# How to best manage the accounts payable

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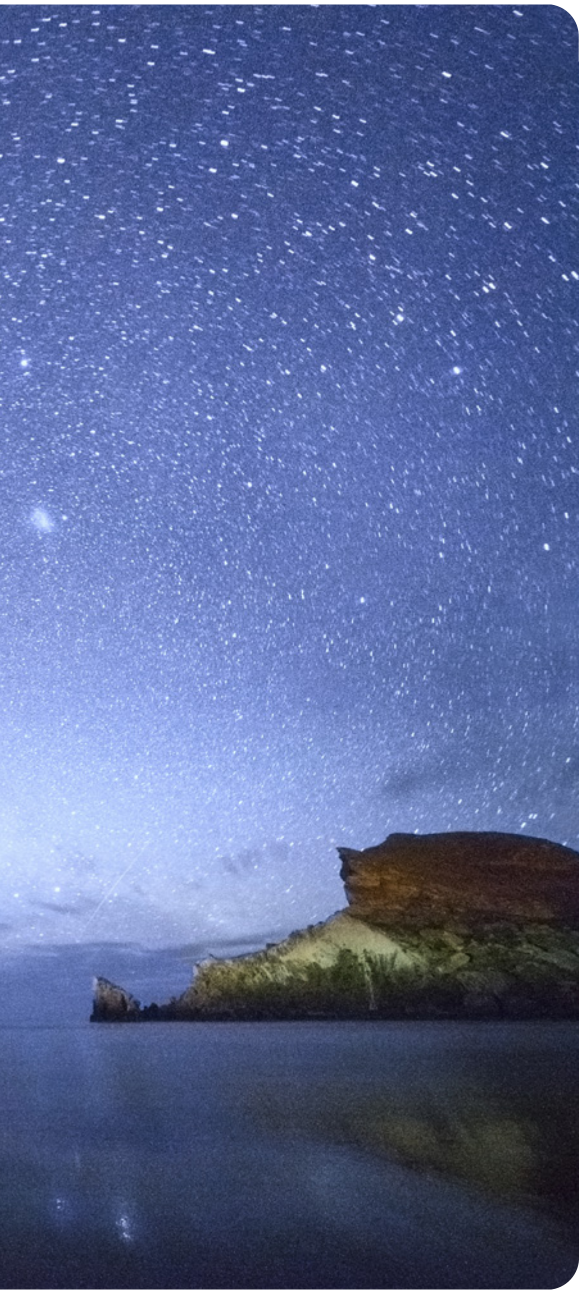


## Executive summary

Amidst the fiercely competitive environment of an economic downturn, along with closely maintaining customer relationships and searching for ways to boost sales and profits, retailers must pay attention to cost cutting as a way to enhance their profit margins. One area that can bring significant material benefits to retailers is their accounts payable (AP).

Conventionally, the AP area has been seen primarily as an administrative costs centre where heavy paper work is dealt with in order to process payments. However, this perspective has been recently changing due to companies seeking to cut costs in AP and shift its role from cost centre to profit centre by adopting AP automation, which would reduce invoice processing time and help companies take advantage of early payment discounts and manage vendor relationships better. Moreover, by enhancing visibility to AP, financial management can be more efficient with reduced errors, reduced accounting fraud, and reduced compliance costs.

Despite the proven benefits of AP automation, some organisations choose to remain out of the race and continue with their manual processes. The main obstacle to AP automation is a fear of low ROI. Companies should assess and understand the value of automating the AP process and be willing to pay a little for the long-term competitive advantage that they will gain from proper AP automation. When deciding to automate AP, companies need to understand their current AP systems and improve the process step-by-step to ensure successful integration.

This paper studies the common issues within the AP area and the changing role of AP in today's increasingly competitive, technological environment. The first part of this paper will investigate the role of AP and the financial benefits it brings to an organization, and discuss more closely the relationship between AP management and vendor relationship management. The second part will give readers the know-how they'll need to adopt AP automation effectively.

