Currency and FX Management **Challenges in Payables**

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Growing businesses are increasingly global, and the role of currency conversion and FX management is becoming more important to the financial operations of the organization.

- What are the biggest challenges to effective FX management?
- How are businesses managing this work?
- What is the impact and cost to an organization?

This report explores these issues and discusses scalable approaches businesses can employ.

Importance of Currency to Growing Businesses

Businesses, with the best intentions, set up currency accounts to simplify payments when operating across different countries. Finance organizations use local currency accounts for a variety of payout situations, including:

- Payroll and commission payments
- Vendor, supplier, and service provider payments
- Expense reimbursements
- Funding of local subsidiary bank accounts
- Partner and reseller fees
- Local tax and regulatory payments
- Beneficiary payouts
- Licensing and royalty disbursements

Very large organizations often have an in-house treasury function that can manage these accounts, trade currency, and facilitate bank relationships. But for fast-growing and mid-sized businesses, this isn't always feasible, nor is it always cost-effective.

The time it takes to manage this can take senior finance leaders out of their normal day spent strategizing and analyzing, and pull them deep into the weeds of foreign bank management. This is also a job that needs to happen very quickly.

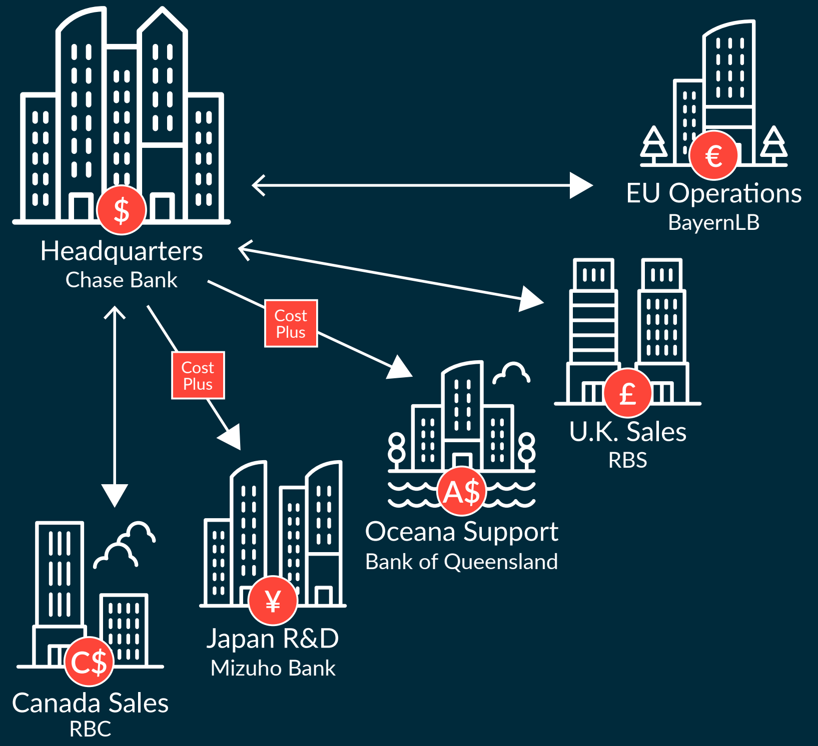
For example, **shortfalls of cash management can require businesses to buy currency at a spot rate to meet payroll.** But if the bank is 18 hours away, chances are you have to wait for them to open for the funds to wire from the primary account to the regional accounts.

The results can be disastrous. Failure to pay can cripple the regional business unit, particularly as the business is trying to gain traction and establish relationships. That makes effective currency management processes **important, not only from the finance side, but from the company's ability to conduct business.**

How Businesses Are Doing It

Let's take a look at a typical strategy that mid-sized B2B companies commonly employ for FX management. For illustration purposes, let's say this company is headquartered in the U.S. with individual currency accounts for each of their global entities and subsidiaries in the U.K. (GBP), Germany (Euro), Canada (CAN), Australia (AUS), and Japan (Yen).

Example
HQ converts funds over to various bank accounts to make payments in local currency. Some offices are non-revenue generating, cost plus entities.



