



Maximizing Benefits From a Successful Commercial Card Program

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MAAFP – Financial Forum

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Introduction

Product Consulting

- Support commercial client solution structuring
- Identify market trends
- Drive innovation
- Communicate across the client and product continuum



Agenda

- **Commercial Card Overview & Industry Statistics**
- **Value Proposition**
- **Card Program Best Practices**
- **What next?**
- **Questions**

Maximizing Benefits From a Successful Commercial Card Program

Headlines – Commercial Card

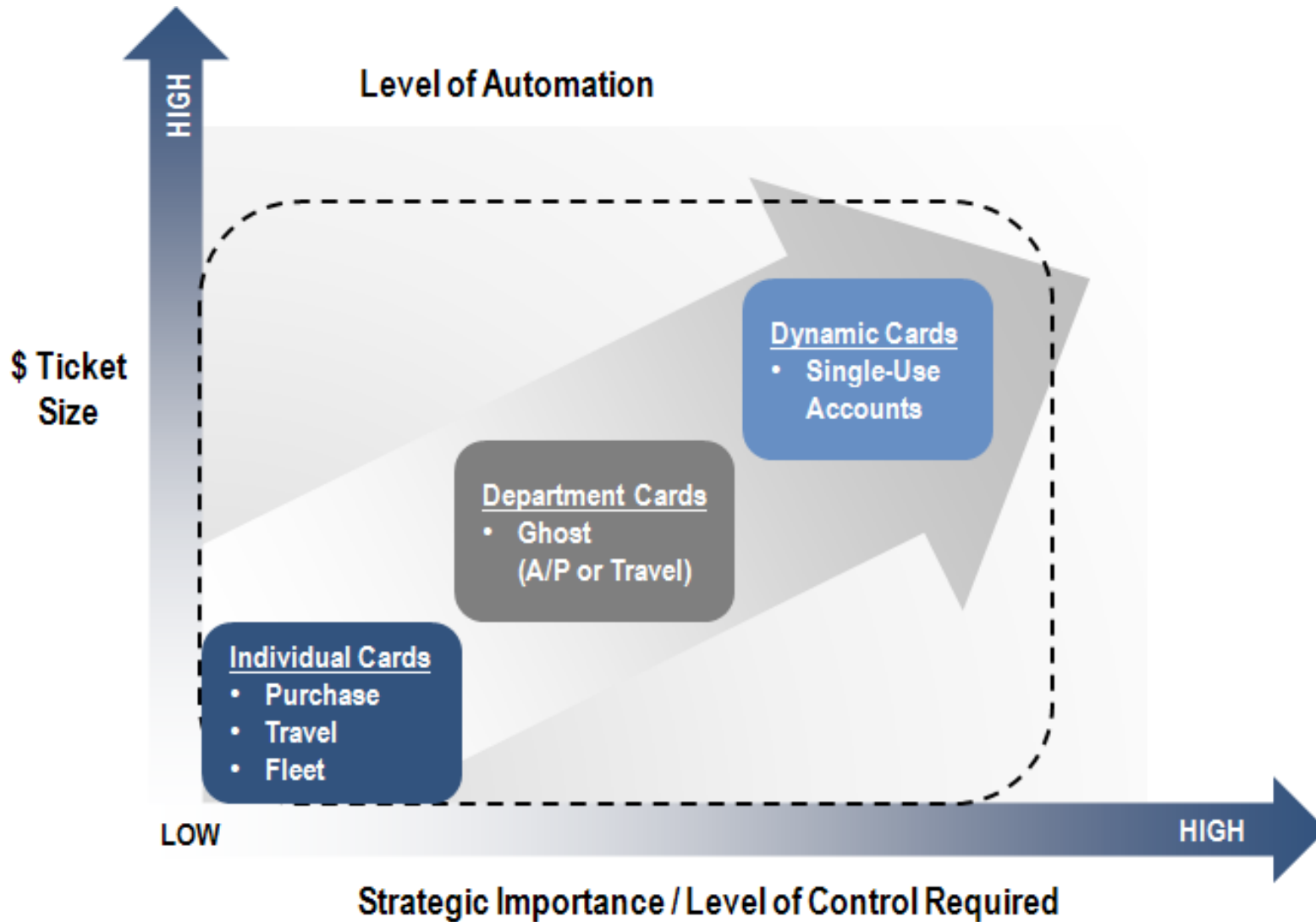
“Providing efficiency and cost-savings over paper payments (cash and checks), commercial payment cards are among the fastest growing card segments in recent years.”

