

# Key Drivers for a Successful Card Program

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**1** Introductions

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**2** Trends in card and virtual card payments

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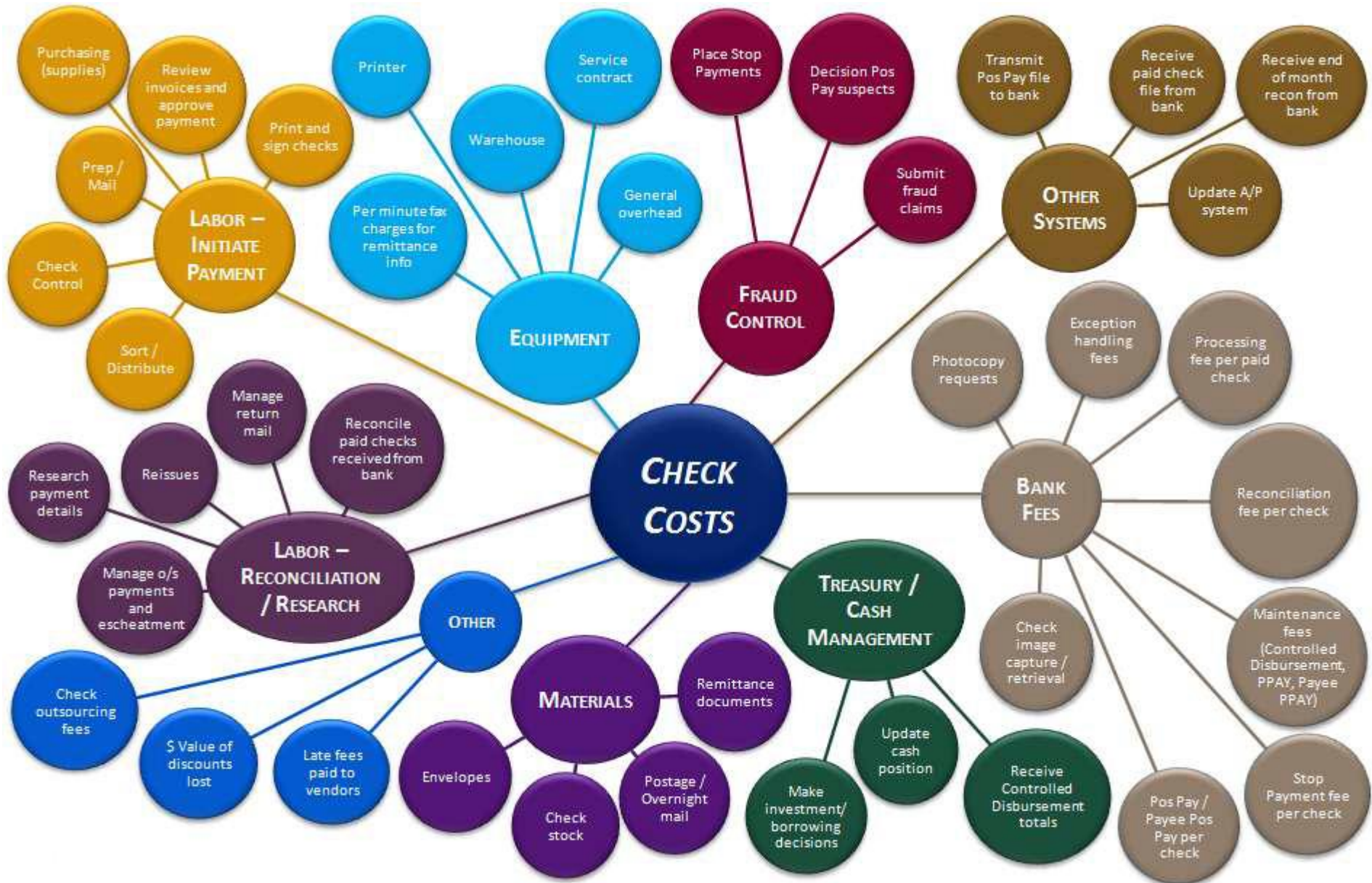
Global Card

Chicago, IL

# Card and virtual card payments trends

Trends, growth, usage

# Components of Check Costs



# Card: Advantages over check

## Top three primary drivers to adopt electronic payments

88%

increase  
efficiency

- Increase convenience of purchasing for employees
- Decrease the transaction processing workload
- Reduce time needed to obtain goods and services

82%

reduce  
costs

- Obtain better data to increase control over spending
- Leverage to enhance negotiations with vendors
- Reduce labor and administrative costs associated with procurement and payables

