Your Bottom Line Is Taking The Hit. Is It Poorly Managed Accounts Payable?

6 min read

Key Takeaways

- Boost Vendor Relations: In addition to paying on time, making payments early might also help increase your profitability.
- Better Cash Flow: Paying close attention to your payables and the effect they have on your cash flow will help you avoid cash flow shortages to stay profitable and continue growing your business
- Reduce Manual Labor Hours: Automating your accounts payable management will save you time and also help you cut back on labor costs associated with bill payment, cutting back on overhead expenses, and increasing profitability.

You know by now that accounts payable is more than just "paying the bills."

Poorly managed payables can hurt your profit margins, but well-managed accounts payable will boost your bottom line.

Associating profitability more strongly with revenue, rather than with expenses, is not uncommon. However, just like revenue, expenses also directly impact profitability. As a result, accounts payable management also has a direct effect on your business's bottom line.

Continue reading to find out exactly how accounts payable management impacts profitability and what you can do to make sure your payables positively affect profitability.

Top 3 Ways Accounts Payable Management Impacts Profitability

1. Vendor Relationships

This probably goes without saying, but it's important enough to mention anyway: always pay all of your bills on time. This is the first essential step to managing accounts payable to benefit your bottom line.

Paying on time and as agreed not only saves you from incurring unnecessary late fees on bills but also safeguards your credit history from bad marks while helping you develop good working relationships with your vendors and suppliers.

As a result, your business will eventually have a sterling reputation of good repayment which will enable you to access the best credit and repayment terms available (i.e. the best interest rates and payment due dates that work with your schedule of cash flow) on inventory and other supplies. Accessing the best credit deals out there will reduce your business expenses overall and have a positive impact on profits.

Read More: Streamline Inventory Processes to Improve Your Cash Flow

Plus, if you ever do run into a problem when it comes time to pay one of your vendors, they'll be more willing to work with you, given your relationship and impeccable history.

In addition to paying on time, making payments early might also help increase your profitability. Sure, you might assume that holding onto your cash for as long as possible and paying your vendors at the last possible moment is always the best strategy for payables. While this might be true – especially if you're struggling with frequent cash flow shortages – paying early sometimes has its benefits.

Many suppliers offer early payment discounts for remitting payment before the actual payment due date written on your invoice or statement. As long as your cash flow is in good shape, take advantage of early payment discounts by paying early. Then sit back and watch your profit margins grow.

2. Better (or Worse) Cash Flow

Good cash flow management is essential to stay in business and be profitable. As mentioned above, the way you choose to manage your accounts payable can have an impact on your cash flow and, subsequently, on your profitability.

If your company is struggling as a result of cash flow shortages, then you can finagle accounts payable management to improve cash flow by keeping cash in your business as long as possible (by extending accounts payable days). In other words, when cash is tight, it's best to wait to pay your bills until they need to be paid.

Read More: The Seven Drivers Of Cash Flow

Delaying payment or looking for repayment terms that allow for a longer repayment period will keep more cash available in your business for more time. Then you can ensure that the cash flowing out of your business is perfectly timed and put toward the highest priority items first. To prioritize your payables in a cash-flow pinch, focus on payments that are due now, past-due payments, and those with the highest interest or late payment penalties.

"Our cash flow improved on the very first day GrowthForce took over billing and collections. They took the time to understand our processes and built best practices based on our unique needs. Our cash flow is so much better after we hired GrowthForce."

- Art Saxby, CEO Chief Outsiders™

If you think you might be in a cash flow bind, now is the time to take advantage of the good relationships you've established with your suppliers. Be sure to contact each of your vendors to let them know what your situation is and find out if they have any options to ease your burden until your cash flow improves. Your suppliers will likely prefer to work with you on your repayment terms than risk tarnishing the relationship or not getting paid at all.

Paying close attention to your payables and the effect they have on your cash flow will help you avoid cash flow shortages to stay profitable and continue growing your business.

3. Hours Spent on Manual Work

Everyone pays bills and knows what bill payment entails. In a business, however, paying bills can take more than just a moment or two.

If you’re an active reader of our blogs, you already know we can’t stress enough the importance of automation (As leaders in “Zero Entry Accounting”, we are experts in automating the back office. When clients come to us, we see the problems that are caused without automation.)

As your business grows, you'll be working with more and more suppliers and vendors, all billing on different cycles with varied payment terms and payment due dates. You'll want to pay some early and some on time. Some might require a check in the mail, while others will offer electronic payment options.

Opening envelopes, reading over physical invoices, signing off on approved expenses, cutting checks, or signing into secure payment servers all take time (your time and that of your employees). When handled manually, accounts payable management requires a huge amount of resources – just to send money out of your business!

Read More: [5 Advantages Of Automating Manual Processes In Your Business]

That's why accounts payable management is one of the most important functions of your back office to automate. Automating your accounts payable management will save you time and also help you cut back on labor costs associated with bill payment, cutting back on overhead expenses and increasing profitability.

Additionally, automating processes will free up your employees to work on higher-value projects intended to generate revenue rather than spend it. By automating your accounts payable management you'll increase productivity and boost the bottom line.

Automate Accounts Payable Management With a Fully Integrated Back Office

No matter how many vendors you work with and how many bills you have to pay, your business will benefit from implementing tools and technology to automate a variety of processes, including the management of accounts payable.

With a fully integrated back office, you'll not only save time double-checking invoices, paying bills, and signing checks, but you'll also have a better record of all your business expenses. You'll enjoy easier audits, simplified tax filing, streamlined report generation, and greatly improved financial management with an up-to-date, automatically categorized record of receipts.

As a result, you'll not only take the headache out of paying your company's bills but also ensure you're getting the best ROI possible out of each payment you make.