

# *Mastering Global Supplier Payments*

An Exploration of Global-Focused Electronic Payments Platforms for Expanding Organizations

## **Q1 2017 | Featuring insights on...**

- » Current Market Trends in Global Payments Management
- » Common Challenges in Global Payments Management
- » Features and Functionalities of Leading Global ePayments Tools

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# Introduction

Globalization is an increasingly significant factor for today's organizations, as more and more companies are expanding their supplier bases overseas. With this expansion comes an increase in cross-border payments, as well as the introduction of different payment processing requirements into the Accounts Payable (AP) process. As a result, many companies' AP departments are struggling to keep up with their competitors.

PayStream's research shows that organizations' most common practices for managing cross-border payments are neither the most efficient nor the most affordable. Instead, they cost organizations heavily in payment fees, time, and labor, and can have negative impacts on supply chains and supplier relationships. International payment management also entails much more effort and higher risk than local payments in terms of compliance with international tax and regulatory requirements.

Despite these challenges, confining operations to local regions is not an option for competitive organizations—globalization is forcing these companies to either adapt their back-office procedures or get left behind. Fortunately, electronic payments (ePayments) solutions help streamline the difficult and costly process of making international payments, allowing companies to keep up with global expansion. These solutions support ePayments methods that are best suited for international payments, such as global ACH, and manage the workflow and tax/regulatory requirements related to cross-border payments.

As organizations expand beyond their local markets, it is important that they not only automate their payments processes, but that they properly manage them—they must prevent poor global payment management practices from becoming ingrained in their international operations as they mature. The following report highlights some trends in cross-border payment management among today's organizations, and highlights the value and features of global ePayments solutions.

# Global ePayments Today

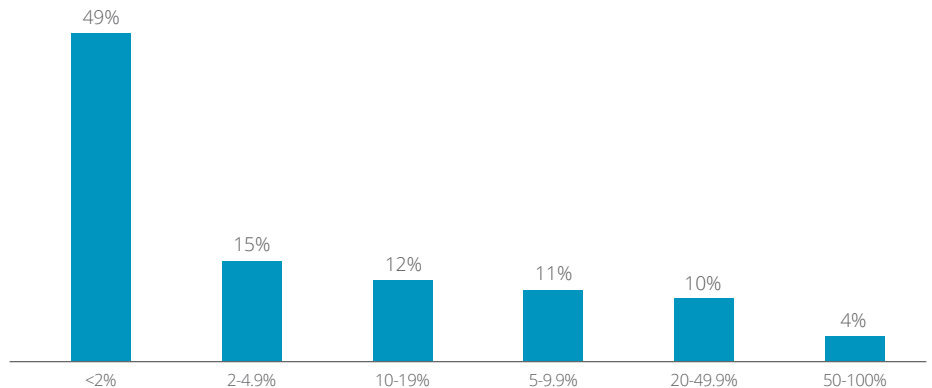
In order to determine current trends in cross-border AP and payment management, PayStream Advisors surveyed professionals in over 400 organizations from a variety of industries and market segments.

## *The State of the World*

When asked what percentage of their payments were made overseas, one-half of companies reported that they make more than 2 percent of their payments across international borders, see Figure 1.

**Figure 1**

**PERCENTAGE OF CROSS-BORDER SUPPLIER PAYMENTS**



**Half of Organizations Make Over 2 Percent of Their Payments to Suppliers in Other Countries**

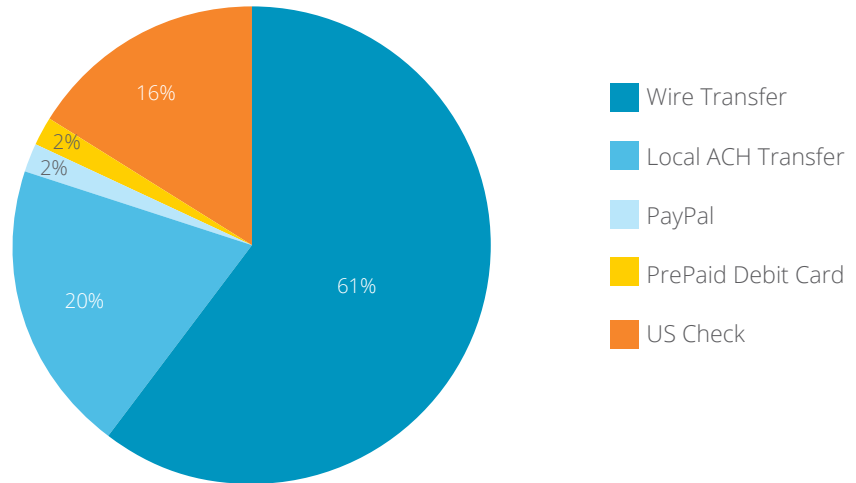
*"Of your supplier payments, what percentage are cross-border?"*

