The Value of Purchasing Cards for U.S. Middle Market Companies

Organizations grow and diversify as they do. They seek new sources of revenue by serving new customers and new markets, or by offering new products or services to loyal customers. With expansion comes complexity: new suppliers of raw materials or other inputs to production, more suppliers in order to de-risk the supply chain or maximize bargaining leverage, new business units and cost centers, expanding exposure to risks, and the list goes on.

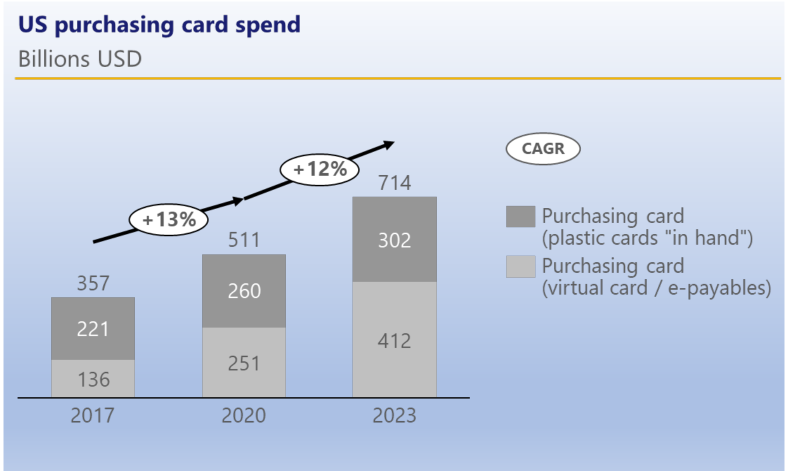
To meet the demands of organizational growth and complexity, organizations require a combination of flexibility and control in how they pay for mission critical inputs of production. Simple, centralized purchasing inevitably cracks under the strains of growth. Leading financial professionals get out ahead of this breaking point by adding purchasing cards to the suite of treasury services they receive from their banks.

In this whitepaper, we explore some of the primary reasons organizations add purchasing cards to their payables arsenal and the benefits they derive from that important decision.

Introduction

CFOs and their operating teams can vary significantly from organization to organization. Some operate as conservative stewards of financial well-being, vigilant in their control of expenses and optimization of working capital. Others see themselves as engines of growth, enabling business units to thrive with efficient access to allocated financial resources. Still others operate as relentless optimizers, seeking the highest return on any investment, ready to negotiate anything and always open to a better offer.

In practice, most CFOs wear all these hats and more depending on the evolving needs of their business. That is why purchasing cards remain one of the fastest growing treasury management solutions in the market year after year. Visa forecasts purchasing card, including virtual card, spend to grow 12% over the next three years.



Sources: (1) Accenture Banking Blog, Nov 2018 for 2017-2022 estimates, https://bankingblog.accenture.com/slice-700b-us-commercial-card-spend-up-for-grabs?lang=en_US ; (2) Visa Consulting & Analytics for 2023 forecast

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What's in it for the corporate buyer?

In broad terms, there are four primary reasons why a CFO wants his or her organization to use purchasing cards:

- Increased internal controls;
- Management information;
- Greater operational efficiency;
- Improved treasury services ROI.

1. INCREASED FINANCIAL CONTROLS

The CFO needs systems of control in place that can scale with the growing organization. Few solutions meet those needs as well as purchasing cards do.

- *Spending limits* – Whether on a monthly basis or on individual transaction basis, purchasing cards allow companies to increase budget controls and governance over employee spending. In emergencies or for one-off situations, spending limits can be raised by an authorized individual to allow flexibility when needed.

- *Real-time view of transactions* – Using the same card management tools that control spending limits, the company's card program administrator can monitor cardholder and company-level spending. This increases visibility of spend for accruals and forecasting.

- *Employee access to cash* – Purchasing cards can either restrict or, as needed, enable cash access for employees. Most often, companies opt to reduce fraud risk by restricting the option to receive cash at ATMs. However, in some cases, companies opt to enable cash advances for employees who travel to countries with low card acceptance.

- *Expense management transparency and efficiency* – By displacing petty cash accounts, purchasing cards help the CFO streamline the resource-intensive tasks associated with administering petty cash accounts. This includes monitoring, funding, distributing, and reconciling accounts. Purchasing cards also reduce the risk of fraud associated with unknown expenses and lost receipts.

2. MANAGEMENT INFORMATION

Beyond risk mitigation and controls, purchasing cards helps an organization gain visibility into spending in order to inform important strategic decisions.

- *Supplier consolidation opportunities* – The structured data available from purchasing cards allow an organization to monitor spend with individual suppliers and identify potential redundancies between suppliers providing similar goods or services.

- *Supplier negotiations* – By analyzing spending with each supplier, companies that use purchasing cards can more easily determine annual spend with each supplier. This insight allows them to monitor adherence to contractual spending requirements. It also provides useful information for pricing or contract negotiations with suppliers.

- *Buying habit analyses* – Program administrators can analyze dates of purchase to explore out-of-policy spending, e.g. weekend purchases. Similar analyses of declined card transactions can also be useful to identify cardholders whose credit limits may need to be adjusted in order to better suit the nature of their purchasing behavior for the company.