*Icons by "Made x Made" from the Noun Project

Some of these separate offices are cost-plus entities that do not generate revenue (for example, one is an engineering group, or another is a support and services office), so they do not have their own revenue to support their operating costs. In other situations, even if the entity produces income, there may be situations where they're not cash flow positive that month (because they're making investments), so they may encounter shortfalls where headquarters will need to buy currency at a spot rate. To fund these multiple accounts, the company converts USD to the various banks and makes payments from those banks.

The finance team is located in the U.S. as is their controller—a senior finance person. She is entrusted with managing those funds and communicates with each of the banks (during bank hours that may not coincide with her normal work schedule) to wire and convert those funds. Because they want to limit cash flow issues, this process is done once or twice a month, but it does take time.

As mentioned, a large organization might have treasurers who myopically focus on finding the best rates and moving funds around. But our example company doesn't have the dedicated headcount to deal with these issues. In fact, it wasn't even a problem until they started to grow their business. The sporadic nature of currency management is a consequence of the company's own success.

Biggest Challenges, Impediments, and Impacts

There are four major challenges that affect an organization's ability to execute FX management strategies effectively.

- **Manual Labor** – FX management is not a big enough job for one person, which means someone has to repeatedly carve time out from their core job. Because of the sensitive nature of transferring funds, including cross-border wires, this task is often the responsibility of a senior finance leader—for example, a CFO, controller, or VP of finance. It's not a job that maximizes their time and skill set.

- **Bank Relations** – When dealing with foreign banks, there are layers of complexity, including communication lags around time zones, weekends, and holidays. There may be language barriers and miscommunications. Some banks add service fees that sit on top of conversion fees for both the payee and the payer.

- **Immediacy** – Buying spot rate conversions is often necessary to meet a shortfall on a tight timeline. Currency conversions take an "on-demand" mentality at times, making it harder to layer on a strategically-minded approach. Thus, many businesses take a "convenience store" mindset with FX.

- **Conversion Fees** – The cost of converting funds is often at the spot rate, because of the on-demand nature. For an individual business, those fees may not be the best in the market. Over time, and at the frequency needed, fees can add up.

Self-Assessment

To meet the needs of the organization and remain flexible yet scalable, most businesses have to simply bite the manual process bullet and forget about trying to get the best value of senior finance staff. However, there may be solutions if you can determine what your exact situation is.

Some questions to ask:

- Are we converting funds to cover payables activities?
- How many bank accounts do we fund to support FX needs?
- How many deposits (i.e. conversion activities) per month do we make across those accounts?
- What is the average amount per deposit?
- What is our annual conversion cost in terms of fees? What are our current conversion rates?
- Who is managing this effort? How much time does it take each month?
- Can we centrally control these multiple payout accounts when we need to transfer funds?

Scalable Approaches

For businesses that look to centrally control multiple payout accounts and address the FX issues they're faced with, there is a light at the end of the tunnel. The key is to tighten the bond of currency management with AP, establishing centralized payout accounts.

For example, if a company was using Tipalti’s global payables automation solution, they would fund a single account and be able to easily transfer funds between each of their entities and send money to payees in local currency.

Tipalti Multi-FX Services

The Tipalti Multi-FX currency management service ties directly into Tipalti's payables automation. It offers:

- **Single funding point** – Headquarters is the primary treasury source for all payments and users can have Tipalti transfer funds from one account to another and convert to a target currency.
- **Direct connection to payout accounts** – Tipalti Multi-Entity features provide a single instance with segmented accounts for each business unit, subsidiary, or entity.
- **Better rates than independents may often achieve** – By leveraging Tipalti's high volume of FX buys from its entire customer base, businesses access lower rates than they may be able to get with their own banks.

To learn more about this, request an FX strategy session today with one of Tipalti's payables experts.

What Tipalti Can Do for You

Tipalti manages your payables process with technology that eliminates more than 80% of the manual effort. We provide a truly global, multi-entity solution that streamlines the end-to-end AP workflow including: self-service supplier onboarding and management, tax data collection and verification, OCR-based invoice processing, global remittance, automated supply chain financing, and AP reporting.

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