Rx for Global Payment Pains

5 Reasons Why Mass Partner Payments Impede Your Global Market Potential

Tipalti
Powering Global Partner Payments
Your organization is growing at lightning speed, moving into geographic territories and markets worldwide. The focus is sales, sales, sales and growth, growth, with less notice given to back office payment processing. Still, the need to compensate the rising quantity of affiliates, publishers, suppliers, vendors, and other partnering organizations can’t help but steal senior management attention.

Meanwhile, the repetitive manual effort required in making these mass global payments is consuming more time, is increasingly expensive and prone with errors, and is numbing toil for those involved—their tireless labors confounded by the myriad ways and timeframes that payees want to be paid, the different currencies involved in these disbursements, fast-changing and convoluted tax and labor laws, and the disparate methods of payment—wire transfer, ACH, direct deposit, PayPal, Western Union or paper check, among others.

As mass payments become infinitely more intricate, labor intensive, time consuming and at risk of fraud, that focus on sales and growth shifts to something as seemingly innocuous as paying someone. When mistakes happen, even more time and labor must be invested in the arduous exercise.

There must be a better way to achieve both global growth ambitions and liberate Accounts Payable from their drudgery. The latter alone would reposition these intellectual assets to assist Finance & Accounting in attaining more strategic goals. The solution is automation. The problem is that traditional “nuts and bolts” ERP systems do not offer this functionality.

You’re probably thinking that your organization is simply growing too fast to pause and spend money on a global payment management platform. You’re wrong. Here are five reasons why your business must cure the pain that manual mass payments are inflicting on your people and your company, especially as your company expands globally.

1. The sheer volume of payments is not going down
2. Tax and regulatory compliance is a legal minefield
3. Currency qualms
4. The fear of fraud is real and growing
5. Financial reporting requirements

TIPALTIX

Rx FOR GLOBAL PAYMENT PAINS
5 REASONS WHY MASS PARTNER PAYMENTS IMPEDE YOUR GLOBAL MARKET POTENTIAL

TOO COMPLEX:
THE MYRIAD OF WAYS PAYEES WANT TO BE PAID:
- Wire Transfer
- Domestic ACH (Direct Deposit)
- Global ACH (eCheck)
- PayPal
- Debit Card
- Western Union
- Paper Check
5 REASONS WHY Manual Mass Payments Impede Your Global Market Potential

REASON #1

The Sheer Volume of Payments Is Not Going Down

As a company scales in size and scope, the need to process more payments scales with it. Past 50 payments, the time it takes to manually handle the volume increases significantly. Greater complexities arise as the organization buys, sells and operates in more global markets. An enormous amount of paperwork amasses.

The company must collect an invoice from each partner, pay it on time in the right payment method, and fully comply with all local and national labor and tax laws. Once paid, the organization must reconcile these payments and have a system for tracking them. From a control and reporting perspective, there is often no single repository for supplier payment data.

Now, if your company makes a handful of payments each week, all of the above is less of a concern. But, in today’s blistering global economy, few organizations fit the old paradigm. Rather than conduct business with a limited number of vendors, hundreds if not thousands of suppliers are sending invoices on an irregular basis. For a few businesses, the payees are in diverse industries and geographic regions. A case in point is Amazon’s payees. The online eCommerce giant sells shoes, dishwashers, furniture, books, golf clubs and toothbrushes from millions of vendors across the world. Most organizations compensate a fraction of this volume of payees, but the pain nonetheless is palpable.

The PayPal Paradox

Boost Media start out by paying a few suppliers, but as their international growth takes off this quantityskyrockets.

The San Francisco-based provider of optimized advertising solutions launched in 2007 with a few U.S. clients served by less than a dozen independent creative contributors. Back then Boost Media use PayPal as the means of compensating these suppliers. But by 2012, it had reached the point where it tallied hundreds of contributors around the world, many receiving small payments in the less-than-$75 range on a constant basis—a few dollars here and there causing migraines, and not just in AP. Senior management also felt the pain.

“In the old days, this wasn’t much of a deal, as we were paying 10 people and I could easily write checks by hand.” —Boost Media’s, Rob Lenderman

“...and the need for me to use my time more strategically, this was no way to make such mass payments.”

Very quickly, PayPal no longer was an effective way for Boost Media to pay its contributors. “For one thing, it did not provide services in some countries,” Lenderman said. “Another problem was that some of our content providers live off their debit cards and checks, and PayPal doesn’t fit that model. We simply had to have an automated resolution to a situation what was spiraling out of control.”

CASE STUDY: BOOST MEDIA

The PayPal Paradox

Click here to learn more
REASON #1 The Sheer Volume of Payments is Not Going Down

close working relationship with these payees, which could lead to serious retention issues. High on the wish list at both Infolinks and Boost Media was an automated payment management solution that would effortlessly attend to the arduous administrative tasks arising from their fast-growing payment volume.

