

# Purchasing Card

## An Alternative Payment Method

**Virginia Government Finance Officers  
Association**

**2009 Spring Conference**

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NNicole Mancini

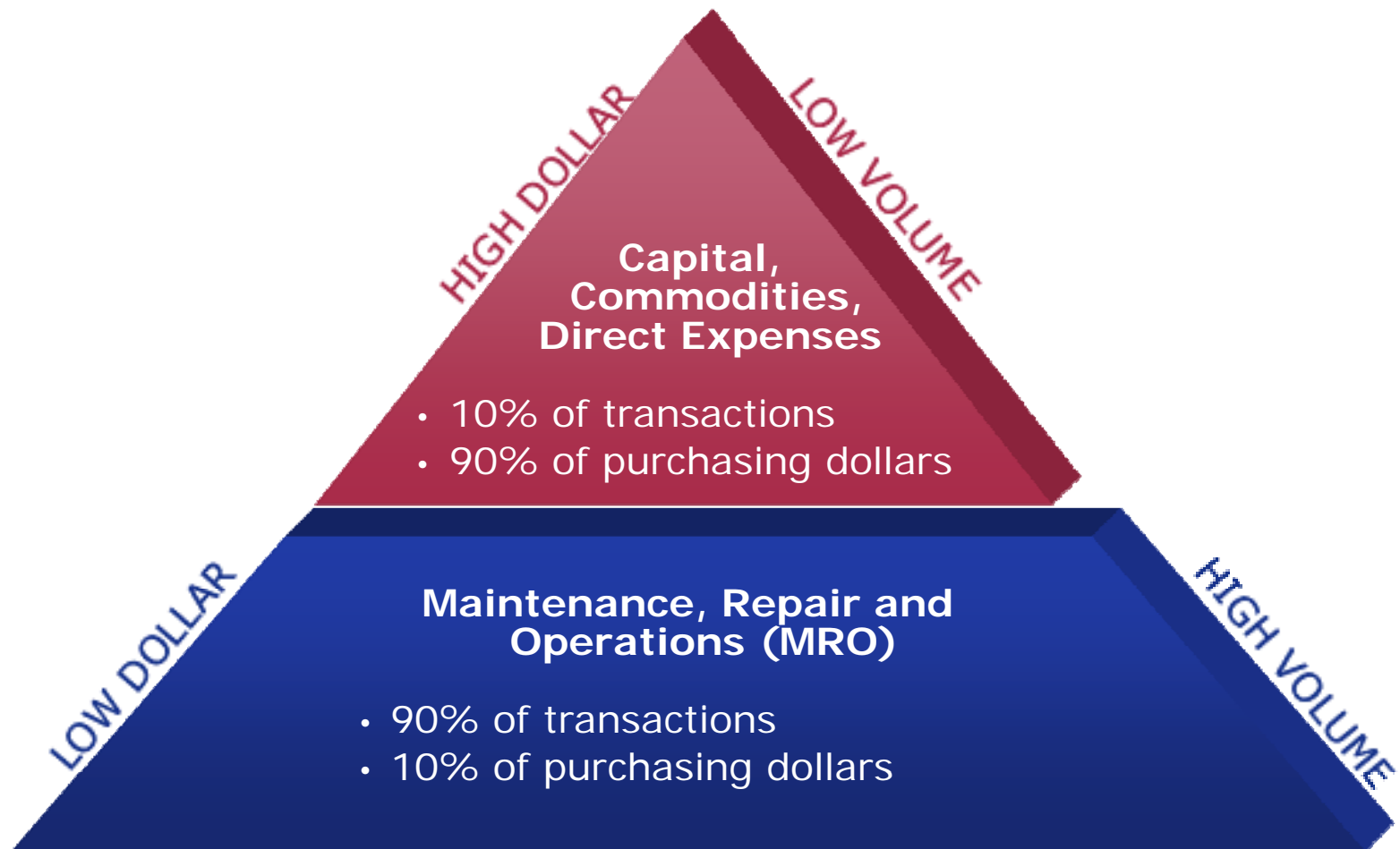
JJ.P.Morgan

## Thought To Ponder...

If 90% of the transactions you process through your accounts payable department make up 10% of your dollars – does that mean you are spending 90% of your time on 10% of your dollars???

