PROCUREMENT LEADERS

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INSIGHT P-CARDS: EFFICIENCY & CONTROL

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AS CONSUMERS, nothing seems more natural to us than taking out a credit card and using it for online purchases or the things that catch our eye in the shops. Simple, easy to use, and with some cash flow benefits, too.

That same facility is available to companies, which are forever on the look-out for process efficiencies. While the idea of empowering employees by giving them their own purchasing cards, or P-cards, may seem like some kind of a threat to the authority of the procurement function, the reverse is actually the case.

All the evidence shows that the control structure, the improved transparency, the cost-savings and – whisper it – the revenue opportunities, provide companies with the sort of benefits that can only enhance the reputation and status of procurement.

P-cards can even improve procurement's relationships with suppliers. Sounds like a valuable tool to have in the corporate wallet.

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Empower payment

Let employees use P-cards to buy what they need, says **Andrew Sawers**. Procurement and suppliers will benefit.

ANY CHIEF procurement officer looking for a way to streamline at least some of their organisation's purchasing with a system that is as easy to use as their credit card will be pleased to know that the technology is already here. In fact, it has been around for quite a few years now.

But purchasing cards, or P-cards, are still a hot topic, says Nicholas Walden, director in the procurement and P2P practice at consultancy Hackett Group.

"Many organisations are keen to talk to us about it. There's a lot of energy and a lot of interest even though, as a technology, it's been around for a while."

But those that have already adopted P-cards, he says, "see it as a great enabler to get access to a streamlined buying channel and a payment channel – at lower cost".

The consumer-orientated credit card analogy, above, is fitting: "The purchase order process has developed tremendously over the past five or ten years to mirror the consumer experience on Amazon, for example," says Andreia De Caires, senior product manager at Visa Europe. "But while there have been major improvements and a lot of automation, many companies continue to face challenges. One of the key challenges – which affects, in particular, the high-volume transactions – is the cost of the process. It's still too high in relation to the cost of goods and services that are being used. And that's still a big concern."

Where the card fits in

It is a concern that is most commonly focused on the long tail of suppliers, where transactions may be high volume but low value, infrequent or even a one-off. Organisations "want to find a more efficient procure-to-pay process to pay those suppliers," says John Schifano, head of B2B commercial card sales for EMEA at Citi. "This is where a P-card fits in."

By all accounts, the efficiency gains available are very significant. Estimates vary, but they all seem to be in the same range. The *2014 Purchasing Card Benchmark Survey Results* report by Richard Palmer and Mahendra Gupta of RPMG Research Corporation points to a reduction from $90.20 per transaction for a traditional paper-based purchase order system to just $20.38 per transaction using P-cards – a saving of 77%.

Data from Citi and from Hackett Group suggest savings of at least that order of magnitude.

Mark Yates, who has responsibility for global travel and expense management at a major restaurant group and is responsible for the company's P-card programme, says that his business eliminated hundreds of thousands of invoices, saving headcount and a lot of money by giving P-cards to restaurant managers. ('Mark Yates' is a pseudonym for this person who, because of commercial confidentiality, agreed to speak to *Procurement Leaders* only under conditions of anonymity.)

One of the quick wins was for newspapers: "Every restaurant was getting an invoice every day from their newspaper supplier," says Yates. "With thousands of restaurants we were getting hundreds of thousands of invoices into our payables group every year."

It is important, however, not to get too carried away by these mouth-watering savings. "There is a big but," says Walden. Yes, P-cards are much cheaper to process than having to issue POs and do three-way matching between the PO, the invoice and the goods received documentation. "But you're probably going to get no more than about 10% of spend through this channel." He says that the low-value-transaction limits that

> "When you start seeing thousands of transactions coming out of the AP function, that's obviously a benefit."

USING CARDS: THERMO FISHER

For one division of the $17bn-revenue Thermo Fisher Scientific life sciences group, the decision to use P-cards could not have been easier: "We saw that it worked," says Julie Giese, divisional senior associate financial analyst within the group.