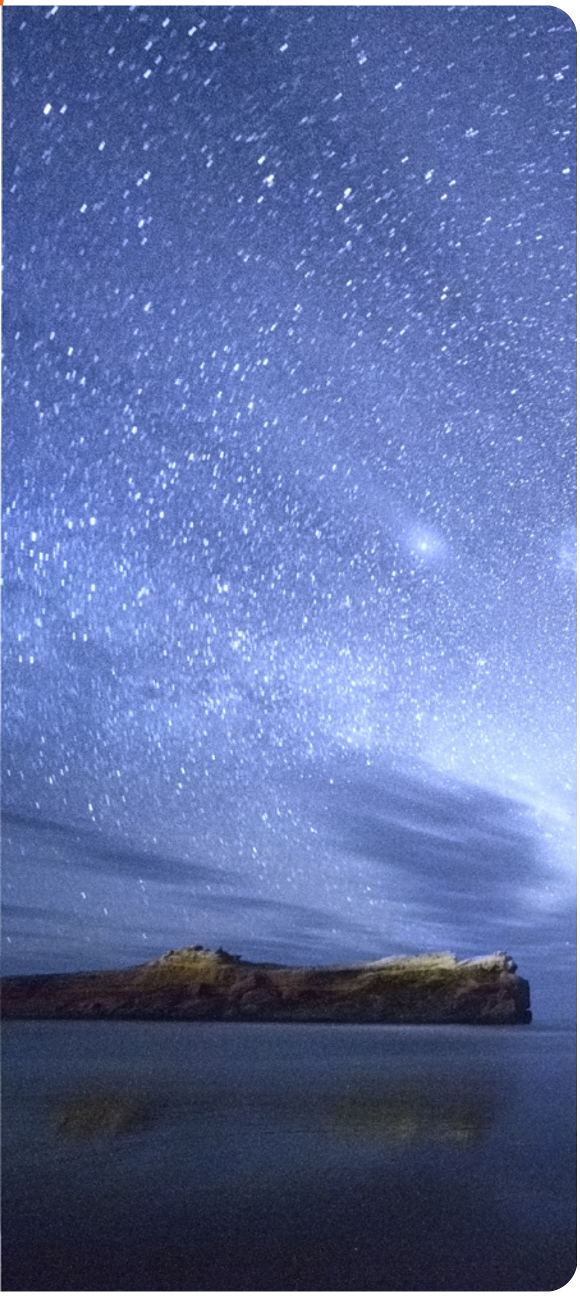
## Revising accounts payable for financial benefits

For retailers, negotiating with suppliers can dramatically reduce costs, not only ones related to inventory—such as reordering costs, quantity discounts, and so forth—but also financing costs.

### Aspects to consider when determining vendor payment terms

Negotiating vendor payment terms, tracking inventory from point of purchase to point of sale, and managing accounts payable can greatly improve financial management and cash flow management. Specifically, cost of capital, early payment discounts, payment due dates, and interest on late payments should all be taken into consideration and analysed carefully.

It should be noted that when negotiating terms, the lowest price might not bring the highest benefit; flexible payment terms might offer more advantage to a company's cash flow. Sometimes, an early payment may be more beneficial than a payment made on the due date or a late payment with interest penalties, depending on the discount rate, interest, length of payment term, etc.



For example, it is common for a company in a close relationship with suppliers to delay their payment till after the due date without incurring additional interest. In an economic downturn, many retailers find that they have more power in negotiating with vendors and suppliers. Some have taken advantage of this aspect and requested longer payment periods. Closely managing these advantages will help maximize financial benefits and foster better relationships with suppliers.

### How to capture early payment discounts and optimize vendor payment terms

It is easy to see that accounts payable management has the closest link to these matters. In fact, many organisations have recognized that problems within their AP areas have been obstacles to maximising financial benefits from their payments. For instance, frequently, invoice processing takes too long from identification and verification to approval, which makes companies suffer penalties for late payments although they have enough cash on hand to pay on time. This may not only damage the vendor relationship, but may also mess up budgeting, forecasting, and financial control.

Identifying those problems and their causes and seeking solutions by revising and improving accounts payable management can increase financial visibility for better cash management and better vendor relationships. The next section will identify common AP issues as a first step for AP improvement.

## Common accounts payable problems and the changing role of the accounts payable function

Because AP has certain impacts vendor relationships, a well-managed AP can enable companies to take advantage of vendor payments. Findings from an Aberdeen Group survey demonstrate that several other factors encourage companies to focus on their accounts payable, such as a lack of visibility into invoices and AP documents, the high cost of the invoice process, and cash management.

