CIPS Australasia

# Visa business case for P-cards

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# Contents

## Foreword

A show-of-hands straw poll at a CIPSA conference in mid 2009 illustrated the current surprising lack of usage of purchasing cards by procurement teams generally in Australia. If the poll is truly illustrative, many organisations are missing out on a real opportunity. Purchasing cards are much more than just corporate charge cards and they can be used as official P2P vehicles for a wide range of categories for sourcing direct as well as through online catalogues.

P-Cards can save genuine time and money for busy procurement departments and P2P service teams. They often improve management information, enforce financial control and supplier choice, cut service time and track usage almost perfectly. So why don't more people use them? In the UK they are common practice and help the procurement profession get away from daily tactical P2P dramas and on to key strategic issues. P2P corporate noise can take up far too much time. Of course, there is a downside too. CFOs often complain that P-cards can actually encourage spending, as it is easier to use a purchasing card than reclaim expenses or go through a discouraging requisition to purchase process. Also suppliers can surcharge to cover their merchant fees and clumsy users can lose receipts when cards are in use. But overall P-Cards often pay their way.

CIPSA are delighted to work with VISA in providing this white paper to introduce the business case for P-Cards. Of course, there are other providers as well – but buyers can make their own judgements.

Purchasing cards are a real opportunity for most procurement departments; especially the busy ones. Hopefully this business case pro-forma can help people consider the arguments for introducing P-Cards into their own organisations and also outline some of the critical factors for ensuring a successful card programme.

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CIPS Australasia
Melbourne, March 2010

## Executive summary

In establishing a business case for Purchasing Cards or P-Cards there are a number of important considerations that will help to deliver both the short term acceptance of the initiative and also the long-term success of the programme.

This paper looks at P-Cards from a number of different perspectives in order to support the development of business cases in a variety of business contexts and for different stakeholder audiences. The major benefits of P-Cards are framed around the key internal business levers of Efficiency, Cost Savings and Process Compliance and Governance, each of which can be drawn upon according to the needs of the organisation.

**Critical success factors and key learnings have also been included throughout, based on the experiences of Australian, New Zealand and global organisations as well as best practice from the 2008 Visa Global Procure-to-Pay and Commercial Card Best Practices Study.**

## Introduction

P-Cards can effectively transform manual, paper-based procurement and accounts payable processes into faster, leaner processes that generate quantifiable cost savings. In conjunction with appropriate use of technology, they can provide greater levels of control and spend visibility, drive compliance, generate cost savings and capture more spend under management than alternative low value purchasing methods.

This paper is designed to assist procurement departments in championing the introduction, or expansion, of a P-Card programme within their organisations. It will equip them with practical knowledge and advice from leading companies in the region, as well as sharing the key success factors and lessons learned by global best practice organisations.

At its simplest, a purchasing card, or P-Card, is a charge card used to facilitate the purchasing process for goods and services by removing the need for a purchase order and/or invoice and automatically creating a payment. Historically, the following distinctions have been made between the different types of P-Cards as purchasing tools:

- Purchasing card – for low value, high volume items and, more often than not, a replacement for petty cash, or used by the purchasing department in place of a full PO process to facilitate convenient, quick purchases on an ad hoc basis.

- Corporate Travel & Entertainment (T&E) card – for use with travel and entertainment only.

For the purposes of this paper, P-Card will be used in the generic sense to refer to any or all of the above card types, although as we shall see, there are circumstances when it may be appropriate for an organisation to distinguish between them.

## Technology – a key enabler for P-Cards

While P-Card technology is not the main focus of this paper, it must be acknowledged that an essential component of an effective P-Card solution is the appropriate use of technology and systems integration. Expense Management Systems (EMS) are at the core of P-Card technology as they are used to manage data and transactions that occur through P-Cards.

Frequent barriers for implementing a P-Card programme are the fear of loss of auditable data and governance issues, as purchases from P-Cards do not trigger or require a purchase order in an organisation's Finance System. EMS systems alleviate these two critical concerns.

## Benefits of using an EMS system include:

- Faster spend verification and acquittal process for P-Cards compared to a paper process

- Improved governance through an automated approval process and retaining an audit history of all transactions

- Greater spend visibility through categorising transactions against suppliers and types of spend

- Exception reporting

Many organisations are now seeing additional benefits from integrating their P-Card system with their procurement and finance (G/L) systems. Such integration promotes automation of assignment of G/L codes to card charges, as well as automation of monthly payment to the card issuing entity.

