

Vendor Relationships: How Your Accounts Payable Team Can Improve Supplier Relationship Management



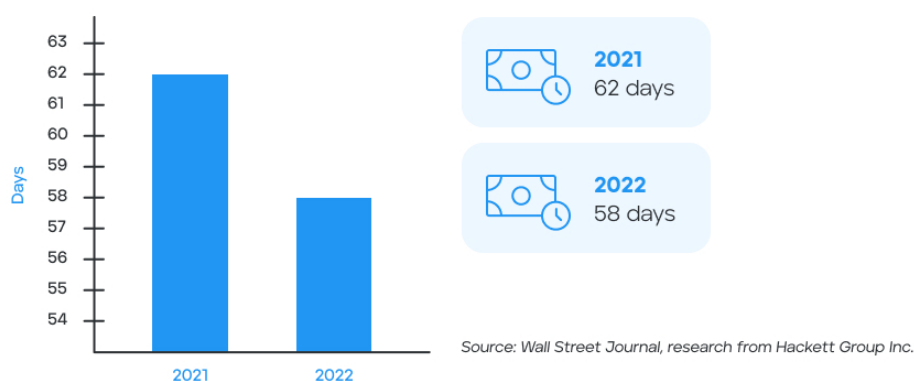
IN THIS ARTICLE

- What Are AP Vendors?
- Why Do AP Vendor Relationships Matter?
- How Does a Poor Vendor Relationships Impact Your Business?
- How Do AP Policies Affect a Company's Relationship With Suppliers?
- What Is Supplier Relationship Management?
- How Can Accounts Payable Processes Help Improve Supplier Relationships?
- Why Is It Important To Pay Your Suppliers on Time?
- Why Does Implementing a Procure-To-Pay Application Improve the Vendor Relationship?
- Management Processes Should Include Supplier Relationship Management

According to the Wall Street Journal, businesses today are taking an average of 58 days to pay their suppliers, up 5.5% from last year.

Though better than it was during the height of the Covid-19 pandemic, when it was taking suppliers 62 days on average to get paid, many companies continue to struggle with paying vendors on time as they try to free up much-needed cash.

■ Average Time to Pay Suppliers



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But delaying supplier payment may be having a much bigger impact on your business than you realize.

While keeping cash on hand is important for cash-poor businesses, it's important to understand how important a good supplier relationship is to the success of your business.

What Are AP Vendors?

An accounting vendor is a person or a business that is contracted to supply goods and services to a business.

While a vendor may be chosen at random to provide a particular item or service to a company, building a good relationship with AP vendors can be beneficial for your company.

Why Do AP Vendor Relationships Matter?

A vendor relationship begins the moment a vendor is selected and onboarding is completed.

While a procurement department may do everything in its power to nurture that relationship, the AP department play a key role in maintaining a good supplier relationship.

If you're in the business of manufacturing goods for sale, it's likely you already know how important a good vendor or supplier partnership is to your business's success and why it's so important to build and maintain a strong relationship with them.

After all, if your supplier stops shipping wood to your business due to non-payment, it becomes much more difficult to produce those wood desks for sale.

But the same is also true for key support services that help you deliver your own product or services.

Despite the obvious correlation between a good supplier relationship and business success, the importance of this relationship is often minimized or overlooked altogether.

This disregard can result in shipping delays and pricing issues, which can quickly escalate into your supplier refusing to conduct business with your company.

Businesses don't intentionally create a bad relationship with their suppliers.

In most cases, supplier relationships are destroyed over time, mostly due to sub-optimal accounts payable practices.

How Does a Poor Vendor Relationships Impact Your Business?

Vendor relationships are much more important than they have been given credit for. They can directly impact the ability of your business to create value.

When supplies are not delivered or services are not provided on a timely basis, or

are of sub-par value, the success of a business can be directly impacted.

These are just a few of the areas that are directly impacted by the supplier relationship:

• **Reduced Cost Savings Opportunities**

It isn't just product cost that can be impacted by a bad supplier relationship.

Every time you have to look for another vendor for a product or service means a delay in receiving products, which then translates into a delay in getting products out to your customers.

It's also likely that any deal or discount you had with an existing vendor will not be matched by your new vendor or supplier, at least not immediately. This will negatively impact on realized cost savings.

• **Decreased Efficiency and Negative Impact On Your Customers**

If you manufacture products, you have a process in place that relies on receiving materials and suppliers on time.

When your relationship with your suppliers is damaged, the operational efficiency of your current manufacturing and sales processes will likely be negatively impacted as well.

Similarly for services, if you do not have the timely support of your contracted suppliers you cannot deliver value for your customers either.

• **Poor Supplier Communication Resulting in Additional Risks**

It takes a long time and a lot of effort to build a good supplier relationship but a relatively short amount of time to destroy that relationship.

Any relationship needs to include good communication from both sides.

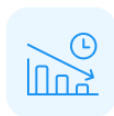
For example, if you have a solid relationship with your supplier, they'll let you know if there are supply chain disruptions or shipping delays as early as they possibly can.

Likewise, if you're having cash flow issues, notifying your supplier that their payment may be late will allow them to plan accordingly and not be caught off-guard when your payment doesn't arrive.

How Poor Vendor Relationships Impact Your Business



Reduced Cost Savings Opportunities



Decreased Efficiency and Negative Impact On Your Customers



Poor Supplier Communication Resulting in Additional Risks

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When the procurement team develops a new relationship with a supplier, for the relationship to be beneficial on both sides, there are typically concessions offered from both the supplier and your company.