60%

fraud  
prevention

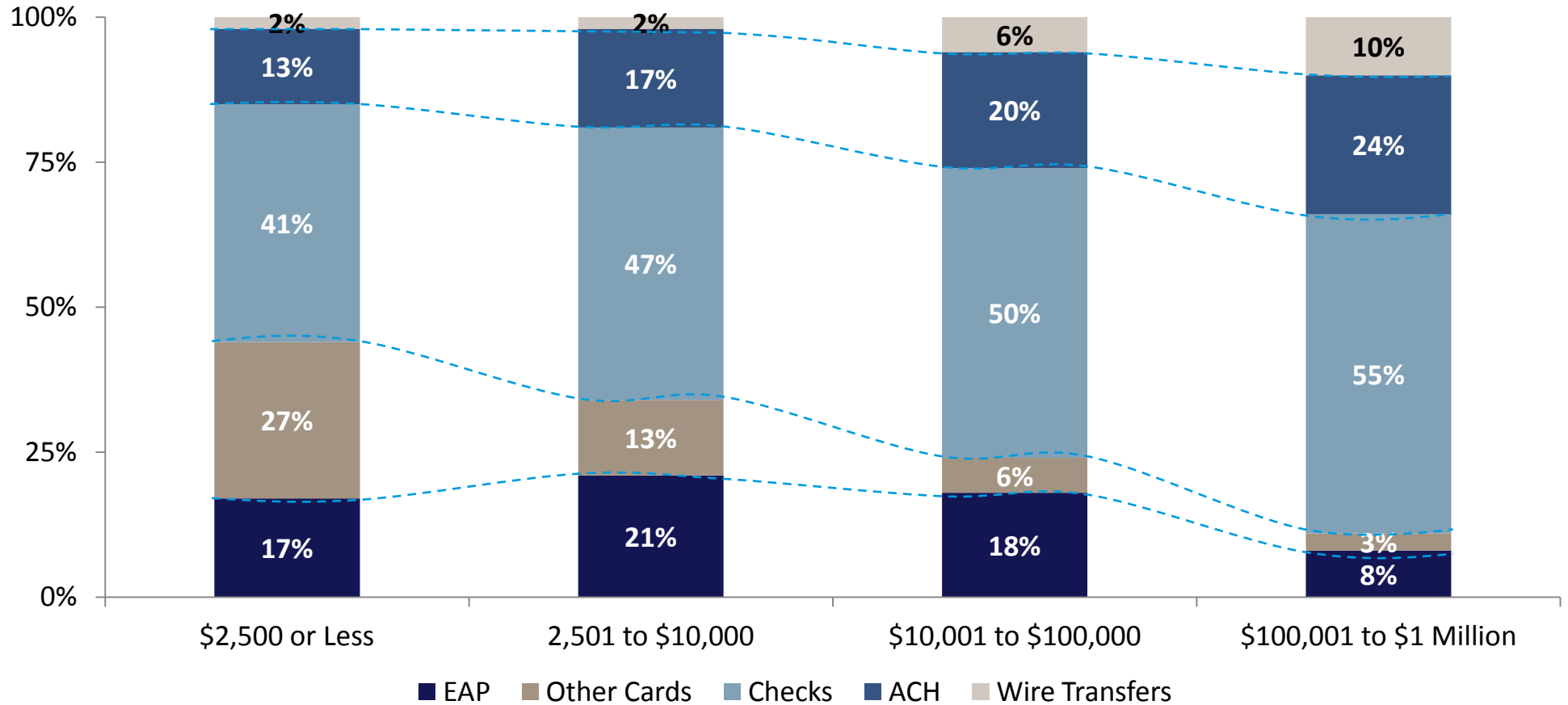
- Increase visibility into transactions
- Improve identification and resolution time for fraudulent activity
- Employ unique credentials aligned to employees, departments and/or projects

## The Card advantage

- ✓ Easier to use
- ✓ Faster processing time
- ✓ Less costly to process
- ✓ Requires less manual intervention
- ✓ Provides greater security
- ✓ Less prone to error