# The Cost And Process Are Hard To Justify For High Volume/ Low Dollar Items

## Purchasing Pyramid

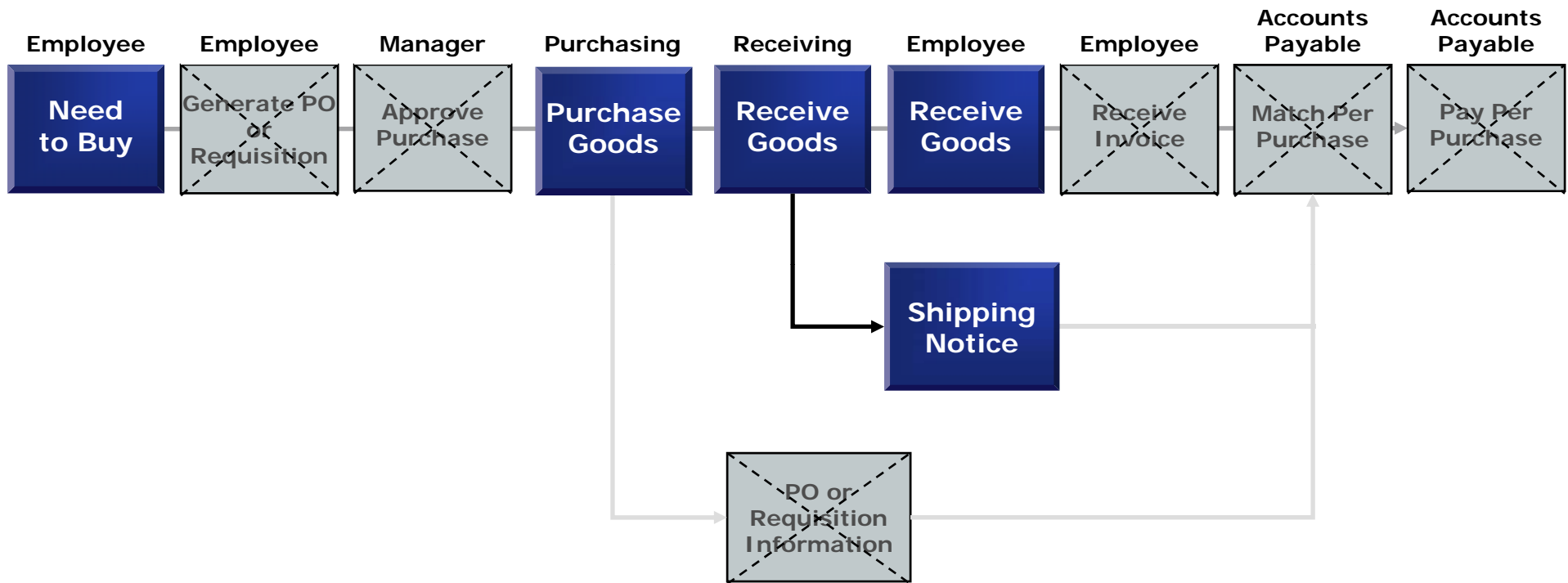


## The supply chain is challenging and costly to manage

- High purchase order or requisition process costs
- Rising costs to process payments
- Pressure from vendors to pay more timely
- Missed discount opportunities due to timing of vendor payments
- Need for a more efficient, decentralized purchasing structure
- Procuring and paying for goods and services can be a major resource drain

Untapped procurement and payment solutions can help solve the problem.

# The Cost To Process A Purchase Order Averages \$89



\* R.J. Palmer and M. Gupta, "The 2007 Purchasing Card Benchmark Survey", RPMG Research Group (2007)

