

# THE HIDDEN COSTS OF AP CUSTOMER SERVICE



© 2017 Financial Operations Networks

Published by Financial Operations Networks, 2100 RiverEdge Parkway, Suite 1010, Atlanta, GA 30328,  
678-894-4600, [www.finopsnet.com](http://www.finopsnet.com).

## Table of Contents

Introduction.....	1
Direct AP Costs of Customer Service.....	2
Supplier Set-Up Cost.....	5
Going Deeper – the Strategic Cost of Supplier Relations.....	6
Tools and Processes to Lower Cost and Increase Supplier Relationship Value .....	9
Conclusion.....	10
About InvoiceInfo .....	11

## Introduction

Most organizations track their invoice processing cost and perhaps payment cost, but current research finds that few look specifically at costs incurred by activities related to serving accounts payables' (AP's) customers. AP's customers include suppliers, internal customers who work closely with suppliers, various government and regulatory agencies and members of organization management who receive information from AP.

Data flows into AP from many sources including supplier invoices and registration documents. Since the data received can be incomplete or incorrect (e.g., incorrect pricing, missing data fields or incorrect TINs), exception items are created with AP serving a critical communication role between the organization and its suppliers, notifying them of the discrepancies and making the associated corrections. In addition, suppliers' cash-requirement planning activities generate flows of emails and phone calls into AP and supplier relationship managers regarding invoice payment status. Astute AP managers understand that while the sources of data errors and inquiries are rarely AP-generated, failure by AP to communicate effectively or timely causes harm to the organization (and to AP's reputation).

Less recognized is how the quality of supplier relationships, in which AP plays a critical role, and the cost of maintaining these relationships affect the bottom line.

According to research by Financial Operations Networks, up to 30% of AP staff time can be taken up by AP customer service activities. Meanwhile, an AP&P2P Network study found that 89% of organizations of all sizes and industries do not break out these specific costs in their cost-per-invoice-processed metrics. On the other hand, those few organizations that do track AP customer service cost report greater AP customer satisfaction, decreased exception items, better supplier and internal relations and lower cost.

This study looks at published information on the costs of delivering AP customer service, recent research, and the costs associated with supplier relationships.

## Direct AP Costs of Customer Service

The hard cost of AP customer service can be calculated based on data from surveys by the AP&P2P Network and by InvoiceInfo that provide the data for the key metrics necessary to the calculation. These include the percentage of invoices that generate payment status inquiries, inquiry-handling time, and time to re-engage in work following the interruption by a customer service inquiry.

The formula is straightforward:

$$((I * Q) * (Tq + Tr)/60) * \$S = Cm$$

$$Cm * 12 = Ca$$

Where

- I is average number of invoices processed per month
- Q is percent of invoices for which an inquiry is received
- Tq is average time in minutes to handle a query
- Tr is average time to re-engage in the interrupted work
- \$S is the AP staff cost (fully loaded) per hour
- Cm is the monthly hard cost to address customer inquiries
- Ca is the annual cost to address customer inquiries

AP&P2P Network survey responses indicate that 11 percent of invoices processed generate inquiries related to payment status, and an InvoiceInfo survey finds the average time to handle an inquiry is 8 minutes, while the average time to re-engage in work after addressing the inquiry is 2 minutes.

Plugging in these figures, and assuming a fully loaded hourly cost of the AP staff of \$30 per hour, the resulting cost calculates as follows:

$$((10,000 * 0.11) * (8 + 2)/60) * \$30 = \$5,500 \text{ monthly, or } \$66,000 \text{ annually.}$$

The actual number for each given organization will vary based on its particular data inputs. But the cost is not insignificant. And accounting should also consider the cost of duplication of effort and opportunity cost.

*Duplication-of-effort* — Often queries from suppliers come in first to purchasing or other buyers, who then have to contact AP to forward the inquiry, duplicating the personnel cost. This may be significant. In the AP&P2P Network survey, the median organization received 60 percent of calls from suppliers and 40 percent from internal personnel. When a supplier contacts someone other than AP, who must then contact AP, in turn, it creates a sizeable duplication of effort, or an additional \$26,400, in the example above, using the same AP hourly cost figure for other departments' personnel, which are likely higher:

$$((10,000 * 0.11) * (8 + 2)/60) * \$30 = \$5,500 \text{ monthly, or } \$66,000 * (0.40) = \$26,400 \text{ annually}$$

*Opportunity cost* — Surveys show that 80 percent of inquiries are straightforward information queries that are readily answered, such as, “Have you received my invoice”, “Has our invoice been paid?”, and “Which invoices are included in a payment?”. Twenty percent comprise problems of greater complexity that can take more time to resolve. Addressing the 80 percent of simple inquiries, while adding no value, takes staff away from other more valuable work.

