

Uncovering New Card Spend Opportunities

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Four Steps to Growing Your Card Program

Bank of America
Merrill Lynch

Key benchmarks

A recent survey of over 3,000 Purchasing Card programs revealed the following performance metrics across these organizations.

Purchasing Card Metrics

Spending per Employee	\$317
Spending per Transaction	\$454
Card-to-Employee Ratio	11.4%
Monthly Transactions /Card	6.1
Spending per Card	\$2,767
Savings: Cost per Transaction	\$69.82
Savings: Cycle Time Reduction	8.0 days

How does your organization compare?

Four steps to growing your program

- 1 Establish** goals for your program
- 2 Identify** opportunities to improve program performance
- 3 Incorporate** strategies to achieve your goals
- 4 Maintain** focus on uncovering new opportunities for growth

Step 1: Establish goals for your program



Actions to consider when evaluating your program goals

- Review current payment practices
- Identify cross-functional goals and their relationships to the payment process
- Prioritize strategic goals as long term and short term
- Review strategy with key stakeholders to obtain support

Step 1: Establish goals for your program

Establish a payment strategy



Considerations for your payment strategy

- Focus on where your program is now and where you want it to be
- Develop a payment matrix: supplier type, commodity, terms, and pay method(s) (see Sample Payment Matrix)
- Identify goals for: payment mix, control/compliance, training, and process

Step 1: Establish goals for your program

Sample payment matrix*

Category of Spend	If paid by Card...	If paid by ACH...	If paid by Check...
Furniture <\$2500	Supplier receives immediate payment, buyer obtains float	1% 10 Net 30**	Net 90
Furniture >\$2500	Supplier receives immediate payment, buyer obtains float (Accept ghost card only)	2% 30 Net 45	Net 60
MRO <\$2500	Supplier receives immediate payment, buyer obtains float	1% 10 Net 30	Net 45
MRO >\$2500	Supplier receives immediate payment, buyer obtains float (Accept ghost card only)	2% 30 Net 60	Net 90
Temp Services	NA	Card payment can be mutually beneficial for supplier and buyer by enabling immediate payment to the supplier while affording the buyer additional float	

*Illustrative purposes only

**Terms represent 1% reduction in invoice amount if paid by ACH within 10 days, otherwise full payment due 30 days from invoice

Step 1: Establish goals for your program

Establish specific goals that align with your organization's strategy

FUNCTIONAL AREA	Procurement	Accounts Payable	Travel Management
SAMPLE GOALS	<ul style="list-style-type: none">▪ <i>Improve Efficiency:</i> Reduce Purchase Orders (P.O.) by x%▪ <i>Cost Savings:</i> Reduce unit cost by \$x or x% and/or increase total program savings by \$x▪ <i>Rationalization:</i> Reduce total suppliers used / Increase usage of preferred suppliers	<ul style="list-style-type: none">▪ <i>Automation:</i> Reduce check usage by x% or x# and/or reduce total check count▪ <i>Cost effectiveness:</i> Reduce cost to process an invoice▪ <i>Compliance to contract:</i> Increase total invoices paid within contract terms	<ul style="list-style-type: none">▪ <i>Cost savings:</i> Reduce unit cost and/or increase total program savings▪ <i>Travel compliance:</i> Improve compliance to preferred suppliers▪ <i>Program performance:</i> Increase employee satisfaction

Step 2: Identify opportunities to improve program

Use data analysis to drive decision-making



How to develop data-driven analysis for decision-making

- Allow your goals to determine the analysis you need
- Access tools that enable you to identify opportunities
- Gather data and conduct your analysis
- Review the results with key stakeholders to attain alignment and accountability
- Conduct further analysis and/or develop plan to implement

Step 2: Identify opportunities to improve program

Types of data analysis

Type of Analysis	Program Benefit	Resources
AP / Supplier match analysis	Expand card program based on acceptance	BofAML spend analysis (ePayables programs only)
Commercial Card slippage analysis	Identify suppliers paid by multiple forms	Internal A/P analysis: 1. Review vendors payments 2. Identify vendors paid with both check and card 3. Migrate check payments to card
Declined transaction analysis	Evaluate changes to MCC or spend limit blocking	BofAML card reporting from Works system
Policies and procedures review	Streamline processes and improve control	BofAML guidance and Visa Best Practice Guides