From a discussion paper “Getting Down to Business: Commercial Cards in Business-to-Business Payments,” March 2011

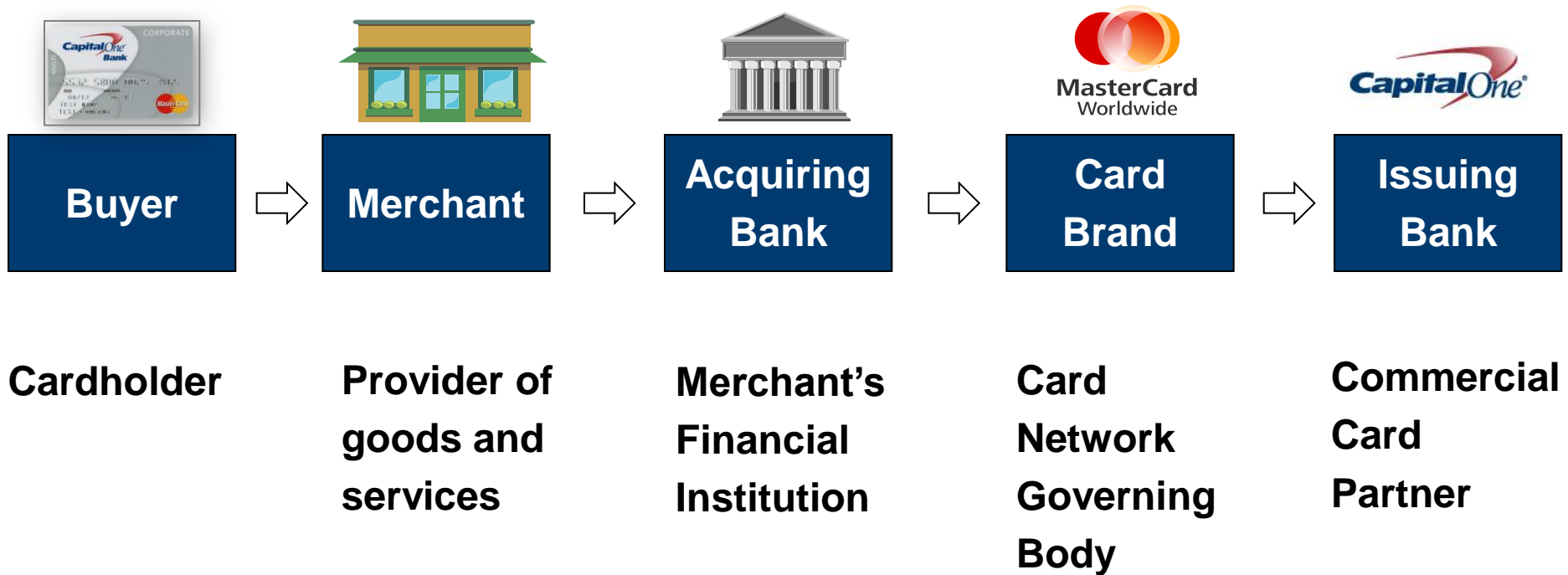
Susan Herbst-Murphy

Payments Cards Center, Federal Reserve Bank of Philadelphia

Commercial Card Payment Continuum

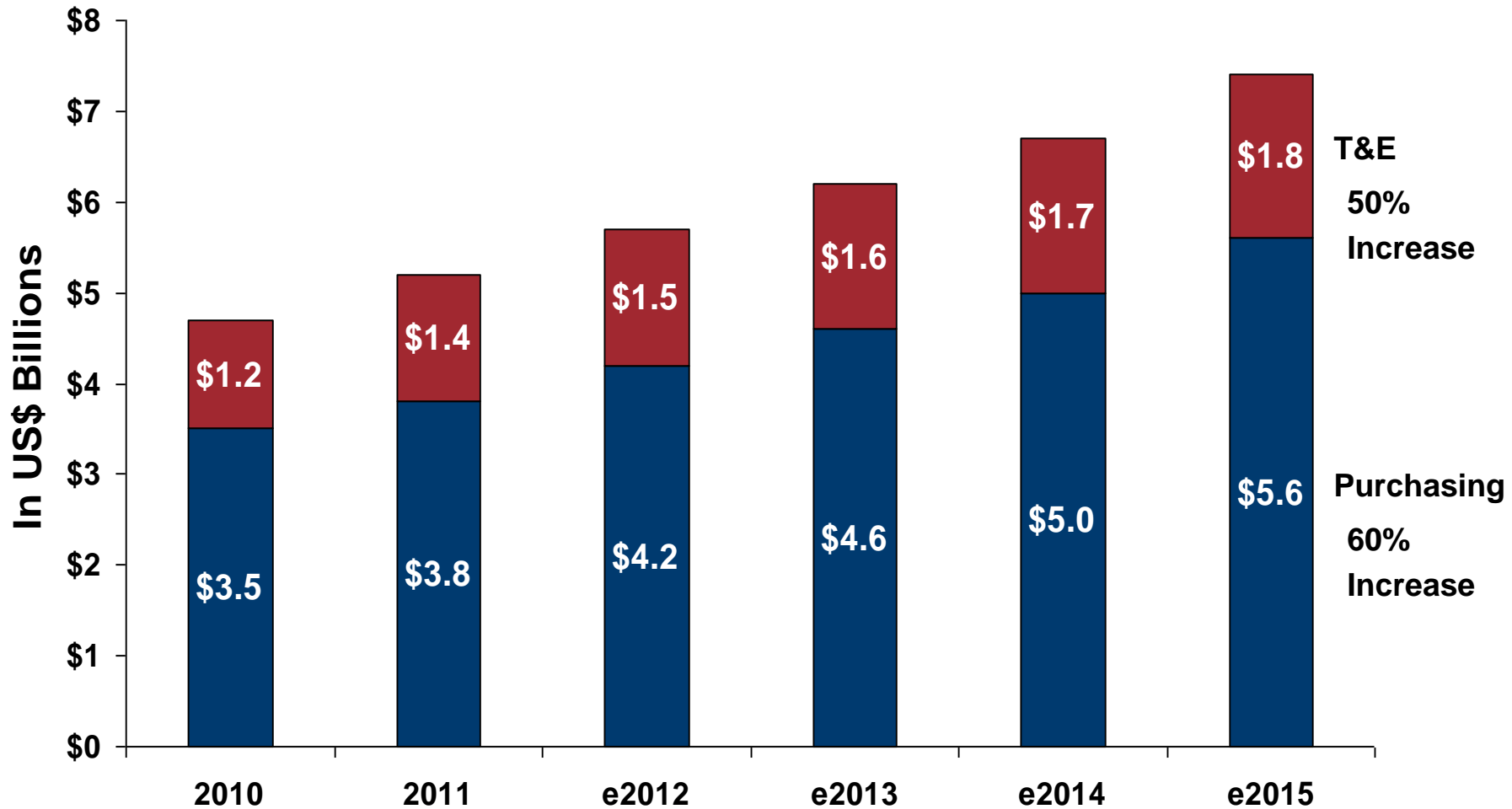


Understanding the Commercial Card Transaction Process



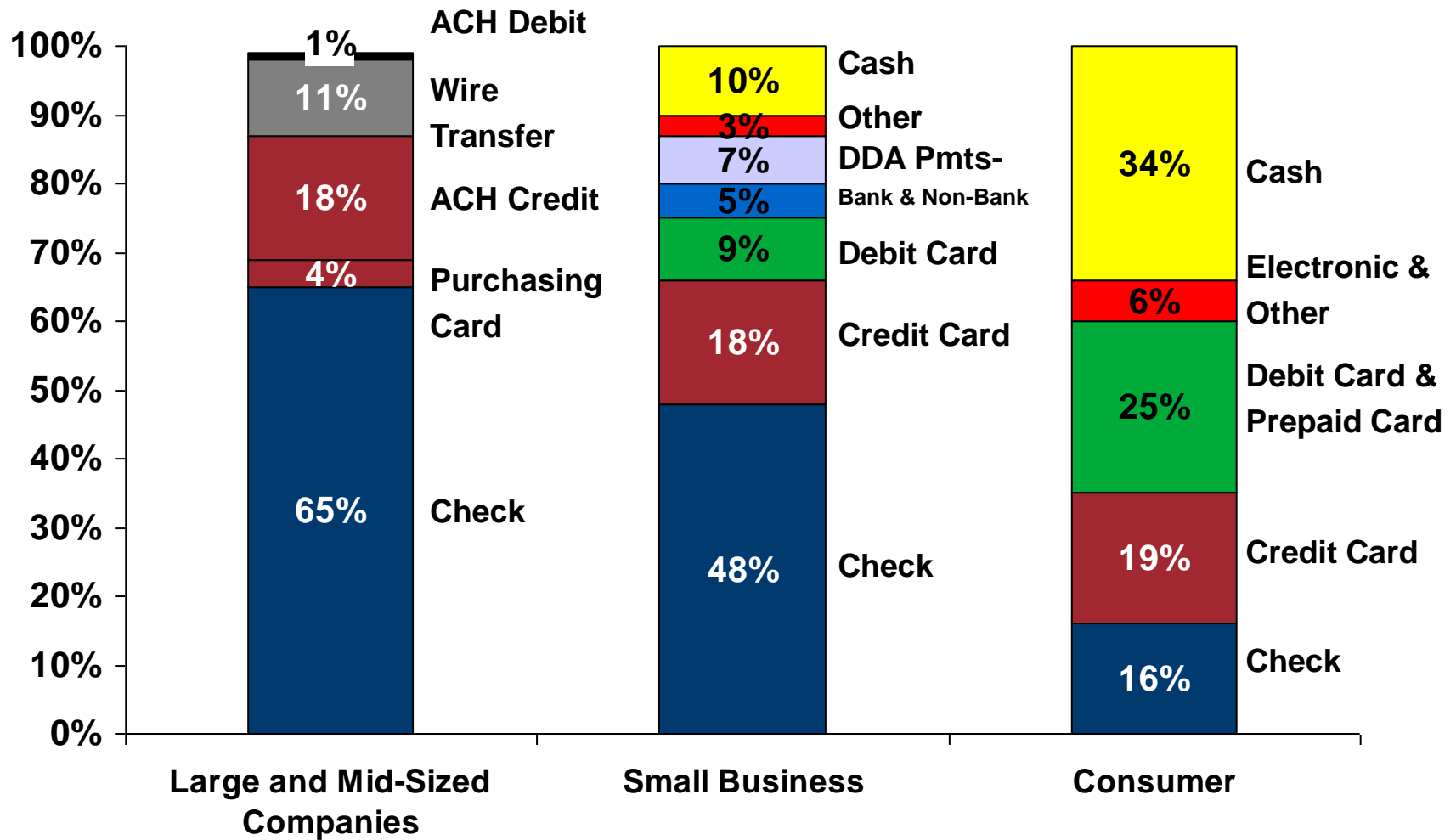
Transaction Volume – Commercial Card

Growth expected to continue



Source: Aite, "Way Beyond Plastic: The Status and Prognosis of Purchasing and Corporate Cards" March 22, 2012

Transaction Volume – Payment Method By Segment



Summary Source: Federal Reserve Bank of Philadelphia, "Getting Down to Business: Commercial Cards in Business-to-Business Payments" March 2011

Payment Card Industry – What's New?

- **Recent Data Breach**
- **EMV / Chip cards**
- **Surcharging**