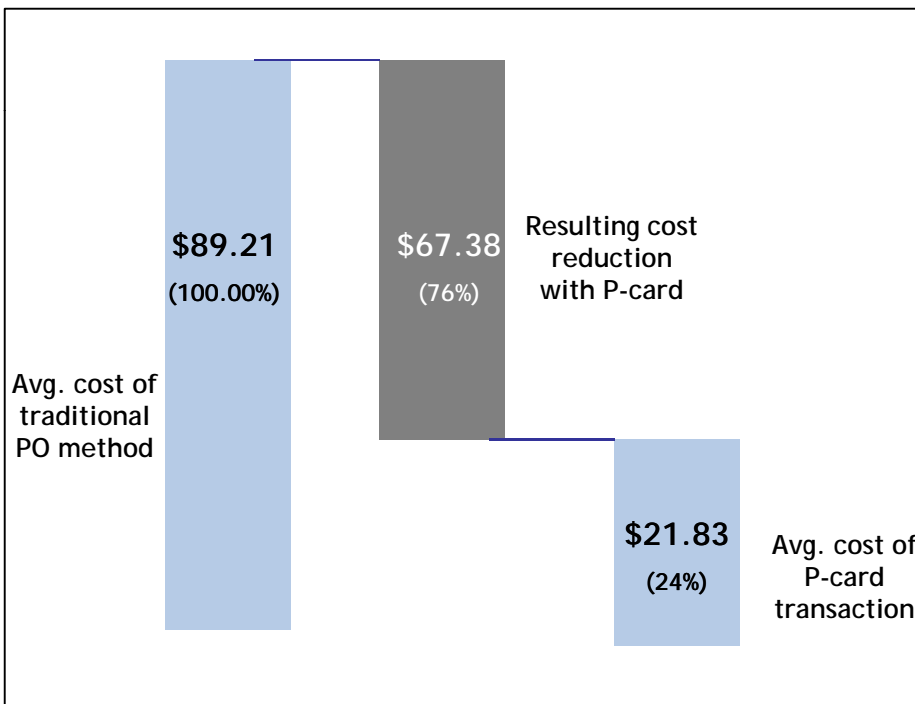
# Streamline Your Process

- **Commercial cards are charge cards with defined spending controls**
- **Goal is to simplify the procurement process**
  - Less time to procure item
  - Less per-item cost to process a purchase
  - Simplified payment mechanism vs. traditional check payments
  - Reduced risk for fraud vs. check payments through card controls and fraud monitoring systems
  - Streamlined accounting allocation and general ledger posting
- **Cards can be given to employees who make low-dollar or high volume purchases including petty cash purchases**

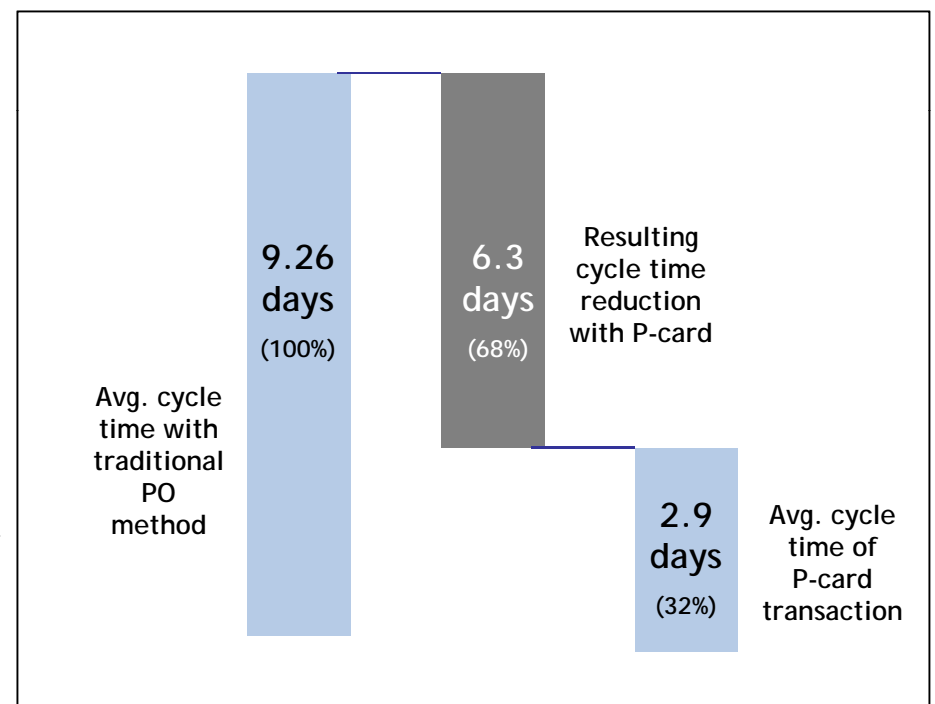
# Cost Savings & Cycle Time Improvements