Step 2: Identify opportunities to improve program

Declined transaction analysis

Scenario 1: MCC Blocked

Card No.	Merchant Name	MCC	Merchant Category	Date	Amount
xxxx-1456	DDW Conference Registrat...	7399	Business Svcs not Classified Elsewhere	03/15/2015	\$XXX
xxxx-3685	American Journal of...	5192	Books, Periodicals and Newspapers	03/17/2015	\$XXX
xxxx-2456	DEA Registration	9399	Government Services – Not Classified Elsewhere	03/18/2015	\$XX
xxxx-8251	AAN Annual Mtg Registr	8299	Schools and Educational Svcs Not Classified Elsewhere	03/22/2015	\$XXX

Scenario 2: Transaction Amount Exceeds Card Limit

Card No.	Merchant Name	MCC	Merchant Category	Date	Amount
xxxx-7345	Home Depot	5251	Hardware Stores	03/12/2015	\$X,XXX
xxxx-4902	Staples	5111	Stationary, Office Supplies, Printing and Writing Paper	03/17/2015	\$X,XXX
xxxx-8135	Gaylord Hotel & Conf Ctr	7111	Hotels, Motels and Resorts	03/21/2015	\$X,XXX

Step 3: Incorporate strategies to achieve goals



- Determine initial opportunities based on report analysis
- Prioritize initiatives based on alignment with state program guidelines, strategic goals, ease of implementation, and greatest impact
- Implement initiatives and monitor performance

Step 3: Incorporate strategies to achieve goals

Make your strategies specific

Strategies that may have a measurable impact on program performance:

- Expand access to cards
- Require card usage for target transactions
- Set up ghost accounts
- Increase card limits
- Validate blocked MCC codes
- Enforce payment method strategy



Step 3: Incorporate strategies to achieve goals

Expand access to cards

Evaluate your policy regarding card distribution



Current Policy

Organizations regularly assign cards based on traditional employee profiles (e.g., admin, sales, etc.)



Additional Employees?

Best practice organizations review A/P transactions to identify frequent buyers of goods and services eligible for card payment

- Develop criteria for distribution of cards consistent with procurement and payment requirements
- Include criteria for card issuance as part of purchasing policies and procedures
- Establish appropriate card controls for various spend types and user profiles
- Solicit ongoing feedback from cardholders and managers
- Review accounts on an ongoing basis to identify inactive cards and investigate to ensure that all cards are in the hands of approved cardholders

Step 3: Incorporate strategies to achieve goals

Require card usage for target transactions

Drive spend and efficiency through policy-defined usage



Policy Guidelines – MCC, \$

Traditionally has included...

- Office supplies
- Catering
- MRO
- Subscriptions

But could also extend to...

- Advertising
- Temp Labor
- Telecom
- Toll Passes

- Analyze spend data to identify eligible spend categories
- Define profiles based on purchase behavior using spend analysis tools to identify categories unique to employee groups
- Establish policies that detail approved spend types for card use
- Communicate policies and procedures to end-users through training, email communications, intranet portals, etc.
- Monitor and report on card usage and compliance

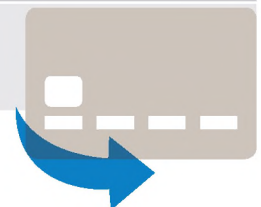
According to the RPMG 2014 Purchasing Card Benchmark Study, more than half (53%) of all transactions below \$2,500 were paid for with a Commercial Card

Step 3: Incorporate strategies to achieve goals

Suggested areas of spend

Merchants That Typically Accept Card

▪ Accounting/Legal/Consulting Services	▪ Laboratory Services/Supplies	▪ Advertising	▪ Newsprint
▪ Advertising/Marketing Services	▪ Mailing/Courier/Freight	▪ Aviation Services	▪ Ink
▪ Building Materials	▪ Office Products	▪ Building Materials	▪ Rebar
▪ Business Services	▪ Office, Photographic, and Photocopy Equipment and Services	▪ Catering/Food Services	▪ Concrete
▪ Catering/Food Service	▪ Packaging	▪ Facilities – Landscape	▪ Cash Sorting Machines
▪ Electrical Parts and Equipment	▪ Parking Lots/Services and Commuter Fees	▪ Facilities – Pest Control	▪ Industrial Equipment/Supplies
▪ Electronics/Computer/IT	▪ Pharmaceuticals	▪ Facilities – HVAC and Plumbing	▪ Fuel/Utilities
▪ Employment Agencies/Temp Services	▪ Printing/Copying Services	▪ Fleet Service (Diesel)	▪ Tickets
▪ Facilities	▪ Publishing Services and Supplies	▪ Janitorial	▪ Uniforms/Apparel/Laundry
▪ Fleet Service	▪ Telco/Data Service and Equipment	▪ Machine Shops	