Typical concessions on the supplier's side may be generous credit terms, while the concession on the business side may be to ensure that all payments are made on time.

How Do AP Policies Affect a Company's Relationship With Suppliers?

AP policies, particularly payment policies, directly impact a company's relationship with its vendors and suppliers.

AP teams that still use antiquated payment processes run the risk of damaging or destroying this relationship due to the following:

- Increased human error due to manual processes
- Invoice fraud
- Late payments

- Duplicate payments
- Missing payments
- Poor communication
- Inability to review finances in real time

According to the 2022 State of AP Report, the most important thing to a supplier relationship is prompt payment.

In the report, 84% of vendors stated that the thing they valued most was timely payment, followed by payment accuracy at 67.2%.

If your business relies on manual AP processes, the relationship with your suppliers and vendors is bound to suffer.

What Is Supplier Relationship Management?

Supplier relationship management or SRM is a systematic approach to working with and evaluating vendors and how they contribute to your business.

SRM can refer to both management practices in place, software, or a combination of the two.

When implemented, supplier relationship management can:

▪ Minimize Price Volatility

Price fluctuations are common today, particularly with supply chain issues that have become increasingly common.

But a good supplier relationship can often minimize frequent price changes by offering fixed pricing or staggered increases, which allow you to keep your pricing stable.

▪ Increase Efficiency

A good supplier relationship includes keeping the lines of communication open.

This provides an opportunity for both parties to address any issues proactively, allowing the supplier to better meet your business needs while keeping you in the loop about potential delays or pricing increases before they occur.

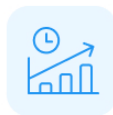
• **Improve Operations**

When a business owner and a supplier have a good working relationship, it provides a path to improved business processes which can include expedited ordering and better payment terms.

■ **Supplier Relationship Management Benefits**



Minimize Price
Volatility



Increase Efficiency



Improve Operations

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How Can Accounts Payable Processes Help Improve Supplier Relationships?

Having accounts payable processes that streamline the procurement process, automates workflow, automate the invoice approval process, and process vendor invoices timely and accurately can go a long way towards strengthening your supplier relationships.

These same AP processes can also help your bottom line by ensuring that you're able to take advantage of early payment discounts or negotiate better payment terms with your suppliers.

But efficiency also means having an efficient accounts payable process in place to pay your vendors on time.

Why Is It Important To Pay Your Suppliers on Time?

Like anything else, there are consequences to paying vendors and suppliers late. These include:

- Damaging your business reputation
- Paying higher prices
- Having less favorable payment terms
- Damage to your business credit rating
- Late fees and interest payments
- Can cause irreparable damage to your supplier relationship

Consequences of Late Supplier Payments



Damaging Your
Business
Reputation



Paying Higher
Prices



Having Less
Favorable Payment
Terms



Damage to Your
Business Credit
Rating



Late Fees
and Interest
Payments



Irreparable Damage
to Your Supplier
Relationship

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Why Does Implementing a Procure-To-Pay Application Improve the Vendor Relationship?

The 2022 State of AP finds that 71% of finance leaders said that vendor and supplier relationships grew in importance in the past year.

Continuing to process purchase orders and invoices manually directly hinders AP processes which should include accurate and timely invoice processing.

Implementing a procure-to-pay application, like PLANERGY, can directly benefit your accounts payable department and as a result, your supplier relationships,

with the biggest benefit seen regarding vendor payments.

These benefits include:

▪ **Payments Made Quickly**

As we saw earlier, the most significant impact on vendor and supplier relationships is late and inaccurate payments.

Using an AP automation solution allows you to process invoices rapidly with fewer errors and delays.

As a result, suppliers are paid faster, with fewer issues such as payments lost in the mail, or invoices sitting on a pile of papers in the approver's office.

▪ **Payments are More Accurate**

three-way matching of invoices with purchase orders and shipping receipts helps ensure that payments are not just made quickly, but also accurately.

Automation also eliminates data entry errors by automating the entire invoice entry process, eliminating time-consuming bottlenecks.

▪ **A More Cost-Effective Solution**

Implementing accounts payable automation is a cost-effective solution in the long term.

A faster payment turn-around time reduces the cost of processing AP invoices but also means that you're able to take advantage of early payment discounts.

You'll also be able to save a significant amount of money by not having to pay late fees or other penalties.

An automated solution will also free up AP staff time, allowing them to tackle more important tasks.

Benefits of Implementing a P2P Solution for SRM



Payments Made
Quickly



Payments are
More Accurate



A More Cost-Effective
Solution

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Management Processes Should Include Supplier Relationship Management

When you work with suppliers and vendors regularly, both sides have clear expectations.

As a company, you expect your suppliers to process your orders in a timely fashion, invoice you accurately, and ship your products or deliver your services on time.

In turn, your vendors expect you to pay them on time, and to pay them accurately. When both sides honor their part of the bargain, true collaboration can begin.

Your accounts payable department plays a vital role in building a strong supplier relationship.

Implementing AP automation tools will only help to strengthen vendor relations both now and in the future.

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.

download a free copy of our guide

3. Learn best practices for purchasing, finance, and more

Browse hundreds of articles, containing an amazing number of useful tools, techniques, and best practices. Many readers tell us they would have paid consultants for the advice in these articles.

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