## Supplier Set-Up Cost

Another cost in serving AP's customers is in the initial registration of a supplier. To pay a supplier, AP must obtain and record the requisite supplier information in the vendor master file. This includes such data as name, address, legal status, tax classification, tax ID number, remit-to address, bank account information, etc. Obtaining this information requires communication back and forth between AP and the supplier. It is best done systematically and efficiently up front when the supplier has attained approved-supplier status though, for many organizations, it often happens ad hoc upon the arrival of an invoice (demand for payment), making it even more costly.

As with supplier inquiries, few organizations break out the specific cost of supplier registration activity. Nevertheless, the back-and-forth communication, confirmation, and data-entry work consume staff time and resources.

A Financial Operations Networks study of vendor master file management finds large firms add between 100 and 325 new suppliers each month — requiring a considerable amount of work. For most organizations, there can be more paper and manual effort than necessary, depending on the organization's procedural efficiency and employment of automation.

## Going Deeper – the Strategic Cost of Supplier Relations

AP plays an important role in an organization’s relationship with its suppliers. This brings to bear another cost consideration, which is value. What does *poor* customer service, or even the perception of poor customer service, cost the organization versus *good* customer service?

Together with purchasing and supplier relationship managers, accounts payable interacts directly with suppliers. Alignment of purchasing, buyers, and payables is important: "A cooperative relationship between purchasing and accounting/finance clearly can impact the development of good supplier relations and cost reduction for the benefit of an organization."<sup>1</sup> And as a front line of contact, AP represents the organization to its suppliers. Its actions and interactions affect the nature and tenor of the relationship.

Good supplier relationships are valuable. The vast majority of research addressing supplier relations strongly rejects the zero-sum game approach to suppliers in favor of the partnership concept, with its focus on a relationship beneficial to both parties. Management experts and consultants consider partnering with suppliers to be a best practice.

Not every organization agrees, of course. Recent headlines from both the U.K. and Canada decry “bullying” of small suppliers by large buyers, an “our-way-or-the-highway” approach. Such can be the dynamic of power in a relationship.

But for many years — in manufacturing in particular, but also in services and retail – the prevailing view has been that cooperative “win-win” relationships bring greater benefit. The study<sup>2</sup> *Negotiating and Managing Key Supplier Relationships: A Cross-Industry Study of 20 Best Practices* by Vantage Partners looked at 20 practices built around the notion “that greater value is delivered through strong, collaborative working relationships with critical suppliers.” The study confirmed the point: “Strong working relationships deliver at least 50% greater value than poor ones.”

---

<sup>1</sup> *Accounting, Purchasing and Supply Chain Management Interface*, Rafiu Akinpelu Olaore, Nafisat Toyosi Adebisi, Department of Purchasing & Supply, Faculty of Management Studies, Osun State Polytechnic, Nigeria

<sup>2</sup> *Negotiating and Managing Key Supplier Relationships: A Cross-Industry Study of 20 Best Practices*, Vantage Partners



More recently a study by Planning Perspectives Inc. entitled “OEM Profitability and Supplier Relations” emphatically confirmed the value of good supplier relations. The 2014 study examined 13 years of data from automakers. Critically, the study quantified the value of the non-price benefits of strong relationships.

The study’s lead author, John Henke, Ph.D., says, “For years, academics and management consultants have suggested companies focused on developing positive relations with their suppliers and other major stakeholders will perform better financially. Many CEOs and purchasing executives intuitively agree with them...Consultants have tended to support their conclusions with anecdotal information, while academics have used rigorous statistical methods to support the many benefits they have identified that result from good supplier relations.”<sup>3</sup>

Along with showing the economic value of non-price benefits realized by the buyer companies, Henke’s study proves a causal relationship between supplier relations and the buyers’ profit. And it establishes that the non-price benefits actually greatly exceed the price benefits where there is a good relationship.

