**Financial Dilemma**

**Many companies are wondering if they should emulate Sears, Roebuck & Company in its implementation of electronic disbursing. After negotiating new payment terms with each of its suppliers, it quickly built up a significant volume of electronic payments: 1,000 transactions, 60,000 invoices, and $500 million in payment per month. When evaluating electronic payments, Sears calculated that it would save $0.40 and the payee as much as $1.10 per payment by going through the automated clearinghouse (ACH). The savings to Sears as payor was based on the difference between per-check cost and the ACH payment cost. (note that the postage cost has gone up significantly since then):**

ACH CORPORATE TRADE PAYMENTS CHECKS

|  |  |  |  |
| --- | --- | --- | --- |
| Item | Cost per Transaction | Item | Cost per Transaction |
| Process tape | $0.01 | Check stock | $0.01 |
| Tape delivery | 0.01 | Processing | 0.08 |
| Personnel | 0.03 | Personnel | 0.14 |
| Bank services fees | 0.02 | Postage | 0.22 |
| Tape transmission | 0.05 | Bank charges | 0.14 |
| Return items | 0.01 |  |  |
| Lost float | 0.06 |  |  |
| Total | $0.19 |  | $0.59 |

Question

Using the data from Financial Dilemma, rework the NPV analysis for each of the following situations. For each situation in parts **a-d**, assume all data are the same as that given in the textbook analysis except the one item indicated. In part **e**, assume all four changes indicated in parts **a-d** are applicable. Make a recommendation either for or against the ACH disbursement system in each case. If you have access to spreadsheet software, you can save time by developing a worksheet or by using a preprogrammed worksheet.

1. The initial investment is $60,000 instead of $40,000
2. The company makes 5,000 payments per month instead of 1,000
3. The annual interest rate is 5% instead of 10%
4. The per-payment saving is $1 instead of $0.40
5. All the changes in parts a-d are applicable