Systems integration also promotes the need to receive 'enhanced data' for card charges. Enhanced data includes detailed line-item information, such as item ID, item description, item quantity, item unit prices, item unit of measure and tax, which provides a deeper understanding of spending patterns to assist in sourcing strategies and supplier negotiations.

## The Australian experience

Use of P-Cards has steadily grown within Australia since their introduction in 1995. A large number of organisations in Australia today in both private and public sectors now have corporate P-Card programmes, although at differing levels of maturity.

When P-Cards are first implemented, they are typically used for small, low-value purchases in order to reduce the number of purchase orders and invoices associated with these purchases. While there has been an increase in the usage of P-Cards for both strategic and leveraged spends (those typically negotiated or managed by central procurement teams), local spend, unique to individual sites or business units, continues to be a core spend for P-Card. The typical low-value threshold for most Australian organisations today is around A$2,000.

The increasing importance of services spend within many organisations in recent years has driven increased usage of P-Cards, which have replaced previously manual invoice processes. A large majority of organisations have merged their travel and entertainment cards with their purchasing card, which has resulted in a single card programme for their organisations.

| Traditional P-Card categories | | |
|---|---|---|
| Office supplies | Printing and copying services | Computer software |
| Books | Seminars | Computer hardware |
| Subscriptions | Catering | Equipment transport |
| Janitorial supplies | Promotional items | Telephones and mobiles |
| Stationery | Maintenance/repair parts | Temporary staff |
| Business cards | and services (MRO) | Advertising |

Today, there are essentially three different types of P-Card organisation:

- Advanced - organisations that have had a P-Card programme in place for several years and have penetrated spend to the extent that they ask, "What can't I put on a card?"

- Introductory - organisations where P-Cards have been introduced, but are still facing resistance from those concerned about control of employee spend, or are not fully convinced of the wider possibilities of using P-Cards across a larger variety of spend.

- Yet to be convinced - organisations that are hesitant to introduce a P-Card programme due to the perceived loss of control of employee spend.

Whichever category the organisation falls into, the business case for P-Cards is more than likely a ‘work in progress’. The following sections are designed to help build and refine the business case for P-Cards to deliver further value for the organisation.

## Traditional barriers to P-Card programmes

Some of the reasons used by senior management who are hesitant about implementing a P-Card solution include:

- Issuing P-Cards is like providing an “open cheque book” to employees and will lead to an increase in unauthorised expenditure – by making the payment channel easier, spending, and therefore costs, will go up

- Management has less control over employee expenditure because by the time they see the transaction the money is already spent – there is no pre-spend control

- Costs will go up with P-Cards because suppliers will charge higher prices to cover their merchant service fees – surcharge costs will add to my overall costs

- The receipts and acquittal process (charging the P-Card transaction to the appropriate cost centre and GL code) will be messy

While each of these objections represent legitimate risks in the implementation of a P-Card programme, the perception is often greater than the reality and the risks can be managed.

As the following sections will demonstrate, these and other risks generally manageable within the implementation of a P-Card programme and should be presented as opportunities rather than barriers within a business case for P-Cards. If these risks are properly acknowledged and addressed, the benefits of P-Cards should outweigh the costs.

The issue of surcharging on credit cards by merchants is controversial. Chris Clark, Visa's General Manager for Australia and New Zealand, has stated some merchants have turned surcharging into a “profit centre”. “There is no justification for merchants to impose surcharges that exceed their cost of accepting cards. If a merchant does apply a surcharge, the amount should be clearly disclosed at the time of purchase and it should bear a reasonable relationship to the merchant's cost of accepting a card for payment.”

This issue should be addressed during the negotiation phase of introducing P-Cards as payment with any longstanding supplier that wishes to surcharge. If non-negotiable, like any cost, this should be considered in the context of the total cost of ownership (TCO) for the purchase which may in fact be lower under P-Card, even with the inclusion of merchant services fees, due to working capital and efficiency benefits as will be outlined in more detail.

## Building the business case for P-Cards

Over the past decade, procurement models in most organisations have been steadily moving from decentralised silos towards more centralised models, in order to capture the procurement savings available from consolidating organisational spend. As the business environment changes however, many organisations are moving towards a hybrid, centre-led procurement model to combine the most attractive elements of both centralisation and decentralisation. A common feature of the hybrid model is that procedural compliance and governance are driven through the central team while decentralised business units retain ultimate accountability for spend.