- A process cost reduction of \$67,000+ for every 1,000 transactions migrated to P-card
- Procurement cycle is reduced by 68%

## Cost Savings



## Cycle Time Reductions



\*Source: "The 2007 Purchasing Card Benchmark Study Report," RPMG Research Corporation

# Commercial Card Payments Come With Controls

## **Front-end controls:**

- Policy and procedures manual
- Cardholder agreement
- Point-of-sale controls set on the card account
  - Single purchase limit
  - Monthly spending limit
  - Merchant Category Code restrictions (exclude or include)
  - Number of authorizations per day
  - Number of transactions per cycle
  - Cash access blocking

## **Back-end controls:**

- Monthly reconciliation
- Audit “spot check”
- Daily access to transaction and cardholder data for monitoring

# Commercial Card Payment Solutions

- **Traditional Purchasing Card**

- Used for small dollar, high volume purchases and vendor payments
- Can be used for larger purchases including some capital items

- **Declining Balance Card**

- Commonly used for relocation, projects, grants, trade shows
- Card maintains an overall spending limit with start and end dates

- **Department Card**

- Multiple people buying for a single department
- Statement is sent to department head for reconciliation

- **Traditional T&E Card**

- Used for payment of all travel related expenses including air, rail, car rental, lodging, meals and entertainment
- No cost insurance includes \$350,000 travel accident, primary collision damage and supplemental lost luggage coverage for cardholders

- **Single Use Card**

- Can be used for a wide variety of purchases handled out of your procurement office
- Provides Transaction-specific authorization controls while leveraging your existing purchase process

# Commercial Card Best Practices

## Customizable Payment Mechanism

- Use cards for payment of small ticket and repetitive purchases
- Use cards for payment of one time vendors
- Set up Ghost Accounts or Supplier Cards for high volume or catalog vendors (office supplies, temporary help)
- Use cards for payment of some capital items (computers, office equipment)
- Use cards to pay for meeting and training expenses
- Use cards to capture Travel & Entertainment expenses

## A Process Re-engineering Tool

- Delegate purchasing authority to end users
- Have cardholders complete the review and reallocation of transactions, online
- Automate data feeds into your financial system

# A robust internet-based reporting tool is essential to program success



Ability to perform cardholder account maintenance online

Automate postings to your general ledger

Ability to create and manage a reporting hierarchy that mirrors your organizational structure

Generate a wide variety of standardized reports

Review and allocate transactions online

Export information in a variety of formats for custom reporting and long-term storage

Use spend information for budgeting and auditing departmental spend

Utilize spend data to monitor vendor usage and support vendor negotiations

## Assessing your purchasing card opportunity

- Evaluate your current purchasing and A/P processes to identify opportunities for cost reduction and process improvement
- Talk to peers who have already implemented card programs to learn about their successes
- Use the internet – there is a wealth of information available via the web
- Consider a “no cost” vendor match with a provider to identify your card accepting vendors

# Card payment benefits

- **Reduce Vendor Payment Processing Costs**
  - Labor, invoice and check processing, vendor database management and mailing costs
- **Improve Cash Float**
  - Make one payment to issuer monthly vs. multiple payments to many vendors
  - 30 day billing cycle with minimum 14 day grace period for payment
- **Cost Savings Through Process Automation**
  - Move review, approval and cost allocation processes to online format
  - Automate G/L and A/P system data uploads
  - Use transaction detail to monitor spend and vendor usage
- **Savings Through No or Low Fee Program**
  - No implementation costs
  - No transaction processing costs
  - No reporting fees
- **Generate New Revenue Source Through Rebates/Incentives**
- **Improved Supplier Relations**
  - Pay your suppliers faster – leverage for better discounts
  - More comprehensive data to support negotiations

