AP Automation & Cash Flow

When it comes to managing cash flow, companies seek out ways to buy fewer pens, travel less or make products with cheaper materials. An often overlooked opportunity for companies to increase cash flow is by evaluating and streamlining processes in some of the most critical functions, like Accounts Payable. Accounts Payable in typical middle-market firms consists of several employees, manual processes and mounds of paper invoices stored in file cabinets and banker's boxes. Identifying improvement opportunities and implementing solutions like automated workflows will reduce the time it takes to move an invoice through the payables cycle, allowing the company to take advantage of purchase discounts and maintain good relationships with vendors. It also creates opportunities to reduce costs with fewer employees or utilize those employees in more value-added areas of the department.

The National Center for the Middle Market notes that companies can save millions by making AP processes more efficient. Improving metrics like DPO (Days Payable Outstanding) by just a few days can create significant free cash flow. DPO measures the number of days it takes a company to receive and pay an invoice. The goal is to manage DPO so that it's not too high, indicating a company could be struggling to pay bills or too low, which could mean the company is paying bills before it needs to and not taking full advantage of the repayment period allowed