

Accounts Payable Challenges and Solutions



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The accounts payable department has more impact on business operations than you may give it credit for, directly impacting cash flow while helping to create and maintain a good working relationship with vendors and suppliers, all while processing thousands or even millions of dollars in payments annually.

This is why continuing to use outdated manual processes in AP can have such a negative impact.

While automation is the best way to streamline AP processes, there are things you can do right now to address recurring accounts payable problems and find

solutions.

Why is Accounts Payable so Stressful?

Using inefficient processes can heighten stress levels considerably, with deadlines and expectations the rule in the AP department.

Because the payable team is responsible for paying company invoices on time, there is considerable stress with that one aspect alone.

For example, a missed payment deadline can lead to a late fee, a change in terms or pricing, and can even ruin a vendor/supplier relationship.

Couple that with delayed invoice approvals, lost or misfiled invoices, late payments and late payment fees, and the potential for fraud, and you can begin to understand just how stressful the accounts payable department can be.

Automating the AP department can certainly help eliminate some of these stressors, but if internal processes are not changed, it's likely that AP will remain a highly stressful area for both business owners and the entire AP department.

Luckily there are ways to mitigate the stress, starting with implementing a set of processes, with a long-term goal of automating as many AP processes as possible to reduce or eliminate the majority of the stress.

What Factors Can Affect Accounts Payable?

There are so many factors that can impact accounts payable processing, starting with the accounting software application you're using.

Does it integrate smoothly with your other applications, or are AP staff forced to enter data manually?

Employee staffing levels can also impact AP, with many smaller businesses still struggling to retain workers.

Even vendors and suppliers can directly affect AP, particularly if they too use a

manual system for processing orders and invoices.

While you can only control internal processes, working with a vendor or supplier to update their system can eliminate slow processing on both sides.

What Are Some Common Accounts Payable Problems?

The biggest problem faced by accounts payable is inefficient manual processing and a lack of internal controls. Without controls in place, errors, delayed invoice approvals, late fees, and fraud incidents will likely increase to unsustainable levels.

Fraud and theft cost organizations about 5% of their revenue annually, according to the 2022 Report to the Nations from the Association of Certified Fraud Examiners (ACFE). The total price tag for losses in 2022 came to \$3.6 billion.

Here are a few of the other challenges commonly faced by AP departments:

Common Accounts Payable Problems



Manual Data Entry



Lost Invoices



Delayed Orders



Delayed Approvals



Matching Errors



Supplier Management Issues



Late Payments and Payment Errors



Managing Documents



Missed Discounts

Challenge #1. Manual Data Entry

Manual data entry is responsible for many of the errors incurred in accounts payable. This is particularly true if manual data entry is required for each step of the AP process, starting with purchase order creation.

If the information on a purchase order is incorrect, mistakes are likely to occur throughout the entire AP process.

Solution

To reduce or eliminate data entry, consider using a procure-to-pay application such as PLANERGY that uses optical character recognition (OCR) and artificial intelligence to significantly reduce the amount of data entry necessary.

• Challenge #2. Lost Invoices

If you regularly deal with paper invoices, you know how frequently they go missing. But an even bigger problem may be never receiving an invoice in the first place.

Whether it's lost in the mail or sitting on someone's desk waiting to be opened, you may not even be aware that an invoice is missing until you receive a vendor call. Though a vendor may be willing to send another copy of an invoice, continued late payments and missing invoices may cause a rift in your business relationship that will never recover.

Solution

Many businesses have begun to send invoices electronically, which is a vast improvement over receiving a paper invoice in the mail. However, if you're not utilizing AP automation, the AP team will still have to make a copy of the invoice and route it through the approval process, which may create similar problems.

• Challenge #3. Delayed Orders

- You desperately need more products to fulfill incoming orders, but if you're using a manual purchase order system, your odds of getting

products in on time are small. Like delayed invoice approvals resulting in late payments, delayed purchase order approvals can hold up important orders.

Solution

Instead of processing purchase orders manually, consider using a procure-to-pay system like PLANERGY, which automates the entire purchase order and AP process.

• Challenge #4. Delayed Approvals

How many times have staff members routed an invoice for approval only for it to disappear for days or even weeks? Approval delays are common when using manual systems. Delays can happen for a variety of reasons. An invoice may get routed to the wrong person, who then sends it on to the correct one.

A paper invoice may get buried under mounds of paper until it's recovered weeks later, or the approver is out of the office, so the invoice sits in an in-basket until the person returns.

Solution

An electronic routing system is the best method for eliminating approval delays. This automated system routes invoices to an approver, who can quickly approve the invoice online, sending a reminder if the invoice is not approved promptly.

This system can also assign a backup approver to the approval workflow that can be utilized when the primary approver is out of the office.

• Challenge #5. Matching Errors

Three-way matching is an important AP process that should be utilized to ensure that purchase orders, invoices, and shipping receipts all match. This can help avoid fraud and curb maverick spending.

When all three of these documents are handled manually, the chances of

human error increases. And when there is a discrepancy, manual follow-up can take a significant amount of time.

Solution

Using an automated AP application will automate the three-way match process while alerting you to any discrepancies that need further investigation.

• Challenge #6. Supplier management Issues

Do you take your vendor or supplier relationship for granted? A good supplier relationship should be beneficial for both parties. Paying vendors and suppliers well past the due date can permanently destroy what was a good, profitable relationship, and may even negatively impact your credit rating.

Solution

Having a system in place to pay vendors timely can help you maintain a good working relationship and maintain a good credit rating.

• Challenge #7. Late Payments and Payment Errors

Late payments are often the result of lost or misfiled invoices and can result in invoice late fees or other penalties. Another common outcome of processing AP manually is duplicate payments. If there are no checks and balances in place, it's easy to pay an invoice twice.

