

E-Commerce Retailer Streamlines Supplier Payments to Grow Dramatically While Staying Lean

Jonathan Wu is one of the most relaxed people you'll ever meet, considering he's COO at Touch of Modern, the \$90M luxury flash e-tailer. Wu holds sole responsibility for all global operations (including the technology infrastructure and workflow processes), recruiting and morale, and company performance and analytics. He's also a one-man department for finance including managing cash flow, forecasting, AR and AP.

It's not that he's got a lot of free time. There's always something to do. But one secret to this serenity is that Wu has created a culture focused on streamlining and automating as much of the company's back office operations as possible, including something as seemingly atomic as the accounts payable process. Tipalti plays an important role in that process.

"At the time we implemented Tipalti, we were at about \$6 million in sales. Now we're at almost \$100 million in sales, and we've never had to add headcount in AP or finance," remarks Wu. "The long term value Tipalti has brought us, including not having to add staff to manage accounts payable, is immensely valuable, because we're always focused on growth and scaling our company."

He observes that some companies maintain the philosophy of using people to solve a problem, but Touch of Modern is different. "Our philosophy is to use technology to solve a problem. Those retailers who try to only use people are starting to die off. In e-commerce, it's important to operate lean to optimize margins, meaning any opportunity to find savings across the board is critical to survival and scalability."

With Touch of Modern CTO Steven Ou who culled a custom e-commerce platform together, Wu has brought a lean operational culture to the fledgling retailer.





Company Type:
E-Commerce Retailer

Founded: 2012

Location:
San Francisco, California

Partners:
4,000 Suppliers

Value Proposition:
Provide cutting edge, high-end, fashionable merchandise that appeals to modern, urban men in a flash sale environment.

ROI:
Grew from \$6M in sales to \$90M without adding finance / AP headcount. Increased payment efficiency from 48 min. per payment to 30 sec. per payment (saving 4,000 hours per year). Reduced errors, increased payment options, and enhanced currency offerings.



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Mistake-Free Lean Operations

Wu recalls what he learned from several other e-commerce businesses about profit vulnerabilities. “One area e-commerce loses money on is on poor AP and AR processes,” remarks Wu. “There’s human error involved in touching your money, and we wanted to make sure there were no humans touching our payments to help minimize errors.”

Those kind of mistakes are painful to resolve since the e-commerce company must go back to the vendor to get refunds for overpayment. They also add cost since bank errors usually also involve investigation and resubmission fees.

Wu adds: “As in our case, when you’re growing very quickly, activities can be very chaotic, and you don’t always have all the controls in place to monitor everything. If you’re entering payments manually, going from \$10,000 to \$100,000 is only an extra digit. We laugh at the idea of an error like this occurring, but it’s been known to happen.”



“With Tipalti, we push almost all the data entry work to the suppliers, and they’re highly motivated to get it right,” says Wu. “I spend less than ten minutes a day approving payments on orders that need extra attention. All other payments go out automatically.”

Tipalti and a seamless integration with Touch of Modern’s custom backend infrastructure and process enabled the retailer to go from 48 minutes per payment to 30 seconds per payment -- a productivity increase of 96X and a savings of nearly 4,000 hours a year.



The Importance of Supplier Confidence and Service

Touch of Modern serves a very focused clientele: urban, fashionable men who enjoy stylish, cutting edge products for body and home. The retailer prides itself on supporting emerging manufacturers and, in exchange, is able to offer its customer base first dibs on unique and stunning products.

For many of these suppliers (4,000 to date), it may be their first time to market. Touch of Modern, and its secondary brand Dapperman, provide a full presentation experience including gorgeous product photos, compelling descriptions, and access to a highly targeted, highly qualified consumer.

“All retailers are closely partnered with their merchandise in a symbiotic relationship,” says Wu. “An unhappy supplier is more likely to share their experience with others in the community and hurt the reputation of the retailer. We get many compliments from our vendors saying that we’re one of the easiest to work with. Our staff are nicer and processes smoother and more automated.”

