The Next Wave

Purchasing cards expand their scope

By Jacob Stoller

Three years ago, this magazine ("Get Carded" May 30, 2012) cited a prediction from RMPG Research Corporation that p-card spending in North America would increase from 213 billion to 245 billion by 2014. According to RMPG's 2014 study, that prediction was bang on.

Interestingly, much of this increase is coming not from first-time adoption of p-cards, but from wider use of card technology. In a nutshell, organizations with a medium-to-large annual spend – typically $3 Million and over – are expanding their p-card usage beyond the traditional area of frequently purchased goods and services to include larger ticket items.

"P-card use has expanded way beyond traditional plastic card usage by employees for the purchases of goods and services," says Patrick Sulston, vice-president and senior business leader, commercial business development at MasterCard Canada. "We are seeing much higher adoption for p-card services between buyers and suppliers, and this is reflected on both the payables and the receivables side of the business."

One aspect is that an employee's entire spend can now be conveniently merged into a single account. "I think we've evolved into a one-card scenario," says Don Manson, Senior Manager, Commercial Card Account Management, Scotiabank. "The majority of purchase cards are also used for travel and other things as well, such as fleet expenses."

The most dramatic change, however, is the use of p-cards as a strategic payment method for accounts payable departments. "Organizations are using the p-card to settle purchase order-driven transactions, which are generally more expensive than everyday goods and services," says Tracie Hasselbring, senior product manager, American Express Global Corporate Purchasing Card. Payables could fall in categories such as raw materials, advertising, lease payments or utilities.

Much of this strategic spend is being handled through virtual cards, or e-payables. "E-payables is an enhancement to the card program," says Terri Brustad, manager of content services at NAPCP. "It's a way of capturing larger ticket spend."

With e-payables, no plastic is issued. Instead, card providers give organizations a set of 16-digit virtual card numbers, each of which can be validated by the order processing system to correspond with a single purchase order, and then returned to the pool for future use.

Manson notes that adoption of e-payables lags behind the US, but has been catching up in the last 18 months, and that according to the 2014 RMPG study, 18 percent are using e-payables now, 10 percent say they will in the next year and a further 20 percent will go over the next three years.

Advantages

P-card technology gives organizations the advantages of the powerful card payment infrastructure to offload administrative work that previously would have been handled internally. "What this gives the buyer is a broad set of authorization controls and data fields that they can customize for reconciliation purposes," says Sulston. "It provides data elements such as PO cost centre and GL accounts in addition to POS data provided by the supplier. This is globally consistent for international organizations."

P-cards help organizations save money in a variety of ways. Having a consolidated view of the spend often allows them to reduce their number of suppliers and increase their discounts with preferred suppliers as a result.

According to a benchmark study conducted by the National Association of Purchasing Card Professionals (NAPCP), card providers offer rebates to end users ranging from .5 percent to more than 1.5 percent. This is minor, however, compared with the savings from cost avoidance in areas such as requisitions, purchasing, receiving, and accounts payable. In one example cited in the report, the Washington State Department of Transportation saw their per-transaction costs drop from $63.88 to $19.85.

Abuse prevention is another advantage. "One thing that is huge is proactive compliance auditing," says Manson. "Banks and providers have back-end systems that look on a neural network for unusual transaction activity, and things like that. We try to capture fraudulent activity before it gets away on us. But we now have tools working with our card organizations that are bolt on options where companies can actually put in rules of their own."

Adoption issues

To take full advantage of p-card data functions, an organization needs to set up data integration between their card provider's systems and their internal ERP and financial systems. This sometimes deters organizations that have limited IT resources. Manson notes, however, that thanks to cloud-based systems and the development of pre-built adaptors, integration is now quite straightforward, even when connecting to a proprietary system, and the result is a true end-to-end integration.

A larger challenge is convincing vendors, who pay for the programs, to sign on. "People identify the barriers and costs to making the change," says Mike Patterson VP, market management–Wholesale Cards at Citi Canada. "For suppliers, its always been about the sticker price of accepting a card. However, better technology and education around the numerous benefits such as lowered working cost of capital, streamlined payment reconciliation processes and reduced operational risks are making it an easier decision."

Vendors who accept p-cards enjoy reduced administrative costs, and because they are paid immediately, achieve better cash flow and eliminate the need to allow for bad debts.

Card providers have also sweetened the pot recently by discounting their fees for large purchases. "Something that's helping increase the use of these cards in Canada–purchase cards and virtual cards–is the introduction by the two major payment brands of methods to discount large ticket interchange for suppliers," says Manson. "What that's allowing is for the size of typical card transactions to get larger because its not costing the supplier any more to accept it."

Moving forward

A p-card program, like any automation project, changes the way people work, so user adoption has to be carefully planned from the outset. "There are lots of stories of companies that adopted a purchasing card because somebody in the procurement group recognized the benefits, and then ended up not using it," says Patterson.

Today, banks assist organizations with implementation through a variety of services, such as analyzing expenses to design the best program, providing benchmarks to compare against other firms, and convincing suppliers to accept the cards. As well, these teams provide a suite of ongoing monitoring and advisory services to ensure that the maximum benefits are achieved.

The key to a successful project is establishing the scope early on, and obtaining the sponsorship necessary to drive the level of compliance necessary for the program's success. "The first piece with regard to getting the program to be implemented smoothly and successfully," says Manson, "is to involve the key stakeholders and get the support of senior management, who hopefully are vocal in their support of the initiative and the benefits to the organization. The policies and procedures have to support that end goal, for example, reduce the number of manual payments and cheques, track purchases with referred suppliers to gain supplier discounts, etc. So we're hearing that if they get that, it's pretty successful."

Patterson suggests starting the assessment by looking at the biggest concentration of end users. "Where is most of the spending being done? What are their spending profiles? A lot of high volume low value purchases? A lot of commodities? A lot of spend on indirect goods and services? The best way to get a handle on that is to take a look at their accounts payable file, and to do an analysis in order to target where cards should be used."

One of the key decision points is whether to manage by policy, or to restrict the cards. Brustad favors the policy option, as it gives employees the flexibility they need to do their jobs. "Programs can be over controlled or under controlled," says Brustad. "Over controlled programs have trouble growing." However, as Patterson points out, there should be defined measures in place to ensure proper use.

On the horizon

Canadian card providers will soon be introducing mobile imaging technology, which allows a user to photograph a paper receipt with a phone, which is then automatically entered into the system. This allows travellers, for example, to go paperless. The technology is widely used in the US, and is also available as a third part application from software providers such as Concur.

The other expected arrival, also in use south of the border, is straight-through processing, which completely automates the payment process once an electronic invoice is submitted. This will significantly reduce costs for suppliers, and add an additional incentive for card adoption.

As more and more suppliers accept p-cards, the magic of the network effect will likely lower the entry bar, encouraging more suppliers and more buyers to sign on. While Canada is lagging behind the US, the p-card train has already left the station, and the same technology that transformed consumer shopping more than a generation ago is now poised to transform the way businesses pay their suppliers. B2B