### Common accounts payable problems

**Difficult to manage information in AP area:** AP activities obviously involve lots of documents and information. As a business grows, so does the number of documents and the problems that come with it. For one, the cost to store these documents increases with every single paper invoice. All these documents are challenging to access, manage, and track, often causing duplicate information and duplicate payments.

**Inefficient invoice process:** An AP process in which invoice information is delivered to different people, in different departments, or even in different business locations across the organisation for approval leads to higher costs in communication, slower information flow, and increased probability of missing or distorting information. Needless to say, inability to deliver the right information to the right person on time negatively impacts decision making.

**Collating invoices from different suppliers:** Because suppliers may use different formats, different channels (email v. fax, for example), and different currencies to issue invoices, collecting their invoices may be a challenge. This issue usually comes up for retail chains with multiple business locations.

Matching invoices and purchase orders, assigning invoices to different cost centres and matching payment information with the accounting system are other tasks where problems usually arise.

**Errors caused by manual entry:** These may consume much time and resources to verify and correct, when there are more important tasks to do.

**Exception handling:** The dynamic and complex environment of AP poses the challenge of how to handle exceptions—whether they are non-standard invoices or documents with discrepancies.

**Inaccurate and lengthy close:** Simply because of an inability to make payment validation on some invoices, companies are sometimes unable to meet closing deadlines.

**Lack of control and visibility:** The above problems represent a lack of control and visibility into AP. Issues concerning compliance costs also force companies to focus on and increase their financial transparency in order to avoid fraud and ensure disclosure and audit requirements can be met.

### The changing role of the accounts payable function

Effective AP management requires the capability to manage corresponding documents and information. Because of this, minimising the risk of losing documents, improving document search flexibility, and reducing the human resources needed for managing invoices and AP information are of interest to many organisations. AP is no longer considered an isolated part of the organisation, but instead, its integrated role with the financial and accounting areas is undeniable. AP functions are gaining more responsibilities, which include reporting and analysis rather than just recording and reviewing transactions.

In order to meet the changing expectations for AP, companies are starting to adopt technology to enhance their AP functions and add more value to their organizations. The advantages of AP automation will be analysed in a later part of this paper, making it clear why automated AP is a trend on the rise.

## Benefits of accounts payable automation

Many companies, especially ones in the retail industry—where AP activities and transactions with vendors and suppliers are a critical part of the business's operation—have been investing in e-invoicing and AP automation as a solution to those issues caused by traditional manual entry. Thanks to AP automation, the invoice payment process is simplified, thus improving the financial transparency and visibility of AP and the company's cash flow. AP automation brings huge benefits to invoice management since it makes retrieving an item's billing and vendor information much easier. Automation supports retailers by improving vendor relationship management and optimising vendor payment terms. Furthermore, it helps integrate AP into financial management, which offers a better chance for complete, accurate reporting, better analysis, and better decision making.

As a result, AP automation increases employee productivity by cutting back on the time it takes to process information, reducing the risk and cost of processing invoices, and eliminating errors due to manual entry. AP

automation strengthens internal control and eliminates fraud due to fake invoices and expenses created by employees. Since AP automation accelerates the payment process, liabilities can be recognised on time, thus timing differencecan be prevented. Timeliness and accuracy are critical for companies to ensure financial reports satisfy requirements imposed by regulators and ensure compliance.

AP automation enables managers and invested parties to check for payment statuses more easily, enhancing financial transparency and control over a business's finances, which gives managers and financial executives the ability to better forecast, plan, and budget.

Once automated, AP functions should allow invoices and information to be documented automatically and electronically, even from vendors/suppliers who do not use e-invoice. Moreover, it should have features for handling not only routine invoices but also exceptional cases.

Effective financial management should allow an insightful view into AP and make information about vendors, payments due, and discounts readily available so that payments can be scheduled and arranged in a way that maximizes a company's benefits. For example, in the case of a shortage of cash, considering which invoices should be paid first to minimize penalties on late payments would be useful. Along the same lines, deciding to take early payment discounts or to keep cash on hand until a due date or later are decisions that must be based on the organisation's current and predicted financial conditions. Hence, AP management is not just about accessing real-time information but also about analysing valuable information for cash flow management.