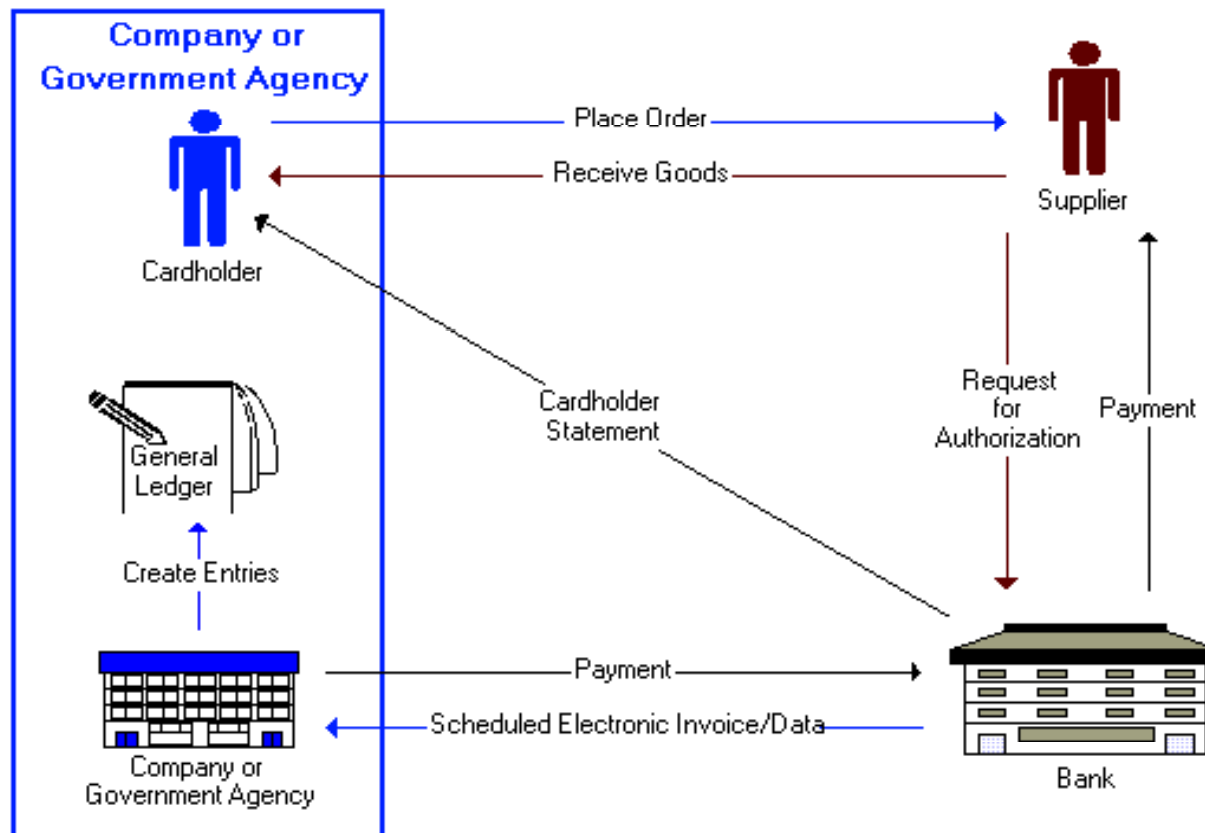
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# Keys to Success – National Association of Purchasing Card Professionals