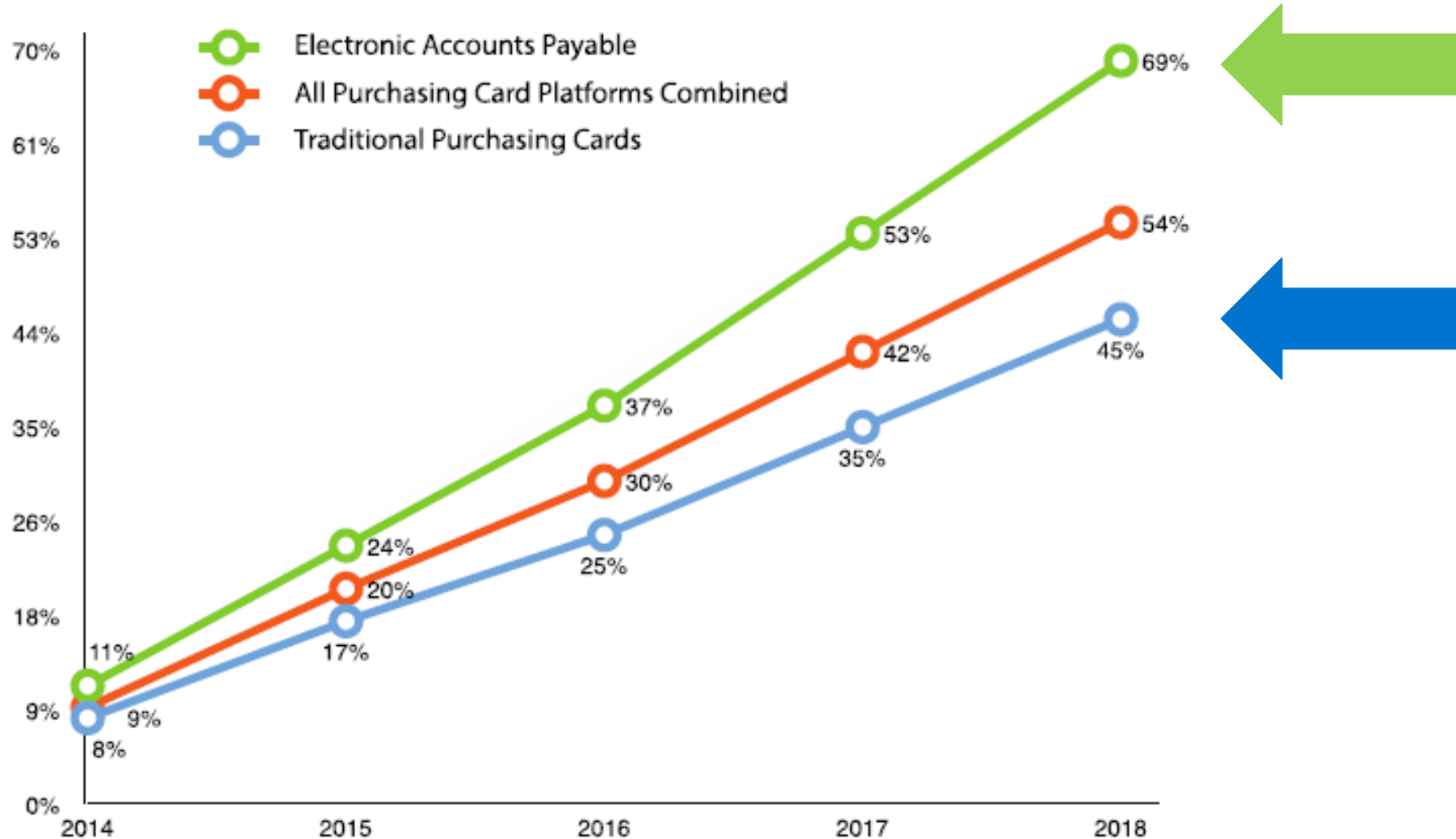


# Transaction volume by payment type and value



# Card adoption

Future growth of traditional purchasing card, Electronic Accounts Payables (ePayables), and total purchasing card spending (all platforms), 2014-2018





# Card volumes continue to grow globally



Projected growth in purchase transactions worldwide 2014-2018<sup>1</sup>

42%  
U.S.

20%  
Europe

8%  
LatAm

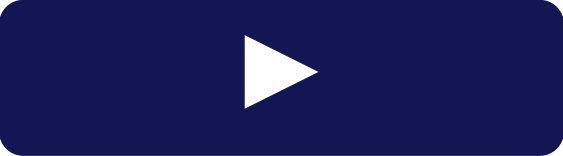
2%  
Middle East  
Africa


25%  
APAC


Among multi-national corporations, **26% have established purchasing card programs outside North America.** The majority of these programs are in the United Kingdom and Asia-Pacific.<sup>2</sup>


# Automation trends

## Paper to electronic payment conversion continues


- 
- Reduce overall payment costs


- 
- Remove paper from A/P department

- 
- Better cash management

- 
- Reduce risk of payment fraud

- 
- Reduce instances of duplicate payments

- 
- Reduction of invoice payment errors

- 
- Improved visibility into spend

# Steps for a successful card program

A necessary foundation for any card program

# 4 Steps to a successful card program

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Establish goals for your program

Incorporate strategies to achieve goals

Maximize data utilization

Monitor and review

# Step 1: Establish goals for your program



## Actions to consider when evaluating your program goals

- Identify cross-functional goals and their relationships to the payment process
- Prioritize strategic goals as long term and short term
- Review strategy with key stakeholders to obtain support
  - **Corporate Sponsorship** – Strategy is signed off on and mandated by the CEO.
  - **Partnership** – Sourcing, Supply Chain, AP and the Treasurer’s Office must work together to promote, validate, and monitor adherence to the overall payment strategy.
  - **Ownership** – Department Heads and Key Managers must take ownership to drive payment behavior change with Suppliers.

# Step 1: Establish goals for your program

## Establish a payment strategy



### Considerations for your payment strategy

- Focus on where your program is now and where you want it to be
- Develop a payment matrix: (Sample matrix on following slide) supplier type, commodity, terms, and pay method(s)
  - Consider supplier segmentation when developing matrix
- Incorporate payment strategy variations: PO required/not required, one-time purchase, catalog purchase, direct materials, strategic suppliers
- Identify goals for: payment mix, control/compliance, training, and process