Whether a procurement organisation is mature or emerging, P-Cards have a role to play in helping to drive better procurement outcomes for the organisation and ultimately delivering more profit to the bottom line. However, the opportunities for an organisation to utilise a P-Card programme will depend on its unique spend profile which varies significantly by industry as the goods and services purchased are directly related to the product or service being produced.

While each industry has a handful of specific issues, across industries there are a number of common issues which can offer a platform upon which to build a strong business case for P-Cards:

## Cost management and globalisation

Increasing competition due to macro-economic factors such as globalisation, the appreciation of the Australian dollar, the reduction of tariffs and China's unprecedented growth are putting most Australian organisations under pressure to be globally competitive. Many public organisations have publicly stated goals or initiatives to reduce costs.

## Limited knowledge of total spend profile

Most organisations have a detailed knowledge of their major spend areas, e.g. labour, utilities and major inputs (which usually account for at least 50% of their spend). However, there is very little transparency in other areas of spend, which are usually fragmented across business units, locations and suppliers. This causes considerable frustration for those who are actively pursuing cost reduction opportunities. The P-Card's ability to provide detail on these types of transactions can be a major benefit.

## Governance

With the corporate collapses and investigations of the last few years there is a high level of focus on proper corporate governance and risk management. This represents an opportunity for the P-Card when positioned effectively to address these issues.

## Diversified assets

Industry consolidation and diversification has meant that many organisations have a collection of businesses or operating assets, or a network of supply organisations which they are now trying to integrate. Typically these different operating units will have unique processes and systems. A P-Card may offer the opportunity for a company-wide approach to certain types of expenditure, increasing the commonality of processes within the group, as well as spend visibility on that particular commodity across the group.

These are just some of the external factors impacting organisations' ability to perform that provide the platform on which to build a business case for implementing P-Cards when combined with the specific internal levers most relevant to the organisation:

- Efficiency
- Cost savings
- Process compliance and governance

Whether the organisational goals are about efficiency, effectiveness, risk, governance, simplicity or, of course, delivering more profit to the bottom line, by targeting the most appropriate levers the business case will be better positioned for success. As with any business case, a detailed outline of the objectives, background on the business need to be addressed and the proposed approach are important, but framing the benefits and clearly linking them to the business' drivers is critical.

**BEST PRACTICE**

Best practice organisations develop a business case that estimates the programme costs and anticipated savings. Companies use these metrics to evaluate card programme performance against the baseline on a regular basis.

Elements of the business case that will more than likely become the savings metrics for the programme include:

- Difference in the cost per transaction between a traditional procurement process and a P-Card process (i.e. savings per transaction on P-Card)
- Number of P-Card transactions
- Additional discounts from suppliers attributed to P-Card programme
- Expected reduction in maverick (off-contract) spend

The decision to introduce P-Cards rests with the area that has ownership of the Procure-to-Pay (P2P) process. This area will typically be the recipient of the business case, but more than likely the change management process will need to consider a broad stakeholder group. Traditionally seen as a Chief Financial Officer (CFO) issue, with the rise of Procurement and Shared Services, the decision maker on P-Cards may now be drawn from Finance, Shared Services/Accounts Payable or Procurement.

Some of the main issues and targeted P-Card messages for each of these groups are shown in the tables below.

## Finance – CFO / Controller

### Specific Issues

- Finance
- Ratings / Agency – improving ratios
- Governance / accountability
- Outsourcing – receivables, AP, procurement
- Cash flow and management
- Finance / debt
- Balance sheet structure

### Targeted P-Card Messages

- Using P-Card is better practice
- Risk and governance issues can be managed through appropriate systems, processes and audit procedures
- P-Card streamlines the accounts payable process enabling finance professionals to focus on more value adding activity
- Working capital can be improved through using P-Card financing facility
- Suppliers get paid quicker with no impact on our business
- P-Cards are an important element in an optimal payables solution

## Shared Services / Accounts Payable

### Specific Issues

- Accounts Payable / Shared Services
- Transactional efficiency
- Full Time Equivalent employee levels (FTEs)
- Global productivity benchmarks
- Service levels to the business
- Visibility of processes and compliance
- Costs for the business to utilise Shared Services

