WHITE PAPER

Corporate Credit Cards' Place

In a Balanced P2P Strategy

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Introduction

A 2010 study surveyed over 6,000 purchasing card program administrators in the USA . The fact that there are that many program administrators in the USA alone indicates the reach of such programs. Why are card programs so popular? What should their scope properly be? This paper shows how such programs play an important role in your organisation's purchase-to-pay (P2P) strategy and considers its objectives, scope and benefits, but also the organisation's cultural issues to be addressed.

#Terms like P-card,purchasing cards, T&E cards and corporate credit cards are used to describe a variety of card programs. This paper uses the term "Corporate credit card" to describe all these and related programs used by organisations around the globe.

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When examining the "Purchase to Pay" landscape of medium to large sized organisations we see that a range of purchasing methods or channels are used by its employees. The principle method of purchasing often will be purchase requisitions (PRs) and purchase orders (POs), some of which may be generated automatically based on inventory and demand planning systems. But what is the content of POs? Are they free text with little usable information for subsequent analysis, or based on catalogues with fixed product descriptions and prices? When should it be okay to not have a PO at all, if ever? And when does one create and use supply agreements / contracts and blanket purchase orders? And in that landscape is there a place for credit cards?

The question that should precede the aforementioned questions is; "Does my organisation have a deliberate strategy in place to guide purchasers to the correct purchasing channel?" A robust and well thought out strategy will enable the business to obtain its goods and services from the right supplier at the right place and right price and right time, but also as efficiently and quickly as possible. A good corporate credit card program can play an important part in that strategy by removing 'noise' from the purchasing process and supplementing the more formal PO regime by managing many low spend, low risk, high volume transactions.

The point is that one cannot reasonably expect to enforce a no-PO no pay policy when people are having to raise PRs for very low value purchases. So, having a strategy for low value, low risk purchases is crucial for the wider adoption of POs.

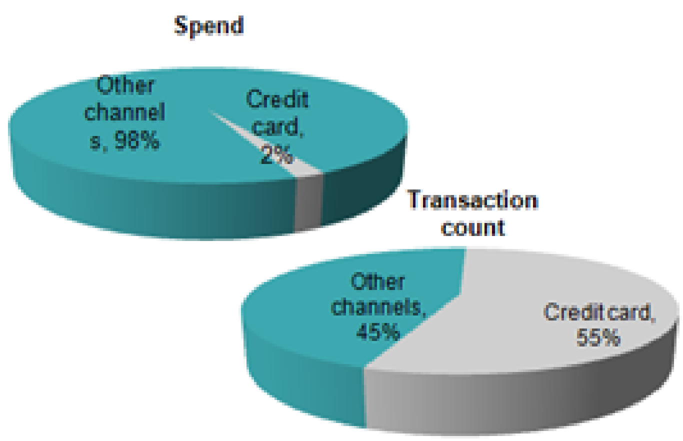


Figure 1: Compare transaction count with spend value

A corporate card program has an important role to play in a best practice purchase-to-pay framework by providing a pragmatic way to balance risk, probity and accountability with the need for speed and "getting on with the job"

- Transactions above and below the card threshold require approval
- Card threshold will vary by organisation based on the risk appetite and the transaction profile
- Risk appetite question – "What transaction values are we prepared to approve after rather than before, for the sake of speed, efficiency and pragmatism?"

1. 2010 Purchasing Card Benchmark Survey Results by RPMG Research Corporation
2. A separate paper discusses additional strategies to deal with low value spend that protect the integrity of the purchasing process and organisation's control environment while still being efficient and effective

Why do so many organisations institute corporate credit card programs?

Overall, across industries, Portland sees organisations where transactions below $1,000 represent from 48% and up to 77% of all transactions while only accounting for between 1.4 -2.6% of spend value. An example of a successful credit card program enabled the organisation to procure non strategic, non inventory goods and services from over 10,000 different merchants (against a supplier listing of only 3,000 in their AP system), transacting tens of thousands of transactions (77%) that amounted to just 2.5% of dollars.