PayStream has found that size can play a role in how many international payments a company makes—typically, the larger the organization, the more cross-border payments they report. For example, among organizations with revenues between \$2 and \$5 billion, 17 percent report making more than one-fifth of their payments cross-border, compared to 6 percent of organizations with revenue between \$51 and \$250 million.

Industry can also play a role in the number cross-border payments. Organizations in finance and banking, manufacturing, business services, communications, and computers make higher quantities of payments internationally than companies in many other industries. PayStream attributes this in part to the globalized nature of these industries, their services, and their supply chain requirements.

Among organizations making more than 2 percent of their payments cross-border, most conduct these payments through wire transfer, see Figure 2. Local ACH (or global ACH) is the second most common form of cross-border payment. This is in part due to its price point—ACH payment fees are considerably lower than those for wire transfers, although wire transfer payments are faster.

#### INTERNATIONAL PAYMENT METHOD USAGE



**Figure 2**

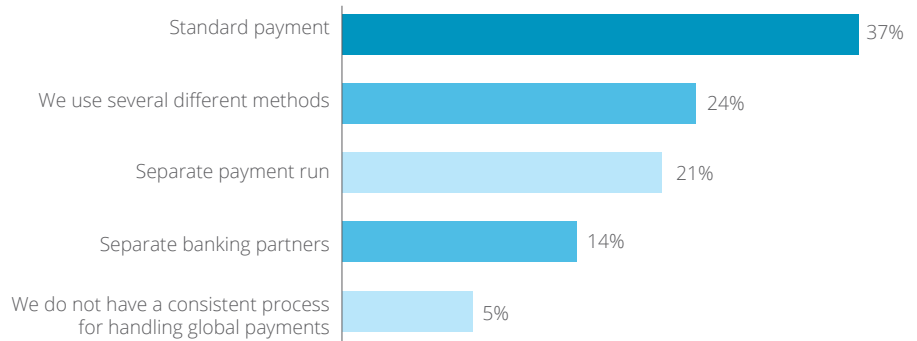
**Most Organizations Use Wire Transfers for Cross-Border Payments**

*"Which international payments methods are you using?"*

### Common Global Payment Methodologies

The processes for managing local payments and payments are very different, but research shows that not all companies have different departments or teams to handle each. According to survey results, the majority of organizations handle cross-border payment processes within their standard domestic payment run, while 24 percent use several different methods, see Figure 3.

**GLOBAL SUPPLIER PAYMENTS MANAGEMENT METHODS**



**Figure 3**

**Most Organizations  
Manage Global  
Payments in Their  
Standard Payment  
Runs**

*"How do you typically  
manage global supplier  
payments?"*

Depending on the number of cross-border payments an organization makes each month, combining domestic and international payment processes could seem more efficient than creating two separate payment runs. However, AP teams must add in several extra steps and controls when making cross-border payments.

One example is ensuring payment data accuracy—AP must go through a much more extensive vetting process to ensure that cross-border payment data is accurate, as opposed to the simpler process for domestic payments. In fact, over 26,000 global rules exist across different regions and payment methods, and the payment process for a particular method in one country could be completely different than that in another region. AP departments must often use multiple bank portals to disburse funds in different countries, and cross-border payments reconciliation typically requires different measures than domestic reconciliation.