Step 4: Maintain focus on new opportunities

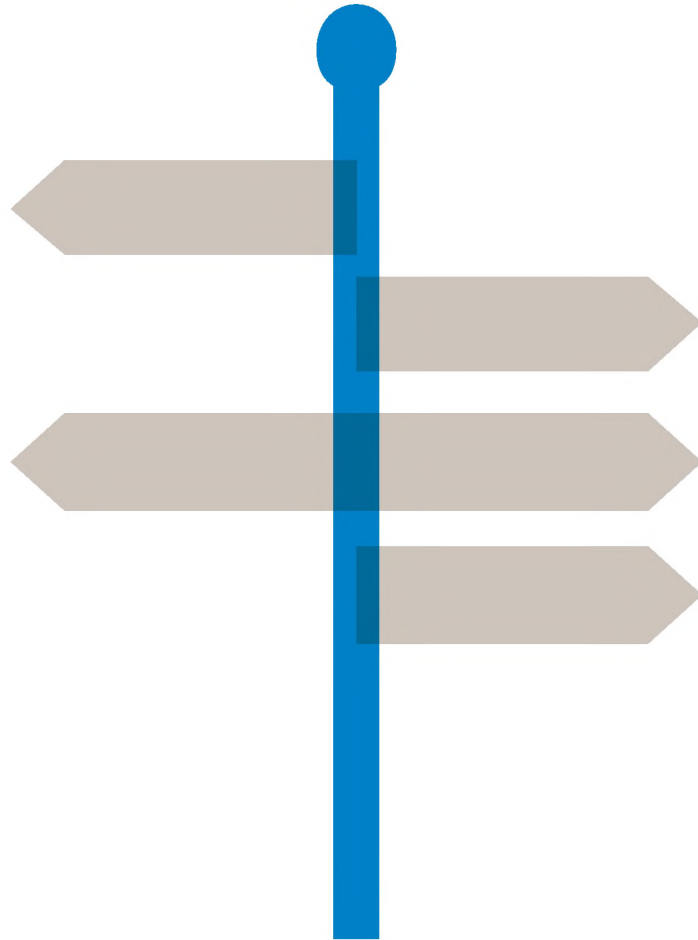
Measure and monitor program performance



Take on-going measures to maintain program success

- Develop a scorecard and metrics for the program
- Monitor program performance against goals
- Provide periodic updates to management
- Periodically reevaluate the payment process to identify additional opportunities
- Communicate with and train cardholders regularly

Establish, identify, incorporate and maintain



- Develop and maintain a payment strategy
- Focus on the right mix of payments
- Use provider analytical tools and resources
- Implement meaningful changes
- If you don't measure it, you're not managing it
- Envision program growth as an continuous process

Expanding Beyond Plastic

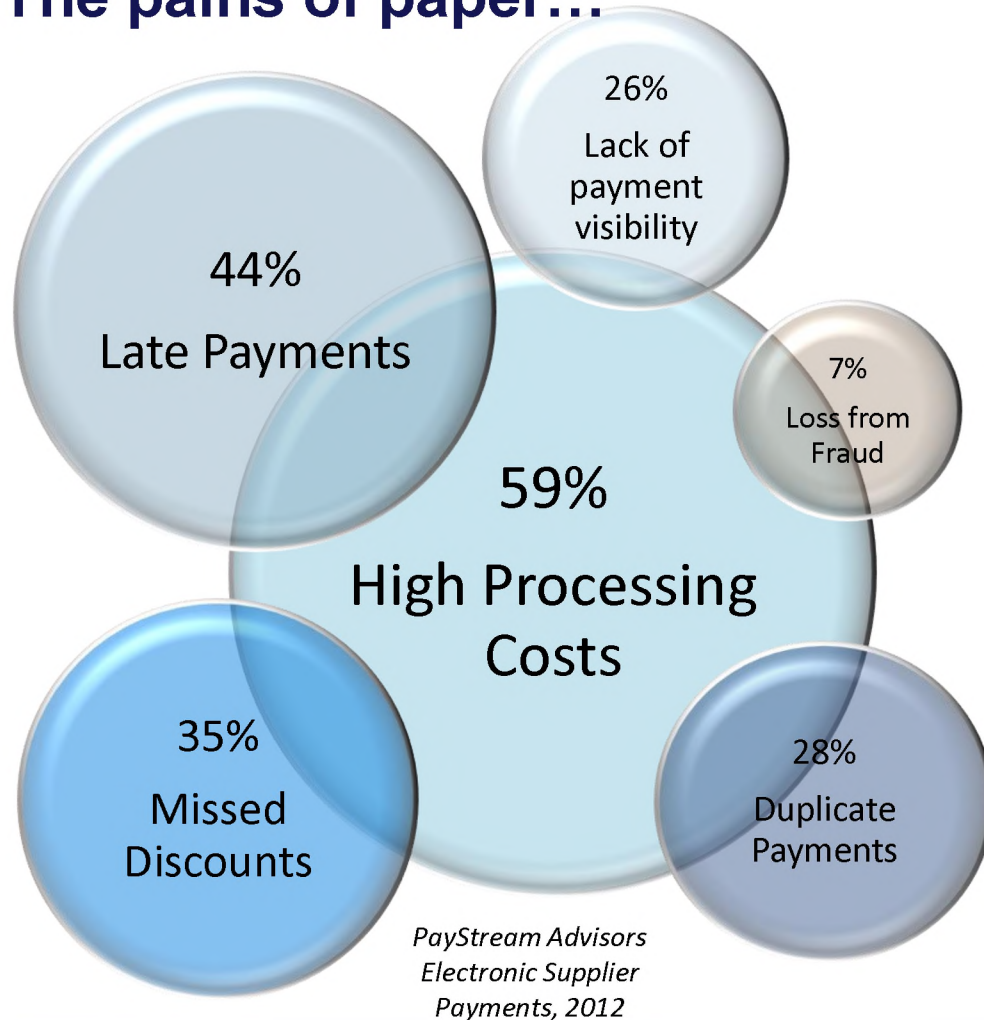
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The electronic movement