Back in 2008, Giese was working for a company called Invitrogen, which acquired a business called Applied Biosystems. The combined business was itself acquired by Thermo Fisher in 2014. "Applied Biosystems had a P-card programme," she says. "We saw that it worked for them and so we felt it was something that we wanted to adopt. We had no reservations; it just made sense."

After all, there was little downside to such a decision: "If it didn't work, we could stop it. But it made sense, so we went for it," says Giese.

Her division has been putting around $2m to $3m of its $65m of US expenditure on P-cards, she estimates, with almost 250 employees having a P-card. They work in a range of functions, such as facilities, but the main users are the scientists and engineers who use the cards to buy materials for the labs.

Provision in a hurry

"If they need any reagents or anything like that, that would go on the P-card," she explains. "For anything that someone needs quickly or is a one-off, that wouldn't go through accounts payable, they would use their P-cards."

The benefits to the users are that the purchasing process is so much faster. "They don't have to worry about getting a purchase order generated or negotiating costs. They can just go and buy [what they need] and have it immediately."

Spending controls

As for controls, users still have to file their purchases in their expense reporting system. There are no individual transaction limits, but each card has a monthly $5,000 limit.

"If they need more, they just contact us, but people usually spend less than that," she says. "Sometimes, there's an emergency in a warehouse or someone really needs to spend a lot of money on something, but that's very rare."

The merchant category codes (MCCs) for which the cards can be used are quite tightly restricted. Life Technologies spent a lot of time with Citi when they first set up the card scheme to decide which MCCs should be disallowed. "It's a lot of work to go through and see what makes sense and what doesn't," says Giese.

"We haven't had any issues with fraud. It's so well restricted that they can't really go to an electronics store and start using it there. We have it very well controlled."

Apart from spend control, the business also benefits from greater visibility of what people are buying and for which cost centres, though they have yet to leverage that knowledge to explore if better deals could be struck with suppliers.

In the meantime, Giese is encouraging users to put more spend through their cards. "We email them and explain the benefits of using the P-card and, usually, we let their manager know as well," she says. "Then they can make that decision together."

some businesses impose may be around $2,500, though for others it might be as low as $500 or – in one instance he knows of – as much as $50,000.

But even if it is just the low-value or infrequent tail spend that is particularly ripe for P-card use, the process efficiencies are still substantial enough to persuade many businesses to adopt them.

There are other benefits, as well, over and above the cost savings. Perhaps the most important is the fact that people who need to buy relatively low-value things quickly can get hold of them – and that helps keep the business running without the sort of interruption that could be caused by a slow-moving PO process.

Yates, for example, explains that P-cards are also used by the engineers at the food and beverage plants to enable them to buy any urgently required spare parts and for general maintenance.

What is not covered by P-cards, however, is any very large expenditure, such as if there were a failure of a major piece of equipment that had to be replaced rather than repaired. That kind of thing would more likely go through a capital expenditure approval process.

The distinction, he says, is "defined by the speed with which something needs to get done. If it's a part that needs to be procured and they need it now, those tend to go on a purchasing card. If it's a large-dollar item and it could take some time, those are put on a purchase order."

He adds, however, that this is really more of a guideline than a hard-and-fast rule: if an employee uses a P-card when perhaps a PO approval process would have been more appropriate, "We use that as a learning opportunity."

"We say, 'maybe next time you want to do it this way because by doing it that way it caused issue A and issue B'."

Knowledge gains, revenue gains

Educating the business as to how P-cards can be used is one of the main agenda items for Martin Stevens, procurement manager for European travel and global corporate cards at RELX (until recently, better known as information and events group Reed Elsevier).

"We've got a few thousand cards out there," he says. "We're making sure they're aware of the benefits cards can provide. When you start seeing thousands of transactions coming out of the AP function, that's obviously a benefit to the business."

One area that Stevens is targeting is large meeting and event expenditure – basically, trying to get as much of an event's expenditure onto a P-card as possible.

"Purchasing cards are generally sold as ideal for use in transactions up to about £2,500," he says, "but as we become more familiar [with them], we think they can deliver benefits for some of the high-value transactions."