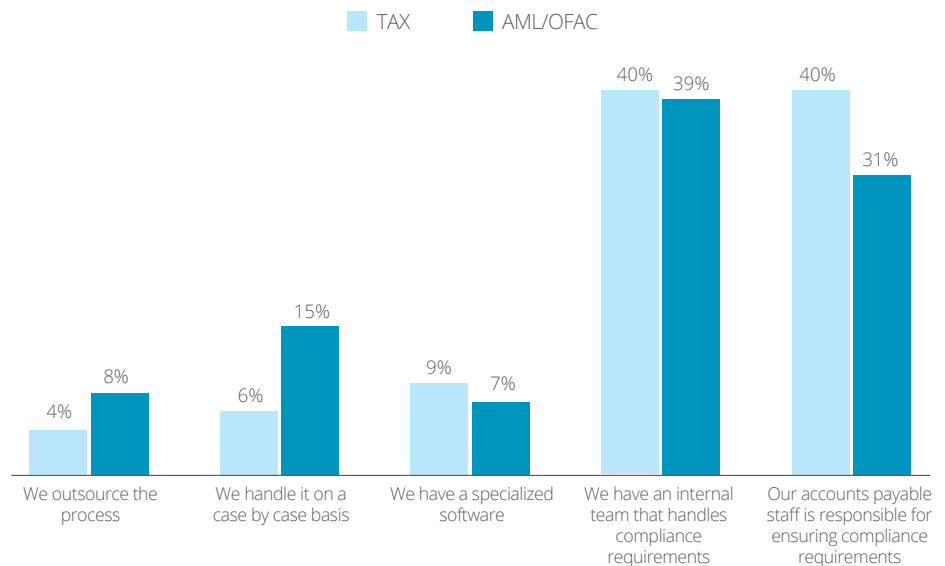
Cross-border payments also entail more tax and regulatory processes than regular payables processes, including tax and AML / OFAC compliance. FACTA requires U.S. taxpayers to report certain types of payments made to their foreign accounts, such as interest or dividends on U.S. securities. In order to comply with FACTA, international

companies must ensure that the proper taxes are withheld prior to payment, and must complete special tax forms. Compliance with OFAC / AML regulations requires organizations to check suppliers against “Do Not Pay” lists during setup and prior to each payment.

While software can help organizations manage regulatory requirements, survey results show that most organizations are performing these functions manually, see Figure 4. These organizations either have a separate team managing the process, or they use their AP department to handle both standard and international payment requirements.

**Figure 4**

**TOP METHODS FOR TAX AND REGULATORY COMPLIANCE  
IN CROSS-BORDER PAYMENTS PROCESSING**



**Less Than Ten Percent  
of Companies Have  
Software to Assist with  
Tax and Regulatory  
Compliance**

*“How do you maintain  
compliance with AML  
/ OFAC regulations  
(checking with AML and  
international “Do Not  
Pay” databases prior to  
executing payment)?”*

## The Results of Mismanaged Global Payments

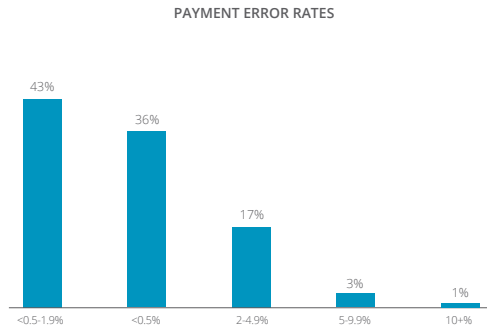
Global payments management requires a great deal of an AP department's time, and the combination of this process with domestic payments creates many more challenges than when these processes are handled separately. This combination of the payment processes can also have an effect on supplier payment error rates.

Research shows that most companies report payment errors rates of between 0.5-1.9 percent, while one-fifth of companies have error rates of 2+ percent, see Figure 5.

Figure 5

**One-Fifth of Companies Experience Payment Error Rates Over 2 Percent**

*"What is your payment error rate?"*



However, this error rate increases relative to how these payments are managed, see Figure 6. Organizations experience the highest error rates when they have inconsistent processes for global payments or are using separate banking partners to manage the process. When organizations are managing these processes internally with separate payment runs, their payment error rates are lower.