Organisations institute card programs with these objectives;

1. Increase convenience of purchasing for employees
2. Reduce transaction workload for the organisation
3. Reduce cycle time to obtain goods
4. Reduce Accounts Payable labour

Other goals, particularly relevant for procurement professionals, are;

a. Obtaining better spend data to increase control over categories

b. Obtain better data to enhance leverage over vendors

c. Reduce / manage the vendor master fileFigure 2: Quicker cycle time to receive goods

While organisations identify savings from the abovementioned areas, suppliers also benefit through faster payment, reduced credit risk, lower processing costs and potential for increased sales(49% of buyers say that by accepting credit cards suppliers have increased their share of business from the organisation)

Use of credit cards reduced the time elapsed from placement of order to the date received

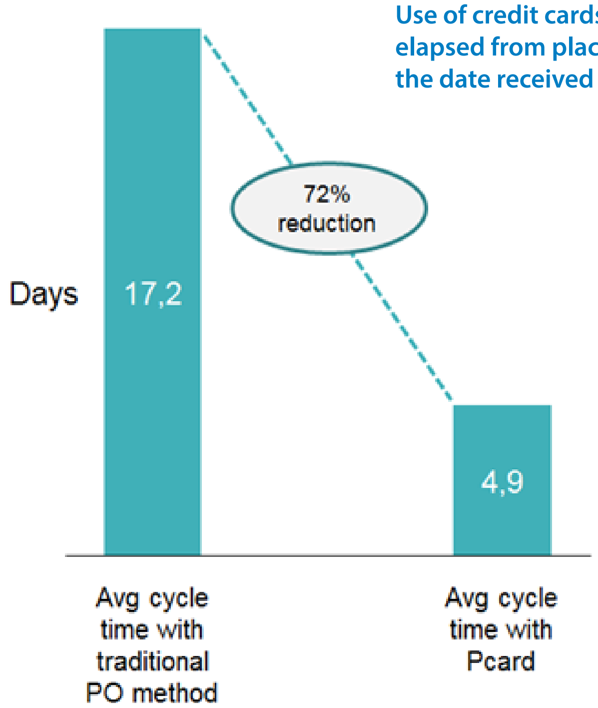


Figure 2: Quicker cycle time to receive goods

T&E vs. Purchasing Cards and the question of program scope

Credit cards are all pervasive in our modern society , everyone knows what they are, how to use them and many are aware of some of the pitfalls of easy credit in the context of personal budgets. In organisations often people are aware of "Travel & Entertainment T&E card programs to manage business expenses associated with business travel and or entertainment (often only for the senior executives), as opposed to "purchasing cards" issued to personnel who procure goods and services for use by the operation. Does such a distinction require multiple cards, different policies, separate processes? Then there is the array of card types such as credit cards, debit cards, 'T&E' cards (typically Diners Club and American Express), VISA vs. MasterCard, one-time-use cards, ghost cards, department cards, etc. And in the mix are also fuel cards and even other cards or expenses linked to a person as distinct from a cost centre such as telephony charges, taxi vouchers and travel bookings (to measure booked vs. actual travel costs).

As technology evolves and more products are developed by the finance and software industry it becomes increasingly important to understand what choices will provide the best outcomes in the context of the organisation's P2P strategy and overall company profile. Besides choosing the most suitable card or combination of card products consideration must also be given to the expense management system (EMS) and what that EMS should manage.

The diagram below sets out what variables could be considered as the program is scoped and assists in determining what systems should link up and how.

