification layers and checks on transaction integrity. Additionally, NACHA has published sound business practices for companies, financial institutions, and third-party service providers to combat "Corporate Account Takeover," business identity theft whereby a criminal entity steals a company's valid online banking credentials. The organization's website, [www.nacha.org](http://www.nacha.org), offers a wealth of information for companies and institutions that use or facilitate ACH transactions.

### The Setup.

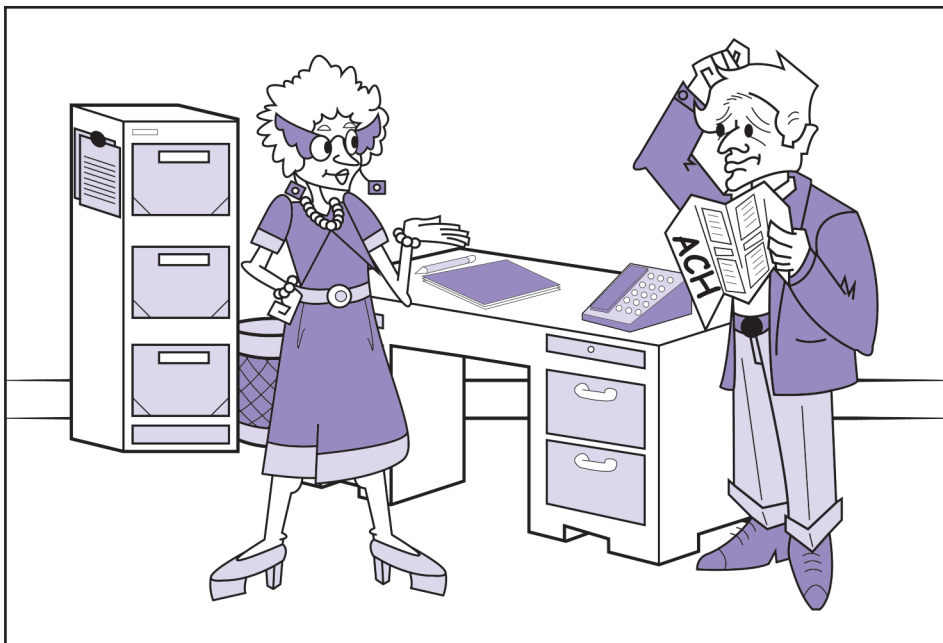
By its description, ACH sounds complex, but setting up the process is actually rather simple:

1. *Contact entities that specialize in ACH transactions.* This could be financial institutions that have ACH payment platforms or companies (such as National Processing, Pay Simple, ACHQ, and ACH Direct, to name a few) that have either online or software solution payment platforms. All will require documentation, including an application, financials, and information regarding your volume of transactions, types of transactions (single, recurring, WEB, etc.). They will then establish ceilings on debits and/or credits you can transact daily and monthly.

2. *Evaluate and compare the services of several service providers.* There are many institutions and companies that offer ACH processing, but they differ in cost and offerings. What security tools do they employ? How do they rate in customer satisfaction? How small or large are their client companies? Are they sensitive to issues unique to the media industry, and did they answer your questions satisfactorily?

3. *Plan and communicate within your organization.* Log on

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"It's Automated Clearing House! No magazines, no sweepstakes, nobody showing up at your door with a check the size of a billboard. But we do get paid faster, and you won't have to spend so much time chasing after those sales commissions!"

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to [electronicpayments.org](http://electronicpayments.org), an educational website sponsored by NACHA, to find information and checklists to help you put the program in place. Involve senior staff, department heads, and sales staff to solicit support and share ideas. Use the sample authorization form on the [electronicpayments.org](http://electronicpayments.org) website as a guide in developing your own.

4. *Promote ACH to your customers.* Use your website to explain the benefits of ACH payment to your customers. Consider making an authorization

form available for download.

5. *Implement procedures.* Work with your financial institution or payment processor to review sound business practices and to implement and test the secure service. Enter customer account numbers and institution routing numbers into the secure service software. Initiate test transactions through the secure service to make sure the information is properly set up. Promptly correct any errors that your institution or processor reports to you. Notify customers of the transactions in advance as required.

**The Future of Payment Options.**  
Paper checks will most likely

continue to be the most common form of payment to media for some years to come. The explosive growth of Automated Clearing House payment processing—fueled by its convenience, cost savings, speed, and security—will continue, however. We predict that ACH payment processing will take over credit card payment as the number two payment method to media properties. And, in our opinion, that's a good thing. ♦