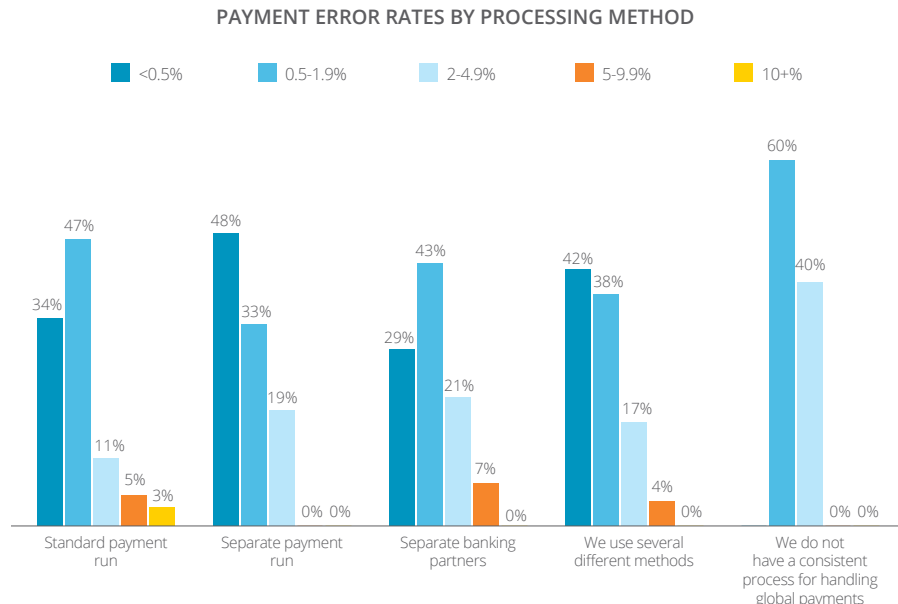
Figure 6

**Organizations Without Standardized Payments Management Experience Higher Payment Error Rates**

*"What is your payment error rate?"*

&

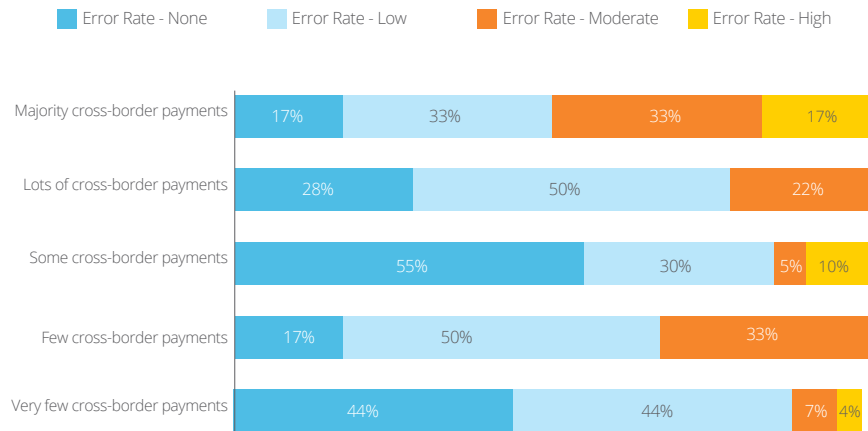
*"How do you typically manage global supplier payments?"*





Error rates increase by other parameters as well, including the number of cross-border payments<sup>1</sup>. that are made, see Figure 7.

**PAYMENT ERROR RATES BY CROSS-BORDER PAYMENT VOLUME**



**Figure 7**

**Payment Errors Increase by Cross-Border Payments Volume**

*"What is your payment error rate?"*

&

*"Of your supplier payments, what percentage are cross-border?"*

In all, when organizations do not use specialized processes and teams for international payments, their payment operations suffer. Even when organizations separate domestic and cross-border payment runs, they still experience pains related to manual processing. Without a solution to help streamline, separate, and manage domestic and international payments, the process is much more complicated, costly, and error prone. There is also a higher risk of failing to meet regulatory requirements, which can result in legal fines up to millions of dollars.

The monetary costs of errors rates to the organization are also important to consider. Even a 2 percent error rate can have a dramatic impact on the efficiency of AP processes. For an organization making 5,000 payments a month, 2 percent equals 100 errors a month. If the cost of errors is a factor of labor (investigation, resolution, and reconciliation) and additional remittance fees (bank charges, wire fees), even a conservative cost of \$100 to fix a single error amounts to \$120,000 a year total. This is not only costly for an organization's revenue, but can also have negative impacts on its supplier relationships.

Fortunately, today's leading global ePayments software automates both cross-border payments and domestic payments, streamlines tax and regulatory compliance, and helps to greatly reduce processing costs. The following section outlines some of the features, services, and benefits of leading global ePayments software.

<sup>1</sup> Low error rates are between 0.5 and 1.9 percent, moderate rates are between 2 and 4.9 percent, and high error rates are above 5 percent.