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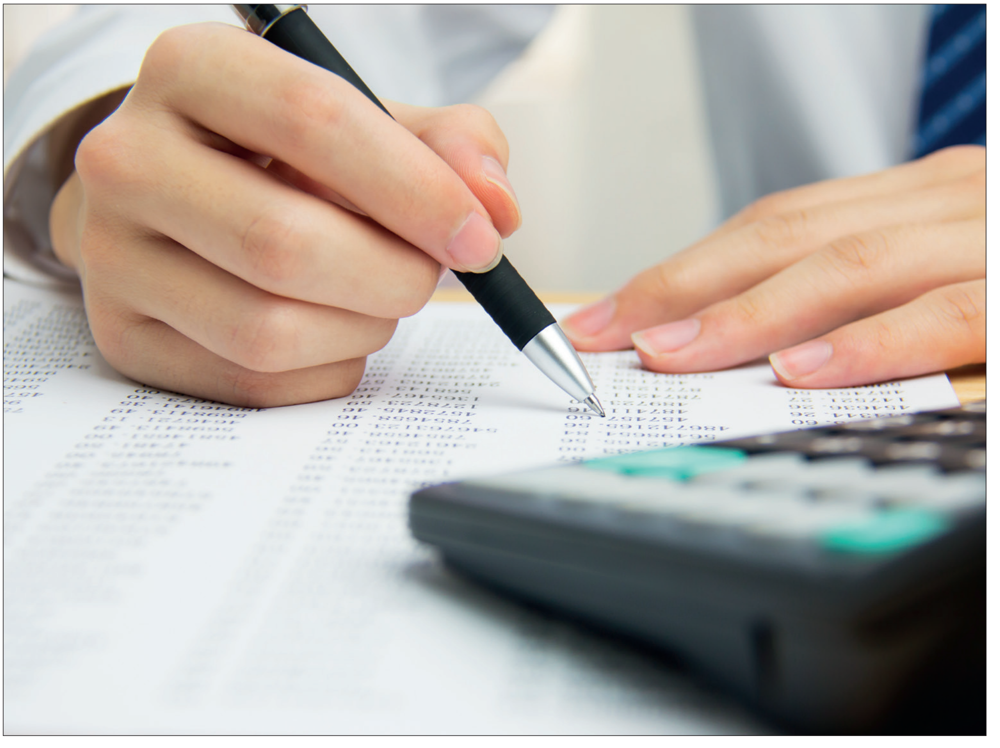

One of those benefits is getting the spend data all in one place. "You can share that data with your category managers in the procurement function more easily. So, if we want to know how much we spent with 'X' last week, we can actually do that," he says.

Stevens is also working at increasing the volume of so-called Level-3 transactions that go through P-cards. Level-3 transactions have the detailed data and system processes that allow electronic information to be used for VAT purposes in certain European countries, rather than having to retain paper invoices.

"It makes the whole process very efficient," says Stevens. "But it's quite challenging because suppliers don't all have the technology to do it."

Morgan Salmon, head of product management for commercial cards for the EMEA region at Citi, says: "The amount of data you can get from a card programme is definitely better than you can get from the standard electronic funds transfer process because the transaction itself carries more data. A number of our clients in EMEA are looking for a Level-3 data solution, which allows for line-item detail."

> Level-3 transactions have detailed data and system processes that allow electronic information to be used for VAT purposes.

Another benefit for many businesses that use P-cards is that, depending on the volume of expenditure that goes through their cards, they may be able to earn rebates from their card-issuing bank. These rebates are on a sliding scale and, while not always huge in percentage terms (one frequently quoted figure is 0.5% of spend), the value can be sizeable in pounds, euros and dollars and can be one of

ACCEPTING CARDS: BRAND ADDITION

If you need coffee mugs, upmarket notebooks or USB memory sticks with your logo on them, you may well use the services of branded merchandise business Brand Addition. If you need something more bespoke, such as toy bulldozers for construction equipment company JCB or Pudsey Bears for the annual BBC Children in Need charity fundraiser, Brand Addition is also up to the job.

The £58m revenue business has been accepting P-cards for about five years. "It was initially a client request," says financial controller Lindsay Brett. "We're very driven by client demands. Traditionally, we had always worked on an invoice basis."