One could argue that the staff is happier not dealing with all the normal challenges of a non-streamlined operation. As part of this supplier experience, Touch of Modern also wants to be easy for their suppliers to work with. That includes automating the invoicing and payment processes.

Reducing Supplier Onboarding Friction

As a flash sale retailer, Touch of Modern has a very dynamic population of suppliers. At times, they may work with someone only once because that's the nature of the offering. It becomes critical that the company minimize the onboarding process knowing how volatile things can get. At the same time, they're dealing with onboarding hundreds of these suppliers a month.

"If you're setting up their banking information for them and you make a mistake, the mistake is on you," explains Wu. "With Tipalti, our vendors provide their own information through the self-service portal, and if they make a mistake, they are responsible for them not receiving payment. Vendors are actually more willing to accept delays in payment because of that."

Approximately 20% of their suppliers are international, and the company also goes the extra mile to offer their partners choice of payment methods and currency options. Wu appreciates that Tipalti guides international suppliers through all the banking rules.

"Tipalti dynamically changes the input conditions in the self-service portal for vendors based on their country and payment method," he says. "We don't have to know the thousands of rules and requirements, and in many cases, the supplier doesn't always know either. Tipalti has all that intelligence about global banking remittance and prevents a lot of issues later by getting the account data correctly into the system in the first place."

Achieving Long Term Scalability

Did we mention that Jonathan oversees the entire AP process himself? He acts as the AP department yet spends less than ten minutes a day managing the AP side.

Wu says: "Prior to Tipalti, even at only five payments a day, it was a major time sink. It took half a day, which included entering in the invoice and the vendor payment information, checking and double checking amounts, and setting up wire transfers."

It was also an interruption in the day. For example, when Wu had to set up a wire transfer, there were times where he didn't have all the information he needed. That involved emailing or calling the vendor which led to more conversations and more delays.

To add to the complexity, Wu was using multiple payment methods to pay suppliers including wire transfers, ACH, paper checks, PayPal, and credit card authorizations. This required manually logging into each system's portals, setting up payment routing, and executing the payment.

With Tipalti, suppliers sign onto the branded self-service portal, choose their preferred payment method from the available options for their country, and indicate whether they want to be paid in local currency. The Touch of Modern team doesn't have to get involved.

Wu notes that Tipalti is very unique in its approach to solving the payment management problem. "Other payment management products require some type of escrow account. The problem with retail is that cash is very tight. We can't have secondary cash sitting in an account that's just floating. Tipalti was the only system able to pull from a central account to support all the varying payment methods we needed."

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Utilizing Tipalti, Touch of Modern has also been able to automate tax ID and form collection which simplifies accounting and compliance at the end of the year.

"It may not be as big a deal if you have ongoing relationships with vendors. But we have some partners that we only work with once in a year or once in a lifetime and getting their tax information at the end of the year is next to impossible," states Wu. "Tipalti forces us - in a good way - to implement the best practice of collecting that information upfront before paying the supplier."



Building the Optimal Accounts Payable Process

Touch of Modern uses Xero as their accounting package and has built some custom middleware to integrate both systems using the Tipalti API.

"Building our own environment enables us to be very agile in terms of technology," says Wu. "You get a lot of long term efficiency gains if processes are straight-lined. Information is more seamless and you reduce any handoffs and coordination." Suppliers aren't the only ones being paid through Tipalti. Touch of Modern also pays their lease and utilities and other expenditures using the platform.

"Most traditional e-commerce companies don't consider the long term," says Wu. "But if you look at a company like Amazon, they've taken the opportunity to automate their operations as much as possible. It's part of their philosophy."

"With Tipalti we can run our business without the need to staff a dedicated accounts payable department, saving significant time and resources," continues Wu. "That level of automation has given us increased control and clarity over our payment methods and eliminated the chance for human error."



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