# Step 1: Establish goals for your program

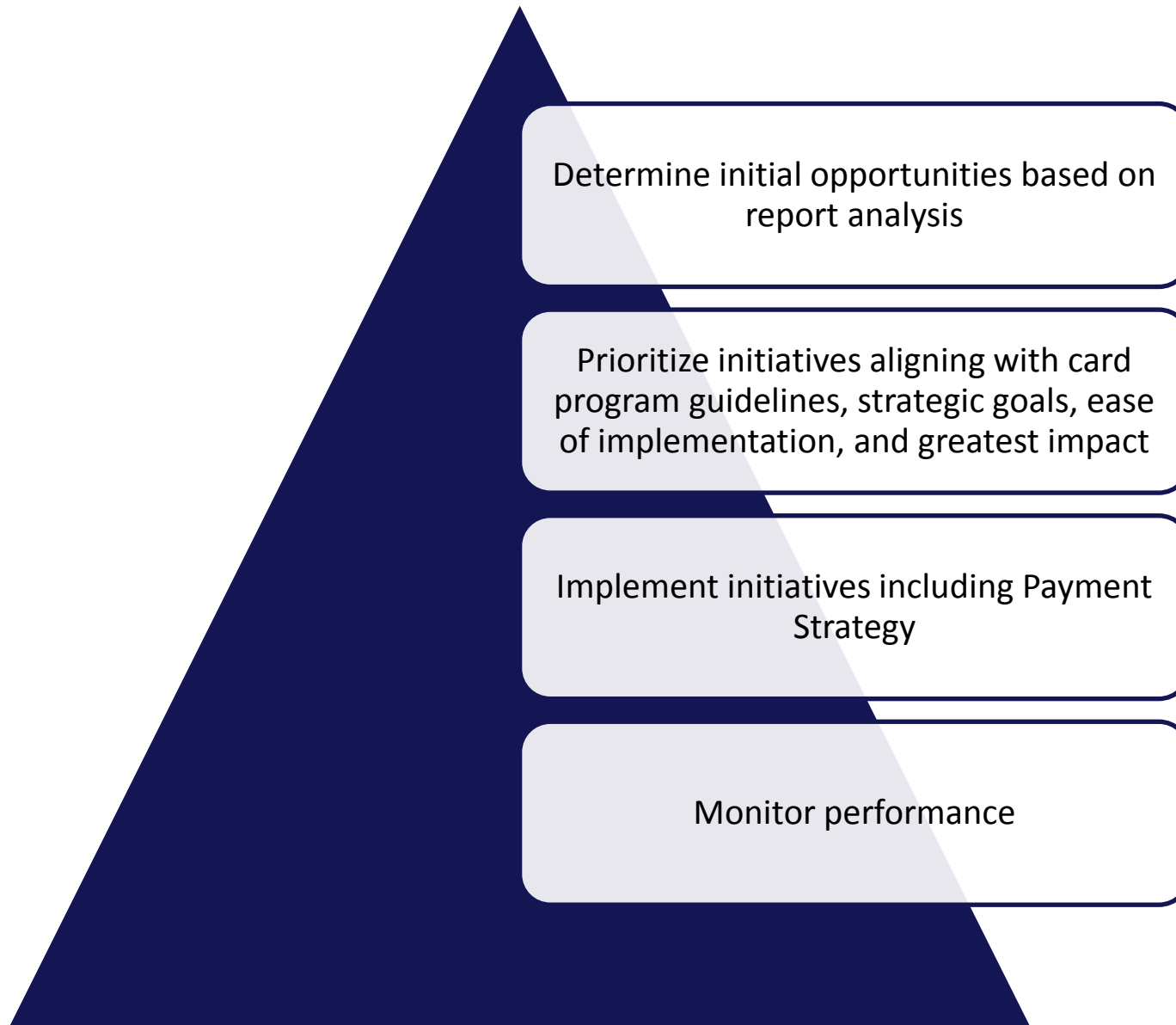
## Sample payment matrix\*

Category of Spend	If paid by Card...	If paid by ACH...	If paid by Check...
Furniture <\$2500	Supplier receives immediate payment, buyer obtains float	1% 10 Net 30**	Net 90
Furniture >\$2500	Supplier receives immediate payment, buyer obtains float (Accept ghost card only)	2% 30 Net 45	Net 60
MRO <\$2500	Supplier receives immediate payment, buyer obtains float	1% 10 Net 30	Net 45
MRO >\$2500	Supplier receives immediate payment, buyer obtains float (Accept ghost card only)	2% 30 Net 60	Net 90
Temp Services	NA	Card payment can be mutually beneficial for supplier and buyer by enabling immediate payment to the supplier while affording the buyer additional float	

\*Illustrative purposes only

\*\*Terms represent 1% reduction in invoice amount if paid by ACH within 10 days, otherwise full payment due 30 days from invoice

## Step 2: Incorporate strategies to achieve goals





# Step 2: Incorporate strategies to achieve goals

## Make your strategies specific

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Strategies that may have a measurable impact on program performance:

- Expand access to cards
- Require card usage for target transactions
- Set up ghost accounts
- Increase card limits
- Validate blocked MCC codes
- Enforce payment method strategy



# Step 2: Incorporate strategies to achieve goals

Example: Expand access to cards

## Evaluate your policy regarding card distribution



Current Policy

Organizations regularly assign cards based on traditional employee profiles (e.g., admin, sales, etc.)



Additional Employees?