### Targeted P-Card Messages

- Use P-Cards to reduce the number of invoices received at Accounts Payable
- P-Card is best practice and helps to reduce transaction costs
- P-Card increases process visibility and lowers the cost to the business
- Every invoice processed by P-Card is one less for Accounts Payable
- Reduce 'clearing' account balances

| Procurement | |
|---|---|
| **Specific Issues** | **Targeted P-Card Messages** |
| • Procurement<br>• Reducing costs<br>• Increasing contract compliance<br>• Controlling 'maverick' spend<br>• Consolidating vendors (reducing the number)<br>• 'Better practice'<br>• Triple bottom line | • P-Card increases spend visibility to allow consolidation of spend<br>• P-Card allows procurement to focus on the truly strategic categories instead of the 'rats and mice'<br>• P-Card is best practice<br>• P-Card enables the business to reduce the number of suppliers processed using core procurement systems, which helps reduce 'noise' in the system<br>• P-Card usage helps to build stronger relationships with key strategic suppliers |

The following sections of this paper outline how the business case may be constructed around each of the key internal business levers, depending on which is most relevant to the organisation.

## The efficiency business case

The continuing growth in Australian organisations of shared services initiatives, in particular those focused on the Procure-to-Pay process, has been a key driver for P-Card adoption. The Shared Services concept is designed to process common business transactions in a central location to gain economies of scale and increase transparency in the cost of providing the service. Shared Services personnel are typically focused on the number of transactions or invoices processed per Full-Time Equivalent (FTE) employee in the Shared Services centre.

In most organisations, processing paper invoices is manual and requires a great deal of time and effort related to sorting, approving and keying in invoices for payment. By transferring payments to P-Card, organisations streamline their payment process by displacing paper invoices and manual payments, which allows them to capture cost and process savings, and removes the risks involved in a manual process.

Many organisations find that their low-value transactions represent the large majority of their purchasing volume, which is paper-based and manually intensive. Increased use of P-Cards streamlines the purchasing and payment processes by reducing paper invoices and manual review processes, leading to cost savings and process efficiencies.

CASE STUDY

In the first two years of its P-Card programme, a large Australian state government issued more than 8,500 cards and channelled 25% of the state's spend onto cards, totalling more than 625,000 transactions and A$116 million in spend. This achieved transaction savings of more than A$368,000, and it is estimated it will achieve gains in excess of A$9.6 million as a result of further improved efficiencies.

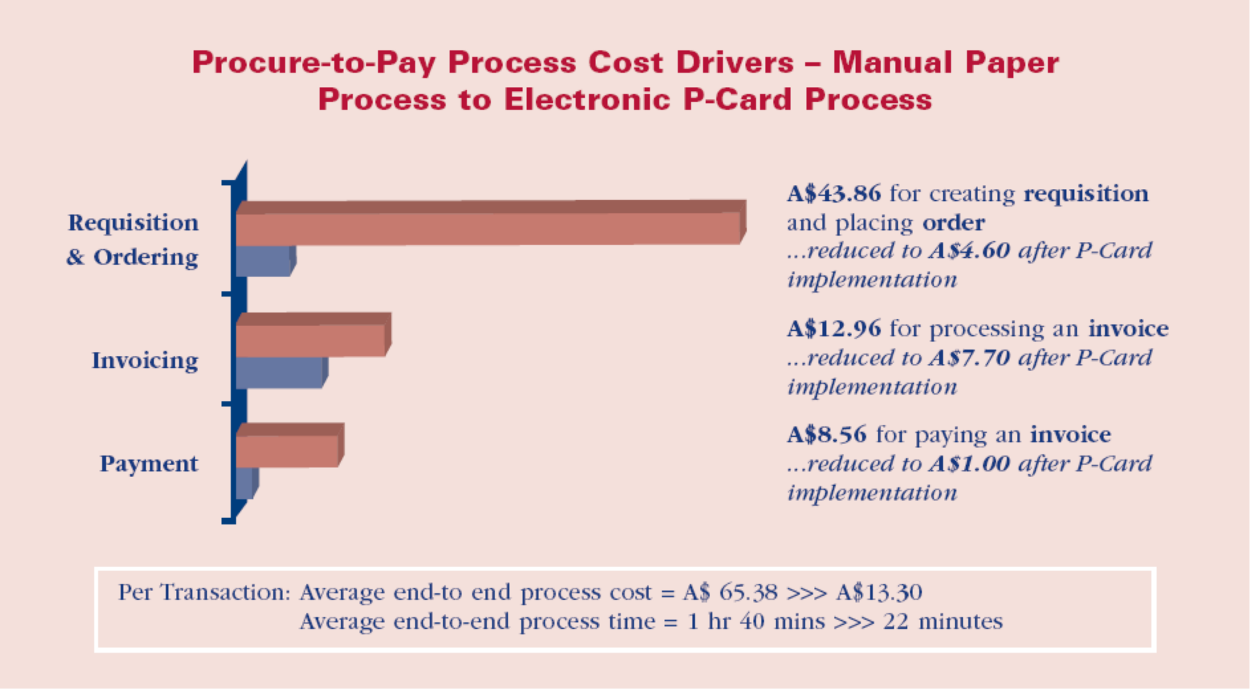
P-Cards deliver efficiency in a number of ways, as they:

