

The Welch Report

## **Your Accounts Payable Department Can Significantly Improve Your Bottom Line**

**Offer to pay early in exchange for a discount.** Many companies will be happy to offer a 1% or 2% discount in exchange for early payment if you ask for it.

Offer to pay early in exchange for a 2% discount and I will be surprised if at least 50% of your creditors don't accept. All you need to do is ask.

Think how much money you would add to your bottom line each year if you could reduce even 50% of your total payable amount by a full 2%. Depending on your size, this could add tens of thousands of dollars or more directly to your bottom line.

For example, if your company had \$1,000,000 in payables last year and even 50% of these could be paid with a 2% early payment discount you would add a full \$10,000 to your bottom line. Imagine that, \$10,000 without any increase in sales.

How much would you need to increase sales to add a net gain of \$10,000 to your bottom line? At a net pretax profit ratio of 2.5% you would need to add \$400,000 in gross sales to accomplish the same thing!

**No incentive to pay early? Don't!** Invoices with no early payment discount should never be paid sooner than when they are due. You have nothing to gain and will lose income as you have deprived yourself of the opportunity to use that money to make you money even if it is just sitting in an interest yielding account.

**How often does your company pay for products and services you never ordered or never received?** Always be on the lookout for bogus invoices. These are invoices for products and services that you did not order and did not receive.

Throughout the year we receive dozens of invoices from companies that are trying to cheat us by billing for such items. I have read articles about companies that do nothing but send bills each month out to companies. They sell no products or services; they simply send bills out all month long for non-existent products or services. Apparently, as unthinkable as it is, many accounts payable people never bother to check the validity of the invoices they receive for payment, they just pay them.

How many of these do you think get paid? Studies have shown that somewhere between 25% and 50% of these bogus type bills are promptly paid without a question ever being asked.

**Thanks but you've already paid me or didn't even owe me.** Watch out for duplicate payments to your vendors. Not a month goes by when we do not get at least one duplicate payment from a customer of ours. Many months we receive dozens of duplicate payments. We have even received payments in the thousands of dollars for products that were never ordered from us. How a nonexistent bill is paid I have no idea. But there are many ways the same bill can be paid twice or even three times.

One way this can happen is if a duplicate bill is received and paid twice by your payable people. Another way is if they pay from a statement and an original invoice. Either way they are paying for the same job twice. You should have safeguards in place to ensure this does not happen in your company.

This week alone I received 5 duplicate payments from companies who paid both the original invoice and the statement.

I once had a company send me a check for \$27,647.50 despite not owing me a cent. This customer had purchased a number of copies of one of my books and had paid for them in full. A few months later they sent me another check for \$27,647.50.

This customer, by the way, is one of the largest banks in the world.

**Always verify all payables.** Never pay a bill unless you have a corresponding purchase order and unless you have verified delivery.

All invoices should be checked against the P.O. and quote to verify what was ordered, who placed the order, what the price was, what the quantity was, what the terms of the order are, and what materials, if any, are due to be returned before payment has been made. You want to match up the invoice to both the quote and the purchase order to ensure that all billing is proper and based on what was authorized. This may be done by the party that placed the order and then sent to the payable department. However you do it, make sure it is done.

**Sign the checks yourself.** One of the best ways for you to see what you are buying is to sign all payable checks yourself. I know you can't do this all the time but by doing it every few weeks for a day or two you will see first-hand where your money goes. At the very least spot check a number of invoices from each department every few weeks. This will be a real eye opening experience for you and it is one that is sure to make you ask many questions about what you are buying, and for what purpose. Few things will bring the reality of the need to control and reduce your costs home faster than signing check after check for things you did not even know you bought. This strategy will also serve to keep your people on their toes.

**Are you overlooking even more sources of credit?** Let your suppliers be your bank, especially during periods of poor cash flow. Always ask for extended terms.

Ask for Net 60 or Net 90. Ask for 30 / 60 or 30 / 60 / 90. Ask for the longest terms you can get. Extended terms can save you a great deal of money.

For example, suppose you have \$1,000,000 in payables but instead of these being on a Net 30 they are on a Net 60 payment schedule.

Now you do not pay them until 60 days after you receive the bill rather than the normal 30 days. Let us also say that you have to borrow to cover these bills. If you borrowed at 5% to pay these bills at 30 days instead of 60 days, you will have paid an added 30 days interest. At 5%, your interest on \$1,000,000 would be \$4,167 per month.

By delaying your borrowing for 30 days you have saved \$4,167. If you were able to secure Net 90 terms instead of Net 30 you will have saved 2 months of interest which would add \$8,334 directly to your bottom line.

This does not even consider the added savings you will realize by putting your money towards an income producing application during those added 30 to 60 days instead of using it to pay bills.

This edition of The Welch Report has been provided by Derrick Welch the author of **‘In Pursuit of Profits: How to at Least Double your Profits Without Increasing Your Sales’**. Including **1,000 Cost Control, Expense Reduction, and Income Producing Strategies You Can Start Using Today To Dramatically Increase Your Bottom Line.**

And **‘Defy Mediocrity. Choose to be Uncommon. Think of the Alternative’**.

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