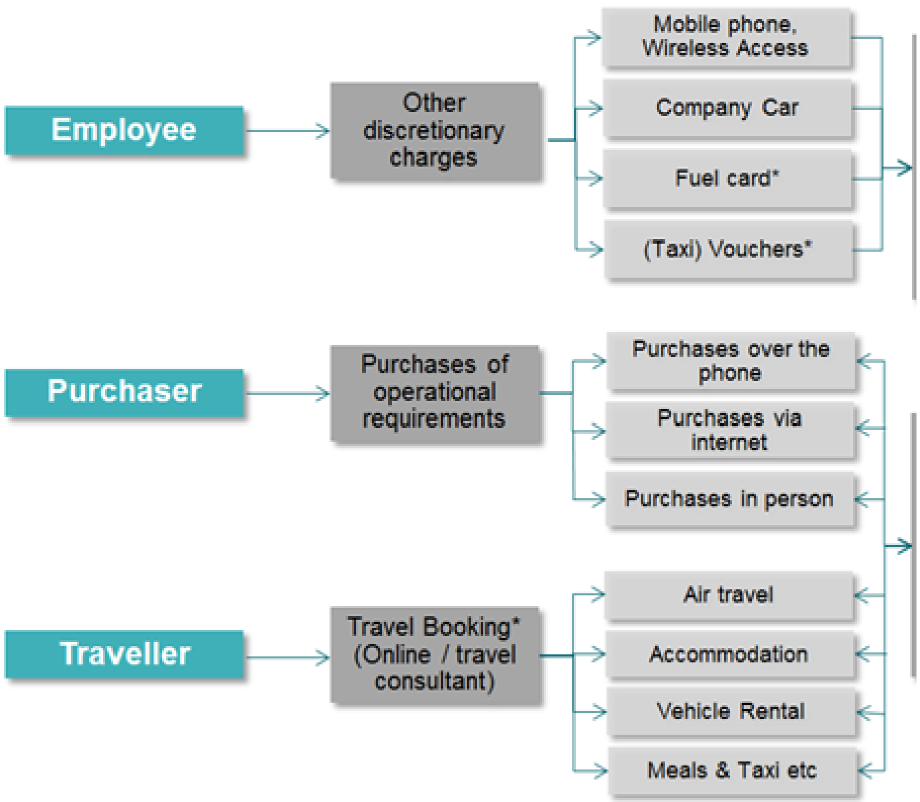


Figure 3: Corporate Credit Card Program & EMS Systems Overview

Where to start the conversation

Transaction Limit: $500 (except travel)

Credit limit: $2,000 (unless travelling)

What: Not catalogue, contract, inventory, etc.

Who: All employees that need to spend money

EMS: EMS module of existing ERP or procurement system, Concur or Spend Vision

Card: Any that allows:

- Payment per card
- Quick adjustment of transaction and credit limit (for travellers and approved exceptions)
- Transaction download

Travel management companies can offer access to online booking systems that enable travellers to book their trips and associated requirements (accommodation and or cars) directly. By linking these to card programs and EMS one can manage and report on differences between 'booked' and 'actual' travel. Similarly, tools to manage fuel card usage, vehicle usage and telephone / mobile phone charges enable management to effectively monitor and impact these costs.

Proof of the pudding and Organisation - culture

Despite the maturity of corporate credit card programs in many parts of the world and while they are delivered through major banking organisations to thousands of corporations there is still a perception that issuing credit cards to employees is like handing out blank cheques. But if the proof of the pudding is in the eating, we see that those who have instituted corporate credit card programs successfully have also learned that any fears are typically unfounded which leads them to expand or adjust their programs in these ways.

Over time most programs:

a. Distribute cards to higher % of employees

b. Increase spending limits

c. Adopt policies to drive low-value spending to cards

d. Relax restrictions about who (what position types) can receive a Pcard

e. Actively promote their card program growth

Organisations with well established programs issue on average twice as many cards, issuing cards to 19.8% of employees. The cardholders in these organisations spend over twice the value per month too, driven by a higher average transaction spend. All these behaviours strongly favour the view that once the cultural barriers of the 'blank cheque feelings' are overcome the reality remains – corporate credit card programs fulfil an important function and can form part of a balanced P2P strategy. And thus we come to that dirty word - fraud. Fraud and employee misrepresentation make up just 0.008% of card spend, $80 per million dollars spent. 84% of companies report this as being similar to or less than other payment form misuse. What is being done about this issue? Typical of banks offering Card Programs are Waivers of Liability for unauthorised charges against employee cards, as well as fraud detection and prevention measures utilising sophisticated software and anti-fraud teams. Additionally, the PCI Security Standards Council's (PCI DSS) mission is to enhance payment account data security by driving education and awareness of the PCI Security Standards. The organization was founded by American Express, Discover Financial Services, JCB International, MasterCard Worldwide and Visa Inc. It is the author's view that fraudulent use is overwhelmingly overestimated as a concern and typically is identified early so that appropriate steps can be taken to recover the funds and instigate disciplinary or legal action. Sensational headlines in the media often bear little resemblance to the detail provided in the article. The most high profile cases often were detected early enough, just not dealt with well or speedily or otherwise, but that is a function of process, not of the robustness of the system.