Brett recalls that when the suggestion was first tabled, they could see that "anything that will reduce chasing clients for payment of invoices – anything that speeds up that process – is great for us: it improves our working capital position."

And being private equity-backed, it's a real boon to have "the guarantee of payment and knowing when it's coming in," she says. "The card details are taken at the point of order, so once we've despatched the goods, our system will trigger the payment notification and that will put the payment through."

There was a "relatively significant amount of development" required to be able to accept cards initially, says Lindsay. But that was mostly because Brand Addition has bespoke financial systems that had to be modified to ensure each transaction carried all the right information and that it was integrated into an automated process.

Currently, however, only a small percentage of Brand Addition's revenue comes through P-cards. They are more commonly used by clients purchasing the more generic items (pens, mugs) than the 'specials' (cuddly toys, lamps) because of the size of the orders "which probably have to go through a different authorisation process with our clients," explains Lindsay.

But she says that she will be pushing her teams to encourage more clients to put more spend on P-cards. Clients who pay promptly and painlessly will not be top of her target list as Brand Addition would be incurring the merchant fee, but getting little net cash-flow benefit.

For others, however, P-cards are a great way of "reducing the working capital cycle: if it takes a long time to collect the funds from a client, then this is definitely worth the investment," she adds.

the top three or four reasons that justify the business case for launching P-cards.

"It's a nice rebate – it's good to have," says one procurement professional who declines to specify what his organisation's rebate is.

It means that a procure-to-pay process can actually generate some revenue, rather than simply be a cost. "It can be a driver to increase the [scope of the P-card] programme and it can also help sell the programme internally," says Stevens.

"It can potentially pay for any software development that may be required," he adds.

One question that always arises is: who gets the revenue? Typically it is recharged back to the business unit that incurred the cost in the first place, though not always. *Procurement Leaders* heard of one organisation where the revenue was retained by the accounts payable function.

"Honestly, it doesn't matter where it goes," says one procurement professional. "It's money coming back into the company. So who gets the credit doesn't matter to me."

The supplier deal

Procurement professionals may be finely attuned to the benefits their organisation can derive from P-cards, but they will also want to thoroughly understand what the impact will be on their relationships with their suppliers. This is especially true given that suppliers who accept the use of P-cards will incur a merchant fee. The fee is charged by the supplier's acquiring bank but needs to be considered against the perhaps less obvious finance costs of other payment mechanisms, including the cost of chasing payment.

In fact, there are a number of significant benefits for suppliers. First and foremost is the fact that the supplier can be paid within just a few days – certainly much more quickly than most businesses are able to process an invoice and that's before you even factor in lengthening payment terms.

The buyer, however, will typically have perhaps 40 days on average before they have to

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pay their monthly P-card bill.

Premier Farnell is a business-to-business distributor of electrical and electronic components. The company has approximately half a million stock-keeping units (SKUs) in stock and has access to the same number again from suppliers or other warehouses.

Sales to clients using P-cards are a small proportion of their sales – perhaps up to 3% in countries where P-cards are well established – but European systems and compliance manager Joy Gilbert sees that they offer benefits for her company, where the norm is for clients to have a trade account.

"As soon as our invoice is raised the settlement transaction goes through that night," she says. "So, basically, we get the sale, but we don't have any debt with [the client]. That is very beneficial for our working capital."

Suppliers also get the benefit of knowing exactly what any particular payment is for rather than not getting any information to determine which invoices certain payments they relate to.

"With the growing importance of P-cards within our customer base, if we did not accept them we would risk losing customers," says Gilbert. "But in terms of opportunities for customer growth, if we can accept these where our competitors may not have the same capability, then it is a differentiating factor for us."

Enhancing relationships

And so, rather than simply being seen as preventing the loss of a customer, acceptance of P-cards could be part of building closer relationships. "P-cards can support preferred-supplier status," says Walden at Hackett Group.

"When procurement is talking to a vendor, they can get not just to 'approved' status but to 'preferred' status."