3. GREATER OPERATIONAL EFFICIENCY

Purchasing cards creates efficiency in financial operations. Below are several examples of efficiencies companies have leveraged:

- *Streamline Purchasing and Accounts Payable* – Small dollar transactions often do not justify the expense associated with creating purchase orders; processing invoices and approvals; and making and reconciling payments via check, ACH or wire. Purchasing cards can enable more efficient B2B transactions for these low-value payments. An important secondary benefit of reduced document processing is a reduced risk of data entry errors.

- *Master Supplier File maintenance* – To buy from a given supplier, a company will often require that the supplier be entered into the company's Master Supplier File. This provides a record to which purchase orders and invoices can be attached. Too often, this process is overkill for one-off or infrequently used suppliers. Using purchasing cards to buy from a supplier's website, for example, can decrease data entry and labor costs associated with cumbersome Supplier File update and reporting.

- *1099 reporting* – Time spent by the finance department to create 1099 reports for vendors paid by card payments can be eliminated. The Housing and Economic Recovery Act of 2008 shifted the responsibility of companies reporting on card payments to the merchant acquiring bank or the entity that processes the card payment.

- *Expedited emergency or spontaneous purchases* – Purchase cards allows companies to alleviate "fire drills" in accounts payable for last minute employee purchases. By using cards, employees can spend less time on non-essential processes and procedures in times of need.

- *Expense accounting* – Companies that adopt purchasing cards typically also deploy expense management tools that streamline expense reporting by employees and reduce the back-office burden of keying expense details into a general ledger or ERP system. Expense management tools deliver data files that can upload automatically to the ERP and alleviate resource-intensive and error-prone data entry tasks.

- *Employee productivity* – When companies use an expense management tool along with a purchasing card program, the savings are not just in back-office efficiency. Employees can report expenses easily and with minimal manual intervention. This reduces keying errors and allows them to spend less time on expense reporting tasks and more time on their primary job functions.

- *Employee benefit* – Employees who use purchasing cards are not using their personal cards. This has plenty of benefits to the company, but it also helps reduce employees' need to use personal credit lines to fund business expenses.

4. IMPROVED TREASURY SERVICES ROI

Treasury managers make difficult decisions every day about how to deploy their company's working capital. Most of the time those decisions include transaction processing fees paid to their banks. Purchasing cards changes the value exchange.

- *Revenue share* – Unlike with check, ACH, or wire, the fees associated with making payments via purchasing card typically do not fall to the company making the payment. This creates opportunities for the company using the purchasing card to benefit from revenue share with its bank. Typically, revenue share occurs through cash rebates paid for spending above defined tiers. The revenue share can be sizable depending on the amount and type of spend. Many companies use these to offset the cost of electronic expense management tools or other operating expenses. As companies shift spend increasingly to card-based solutions, their net cost of making payments can be reduced dramatically.

- *Working capital benefits* – Payment terms vary by provider, but in general, purchasing cards allows companies to extend cash flow by taking advantage of payment terms from their card issuer. With an average billing cycle of 30 days and an average payment term of 25 days, a company paying via purchasing card can receive an average of 27 additional days of float on payables (i.e., 27 = 30/2 + 25/2). Depending on how quickly a company is paid by its own customers, this additional access to working capital can be a material benefit of a purchasing card program.

What about suppliers?

Purchasing cards have benefits for B2B suppliers too.

- *Extend payment terms without expanding DSO* – Suppliers that accept purchasing cards provide a considerable benefit to their customers. One way is by allowing those customers to capture the working capital benefits noted above. The good news to the supplier is that it does not need to come at the expense of increased days sales outstanding (DSO). By allowing the buyer's card issuer to extend payment terms, the supplier can be paid early through a purchasing card while allowing the buyer to pay the card issuer later.

- *Reduce check-handling costs* – When displacing checks, purchasing card payments reduce the costs of accepting checks. This can include displacing manual check processing by the supplier and/or lockbox, check processing fees paid to a bank, and any risk of employee fraud, e.g., check payee line alterations.

- *Simplify reconciliation* – When buyers place orders online or by phone from their suppliers, the supplier receives payment at time of order. This B2B purchasing scenario provides considerable efficiency to the supplier vs. traditional purchase order and invoice-based ordering, and alleviates the considerable reconciliation burden for the supplier (not to mention the buyer).

- *Tax benefits* – The IRS permits companies to deduct credit card processing fees, annual fees, late fees, and interest as long as the card is (a) a business card, and (b) used for business expenses. In the case of suppliers, the primary deduction would be card-processing fees paid to their merchant acquirer.

What does it take to get started?

Purchasing cards have a demonstrated track record of delivering benefits to companies that adopt them, but like all high-impact solutions, the greatest benefits accrue when there is strong executive level support. Executive buy-in helps to ensure that employees who make day-to-day purchasing decisions adapt to new processes and tools and feel ongoing incentives to optimize purchasing practices at the company.

In addition to strong executive sponsorship, a successful purchasing card program benefits from dependable day-to-day support to administer the program. Program administrators play three important roles:

- Implementation – Activities include providing card member details to the card issuer and facilitating tactical decision making about the program (e.g. who gets a card; what their credit limit assignments will be; which, if any, merchant categories will be blocked).
- Change management – The program administrator can help coordinate training for cardholders to ensure a smooth transition to the new program.
- Maintenance – Ongoing maintenance of the program includes activities such as adding or cancelling cards, changing addresses, monitoring spend reports, and so on.

For more information, please contact the following:

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