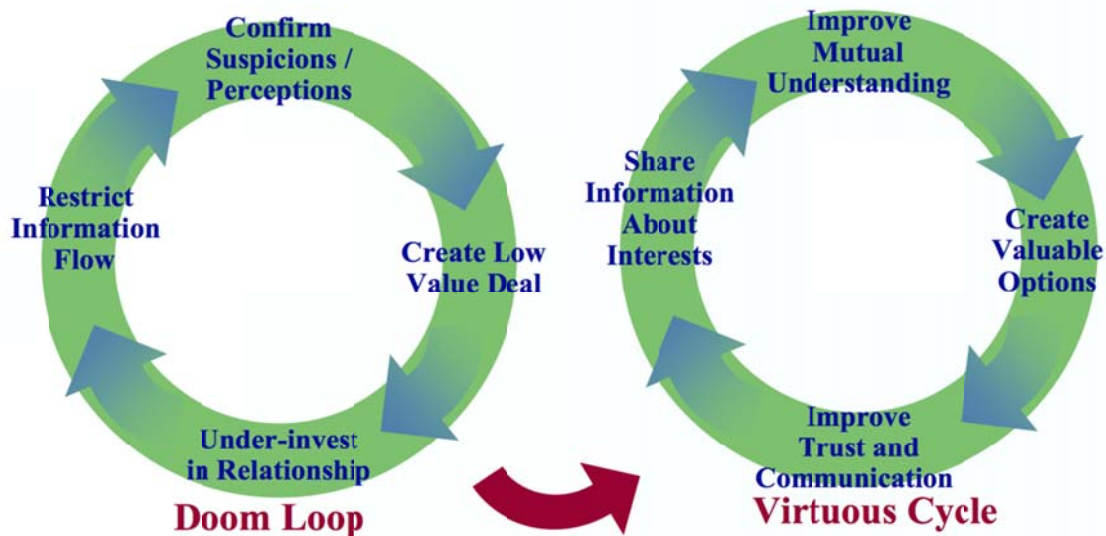
Henke concludes, “The results clearly show that the OEM interested in improving its profitability should definitely look to its suppliers, not to squeeze them for lower prices, but to work toward achieving better relations with them, and ... [sustain] long-term positive relations with them.” He also notes that while the study focused on the auto industry, “the results clearly apply to companies in every manufacturing industry.”

The results confirm Joseph C. Black’s diagram in his presentation “Effective Supplier Relationship Management” for the Northeast Supply Chain Conference, on how relationships work — either in a “doom loop” or “virtuous cycle.”

---

<sup>3</sup> Mike Hedge, *New Study Shows Automakers Could Increase Profits by Improving their Supplier Relations*, December 2014, <http://www.ppi1.com>

# How Relationships Work



Source: Effective Supplier Relationships, Joseph C. Black

So what are the hidden AP customer service costs from the standpoint of supplier relations? When supplier relationships are poor, it costs the organization in higher pricing, less flexibility, lower quality, less customer care, less information and less collaboration from suppliers. On the other hand, good relations lead to preferred pricing, supplier collaboration and market information sharing, cooperation with process improvements and automation, terms flexibility, payment discounts, better quality, and better customer service.

## Tools and Processes to Lower Cost and Increase Supplier Relationship Value

While suppliers have an obligation to provide good service to their customers, research demonstrates that there are significant financial benefits for the suppliers' customers when those customers support good supplier relations. That support includes making it easy for suppliers to do business with an organization.

Every supplier has fundamental needs that include prompt and accurate information on questions about invoice payment status and timing, simple methods for ease of providing information to customers, and timely notification of errors and exception items that could impact payment. Eliminating friction from the processes that fulfill these fundamental needs reduces cost for AP, purchasing, and suppliers while making the relationship more enjoyable and stronger.

Friction can be eliminated by training, process improvements, service level standards, and service level agreements. Automation often plays a meaningful role by giving suppliers self-service tools that they can access on their own schedules without tying up valuable AP resources.

## Conclusion

There is a cost to the status quo that is often unmeasured and may be less effective and higher than it could be. Most organizations lack information on the cost of activities related to serving AP's customers. By examining these activities and determining the costs, most organizations will find room to employ more effective and less costly means to reach objectives.

There is an opportunity cost to suboptimal customer service. AP's processes should be optimized and incorporate tools to balance cost with good customer service.

Studies show the value of good supplier relationships to profitability. Supplier relations are impacted by requisite AP customer service to answer questions, maintain high data quality and address problems. By employing disciplined processes, training staff, and implementing targeted, effective automation tools that give and receive suppliers' information on demand while relieving staff of unnecessary distractions, organizations can remove friction in supplier interactions and further support supplier relationship strategies that improve the bottom line.

## About InvoiceInfo

### Supplier Self-Service Automation Specialists

InvoiceInfo's modular suite of specialized supplier self-service applications transforms time-consuming tasks such as vendor inquiries, registration and information management into vendor self-service solutions. InvoiceInfo has been implemented by leading companies worldwide to improve productivity, reduce cost and enhance vendor relations.

### Create Self-Service Programs That Fit Your Organization Perfectly

InvoiceInfo's modular design requires little to no IT time and lets you implement the exact functionality you need today while allowing you to add features as needed.

Whether you are interested in

- Payment status inquiry automation
- Vendor registration: W-9, W-8, custom registration forms
- Vendor verification: TIN, OFAC, Address, 22 additional lists
- Vendor profile change requests or
- Statement matching

InvoiceInfo has you covered.

To see more about InvoiceInfo's modular supplier self-service solutions, email [info@InvoiceInfo.com](mailto:info@InvoiceInfo.com) or call [678-335-5735](tel:678-335-5735).