The card issuing situation

IBIS World reports that in Australia some $2.23B is spent on business cards indicating a significant volume while MasterCard quotes "Commercial Payment Cards: The U.S. and Global Markets and Trends" 2009 notes that $1T is spent annually by corporations using commercial cards.

The Big 4 banks' share of overall credit card issuance is 76.8% but also notes that Citibank at number 5 chimes in with 9.7% share as well.

Commercial card program statistics and in particular market share are not readily available but in general CBA and Westpac are the main players in MasterCardwhile NAB and ANZ are in the Visa camp and Citibank offers a combined Diners Club and MasterCard product. The critical issues in choosing the banking partner is not just the fees but also the detail on data exchange with your ERP or EMS (or EMS service provider) and how operational issues are resolved on a business as usual basis. Credit card issuance and usage is big business and will continue to grow in the foreseeable future.

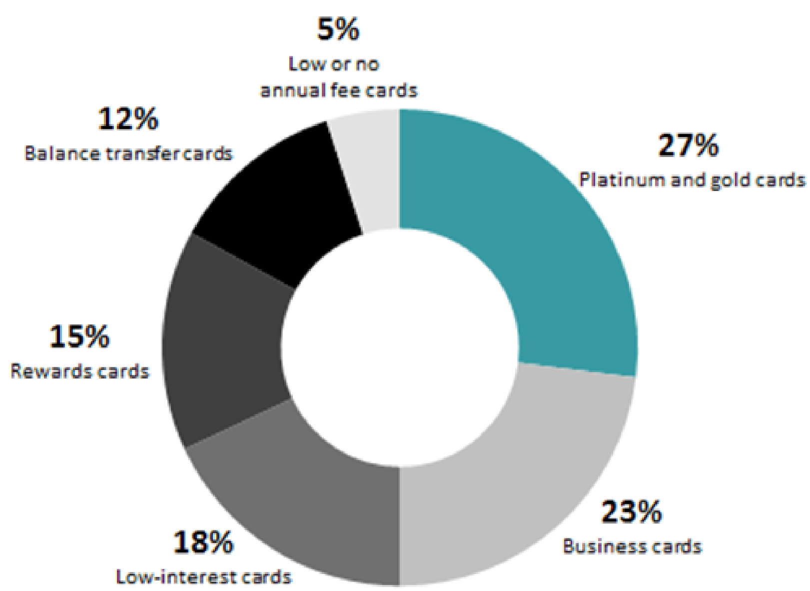


Figure 4: Products and services segmentation (2011-12)

Conclusion

Corporate credit card programs are neither a panacea nor a high risk proposition but a targeted solution for a specific challenge. Before launching onto the path of implementing a card program consider how it fits into the overall P2P landscape relative to the needs and context of your business and work through the scope considerations of travel management and expense management systems. Portland assesses purchase-to-pay methods/channels against the five measures listed below.

Risk / Exposure

- Does the system mitigate risk, limiting exposure?

Guidance to Agreements

- How effectively is the requisitioner led to preferred suppliers and agreed prices?
- Does the "path of least resistance" for the requisitioner equate to the process that supports Procurement's objectives?

Data Quality Potential

- How useful is the captured data?
- Is the generated data sufficiently accurate and granular?