Data entry errors can also lead to payments made in the wrong amount, or even a paper check sent to the wrong address.

Solution

Always use three-way matching, which will flag potential problem areas by identifying potential duplicate payments or payments issued in the wrong amount.

However, if you're not using automated three-way matching, you can

quickly become bogged down by the matching process.

• **Challenge #8. Managing Documents**

Manual records require a lot of labor time to properly manage throughout the AP cycle. These are just a few of the things your staff needs to do to properly manage paper documents:

- Distribute invoices to the proper department
- Make a copy of an electronic invoice for processing
- Route invoices to the proper approvers
- Perform three-way matching
- Enter the approved invoice into an accounting software application
- Run checks
- Get checks signed
- Attach check voucher to invoice
- File paperwork in the vendor file

Depending on your business, there may be even more manual processes required.

Solution

The best document management solution is one that does all the heavy lifting for you.

Instead of staff spending untold hours matching, attaching, and filing stacks of paper, consider using a paperless document management system that mimics a manual filing system, but stores documents electronically, for easy, secure access.

• **Challenge #9. Missed Discounts**

Your vendors may offer you excellent payment terms including an early payment discount. But if it takes weeks to process an invoice, you'll be unable to take advantage of those discounts, which can quickly add up.

Solution

According to Ardent's State of ePayables 2022, the average time to process a single invoice manually is 10.9 days, with processing time dropping to 3.71 days when using automated AP, allowing you to take advantage of early payment discounts.

And using an automated system, you can pay invoices with electronic payments, eliminating paper checks entirely.

What Are the Main Problems that Arise Between Accounts Payable and Purchasing?

Common problems that plague manual accounts payable and purchasing systems are centered around the following:

- The time needed to perform manual three-way matching
- The time needed to investigate exceptions such as mismatched purchase orders and invoices
- Inability to view spending commitments in real-time
- Missed discounts due to a delay in the approval process
- Labor hours needed to process and file paper documents
- Manually issued purchase orders and invoices that are lost or misfiled

Using a Procure-to-Pay application can eliminate many of these logjams by offering an automated solution from the initial purchase order through invoice processing and payment while providing financial data such as spending commitments in real-time, so you'll know your fund commitments at any time.

What Are the Benefits of a Good Accounts Payable System?

As the last few years have shown, one of the biggest advantages of using a good accounts payable system is having the resources available to process AP remotely.

The ability to work remotely became vital to business survival, and today, three years after the pandemic, Ardent indicates that only 9% of businesses in 2023 plan to process payables primarily in the office, with more than 55% of companies using a remote or hybrid option.

Aside from remote capabilities, a good AP system offers these additional benefits:

Benefits of an Accounts Payable System



Improved Supplier Management



Accurate AP Processing



Reduction in Data Entry Errors



Reduced Labor Costs



Improved Financial Insight



Streamlined Invoice Processing

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• Improved Vendor Management

From initial contact to paying an invoice, a good AP system includes staying up to date on vendor performance, pricing, and payment.

• Accurate AP Processing

An automated AP system can virtually eliminate duplicate or erroneous payments while flagging exceptions that need investigating.

• Reduction in Data Entry Errors

If you're still inputting purchase orders and invoices manually, you're likely still making errors. Using an automated AP system eliminates errors

by eliminating data entry.

• **Reduced in Labor Costs**

With an automated AP system scanning invoices into your accounting software, performing three-way matching, and storing documents electronically, your AP staff will have to time to spend on more important tasks.

• **Improved Financial Insight**

How will you know how much you've spent if the invoice is still sitting on someone's desk waiting to be approved? With an automated AP system, you'll know how much is due a vendor or supplier at any given moment.

• **Streamlined Invoice Processing**

47% of businesses surveyed state that delayed approval times were their biggest AP challenge in 2022. Even if you process and match a purchase order, invoice, and shipping receipt timely, the approval process can create a backlog that's difficult to recover from.

An automated system offers electronic approvals with a built-in reminder if the invoice isn't approved quickly.

Biggest Challenge in Accounts Payable



47% of businesses state that delayed approval times were their biggest AP challenge in 2022.

Source: Ardent Partners 'State of ePayables 2022'

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The Solution is Real AP Automation

While streamlining your current AP system can certainly help, real AP automation is the only true solution to eliminating the issues surrounding manual systems.

Automating workflows eliminates paper processing and manual data entry, with automation replacing time-consuming processes such as three-way matching and manual approvals.

But for true automation throughout the AP cycle, you'll want to add a procure-to-pay application such as PLANERGY that starts the automation cycle where it belongs, working to centralize expense data while providing better insight into the entire spending cycle.

Though progress has been made, there's still a long way to go. A global study from The Institute of Financial Operations and Leadership found that 68% of survey respondents stated that they still manually input invoices into their accounting system.

And while a growing number of businesses have fully automated their AP systems globally, more than half (54%) remain only partially automated.

In the end, moving beyond spreadsheets and manual and paper-based processes to accounts payable automation will save you time and labor costs while enhancing your current vendor relationships with more timely payments.

Why not bring order and efficiency to your accounts payable department by making the switch to real AP automation software today?

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

We've helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our Accounts Payable Automation Software page to see how PLANERGY can automate your AP process reducing you the hours of manual processing, stopping erroneous payments, and driving value across your organization.
- Learn about us, and our long history of helping companies just like yours.

Book a Live Demo

2. Download our guide "Preparing Your AP Department For The Future"

Download a free copy of our guide to future proofing your accounts payable department. You'll also be subscribed to our email newsletter and notified about new articles or if have something interesting to share.

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