THE HIDDEN COST OF INVOICES

HOW A STREAMLINED SUPPLY CHAIN KEEPS THEM DOWN

When we receive an invoice, we know a payment will follow. Yet the cost is not limited to the figure on the page. We also pay for the time and resource it takes to process the invoice itself. The average medium-sized business processes 10,000 invoices a month. The cost of processing this volume soon mounts up, yet is so often overlooked.

Read on to understand the true cost of accounts payable (AP). We'll also explore how taking control of your supply chain can free up some of this capital, helping your business grow.

The Cost of Accounts Payable

How much does each invoice cost your company to process? If you don't know, you're not alone. A survey by the Institute of Financial Operations (IFO) found that **29%** of respondents couldn't say either. Fortunately, further studies can give us an idea.

! Each invoice costs between £4 and £25 to process

Analysis on UK businesses carried out by IT research firm Gartner found that each invoice costs between **£4** and **£25** to process. This figure jumped to **£50** for particularly problematic invoices – but we'll explore that later. Meanwhile, an enquiry into public sector spending found that **92%** of local authorities failed to keep the cost of invoice processing below the target of **£1** per invoice. Clearly, organisations of all stripes are fighting to keep this figure down.

Now, compared to your company turnover, you may think **£4** per invoice is a drop in the ocean. But consider this: a medium sized company processes around **10,000** invoices each month. Over the course of a year, that adds up to **£480,000** in AP costs – let alone the cost of the payments themselves!

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Where the Costs Occur

So, what makes processing invoices so costly? The single largest AP cost is the labour it takes to process them. The average Accounts Payable Clerk receives a salary of **£19,824**. The more invoices you receive, the more clerks you have to hire and the higher this cost base increases.

However, as we touched upon earlier, some invoices take a disproportionate amount of time to process. The result is a potential jump in cost per invoice from **£4** to **£50**. This leap is due to 'supply chain friction.' In other words, invoices that get stuck. For instance, invoices that need chasing, details that need querying or errors that have to be addressed. Each of these makes the invoice more time-consuming to resolve, driving up the processing cost.

Anyone who has ever handled a difficult invoice has felt the frustration this friction causes. However, the cost is not just emotional. On average, businesses lose around **125 hours** per week to supply chain friction.

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According to a survey by electronic invoicing firm Tungsten Network, this includes:

» **55 hours** on manual processes
» **39 hours** querying discrepancies or errors
» **23 hours** handling supplier enquiries
» **5 hours** managing compliance, e.g. tax
» **3 hours** combating invoice fraud

Over a year, this amounts to **6,500 hours**. At an average hourly pay of **£13.65**, supply chain friction is costing businesses **£88,725** a year. Again, this is before the figure on the invoice itself has even been taken into account.

In terms of overheads, these unnecessary costs could have a huge impact on the profitability of your business. Meanwhile, all of those lost hours could have been directed towards activities that promote growth. As Tungsten Network CEO, Richard Hurwitz, points out:

> “If businesses aren't tied up chasing invoices or receiving phone calls from suppliers doing the same, they have more time to explore opportunities for growth with existing customers and go after new ones.”

Fewer Invoices and Better Compliance

When it comes to growth strategy, AP is often overlooked in favour of more glamorous projects. However, as we've seen, tuning-up this back office function could redirect unnecessary costs into profit whilst freeing-up time for profit-generating activities. Indeed, reducing supply chain friction was a top priority for **36%** of responders to Tungsten Network's survey. But how can this be achieved?

! 36% say supply chain friction is a top priority

To go back to basics, invoices come from suppliers in your supply chain. So, it makes sense to start by looking at who you are trading with and what for. Does your supply chain comprise numerous ad hoc suppliers, each issuing individual invoices for low value orders? If so, a fresh look at your procurement could be the first step in streamlining your AP activities and costs.

Could you streamline your supplier base by purchasing goods and services from a smaller selection of suppliers? For example, you could:

» Set up a company-wide Preferred Supplier List (PSL)
» Put in place formal contracts for frequently ordered categories
» Appoint vendors who can serve multiple needs, streamlining your procurement

Consolidating your purchasing with fewer, well-chosen suppliers will result in fewer invoices, in turn driving down your AP costs. Meanwhile, formalising your purchasing in these ways will reduce maverick spend, allowing you to trade with a hand-picked selection of suppliers who are compliant with your invoicing processes, eliminating friction. Furthermore, these benefits could be compounded by placing larger, less frequent orders – so you are invoiced less frequently. All of these will help drive down your overall AP cost per invoice.

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Additional Procurement Savings

The benefits of streamlining your supply chain go beyond cutting your AP expenses. So, it's worth quickly exploring the wider procurement savings a rationalised supplier base can achieve.

Every supplier costs £500 - £1,000 per year in interaction costs

Each transaction you make incurs additional landed costs, often referred to as purchased costs. These costs relate to aspects of the service such as shipping, handling, taxes, etc. As a consumer, you've probably bought several items from one website to save on P&P. It's similar with your supply chain. The more suppliers you work with, and the more orders you place, the more of these costs you incur. However, if you consolidate your purchases with fewer suppliers, these costs will be de-duplicated – so you can pocket the savings.

Furthermore, for every supplier you work with, there are unseen interaction costs associated with sourcing, setting up, and the ongoing management of the supplier. These costs have been estimated at **£500 - £1,000** per supplier, per year. So, the fewer suppliers you deal with, the more you can save on these hidden interaction costs.

Better Invoicing, Greater Visibility

Coming back to the invoices themselves; fewer individual invoices will make it easier to track and assess your procurement spend. This improved visibility will make it easier to control and optimise your purchasing. Returning to Hurwitz;

> "If all the data from past invoices is easily accessible, opportunities to identify variances that will target inefficiencies are more visible."

In this way, streamlining your supplier base will not only drive down your AP and wider purchasing costs – it could eventually help bring down the figure on the invoice itself as well.

For more information about supplier consolidation, discover the six key risks and benefits here.

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