Furthermore, the AP tool should allow managers to analyse spending trends, identify key suppliers and vendors, and better support the relationship with them.

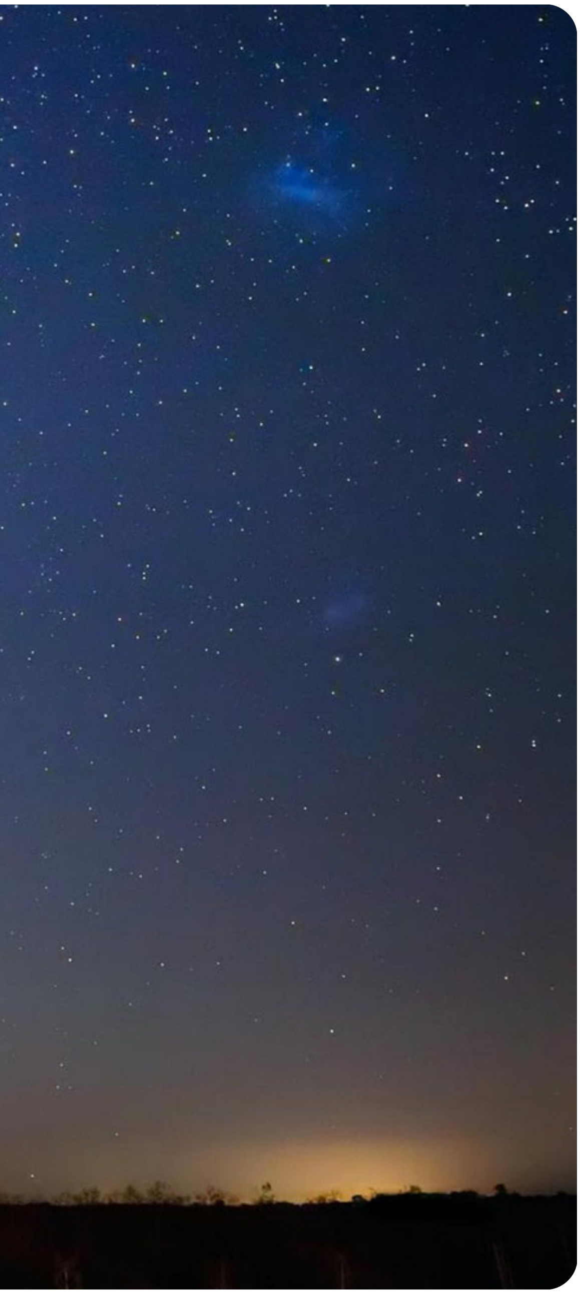
Effective accounts payable management does not only positively impact the financial status of the company but also improves productivity by saving managerial time for other important strategic decision making. AP automation is the key in acquiring these benefits. The following part of this article will discuss the implementation of AP automation.

## Successfully implementing accounts payable automation

AP automation, workflow, and e-invoicing have been in place for a long time. However, many companies are still sticking with their manual processes. Why is this? There are certain barriers for AP automation; understanding these obstacles is an important step in overcoming them.

### Reluctance to adopt AP automation and obstacles in the way of implementing it

A 2012 survey found that the main reason organisations are reluctant to adopt AP automation is that they lack a budget for the system. They think AP automation is not a worthy investment due to the time and effort it would take to build a comprehensive system, and it would take too long for the automation to become profitable. A lack of cooperation between vendors and companies with various standards and rules for billing and interpreting data



might hinder the successful implementation of AP automation as well. Not to mention organisational change resistance when it comes to adopt the new system.

Even once a company decides to adopt automation, a lack of understanding about the current solution—its functions, system requirements—is often the reason automation is not carried out smoothly. Because of this, it is argued that AP automation needs to be implemented step-by-step, from basic foundations to the most advanced solutions, but often, companies are too eager and jump directly to a certain phase/level of AP automation, skipping proper preceding steps, which can lead to even more mistakes and errors in AP.

## Effectively adopting AP automation

**Knowing your current AP:** Companies need to be able to define and assess their current AP before developing a new vision of their desired AP. Investigating existing systems, studying the cost of the current AP, and analysing the problems inherent in the AP process are necessary steps before setting goals for the new system. Companies should also pay attention to their policies on accounts payable workflow.

