

## Broadening the Perspective on Accounts Payable Exceptions

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*In recent years, a number of organizations have embraced new best-in-class, and often costly, invoice management technologies. A number of these tools promise significant efficiencies by automating the entire invoice lifecycle however organizations need to fully understand the internal issues causing these exceptions before embracing these investments. Results often reveal symptoms that can be fixed with simple process changes and by more effectively leveraging the existing platforms.*

While organizations routinely deal with exceptions in their day to day internal business processes, Accounts Payable is an area where the impact is felt most strongly. Every year, organizations lose millions of dollars in vendor discounts due to invoice exceptions not to mention the strain these put on relationships with key suppliers.

### Business Issue and Findings

A significant issue pertains to the limited integration between Accounts Payable and Purchasing functions in an organization. For most organizations, processing times for invoice exceptions often run into several weeks as the Accounts Payable team swells to tackle the ever growing list of issues. A flurry of emails, phone calls and follow ups from upset vendors adds to the confusion not to mention the missed opportunities to earn discounts that can range from 2% to 5% of the total invoice value. Given the tight credit environment, these discounts present organizations with significant opportunities to reduce cost.

*“...organizations routinely miss opportunities to take discounts that can range from 2 to 5% of the invoice value.”*

A closer analysis of the underlying causes of invoice exceptions demonstrates that once established, Purchase Orders and Contracts are not monitored periodically. Especially service vendor contracts routinely run out of funds leading to delays in invoice processing. In other words service requesters and buyers do not communicate effectively. In turn the payables' clerks are unclear on which function *owns* the specific exception. End state is almost always a burgeoning list of exceptions. Other issues that lead to longer processing times include duplicate invoices or manual processing errors of systemic errors. Most often, the pressure from key vendors drives executives to supplement the team with additional resources simply to 'keep the lights on'.

### Solution

Since Payables is an area that cuts across industries, there is much to be gained from looking outward to leading practices in other organizations. At a minimum, different functions engaged in the process need to come together to tackle the issues. Given that it interacts with both requesters and payables, the

Supply Chain function is in a perfect position to champion the process to implement a long term solution. The cross functional team could focus on opportunities to *prevent* exceptions by proactively monitoring Purchase Orders and Contracts running out of funds. Most instances of exceptions could be nipped in the bud by being proactive. This can be most easily accomplished via basic reports. A periodic meeting of key managers can then identify and signal the need for purchase order or contract revision.

*“...intra-functional Service Level Agreements could be a critical step in making any solution more sustainable.”*

In our experience, most *in-flight* exceptions take longer to resolve due to a breakdown in communication between the various functions. While the instinctive reaction to an exception is to send an email or make a phone call, most existing technologies offer some form of workflow solution. Most organizations view workflow as a mechanism for invoice approval. However, with some simple changes, existing workflow capabilities could be leveraged for *managing* the lifecycle of an exception. Once the root causes are understood, rules and ownerships could be defined based on the type of exception. The workflow could be designed to route or escalate an exception to the appropriate function at the time it is first encountered. We have repeatedly seen that formalizing the metrics such as average length of time in dealing with exceptions as intra-functional Service Level Agreements could be a critical step in making

any solution more sustainable. The effectiveness of any solution can be assessed in the first few weeks of implementation. The trend in the number of outstanding exceptions and the processing time can be analyzed periodically to identify areas for further improvement.

To summarize, it is evident that developing a business case to implement a new technology is easier to accomplish than bringing the functions together and fostering collaboration. However the results of the latter are lasting and far more sustainable than putting money in a best-in-class application.

## About Religned

*Gaurav Batra is a Principal at **Religned**, a professional services firm focused on Supply Chain Management. We offer sustainable and value-added supply chain business and project consulting services. With our hands on experience in successful delivery of several strategic and tactical supply chain engagements, we ensure our recommendations remain actionable. To learn more about our service offerings, visit us at [www.Religned.com](http://www.Religned.com).*