This is especially likely if the buyer is able to increase its rebate by channelling more of its spend through such a preferred, card-accepting supplier, Walden says, while Salmon adds that suppliers that are able to provide Level-3 data are at a particular advantage.

Perhaps the single most common concern raised with P-cards is security and the problem of potential misuse. There are several layers of controls, however, which could well make P-cards a better risk-reward option than traditional PO and invoicing processes.

Each vendor who accepts payment by cards has a merchant category code (MCC) assigned to it, broadly identifying the goods and services they sell. P-cards can be blocked from being used for particularly inappropriate MCCs. The

of an incorrect MCC having been assigned to a vendor. "The merchant category code designation isn't always perfect," says Salmon.

Dedicated 'supplier cards' or 'ghost' cards' can be locked down to a particular vendor to prevent fraud. Cards can also be integrated with other initiatives such as an e-catalogue sourcing strategy, for example, where so-called virtual cards can be used to provide security for the buyer and certainty of payment for the vendor.

Spend limits – whether for individual transactions or overall card limits – are another way to restrict purchases to prevent unauthorised expenditure or fraud.

Furthermore, the issuing bank is often able to detect immediately when a card is being used in a non-typical way, while the reporting capabilities that the bank should be able to offer provide an extra layer of security.

"One of the good things with a P-card is that it enables visibility," says RELX's Stevens.

"You can see the transactions generally within two to three days of them occurring, whereas if it were being done by a traditional paper process, it could be months before it has even hit the AP ledgers."

Walden says that tools can use risk profiling to identify potential high-risk spenders. "The tools pick up exceptions, pulling them out of the queue for specific and special monitoring and audit."

"We have reports that we run three times a week," says Yates.

"A risk report tells us if this transaction is high risk and, if we feel something is out of place, we will reach out to the manager and find out what's going on."

Banks also have an insurance facility that covers against unauthorised purchases. "If there are fraudulent claims or transactions, you have the right to recover your funds," says Stevens.

Even where there is no employee misuse, there is always the possibility that a P-card will be compromised as a result of hackers stealing card data from a vendor where the card has been used. Having to then reissue managers' P-cards is a nuisance, says Yates, "but it's still better than having to deal with the invoices that those restaurants could generate."

> "Banks have an insurance facility... if there are fraudulent claims or transactions, you have the right to recover your funds."

company post room's P-card, for example, which might typically be used for courier services, could be blocked from being used for travel and electronic goods.

While employees at RELX may be paying for conference hotel costs, "you couldn't use your card at a gambling establishment – it just wouldn't go through," says Stevens.

Most professionals in the field caution against being too restrictive, however, in case a legitimate purchase falls foul

Policy clarity

Above all, however, having a good policy in place that is clearly communicated to users is probably the most important part of preventing misuse. Most people, after all, are honest.

"You want to make sure that people are very clear in terms of what they are supposed to buy with the P-card, how they are supposed to buy with it, and what is going to happen if they do something that they shouldn't," says Walden.

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The benefits of introducing P-cards may be considerable, but implementing a card programme does not happen by itself. "It helps if you have a dedicated resource," says Walden, "someone who drives the programme, manages the coordination with procurement and with accounts payable, finance or P2P.

"When we got the C-level stakeholders involved and engaged, then it became a good process," recalls Stevens.

"They understood what it was that we wanted from a business perspective and we understood what it was we wanted from a procurement perspective.

"We worked very closely with numerous departments – treasury, procurement and finance – ensuring that we kept all our [internal] customers up to date with what we were doing," says Stevens.

Visa Europe's De Caires adds: "The other key element is supplier engagement – clear communication to suppliers as to why you want to do this and why they would benefit from that."

> "The volume of business-to-business spend on P-cards globally has now overtaken spend on travel and entertainment."

With more and more businesses successfully implementing P-cards, the volume of business-to-business spend on P-cards globally has now overtaken spend on travel and entertainment, according to De Caires.

Europe is behind the trend at the moment, but it is moving the same way as the US. Ultimately, De Caires believes that P-card spend could reach several times the value of travel and entertainment – perhaps a ratio such as 80:20, she says.

"We are seeing continuous growth in this space. It's growing and accelerating." ■

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