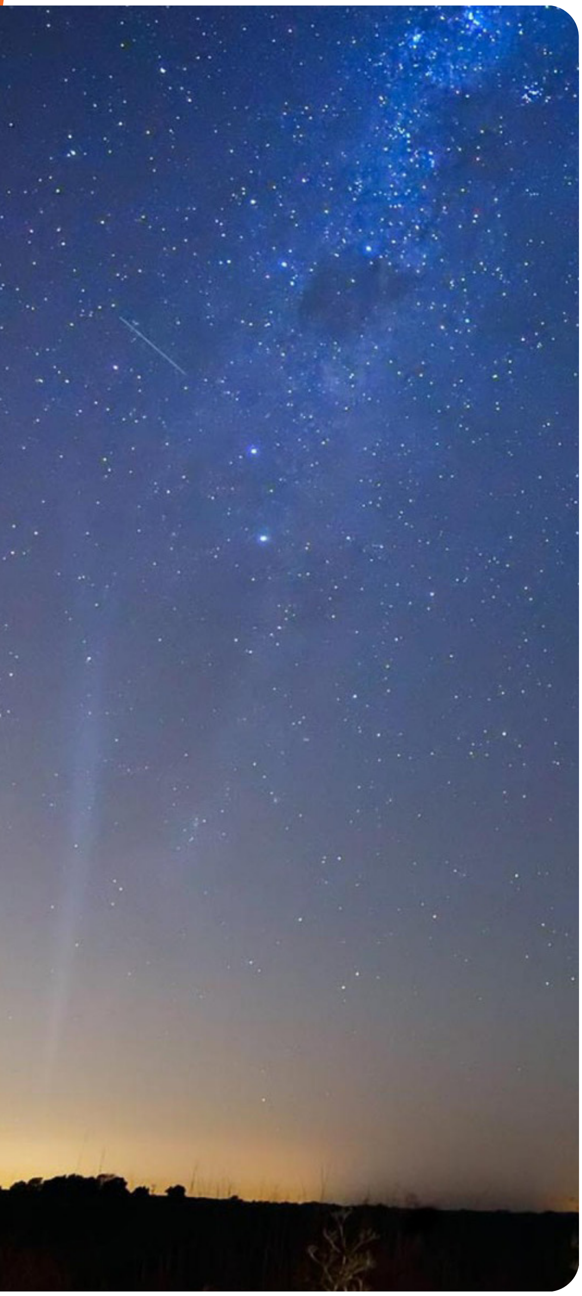
**Step-by-step implementation:** Take a closer look at each component of the AP process—for example, the way the company receives, processes, and pays an invoice. Upon receiving an invoice, companies can take control of their paper invoice by adopting invoice scanning, enabling e-invoicing, and capturing information from invoice digital image. This improvement is considered simple, as no heavy training or changes are required. The next steps would be to enable workflow automation from invoice validation to approval, which should permit managers to track payment status, manage travel and entertainment expenses more easily, and improve financial transparency and visibility of liabilities. Companies should be aware of the various types of electronic payment options.

**Monitoring the transfer to AP automation:** Establish KPIs and use them regularly to monitor, measure, and improve performance within AP. Comparing your company with other organisations that are in the process of automating or that have automated already may offer insight on what your company can be doing better, or what it is already doing right.

**Change management:** It is important to know who is being impacted by the change and provide adequate training for them. Furthermore, identify and involve key stakeholders from other departments and suppliers in this process.

**Knowing the long-term value of your AP automation system:** Make sure that your AP automation is flexible enough to adapt over time and can be integrated easily into other ERP and financial systems while still being able to meet regulatory requirements.

**Choosing the right AP system for your company:** There are many choices for AP automation; choosing the one suitable for your organisation requires initial research, which can be done by reading related reports, benchmarking, and attending conferences. Too often companies are not aware of or do not understand AP systems, invoice processing, and payment tools. Knowledge of the AP area is critical to best utilise AP automation technologies.



## Conclusion

AP management is a vital component in maximising financial benefits. When striving for growth, companies should rely less on a manual AP process, which is proven to be time-consuming and labour intensive, and more on a process that allows the AP function to be seen as a profit centre.

For those who use it appropriately, AP automation can be an efficient tool that contributes to better financial management and vendor relationship management. Companies should see AP for what it is—an integral part of their financial system.

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