Best practice organizations review A/P transactions to identify frequent buyers of goods and services eligible for card payment

- Develop criteria for distribution of cards consistent with procurement and payment requirements
- Include criteria for card issuance as part of purchasing policies and procedures
- Establish appropriate card controls for various spend types and user profiles
- Review accounts on an ongoing basis to identify inactive cards and investigate to ensure that all cards are in the hands of approved cardholders

## Step 2: Incorporate strategies to achieve goals

Example: Require card usage for target transactions

### Drive spend and efficiency through policy-defined usage



Policy Guidelines – MCC, \$

**Traditionally has included...**

- Office supplies
- Catering
- MRO
- Subscriptions

**But could also extend to...**

- Advertising
- Temp Labor
- Telecom
- Toll Passes

- Analyze spend data to identify eligible spend categories
- Define profiles based on purchase behavior using spend analysis tools to identify categories unique to employee groups
- Establish policies that detail approved spend types for card use
- Communicate policies and procedures to end-users through training, email communications, intranet portals, etc.
- Monitor and report on card usage and compliance

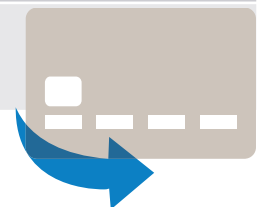
According to the RPMG 2014 Purchasing Card Benchmark Study, more than half (53%) of all transactions below \$2,500 were paid for with a Commercial Card

# Step 2: Incorporate strategies to achieve goals

## Suggested areas of spend

### Merchants That Typically Accept Card

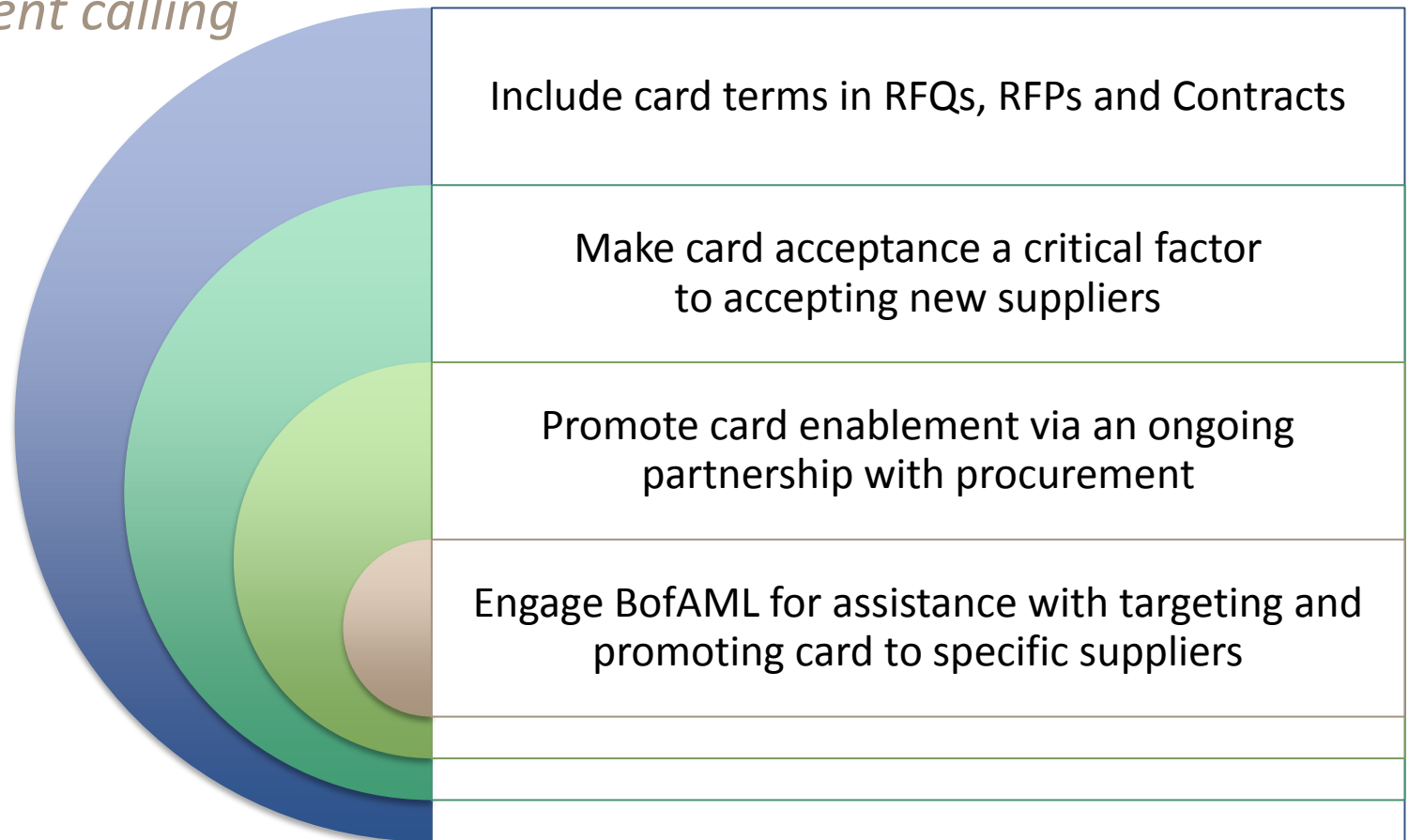
▪ Accounting/Legal/Consulting Services	▪ Laboratory Services/Supplies	▪ Advertising	▪ Newsprint
▪ Advertising/Marketing Services	▪ Mailing/Courier/Freight	▪ Aviation Services	▪ Ink
▪ Building Materials	▪ Office Products	▪ Building Materials	▪ Rebar
▪ Business Services	▪ Office, Photographic, and Photocopy Equipment and Services	▪ Catering/Food Services	▪ Concrete
▪ Catering/Food Service	▪ Packaging	▪ Facilities – Landscape	▪ Cash Sorting Machines
▪ Electrical Parts and Equipment	▪ Parking Lots/Services and Commuter Fees	▪ Facilities – Pest Control	▪ Industrial Equipment/Supplies
▪ Electronics/Computer/IT	▪ Pharmaceuticals	▪ Facilities – HVAC and Plumbing	▪ Fuel/Utilities
▪ Employment Agencies/Temp Services	▪ Printing/Copying Services	▪ Fleet Service (Diesel)	▪ Tickets
▪ Facilities	▪ Publishing Services and Supplies	▪ Janitorial	▪ Uniforms/Apparel/Laundry
▪ Fleet Service	▪ Telco/Data Service and Equipment	▪ Machine Shops	