- Improve transaction processing costs and time by reducing manual, paper-based systems
- Improve accuracy
- Reduce re-work
- Increase employee convenience and satisfaction
- Reduce workload, allowing increased focus on more strategic, value-adding activities

This section looks at how each of these elements can be used to structure the business case for P-Cards from an efficiency perspective.

## Improve transaction processing costs and time by reducing manual, paper-based systems

Pressure to reduce Procure-to-Pay transaction costs is one of the main drivers for introducing P-Cards as the opportunity is quite compelling. It is generally accepted that the payment cost associated with P-Cards is, on average, less than half that of manual, paper-based payment methods. Similarly P-Cards typically reduce Procure-to-Pay cycle times by more than 50%. In 2006 Visa conducted a Procure-to-Pay Benchmark Survey on their clients' manual Procure-to-Pay processes. The study showed that the average end-to-end process cost was A$65.38 and took 1 hour and 40 minutes. By eliminating paper invoice processing through implementing P-Cards, the costs went down to A$13.30 per transaction, delivering a cost saving of A$52.08 per transaction and more than 78% time saving per transaction.




Source: Visa Procure-to-Pay benchmark survey, Australia 2006

**CASE STUDY**

New Zealand's Department of Conservation (DOC) reduced the number of paper-based invoices for amounts under NZ$1,000 by more than 50%. In real terms, this means the number of invoices which need to be manually input into DOC's Financial Management Information Systems has been reduced by over 65,000 per annum and the number of one-off suppliers and expense claims has been reduced by 50%.

## Improve accuracy

P-Cards automate the payment process at the point of sale which increases the accuracy of payments. Through elimination of manual processes and a reduction in the number of steps, the need for manual intervention can be eliminated, resulting in a decline in data entry errors and improved staff productivity and satisfaction. Not requiring an invoice also helps reduce the costs associated with manual invoice data entry and rework due to errors in the manual coding process.

## Reduce re-work

Implementing an EMS further automates the P-Card reconciliation process. This minimises the cost and time spent by cardholders manually entering card transaction data and allocating charges to General Ledger and cost centre codes. Most EMS systems have workflow capabilities, including auto-coding of transactions based on internal business rules.

## Increase employee convenience and satisfaction

Efficiency of the system leads to higher levels of employee convenience and satisfaction. A clear communication of the purchasing process allows employees to perform more efficiently and minimises rework associated with non-compliance. Process simplification also delivers improved processing efficiencies for cardholders through automation and self-approval of transactions.

## Reduce workload, allowing increased focus on more strategic, value adding activities

The Accounts Payable workload is further reduced by the following P-Card benefits:

- Single monthly payment and simplified Accounts Payable processes – consolidation of multiple payments to multiple suppliers into one payment to the bank and a simplified bank reconciliation process
- Using P-Cards for 'one time' suppliers for low spends reduces activity in vendor creation and maintenance
- Automated monitoring and tracking reduces time and effort needed to enforce compliance As a result of the reduction in paperwork and administrative effort Accounts Payable staff can focus on more value-added tasks, rather than going through the time consuming process of obtaining a purchase order or petty cash.

## The cost savings business case

Organisations are increasingly focused on reducing their costs. Many organisations establish annual savings targets and develop enterprise-wide cost reduction initiatives to realise their goals. This section details the key ways in which a P-Card can be used to deliver both hard and soft cost savings for an organisation. Best practice organisations publish key metrics for the programme to stakeholders. For instance actual savings vs forecast, number of cards issued, number of transactions completed and average spend size.

**BEST PRACTICE**

Best practice organisations view the P-Card programme as one mechanism within a suite of tools for achieving savings targets and they align their P-Card goals and objectives with their enterprise cost reduction targets.