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- “P-cards provide an efficient, cost-effective method of purchasing and paying for small-dollar as well as high-volume purchases. P-card programs are used as an alternative to the traditional purchasing process and can result in a significant reduction in the volume of purchase orders, invoices and checks processed.”

“The Value of Purchasing Cards – Utilizing P-cards as a strategic form of payment”

2012

Pay Stream Advisors

The Proposed Value of Purchase Cards

Value Levers	Value Created
Increase Process Efficiency	Average reduction in process cost of 76% per transaction (\$91 → \$17)
Generate Price Reductions	Average discount improvement of 2.2%
Redeploy Headcount	On average, 1 FTE can be redeployed for every 15K purchasing card transactions
Reduce Cycle Time	Average cycle time reduction of 72% (17.2 days → 4.9 days)
Generate Financial Rebates	Average rebates vary by customer

Source: 2012 RPMG Research Corporation

Disadvantages of Check Issuance

- **Higher cost of issuance due to manual handling**
- **Payment timing uncertainty**
 - Postal delivery times changing
 - Delayed deposits
- **Controls required over check stock and issued checks in office**
- **Invoice information transferred manually on check or remittance advice/coupon**
- **Payments subject to 1099-MISC reporting requirements**

Greater Security and Control with Single-Use Accounts

- **Secure method for automating vendor payments and reducing paper check issuance**
- **Single-use, virtual accounts designed for increased payment control**
 - Transaction-specific dollar limits, expiration dates
 - Account closed immediately after transaction is processed
- **Allow client to transmit remittance info to vendor and receive reconciliation data**
 - Organization can include numerous for each transaction (ex. Invoice Number, PO Number)
 - Information included in vendor remittance email
 - Reconciliation files available showing single-use account activity