# Step 2: Incorporate strategies to achieve goals

## Extending acceptance

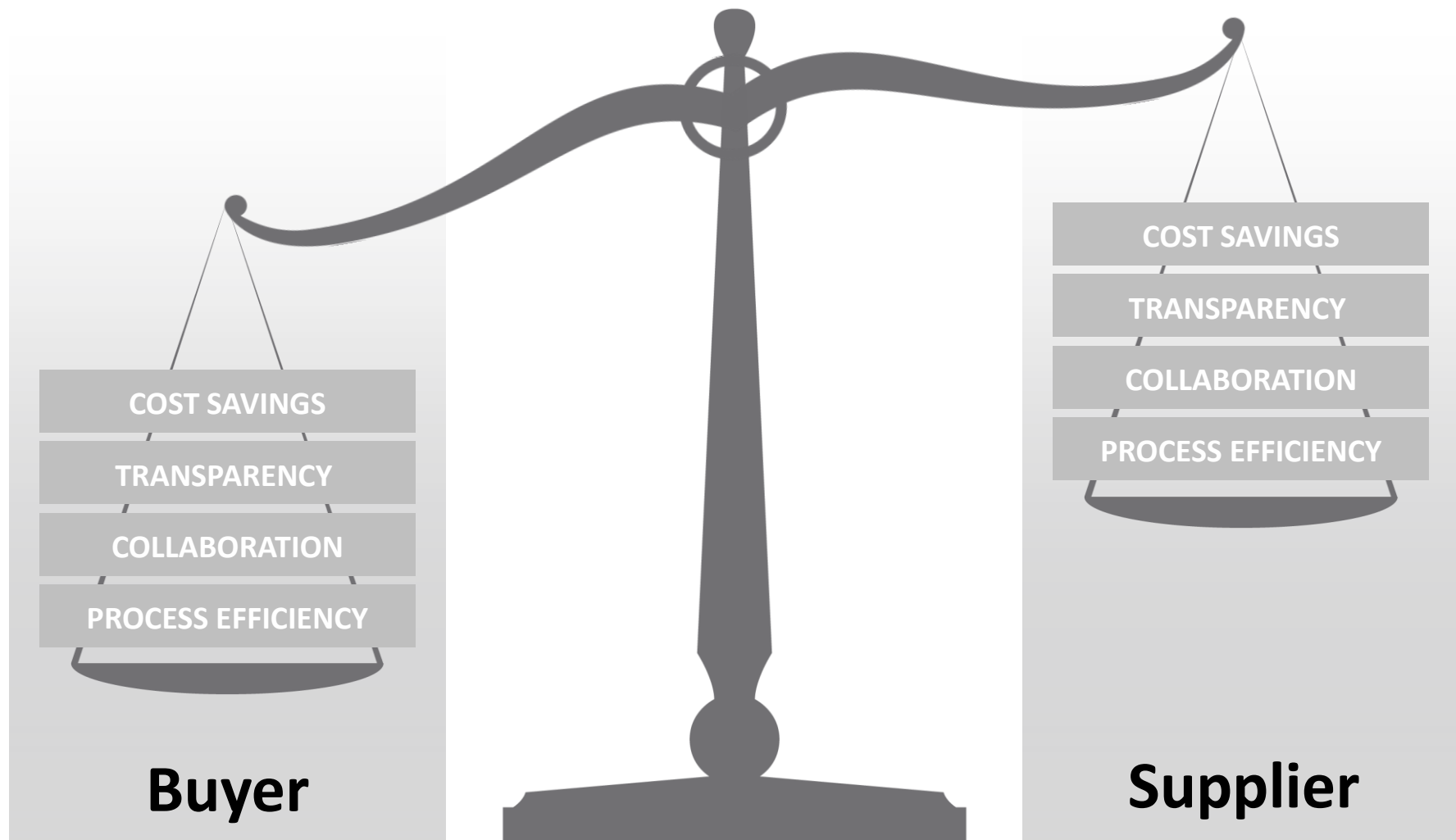
*Consider a variety of tactics to extend card acceptance beyond the traditional bank-managed supplier enrollment calling campaign.*



# Step 2: Incorporate strategies to achieve goals

## Selling the value of card

Creating a more equitable value model benefits both the buyer and supplier.



