



The Hidden Costs of Accounts Payable Processing

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There is a very real and often substantial business cost that practically all Los Angeles and Southern California business owners and entrepreneurs are paying but probably aren't aware of: accounts payable (AP) processing costs.

You might not realize it, but paying suppliers and vendors can be a very expensive proposition. AP processing costs include the compensation and benefits paid to your accounting staff, accounting systems and overhead, and other miscellaneous costs. Of course, if you're outsourcing AP processing to a third party or shared services, there's a cost involved here, too.

Top, Median and Bottom Performing Companies

A study recently conducted by APQC to measure AP process productivity determined the average cost to process an invoice for top, median and bottom performing companies. For top performers, it costs an average of \$4.98 to process an invoice, while the cost for median performers is \$7.75. But for bottom performers, it costs an average of \$12.44 to process a single invoice — *two-and-a-half times* what it costs top performing companies.

In a separate study conducted by the Aberdeen Group, the AP processing cost differences were even more dramatic. This study determined that best-in-class companies spend an average of \$3.09, average companies spend \$15.61, and laggards spend \$38.77 to process a single invoice. It takes best-in-class companies 3.8 days to process an invoice, while it takes average companies 9.7 days and laggards 20.8 days.

According to the APQC study, the need for manual intervention is the main factor that drives up the cost of invoice processing for the bottom performing companies. This is because labor costs account for about two-thirds (62 percent) of total AP processing costs. Manual intervention is required when there are data errors in purchase orders, shipping and receiving documents, and invoices.

These errors prevent AP processing systems from automatically matching data so the system can designate that an invoice is approved for payment. In addition, poorly designed billing systems on the part of suppliers and vendors can also result in AP processing bottlenecks and inefficiencies

One of the APQC study's main conclusions is that investing in electronic invoice presentment, processing and payment (or EIPP) technologies is one of the best ways to move from the bottom to the top tier of AP processing performance. These technologies help reduce the need for manual intervention in AP processing by streamlining communication and data processing. They can also help companies take advantage of more early-pay discounts offered by vendors and suppliers.

In short, investments in EIPP technologies in order to improve AP processing efficiencies will usually pay for themselves in terms of AP processing savings and the capture of more early-pay discounts. In addition to lower invoice processing costs and more discounts, other benefits of these technologies include:

- Improved visibility into invoices and AP documents
- Better cash management
- Higher levels of payment accuracy
- Mitigation of payment related fraud
- Stronger supplier relationships

Digitizing Paper Invoices

Not all companies, especially small to mid-sized firms, have the negotiating leverage to force suppliers and vendors to send them digitized invoices. Therefore, you may need to look into how your company can convert paper invoices sent by your suppliers into digitized files that can be read and processed by your financial systems and then scheduled for payment without any manual intervention. For example, you could utilize simple scanners in your office if your invoice volume is relatively low, or more advanced cloud-based electronic data capture systems offered by a third party if you have a higher volume of invoices.

The fact is, AP automation and digitizing paper invoices isn't new — large organizations have been doing this for some time in order to remove paper from the AP processing stream. But there's no reason that small and mid-sized businesses can't streamline their AP processes in order to reap the same efficiencies and cost savings that large firms do.

An outsourced CFO services provider can help you implement EIPP technologies at your company that can lead to a more streamlined and efficient AP processing system and significant cost savings. The money invested in these technologies and the assistance of an outsourced CFO in implementing them can usually be earned back many times over in the form of lower invoice processing costs and the capture of more early-pay discounts.

Concluding Thoughts

You might not realize it, but paying suppliers and vendors can be a very expensive proposition. One of the best ways to reduce AP processing costs is to invest in electronic invoice presentment, processing and payment (or EIPP) technologies. These help reduce the need for manual intervention in AP processing by streamlining communication and data processing, while also helping companies take advantage of more early-pay discounts. An outsourced CFO services provider can help you implement EIPP technologies at your company that can lead to a more streamlined and efficient AP processing system and significant cost savings.

About CFO Edge

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