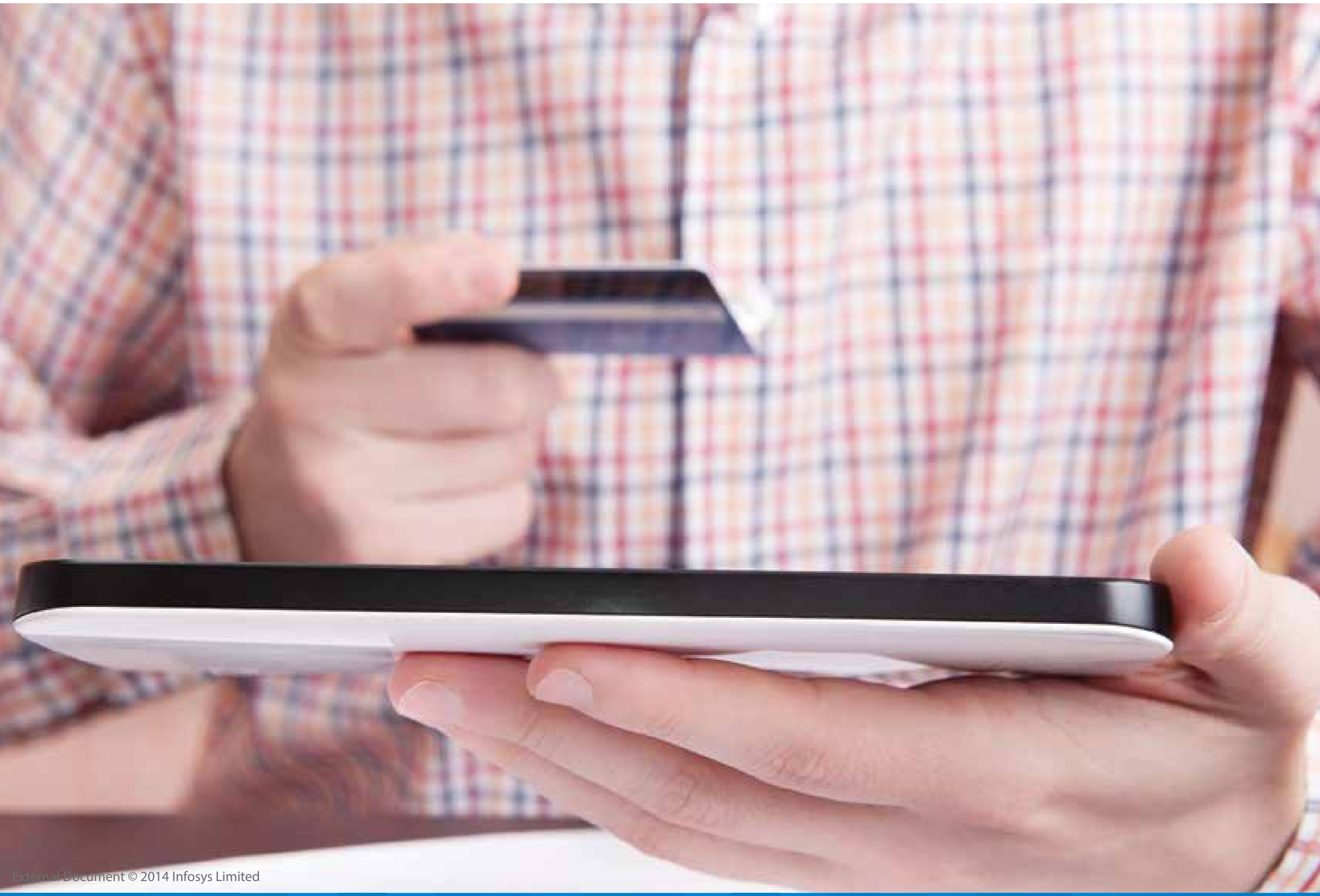
Efficiency/Transaction Cost

- How much effort is required?
- How quickly can a purchase be made?

Aggregate Effectiveness

- How effective is the process in supporting Procurement's objective overall?

Consider your potential corporate credit card program in light of these to determine how it fits into the overall P2P strategy. In concert with other purchase channels, including the use of catalogues (online, punch-out, ERP driven), supplier panels, full blown strategic sourcing linked to comprehensive legal contracts and others, you will be able to achieve an efficient and effective overall purchasing regime.



About the Author

Cor van der Scheer

Cor van der Scheer has 15+ years procurement management and consulting experience with large multi-nationals with a particular focus in procurement process and systems transformation. Cor is a fervent advocate for optimised process to facilitate the acquisition of goods and services as effectively as possible. To that end he supports organisations in their decision making in developing a balanced approach to purchasing system and process design.

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