REASON #2 TAX AND REGULATORY COMPLIANCE IS A LEGAL MINEFIELD

When Infolinks and Boost Media were in startup phase domestically, paying vendors was no problem. But, as each company grew internationally, a patchwork quilt of tax and regulatory mandates altered this comfortable status quo. This is not to say that compensating hundreds of payees domestically is a walk in the park, administratively-speaking. Quite the contrary, as payees may want to be paid in different ways—ACH, direct deposit, checks and so on.

Say a company compensates a U.S.-based supplier via direct deposit. This payment must accurately reflect the payee’s name, bank name, account number and routing number. These four fields must be filled in correctly to ensure the payment goes through without a hitch. The problem is that the same four fields do not apply in most foreign jurisdictions.

In Germany, for instance, instead of a routing number, the payer must enter the SWIFT Code on the payment. In India, it must enter the IFSC Code. In both cases, these codes involve a different arrangement and quantity of letters and digits. If payees want to be paid in a format different than a direct deposit to a bank, other regulatory issues arise.

Multiply these administrative and regulatory differences by several hundred vendors across more than two-dozen countries and the problems compound. Now toss into this mix constantly changing local and national tax and labor laws. Today, the paying entity may not have too much trouble complying with these rules, but what if they change tomorrow?

Even for companies paying suppliers in the U.S., the regulatory milieu is complicated. Businesses that make payments to U.S.-based partners, suppliers and vendors are obligated to issue a Form 1099 to these payees and, at the end of the year, receive a
REASON #2 Tax and Regulatory Compliance is a Legal Minefield

Form W-9 in return. Not all suppliers remember to send the document, however. With five payees, this is not a problem—the company sends an email or makes a phone call to remind the payee. But, if the organization tallies hundreds of partners, obviously this is not a practical means of alerting dawdlers.

Evil in the World

At crowdsourced online advertising services marketplace Trada, the company wanted to be able to disburse payments to payees the ways in which they wanted to be paid. “We wanted to offer additional payment methods, while having the ability to make payments in many countries,” explained Matt Harada, Trada Vice President of Finance & Analysis.

Trada also sought to improve compliance with the Office of Foreign Assets Control (OFAC), an agency of the U.S. Department of the Treasury under the auspices of the Under Secretary of the Treasury for Terrorism and Financial Intelligence. Compliance OFAC was a “huge worry,” Harada said.

The same anxiety prevails at all other global companies. OFAC administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against entities such as targeted foreign countries, terrorists, known money laundering organizations and international narcotics traffickers. A company that even unknowingly makes payments to businesses that are essentially blacklisted by U.S. Treasury will be in regulatory crosshairs. Indeed, OFAC puts the onus of responsibility on the payer to identify such vendors and not pay them. If a growing business is manually sending payments in different ways and currencies to thousands of suppliers around the world, the possibility of overlooking a single forbidden entity looms large.

If a supplier is not registered as a business in the U.S., a Form W-9 no longer applies. Instead, the paying entity must collect a Form W-8 document from the vendors. These forms exempt vendors in each case from providing certain information, but they vary widely, including Forms W-8BEN, W-8BEN-E, W-8ECI, W-8EXP, and W-8IMY.

Other complicated IRS requirements include the need to provide the applicable tax code with a payment to some, but not all foreign-paid entities. In Russia, the requirement is to include the payee's unique tax code number with the payment, while in China the payment must include both the tax code number and the vendor’s phone number. You read that right.

Many payers simply sidestep these issues by requiring their partners to receive payments the way the company prefers to provide them. Obviously, this is not the best way to cultivate and nurture close relations with vital contributors to one’s business. Even worse, those payment methods may not be accepted in certain countries which essentially limits your global growth markets.

REASON #3 CURRENCY QUALMS

At present, there are 180 foreign currencies recognized as legal tender by the United Nations. Chances are your business is making payments in more than just a few of these denominations. Obviously, paying hundreds of suppliers in a wide and growing array of currencies requires real time knowledge of exchange rates and translation values, the latter of import to compliance with FASB (Financial Accounting Standards Board).

That’s just one challenge for organizations making mass payments. Just because the disbursement to a partnering organiza-
REASON #3 Currency Qualms

Payment in India must be in Indian rupees does not automatically mean that all other providers in that country will want to be paid in the same currency. Indeed, two different suppliers in the country may have different preferences—one wanting to be paid in U.S. dollars, the other in Indian rupees. For exchange purposes, the latter payee also might want to be paid in rupees that come from the U.S., as opposed to U.S. dollars that are converted into rupees in India.

The same scenario might likely apply in other parts of the world in which payments must be executed. Errors are common, requiring additional payments to be made to reflect possible underpayments.

