

Purchasing Cards (P-Cards)

On the public administration level ,organisations successfully utilise P-Cards in order to better manage, control and reduce administrative costs with success
(Chandrashekari and Gopalakrishnan)



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Introduction

P-Cards were initially introduced in the late 1980s in the US to assist federal government agencies with purchasing small value goods without delaying payments to sellers linked to the bureaucratic processes (Palmer, 2002). On the public administration level organisations successfully utilised P-Cards in order to better manage, control and reduce administrative costs with success (Chandrashekari and Gopalakrishnan, 2005). These examples of benefits achieved through the use of P-Cards are well-documented across different levels of US government at both federal and local levels (Daly and Buehner, 2003). Similarly, the private sector has had a record of success in using P-Cards. Reflecting on the need to cut down maintenance and administrative costs and respond to increasing competition and the recent financial crisis, private sector companies turned to innovative methods, such as P-Cards. The development of technology and expansion of e-commerce facilitated the implementation and usage of P-Cards across SME and larger companies (CIPS: Purchasing cards).

One of the key differences between a purchasing and a credit card is that with the former the organisation can obtain information from the card provider regarding all transactions which allows monitoring on all cards. P-Cards enable purchasing directly from suppliers (e.g. hardware stores) and are particularly suitable for low-value items and emergency purchases when there is no time to wait for delivery by contracted suppliers. They are also often used by staff without access to PCs for e-ordering/petty cash and as payment mechanisms for e-Commerce purchases (e.g. a book from an Internet bookshop, a software application from vendor's website). P-Cards can also be used "in conjunction with some e-Marketplace solutions to complete the purchasing cycle" (Improvement and Development Agency).

Benefit of P-Cards include the reduction in order processing costs, improved liaison between an organisation's P&SM; professionals and card holders, greater compliance with contracts (if implemented within clear, effectively communicated procurement policy and procedures), reduced bureaucracy and paperwork (individual invoices are no longer processed), prompt payment for suppliers (within three days as opposed to 30-60 days) and more effective expenditure analysis from management information (CIPS: Purchasing cards).

Definition

Purchase cards (P-Cards) allow organisations to acquire efficient inventories, reduce relative costs and increase business efficiency, as well as employee satisfaction and productivity (Dahly and Buehner 2003). P-Cards as a payment mechanism can be incorporated into a purchasing process to reduce the needs for invoicing that come with purchasing processes by automatically creating a payment (CIPS: Purchasing cards).

Successful Application

The successful implementation of P-Cards rests on the following factors: the level of stakeholder engagement, the alignment with business drivers, support from senior management, change in management and monitoring, clearly defined roles and responsibilities, on-going monitoring and control (CIPS: Purchasing cards). P-Cards are similar to credit cards, but also include point of sale authorisation checks that restrict use by employees to selected merchant types, monthly spend and transaction limits. P-Cards technology is generally easy to implement and use. When it is implemented, each authorised user is issued with a personal card, suppliers are equipped with a card reader terminal and

accept payments from the particular card provider (e.g. VISA, MasterCard). It can also be possible to use some of the transaction data for spend analysis and management information purposes (Improvement and Development Agency).

Steps to Successful Application

- Order goods by phone, email, fax, internet, e-Marketplace or in person.
- Quote P-card number to the supplier to confirm purchase and validate the P-Card with the bank which authorises payment.
- Receive goods.
- Receive monthly statements sent by P-card company.

Improvement and Development Agency

Hints and Tips

- Introducing purchasing cards across organisations is similar to introducing any other change, and top management support is essential. In addition, an education programme might be required within the organisation (CIPS: Purchasing cards).
- It is important to have a pilot P-Cards introduction to identify and resolve potential difficulties before the actual process is in place (CIPS: Purchasing cards).
- P-Card strategies should be aligned with organisational needs and should receive support from key stakeholders and employees (Chandrashekar and Gopalakrishnan 2005).
- P-Cards are especially beneficial in reducing the costs associated with fuel services. Therefore they are a good option for companies with a large portion of budget allocated to travel expenses (CIPS Australia: Visa business case for P-cards).

Potential Advantages

- P-Cards help to deal with late payments and reduce paperwork, thus improving relationship with suppliers (Improvement and Development Agency).
- P-Cards can be applied to small scale expenditures (e.g. everyday basic office costs) and to high value procurements (e.g. long term supply of high end services, such as tenders) (Daly and Buehner, 2003).
- When implemented within a clear and effective procurement policy, P-Cards help to achieve a greater compliance with contracts. An example of a clear policy: card holders can only use P-Cards with identified suppliers, or within a closed e-procurement system thus reducing maverick spend.

Potential Disadvantages

- Suppliers are required to pay a transaction fee (approximately 2%) to the card-providing bank, which many companies find to be very expensive (CIPS: Purchasing cards).
- In cases of single item situations P-Cards may not be the most efficient method for procurement. In some situations direct credit from the supplier can be a cheaper alternative (Chandrashekari and Gopalakrishnan, 2005).
- Some companies can be anxious or unwilling to give their P-Card details over the telephone to support a legitimate purchase (CIPS: Purchasing cards).

Performance Monitoring

- Number of transactions: can indicate efficiency gains in supply chain productivity. Reduction shows a positive impact of the programme (Palmer et al. 2002).
- Number of participating suppliers: limited alignment of the firm with other suppliers limits the benefits P-Cards can provide (Mastercard 2010).
- Savings (e.g. time, money): direct indication of business efficiency gains (Mastercard 2010, Chandrashekar and Gopalakrishnan 2005).

Case Studies

- In 2000 the US local government doubled the usage of P-Cards, achieving US\$1.2bln savings (Palmer, 2002).
- An Australian state government achieved AUD\$368,000 savings in the first two years of its P-card savings programme (CIPS Australia: Visa business case for P-cards).
- Implementation of the P-Card system allowed New Zealand's Department of Conservation to reduce the number of paper-based invoices for amounts under NZ\$1,000 by more than 50% (CIPS Australia: Visa business case for P-cards).

CIPS Source Downloads

- CIPS Australia: Visa business case for P-cards
- CIPS: Purchasing cards

Further Reading/References

Web Resources

- Based on a credit card or charge card platform, purchasing cards are used for any business needs
<http://www.fleetfinancials.com/prestitial/?ReturnUrl=http%3a%2f%2fwww.fleetfinancials.com%2fchannel%2ffuel-management%2farticle%2fstory%2f2010%2f03%2fpros-cons-using-a-purchasing-card-for-fuel.aspx%3finterstitial%3d1>
- Purchasing cards in West Sussex County Council
http://www.westsussex.gov.uk/doing_business/doing_business_with_us/purchasing_cards.aspx
- UK National e-Procurement project: Purchasing cards
<http://www.idea.gov.uk/idk/aio/724062>
- P-Card example: RBS <http://www.rbs.co.uk/corporate/payments/g3/our-cards/purchasing.ashx>
- Best practices for government use of P-Cards
<http://bgathinktank.wordpress.com/2011/08/02/daily-herald-op-ed-best-practices-for-government-use-of-p-cards/>

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Video

Enfield Council: P-Card system

https://www.youtube.com/watch?feature=player_embedded&v=emX-uWTK5Y

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