# Step 3: Maximize data utilization

Use data analytics to drive decision-making

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## How to develop data-driven analysis for decision-making

- Allow your goals to determine the analysis you need
- Access tools that enable you to identify opportunities
- Gather data and conduct your analysis
- Review the results with key stakeholders to attain alignment and accountability

# Step 3: Maximize data utilization

## Identify improvement opportunities: types of data analysis

Type of Analysis	Program Benefit
AP / Supplier match analysis	Expand card program based on acceptance (ie; virtual card program opportunity)
Commercial Card slippage analysis	Identify suppliers paid by multiple forms 1. Identify vendors paid with both check and card 2. Migrate check payments to card
Declined transaction analysis	Evaluate changes to MCC or spend limit blocking
Policies and procedures review	Streamline processes and improve control. Utilize industry best practice guides

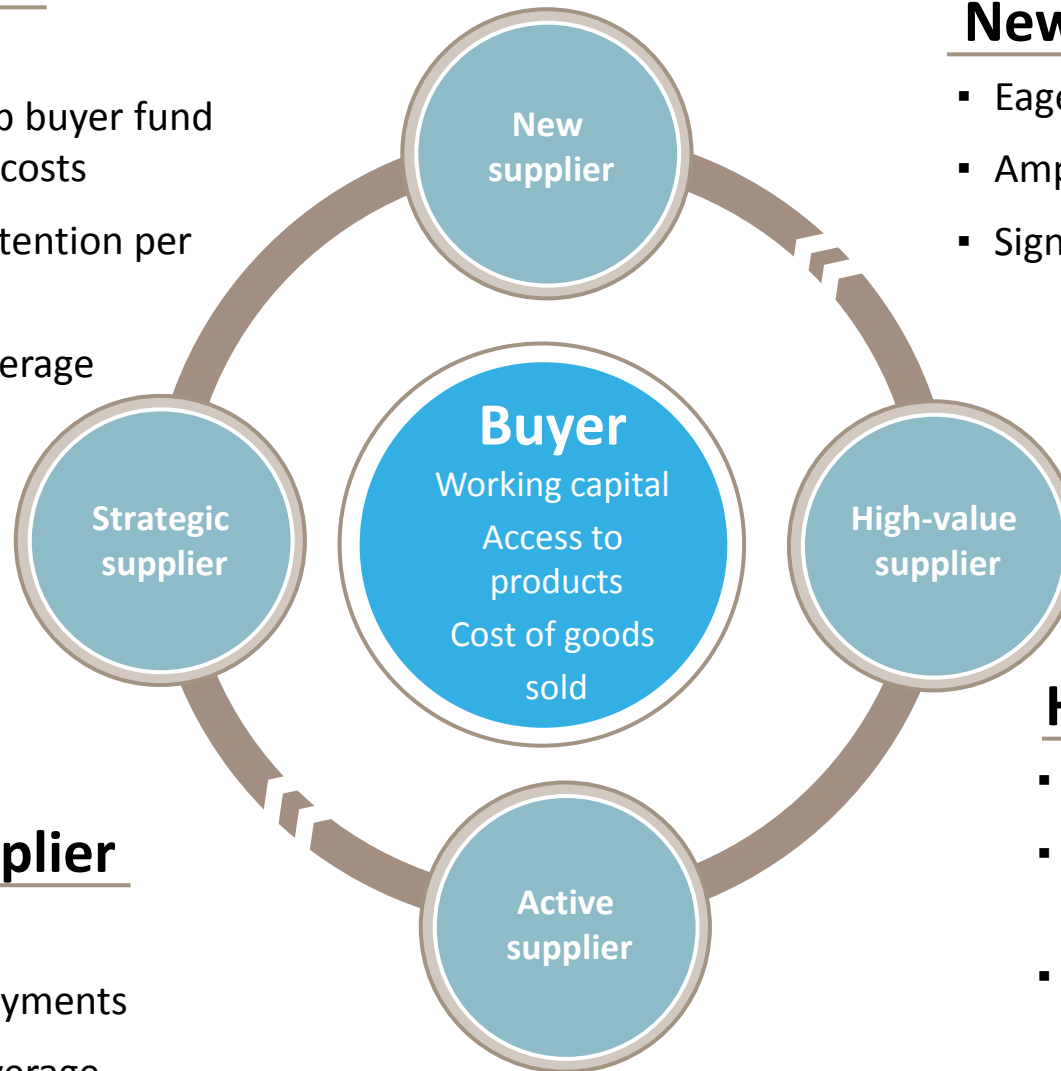


# Step 3: Maximize data utilization

## Supplier segmentation to determine best pay method

### Strategic supplier

- Ample competition
- Favorable terms help buyer fund fixed or less flexible costs
- Focused on client retention per size and volume
- Significant buyer leverage



### New supplier

- Eager to grow relationship
- Ample competition
- Significant buyer leverage

### Active supplier

- Low-dollar
- One-time payments
- No buyer leverage

### High-value supplier

- Goods critical to buyer
- Best of breed / only provider
- Buyer dependency limits terms negotiation
- Limited buyer leverage

# Step 3: Maximize data utilization

## Utilize data for strategic supplier targeting

### Large ticket interchange

- Reduces overall cost to accept card.
- Exclusively for B2B transactions.
- Must contain Level 2 & Level 3 data.
- Promotes discounted rates for larger dollar transactions (typically \$6500-7200+).
- Actual rate will vary based on transaction size and association (Visa v. MasterCard).