At Boost Media, currency conversion was a financial pain point. “The fees were pretty high with PayPal,” said Lenderman. “This wasn’t an issue when we were in a couple countries, but when we were making payments in more than 30 global regions it became too much to handle. Our goal is to eventually be in virtually every country in the world, paying multiple contributors in each. Fortunately, we were able to recognize this issue early on. In fact, it was what prompted our interest in an automated payments solution.”

TouchOfModern also sought an automated solution to its currency-related payment challenges. The online eCommerce website, which focuses on high-end modern design products, frequently pays numerous foreign suppliers. This requires that it interact with multiple banking systems and compensate payees in a wide range of foreign currencies. Today, the company’s payments in all currencies are made from a single technology platform. Jonathan Wu, TouchOfModern’s Chief Operating Officer, says the mass payments solution “significantly reduced time, effort, and any chance of error on our end while improving (the) security of our payments and cash flow management.”

FEAR OF FRAUD IS REAL AND GROWING

In this era of ostensibly routine data breaches, ensuring you are paying whom you think you are paying has become problematic. Fraudsters are running rampant, concocting clever new schemes to illegally acquire funds intended for other parties. A November 2014 60 Minutes report underlines the desperate situation, noting that 97 percent of all U.S. retailers have now been hacked.*

A particularly vulnerable business is one that engages in Internet transactions. The e-commerce marketplace is rife with fraud, due to the virtual, intangible nature of many business-to-business dealings. For example,
**REASON #4** Fear of Fraud is Real and Growing

say a website displays another company’s advertisements and is paid on the basis of visitor click volume—$1 per click. It is not difficult for a hacker to generate fictitious clicks that seem like the real thing, which quickly add up to quite a bit of money.

While an automated payment platform won’t detect such crimes, it can mitigate the impact by immediately blocking payments to the fraudsters. In the short time that MUNDO Media has implemented an automated payment solution, the performance-based advertising network has been alerted about multiple suspected fraud issues that it was able to stop dead in their tracks.

“We found that each suspected fraudster was somehow linked to other payees that were not previously detected,” said Phil Jones, MUNDO Media CFO. “We have since reduced the risk of fraudulent publishers using our network and have potentially saved thousands of dollars in payments we may have otherwise made.” The company also is leveraging the automated payment platform to provide the identity of known fraudsters to other networks.

**REASON #5**

**FINANCIAL REPORTING REQUIREMENTS**

Given the breakneck pace of today’s global economy, making mass payments to diverse suppliers and vendors in disparate countries, in wide-ranging currencies via different payment methods, and in compliance with always-changing national and local labor and tax laws, simply should not be a manual process.

Administratively attending to the different payment methods alone—direct deposit into a bank account, credit card payment, PayPal, ACH, wire transfer, Western Union or paper check—is a Sisyphean effort. Now add the requirement to report all this information accurately and ensure that payees...
**REASON #5** Financial Reporting Requirements

are reporting the same figures. The latter challenge was an acute problem for Boost Media.

“We do a fair amount of business in India and hire a lot of writers in that country,” Lenderman noted. “When we would pay someone a relatively substantial amount of money through PayPal, and this person then failed to report the income, the government would step in and shut down our business. There was just no way for us to use PayPal and be compliant. We’d want to pay someone in Morocco, for instance, and we’d hear ‘good luck figuring out how.’”

Certainly, having a simple payment issue constrain a company’s business growth is absurd. But, it happens more often than not. Alternatively, organizations can automate payment processes to easily reconcile payments across different banks and entities, and then be able to quickly discern how these payments break down by country, vendor, currency, payment method, and so on. Armed with such vital business data, company leaders can make more insightful, informed decisions on where best to allocate resources.

The bottom line, as these five reasons to automate mass payments make abundantly clear, is that manual payment processes are no way to operate a modern, fast growing international organization.

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**THE CURE**

Companies like Boost Media, Trada, Infolinks, TouchOfModern, MUNDO Media and many others that were beset by mass payment miseries have taken the cure. They have invested in a global payment automation platform that is helping them achieve skyrocketing business growth worldwide. They have reduced related expenses and liberated AP staff from their drudgery. Today, they have firm control over the processing of mass payments and are able to easily track these transactions, discern exceptions, reduce the risk of fraud, improve supplier relationships, and achieve full compliance with all local and national laws and regulations.

No longer do people like Rob Lenderman have to devote time and energy to his fast-charging organization’s payment problems. “It’s not an issue anymore; I no longer worry,” he said. “We’re in control. And I am now purely focused on growing the business.”

What would it mean to your company to be able to grow internationally without being bogged down by toilsome, error-prone and time-consuming manual payments?

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**Tipalti: The Ideal Solution for Mass-Payers**

Tipalti provides a complete global mass payment management solution making it painless to pay partners around the world and serves over 250,000 payees, processing over $1 billion in payments annually. Founded in 2010, Tipalti was created to address the difficulties associated with making mass payments and currently serves a wide array of industries.

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