At its simplest, the sourcing process can be separated into three distinct value creation or cost savings opportunities:

- Analysis – spend data is cleansed and analysed to identify cost saving opportunities
- Negotiation – benefits are negotiated with suppliers and formalised in contracts
- Management – spend and suppliers are managed to maximise ongoing benefits

The P-Card has a role to play in driving cost savings throughout the sourcing process and, depending on the level of maturity of the organisation, the incremental benefits available from P-Card introduction can be substantial.

## How P-Cards drive cost savings through improved analysis

By standardising and integrating P-Card data with other systems such as Accounts Payable, organisations can achieve greater visibility of their total spend, which leads to a host of benefits for the company's cost reduction programme.

Improved spend analysis including segmentation of data into spend by supplier, spend category, business unit, etc. can assist in the identification of trends or patterns which ultimately lead to new opportunities for cost savings through supplier negotiations and supplier management initiatives.

Increasing the number and types of commodities purchased on P-Card consolidates more spend data into one location, where it can be analysed with a view to rationalising suppliers. Supplier rationalisation is often a key objective of an organisational cost reduction programme, as it channels spend to the best-value supplier, reduces the costs of dealing with multiple suppliers and ideally leads to the development of strategic relationships which can deliver increased value to the organisation.

## How P-Cards drive cost savings through improved supplier negotiations

Use of P-Cards enables spend consolidation through providing supplier data and reporting to assist centralised negotiations with suppliers, enhancing an organisation's negotiating strength. Previously unleveraged spend that has been fragmented across multiple suppliers or even multiple touch-points with the same supplier, can be negotiated into a single company-wide agreement leading to substantial cost savings and other value-added benefits. Where enhanced data is made available through P-Cards, such as in the case of travel expenditure, this data can be used to negotiate better outcomes with suppliers by focusing on those areas of greatest demand, for example frequently flown city pairs.

Often there are a number of softer benefits which arise more from the process of implementing P-Cards beyond their actual use. For example, increased collaboration between Procurement, Accounts Payable, and other business units encourages the development of initiatives that improve supplier sourcing, negotiations and contract management.

## How P-Cards drives cost savings through improved management of spend and suppliers

By mandating purchases through the P-Card programme, a greater volume of spend can be placed with preferred suppliers, with whom contracts have been negotiated, improving the ability to capture cost savings from negotiated pricing, volume discounts and quality of service. In this way the P-Card programme can be used to identify non-compliant spend and redirect it to the appropriate supplier.

P-Cards can also be used to improve relationships with, and management of, suppliers. Incorporating card acceptance into contracts with suppliers represents a prime opportunity for organisations to increase spend on their P-Card, while also offering significant benefits to suppliers, such as prompt payment. This shortened payment cycle maximises cash flow for suppliers and reduces their cost of funds. In some cases organisations may be able to translate this supplier benefit into hard cost savings by negotiating lower pricing with suppliers.

Depending on the organisation's cost of funds and their P-Card billing cycle there may also be a working capital benefit on the buyer-side if purchases made with a P-Card can be paid for later than they otherwise would have been.

**BEST PRACTICE**

Best practice organisations use the P-Card programme to support their Supplier Relationship Management objectives by building a value proposition for suppliers around the following benefits:

***Process Efficiency*** – suppliers reduce internal processing and transaction costs by reducing paper-based processes including creating invoices and processing other forms of payment
***Working Capital Management*** – suppliers receive consistent, predictable payments as compared with the payment terms with other forms of payment
***Customer Acquisition and Retention*** – suppliers can provide customers with a valued service, potentially resulting in increased business with existing customers and a competitive advantage with new customers

## The process compliance and governance business case

As a result of the Sarbanes-Oxley Act (SOX) passed in the US in 2002 and the recent myriad of frauds and meltdowns of the global financial crisis (GFC), organisations around the world have refocused their attention on maintaining a controls-compliant business environment.

