



The Case for Paying Vendors in Local Currency

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Does your company often hire vendors that are based outside the US? While many of these vendors choose to issue invoices in US dollars (as currency denomination), paying them can be more complicated than one might think.

Many questions come into play when looking to pay vendors internationally, such as: what is the actual cost of sending a USD wire transfer? What is the cost for the vendor to receive it? And, more importantly, how much does it really cost the invoice-payor to pay a single invoice?

1

Wire Fees

The cost of sending a USD wire depends on the provider, but it can range anywhere from \$10 up to \$50 per wire transfer. This typically covers the transaction and any lifting fees, which are fees taken by each bank the payment transfers through, also known as intermediaries. If you're sending US dollars to a foreign vendor, there are typically more intermediary banks involved because the payment must be converted to their local currency in order to be deposited into their bank account. This is why paying foreign vendors can lead to additional – and sometimes unexpected – costs.

2

Intermediaries

When a foreign vendor issues a bill denominated in their local currency (instead of USD), the US customer pays the vendor by way of a foreign currency wire transfer or international ACH, depending on the currency.

Sounds straightforward, right?

Let's look at the above from a different perspective, what if the foreign vendor sends payment to settle your bill that you issued to them in a foreign currency? The payment is routed through multiple intermediaries, and then converted to US dollars before it can be credited to your organization's account. If the US bank uses a less favorable exchange rate to convert the foreign payment to USD, this results in additional hidden costs. Everyone who plays a role in the wire transfer takes a 'piece of the pie' for transactional costs. More than likely, the expected amount you are now receiving for the bill you issued is less.

3

Exchange Rate Risk

When a foreign vendor issues a bill in US dollars they are expecting a certain amount of money to settle their bill, and since they're not sure when you will pay the bill, they absorb the exchange rate risk but then push that risk into the invoice, essentially incorporating it in the total bill to the customer (your organization). The incorporated risk surcharge they are levying from you can range anywhere from 5 percent to well over 15 percent, depending on the local currency of the vendor – imagine having to pay 15 percent more on a bill simply because of the currency you are using to send a payment.

While the actual cost of a foreign currency wire transfer depends on the provider, taking the alternative route and sending local currency to a foreign vendor typically means less intermediaries. Less intermediaries translates to less lifting fees and no conversion costs when a fee is deposited. No conversion means the vendor knows exactly what they're going to receive.

Benefits of Paying Vendors in Local Currency

Paying the vendor in local currency can be beneficial to all parties. It not only avoids many hidden fees, such as conversion costs and lifting fees, it's also easier on all parties. The vendor knows their cost, and the company making the payment knows their cost, allowing for transparency among all parties.

The transaction now becomes a streamlined process and eliminates several intermediaries, increasing the speed of the transaction.

Lastly, it lowers the cost of the transaction by eliminating many fees – and the number of people taking a piece of the pie.

Simplifying Vendor Payments

Paying vendors in local currency not only saves money, it can also significantly improve vendor relations through transparency, cost effective billing, long-term price stability and lower transaction fees.

Cambridge Global Payments, a FLEETCOR company helps companies to handle vendor payments in local currencies faster and with ease by simplifying complex workflows, with a process built on a deep understanding of the risks and costs that businesses face in today's environment.