Multiple Options to Utilize Single-Use Accounts

- **Batch file process**

- Buyer approves vendor payment within internal A/P system
- Buyer's A/P system produces output file of payment details to send to bank
- Bank platform creates single-use account for each payment and sends secure payment message to supplier

- **Online website**

- Buyer utilizes online application allowing employees to request single-use accounts
- Buyer customizes screens to capture appropriate detail during request process
- Employee submits request, routed for final approval

Sample Email Notification to Supplier

From: Bank

Sent: Thursday, February 11, 2014 10:39 AM

To: SAMPLE VENDOR

Subject: [encrypt] Payment details enclosed.

Dear Valued Supplier,

This is a notification of payment details from ACME, Inc:

Account Number:	5184-6802-5384-1111
Exp Date:	10/13
CVC2:	304
Single or Multi Use:	Single
Transaction Amount:	\$1,000.00
Available balance:	\$1,000.00
Valid from:	02/11/14
Valid to:	03/11/14
Cardholder Name:	Mctest
Cardholder Address:	100 Main Street, Anywhere, TX 75207

Purchase Custom Data Fields

Invoice	4564
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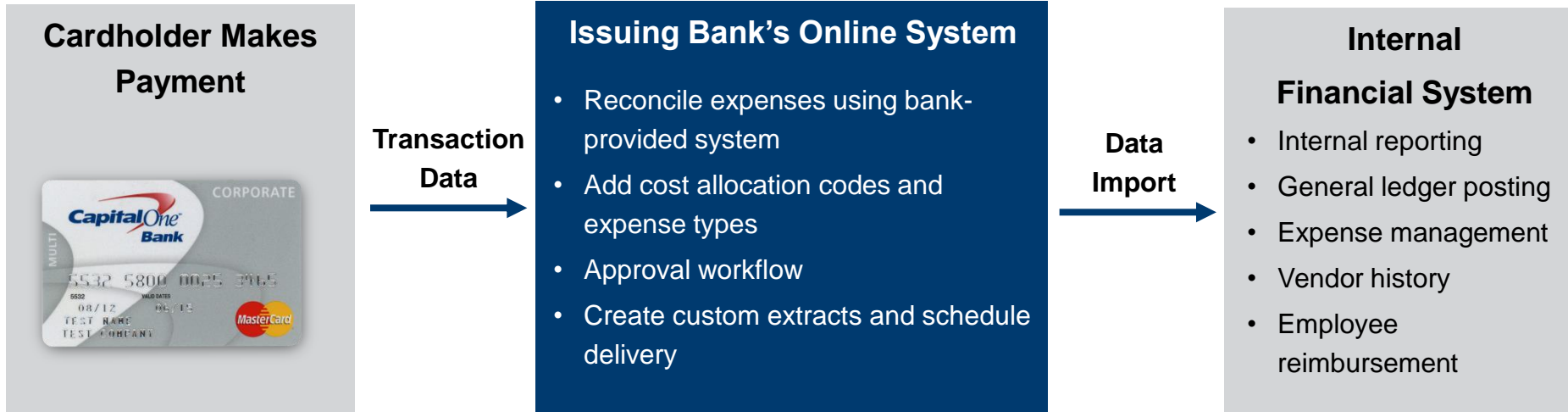
Transaction Detail

Procurement Contract 100-15/200-25/300-35



Integrate Card Data Into Internal Financial System

- Online tools allow for online transaction management and data integration



Commercial Cards and Working Capital Optimization

- **Commercial cards for invoice payments have the potential to:**
Increase your organization's DPO and decrease your suppliers' DSO
- **Standard 30-day cycle period + industry leading 25-day grace period**
 - Cycle allows for 15 days avg float + 25-day payback period = 40 days additional DPO

Time Period	Buyer's DPO	Supplier's DSO
Check – traditional Net 30 invoice term	30	30
Commercial Card	70	30
Commercial Card – 7 day early payment	63	23
Commercial Card – 14 day early payment	56	16