Implementation of a well-controlled P-Card programme is a key component of mitigating risk throughout the Procure-to-Pay process. Organisations typically define P-Card programme control goals such as:

- Compliance with procurement and payment policies
- Reduction of maverick spend
- Mitigation of fraud, loss and misuse

**BEST PRACTICE**

Best practice organisations typically achieve P-Card programme control goals by implementing recommended practices within the five areas outlined in the *Visa Controls Framework*:

- ***Ownership*** – organisations must establish P-Card programme ownership with an organisational structure, including well-defined roles and responsibilities to manage the programme
- ***Policies*** – best practice policies are those that are clearly defined with specific details for each aspect of the P-Card programme
- ***Procedures*** – procedures clearly identify the appropriate 'who, what, where, when and how' of P-Card use and will assist in the monitoring and control of the programme
- ***Technology*** – effective use of technology makes procedures more efficient and guards against human error, thereby ensuring that misuse is more easily detected and prevented
- ***Audit*** – regular audits enable organisations to review and update P-Card policies and procedures as necessary

Combining P-Cards with an Expense Management System enhances the ability to provide required reporting and audit controls. P-Card integration gives full visibility into all payment activity, enabling a full and visible audit trail. Improved tracking and reporting and a reduction in petty cash usage can also reduce the potential for internal and external fraud. User profiles and transaction data security can be configured to meet the organisation's needs.

## Defining P-Card parameters

One of the most critical steps in implementing a P-Card programme is to clearly define parameters for card use that not only maximise card spend, but also minimise risk of misuse. Typical decision points for implementing P-Card controls include:

- Single point of accountability (SPA) – who should have responsibility for managing the project and acting as a central point of coordination with users?
- User Profiles - which users will require P-Cards and what will their specific requirements be based on the targeted usage scenario? E.g. frequent travellers, purchasing staff, management etc.
- Spend categories
- Spend limits per transaction – can be set on a per user basis
- Spend limits per month - can be set on a per user basis
- Audit process - for monitoring compliance with P-Card policy
- Merchant Category Code (MCC) blocking - restrict the number of merchants that can be used for P-Card purchases by blocking categories or specific merchants such as liquor stores, general retailers etc.

Establishing appropriate parameters for card use provides clear guidelines for items that should be placed on a card and maximises compliance with spend policy and encourages card use. Controls not only reduce fraud, but also ease compliance with reporting and allocation of accounting (G/L) codes to card charges.

**CASE STUDY**
One Australian company established a "compliance breach" system to effectively monitor spend and report on expenditure outside company guidelines. Employees are grouped by salary band; with spend restrictions applying to different bands according to seniority. If an employee makes a transaction that is prohibited for staff members in their band, their manager is notified via an exception report. This process, combined with the ease of audit resulting from digital imaging of receipts, has eliminated the need for approvals, saving costly managerial time.

## Critical success factors for P-Card programmes

Successful P-Card implementations need to strike the right balance between control and administration cost. While it may be straightforward to obtain a few hundred P-Cards for use in a major business, without supporting infrastructure, the implementation may cause more problems than it solves.

The card itself is only a component of the whole solution. Expense Management Software, reporting, implementation and training, communications, change management and auditing are all part of the total P-Card solution.

This section details the most critical factors for an organisation to consider when implementing a P-Card programme for the first time or growing an existing programme.

## Stakeholder engagement

Establishing a cross-functional team helps develop P-Card programme ownership, promote company-wide buy-in, and ensures the development of comprehensive programme requirements, all of which contribute to the long-term success of the programme.

## Alignment with business drivers

This is the primary focus of this paper, and its importance cannot be overstated. P-Card strategies aligned with organisational needs receive increased support from key stakeholders and employees. For example, a US communications company with a commitment to reduce its carbon footprint by 20 percent over ten years promoted P-Card usage by communicating the environmental benefits, such as reduction in pollution. The 350,000 annual card transactions translated into saving either 1,500 trees, 200 barrels of oil, 400 megawatts of electricity, 300 cubic yards of landfill, or 5500 pounds of carbon dioxide.

## Senior management support

Senior management endorsement and involvement in the implementation, administration and championing of the P-Card programme is critical to maximise the benefits of the card programme. It encourages use and compliance and can help enable the growth of the programme, thus improving the visibility into overall spend placed on the card. Importantly, the commitment of senior management needs to be communicated and understood at all levels of the business.

## Change management and communication

As with any major change management initiative, clearly establishing, communicating and monitoring P-Card goals and objectives as well as continuous communication and education throughout the process are paramount. Piloting processes with a solid feedback mechanism and a commitment to make changes based on participant feedback can also help to deliver a more sustainable long term solution for the organisation.