#### Recommendation:

Review average transaction size by supplier to understand which suppliers *may* benefit from large ticket rates.

### Strategic supplier pricing

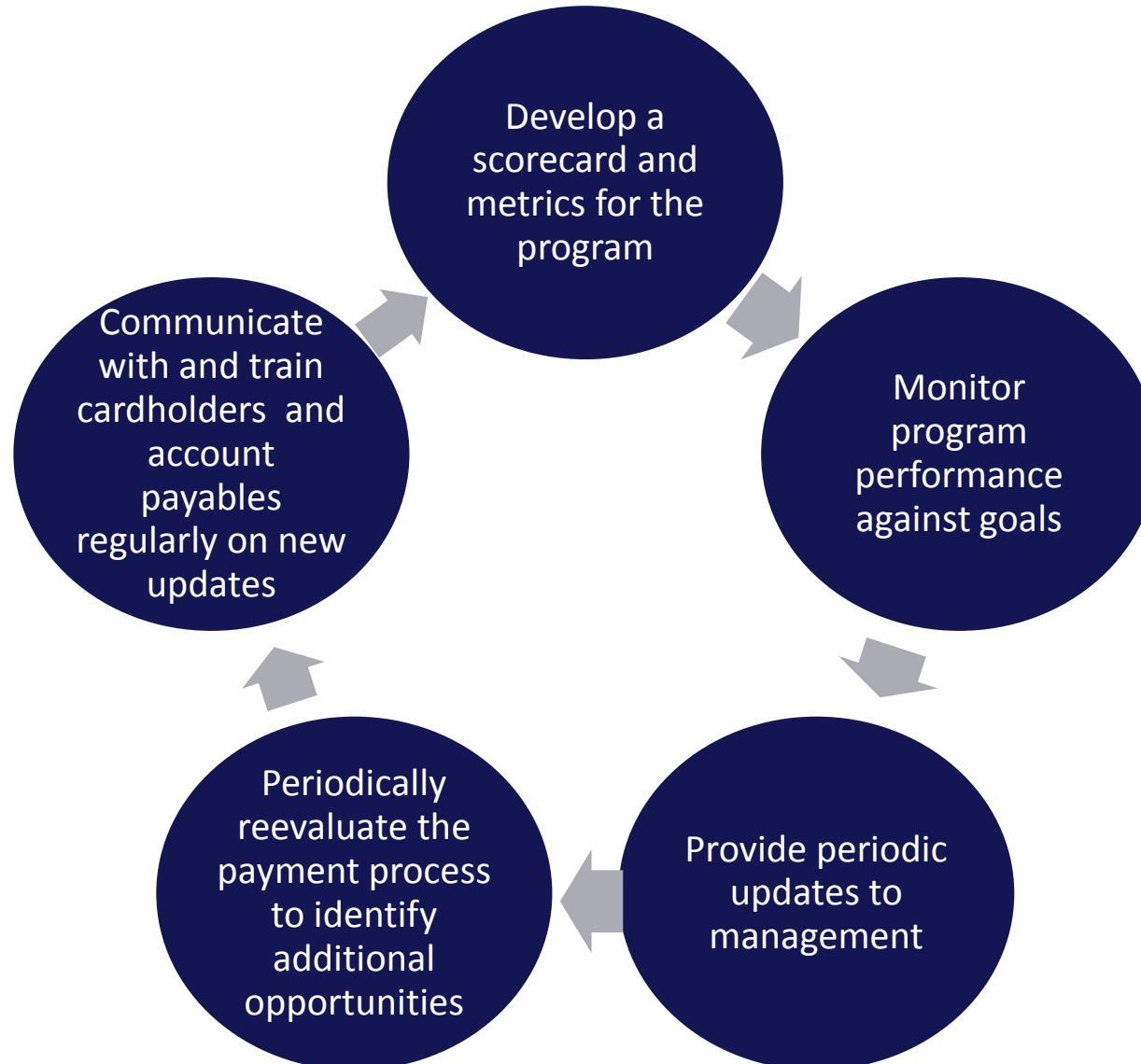
- Removes barrier to card acceptance by reducing overall cost to accept card.
- A component of a broader discounted pricing strategy.
- Minimum transaction value of \$10,000.
- Level 2 & Level 3 data not required.
- **Deployed at the buyer's discretion on an individual supplier basis.**
- **Retains and extends card acceptance with key suppliers.**

#### Recommendation:

Speak with your bank representative to determine appropriate targets.

# Step 4: Monitor and review for continued program success

Take on-going measures to maintain program success





# Questions

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