Summary of Commercial Card Value Proposition

Project Annual Value of Card Program		
Anticipated Commercial Card Spend	\$	1,000,000
Avg invoice of \$2500		400
Average per check cost (direct and indirect)	\$	5.00
Value of check elimination	\$	2,000
Average days float on checks (net 30)		30
Average days float on p-card (net 30, 30/25 cycle)		70
Additional days float		40
Cost of Capital		4.00%
Average daily cost of funds		0.01096%
Value of float on annual spend	\$	4,384
Potential program spend	\$	1,000,000
Basis points earned (30/25 cycle)		1.00%
Rebate based on potential spend	\$	10,000
TOTAL Annual Direct Financial Benefit	\$	16,384

On average, each dollar of card spend = 1.64% of cost savings

Summary of Key Commercial Card Benefits

- Create greater control over spending
- Streamline accounts payable and reconciliation process
- Maximize cash flow and improve supplier relationships
- Utilize financial incentives to turn A/P into “profit” center
- Reduce requirements for 1099 MISC tax reporting
 - Recent IRS regulations mandate card payments reported by acquiring bank

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- "As any business travel veteran will readily admit, meetings and sale pitches are just half the battle. Booking airline and hotel reservations, finding an adequate place to eat, paying taxi fares, keeping track of receipts...are arguably just as burdensome. For the T&E cardholder experience to be positive, the card must be useful and effective before, during, and even after the business trip is concluded."

Enhancing T&E Card Programs: Analysis of Commercial Cards User Survey 2012

Tristan Hugo-Webb

Mercator Advisory Group

Commercial Card Program Best Practices

- **Mandate use of corporate card for all T&E purchases**
 - Ensures centralized source for data collection
 - Allows unified process for expense reimbursement
 - Provides improved negotiating ability with travel vendors
- **Utilize expense reporting system for transaction management**
 - Tools allow for online cost allocation and approval workflow
 - Allow employees to upload receipt copies and travel documents
 - Require out-of-pocket expenses to be submitted online
 - Create policies to ensure employees are submitting expenses in timely manner

Commercial Card Program Best Practices

- **Leverage report scheduling and spending alerts**
 - Schedule standard and custom reports for improved oversight
 - Create customized alerts based on spend levels, merchant categories and vendor names
 - Continually review merchant category code blocking schemes
 - Review and update user access and hierarchy assignments
- **Ensure internal users are trained on commercial card policies**
 - Tailor training to address unique user roles – cardholders, approvers, A/P personnel
 - Distribute quick reference documents outlining expense policies and procedures
 - Create company intranet site for housing information and training materials
- **Issue Fleet cards for vehicle-related expenses**
 - Assign card accounts to individual drivers or vehicles for improved oversight
 - Implement fuel-pump “prompts” to track usage and prevent misuse

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What can our organization do next?

- **Perform an internal vendor analysis**
 - What payment methods are we using for each of our current vendors?
 - Do we know which vendors currently accept commercial cards?
 - How do we plan to communicate with vendors for card payment adoption?
 - Do we utilize the right card products for our business needs?
 - Supplier-specific accounts
 - Single-use accounts

What can our organization do next?

- **Review internal T&E policies and reimbursement process**
 - Are employees using personal funds for business travel and expenses?
 - What is the process for employees to submit expenses?
 - Do we have an adequate approval and review process?
 - Does our process work well for the traveler AND accounting team?

What can our organization do next?

- **Review existing program controls and online system access**
 - What spending limits and MCC restrictions do we have in place?
 - How are we using card transaction data and reports?
 - Can we utilize the bank's system for online transaction management?
 - Can our internal financial system accept a transaction data feed?

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Reference Material

- **“Getting Down to Business: Commercial Cards in the Business-to-Business Payments” March 2011**
 - Susan Herbst-Murphy, Payment Cards Center, Federal Reserve Bank of Philadelphia
<http://www.phil.frb.org/consumer-credit-and-payments/payment-cards-center/>
- **“Way Beyond Plastic: The Status and Prognosis of Purchasing and Corporate Cards” March 2012**
 - Aite Group <http://www.aitegroup.com/>
- **2013 Corporate Travel Card Benchmark Survey Results**
 - RPMG Research Corporation http://www.rpmgresearch.net/product-view.php?product_id=36
- **2012 Purchasing Card Benchmark Survey Results**
 - RPMG Research Corporation http://www.rpmgresearch.net/product-view.php?product_id=34
- **“The Value of Purchasing Cards – Utilizing P-cards as a Strategic Form of Payment” 2012**
 - PayStream Advisors, Inc <http://www.paystreamadvisors.com/eResearch/>

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