## Clearly defined requirements

Well documented and clearly communicated requirements will help to clarify expectations and promote programme uptake and compliance. Key requirements to be defined from the outset include:

- Authorisations and billing structure establishing clear roles and responsibilities
- Card issuance criteria defining who should be entitled to a P-Card and for what purpose
- P-Card policies and procedures establishing how P-Cards should be used including how the programme should be administered and maintained

## Ongoing monitoring and measurement

P-Card programme reports and well defined audit processes can be used to assess performance against goals, to gauge impact on recent expenses, to monitor compliance with policies and procedures and to identify areas of potential risk or opportunities for improvement. Regular spend analysis is also helpful in identifying new areas of spend to include in the P-Card programme.

## 22 The way forward for P-Cards

Best practice organisations use a variety of creative methods to grow their P-Card programmes and maximise returns on investment.

## Expanding the P-Card programme into new spend categories

For P-Cards, organisations often initially focus on high-frequency, low-value items. However, organisations should also investigate expansion of use into other spend categories such as recurring payments including phone, utility and rental payments, temporary services and contract labour, meetings and events, offsite projects, professional services and other purchase order initiated payments.

**BEST PRACTICE**

Best practice organisations take a dual-pronged approach to expanding their card spend, soliciting feedback from cardholders regarding additional purchases that can be placed on P-Cards, and working closely with their issuers to identify specific suppliers or spend categories that represent the best opportunities for card payment.

## Extending the use of P-Cards as a payment mechanism

Besides looking for new categories of spend in which to use P-Cards, organisations are increasingly leveraging the payment functionality of cards in numerous ways:

- Distributing cards in the Accounts Payable department and using these cards to pay invoices.
- Issuing a P-Card account to one supplier (ghost or virtual account) for a particular type of purchase, for example, office supplies so all employees, whether cardholders or not, can order through this one supplier.

- Assigning a card account to an object, such as a copy machine or fleet vehicle and using the card as an asset life-cycle tracking system for the equipment.
- Using the card with blanket orders as a ’release-and-pay‘ tool.
- Setting up card accounts for individual projects, for example, research and development projects or trade shows, to track project costs.
- Issuing a card account to a contractor to avoid ’cost plus‘ on material acquisition costs.
- Displacing petty cash by issuing personal identification numbers (PIN) to all cardholders to enable cash advances.

## Consolidation of P-Card programmes

A further step in driving efficiencies is that many organisations are consolidating their Travel and Entertainment (T&E) and P-Cards into one programme.

CASE STUDY

By consolidating their Purchasing and T&E card into one single P-Card programme, one of Australia’s largest building and construction suppliers has improved the efficiency of their purchasing process and reduced the cost of purchasing by A$700,000 per annum. They estimate by consolidating their card programmes they have reduced the cost of purchasing low-value, high volume items by approximately A$15.00 per statement (i.e. per card, per month), equating to savings of A$500,000 per annum. Administrative savings, including eliminating the need to run two separate card management systems, have resulted in further savings of approximately A$200,000 per annum.

## Conclusion

The benefits of P-Card can be summarised as follows:

## Efficiency

P-Cards simplify the Procure-to-Pay process by automating manual touch points, reducing paper processes, improving accuracy and reducing rework leading to lower end-to-end process costs and time savings.

## Cost savings

Whether part of an organisation-wide cost reduction initiative or as a standalone initiative, P-Cards are an effective tool for driving down costs. They provide greater visibility and transparency of information which can be used to rationalise suppliers, consolidate spend and drive better negotiation and supplier management outcomes with suppliers.

## Process compliance and governance

By providing organisations with the ability to control the way in which purchases are made within clearly defined and enforceable procedures and guidelines, P-Cards reduce Procure-to-Pay process risks, increase compliance, and enhance visibility and accountability for spending.

Like any major change management initiative, the success of a P-Card implementation or expansion relies heavily on the degree of planning and preparation involved. The P-Card itself is a component of a wider solution which must be well integrated within the organisation, both from a technological and a business context perspective.

A successful business case for P-Cards, or rather a business case for a successful P-Card programme, must not only highlight the benefits but must also define the expectations and requirements that will ensure a sustainable, long-term, value creating solution for the business.

## About the sponsor

This paper has been produced by Visa in conjunction with The Faculty, a research-based management consultancy with a special focus on optimising procurement strategy, processes and people for leading Australian organisations.

Visa provides a range of commercial payment programs, information management and consulting services that help businesses, global corporations and governments manage expenses, streamline operations and improve their bottom line.

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