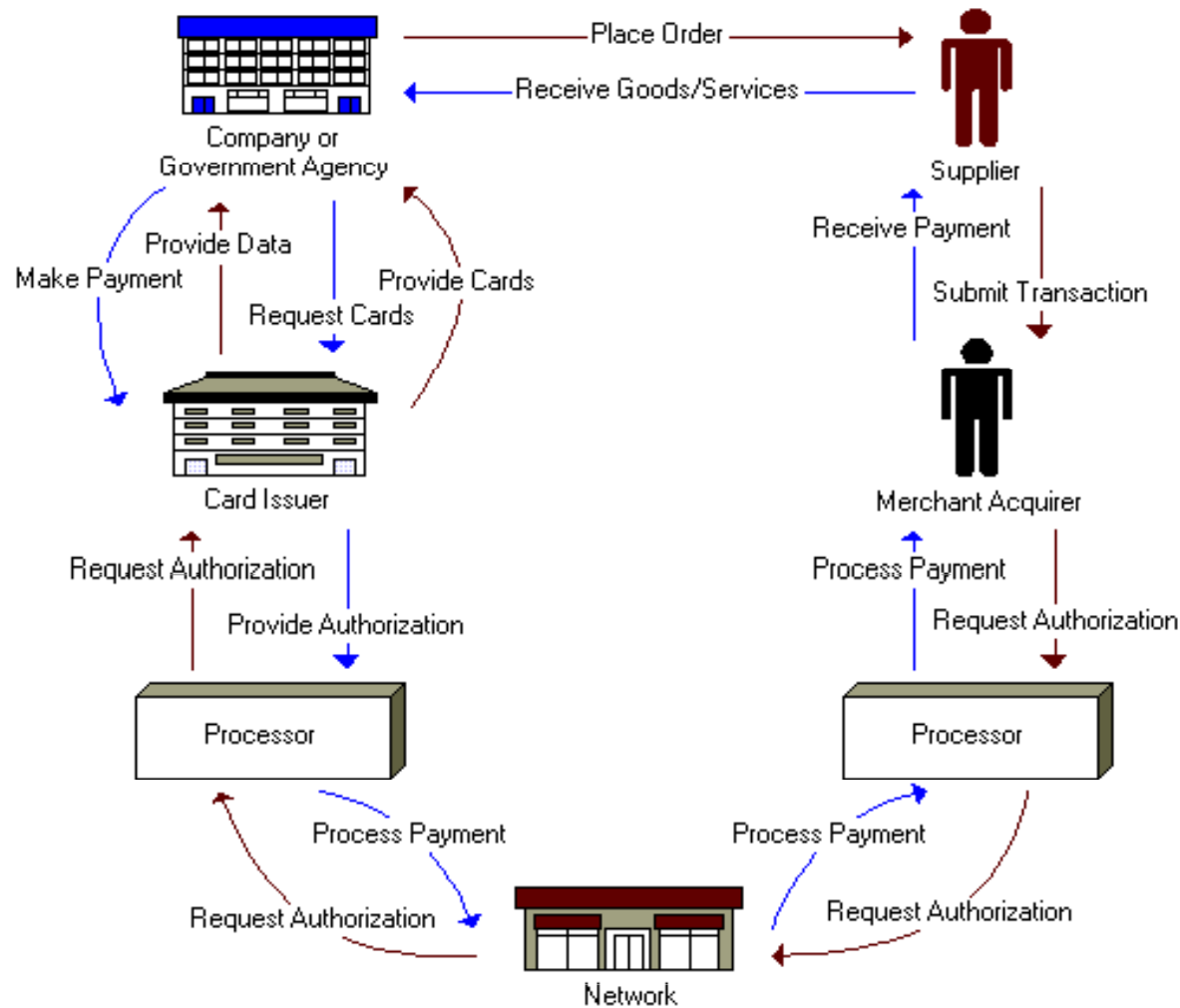
- Current Processes & Controls May Need Reengineering -- Establish Clearly Defined Processes & Procedures
- Dedicated Resource to Manage the Program
- Establish Cross-Functional Team from Accounting, Purchasing, Tax, Treasury and Internal Audit
- Establish Goals & Metrics – Cost Savings, Efficiency, Rebate
- Senior Management Support
- Effective Communications Throughout the Organization

# Purchasing Card Process



Source: National Association of Purchasing Card Professionals

# The Participants and Their Roles



Source: National Association of Purchasing Card Professionals

# Virginia Procurement Options

- **A Stand Alone Program**
- **Leverage an Existing Contract:**
  - Virginia Department of Accounts
  - Regional Compacts
  - An Established Local Government Consortium  
(e.g., Fairfax County)

# Choose the Right Partner

## **Select a partner who will:**

- Commit to working with your organization to make your program successful
- Match a list of your current vendors against the association database to determine potential program opportunities
- Reach out on your behalf to vendors who currently don't accept cards
- Benchmark your program against other entities
- Provide opportunities to network with other entities through regional user meetings
- Provide a rebate based on your annual program spend

# The Four Step Approach to Program Implementation

**Implementation usually takes approximately 90-120 days depending on design complexity, program options and client resource availability:**

- **Assessment** (10-20 days) -- Determine Goals & Objectives; Share best practices
- **Planning & Design** (20-30 days) -- Project Planning & Setting up program options
- **Program Setup** (20-30 days) -- Configure program & Testing; Training & Rollout
- **Ongoing Program Management/Continuous Improvement** -- Program Reviews; Discuss expansion opportunities & growth strategies

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