# Automated Global Payments

Global ePayments software provides a platform for AP to manage the complex processes involved in cross-border payments. These solutions greatly reduce processing costs and payment errors by solving many of the issues that tend to raise error rates, such as disparate, manual processes, or inexperience in different global regions. Working with a global ePayments provider that has experience and expertise in international B2B operations takes many of the processing and compliance burdens off organizations. It enables them to expand their supply chains without worrying about how they will keep up with supplier payments.

Global ePayments solutions include the following features and functionality:

## **Cross-Border Payment Automation**

Global ePayments platforms help manage different international payment methods, including wire transfer, global ACH / local bank transfer, checks, PayPal, and prepaid debit card—all within one platform. They enable the organization to easily make a payment in any format in any region, and help it comply with the specific requirements for each region.

## **Global Payment Management**

Global ePayments software streamlines the most common and time-consuming tasks in cross-border AP, including supplier onboarding and validation, global payment remittance, payment reconciliation, and AP reporting. Many solutions also automate currency conversion, and offer multi-language and multi-entity support. Some providers even offer a self-service portal for international payees, allowing them to choose their preferred payment methods and provide banking information. These portals facilitate communications between payees and suppliers, provide suppliers with real-time status on their payments, help resolve payment errors, and automate payment reconciliation.

## **Tax Compliance Support**

Global ePayments solutions assist AP departments by automatically gathering the right tax form and tax ID information from suppliers prior to payment. These solutions ensure that the payees have provided the correct required documents (W-9, W-8, VAT, etc.), validate the forms and information for accuracy and completeness, and calculate tax withholding when applicable. The collected information is included in supplier payments and 1099 / 1042-S tax preparation reporting outputs.

## **OFAC / AML Regulatory Compliance Support**

Global ePayments solutions screen transactions and payees against blacklists (e.g., OFAC, EU, HMC) for anti-money-laundering (AML) compliance. They also provide ongoing transaction screening aids to help identify fraudulent suppliers even after initial screening. Some solutions can identify blocked or suspended payees that are trying to create multiple accounts, and give the client the ability to block or suspend such payees from receiving payments.

## **Invoice Automation Tools**

Global ePayments software should not be restricted to international business only, but should help the rest of the AP department in their daily activities. Invoice management automation involves converting paper invoices to an electronic format, either through OCR data capture technology or by leveraging an invoicing solution. Providers often also incorporate an automated approval workflow tool that includes rules-based routing, exception management, and straight-through processing capabilities.

## **Strategic Supply Chain Services**

Some global ePayments providers offer services for organizations looking to expand their supply chain operations, helping clients adapt to new banking regulations, tax regulations, and payee- or country-specific payment preferences. Providers also work with clients' IT teams to help them configure their infrastructure and ERP to a wide array of banking APIs, and manually adapt the software when international tax laws and treaties change.

Some organizations may feel that they do not have enough international suppliers to make the adoption of a solution worth the investment. It is important that these organizations consider not only their current supplier payment counts and cross-border payment volume, but where they expect to be in 3-5 years. Globalization is changing business all over the world, and competitive companies should adjust their current infrastructure to scale with their future business needs.

## About the Sponsor

Tipalti provides a holistic supplier payments automation solution, allowing finance teams to be more strategic in managing local and global supplier payment processes. The Tipalti solution helps eliminate the errors, risk, and complexity in supplier management and onboarding, invoice workflow automation, tax and AML compliance, global payments, and reconciliation. The company has facilitated several successful process transformations across its customer base; companies like Amazon, Twitter, GoPro, and Eventbrite have reported that the Tipalti solution has enabled them to automate over 80 percent of their supplier payment processes. .

## About PayStream Advisors

PayStream Advisors is a research and advisory firm focused on business process automation in sourcing, supply chain management, procurement, accounts payable, payments, and expense management. PayStream's team of experts provide targeted research and consulting services to address the changing needs of finance and procurement professionals. In short, PayStream is dedicated to maximizing returns and minimizing risks associated with technology investment. PayStream's research reports, white papers, webinars, and tools are available free of charge at [www.paystreamadvisors.com](http://www.paystreamadvisors.com). PayStream Advisors is a division of Level, an IT consulting firm specializing in technology strategy, design, architecture, and DevOps.