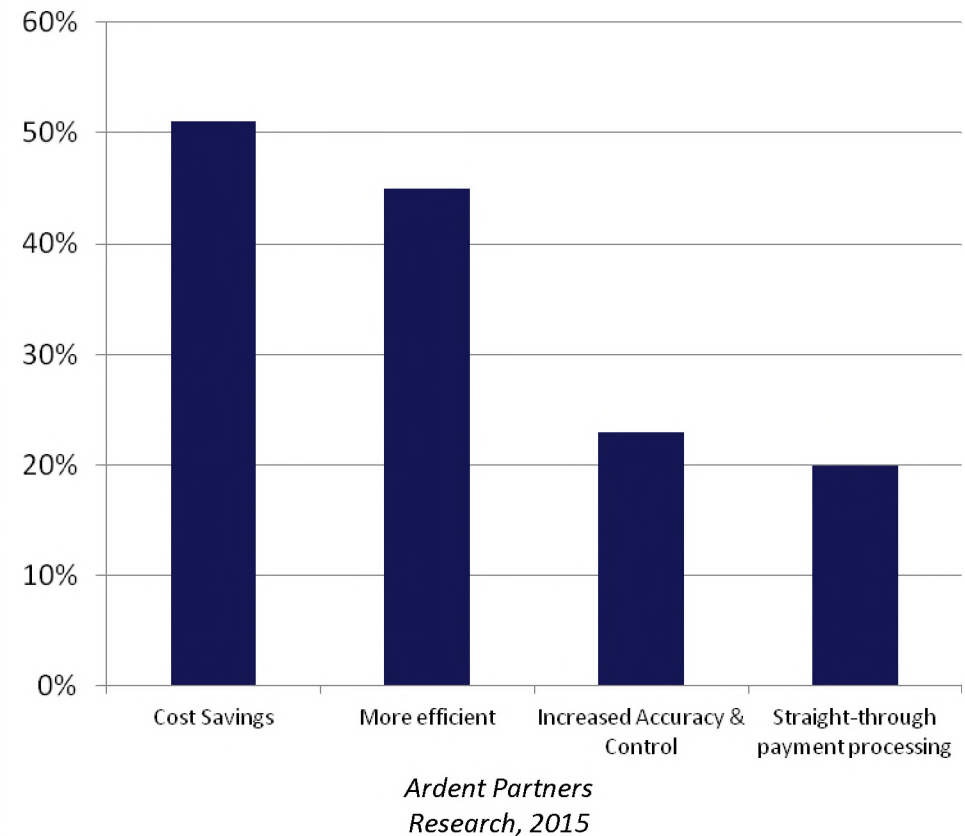
Payers weigh in on the cons of paper and the pros of ePayments

The pains of paper...



....the perks of ePayments

Top Benefits of ePayments



86% of all enterprises predict that a majority of their suppliers will be paid electronically by 2016.

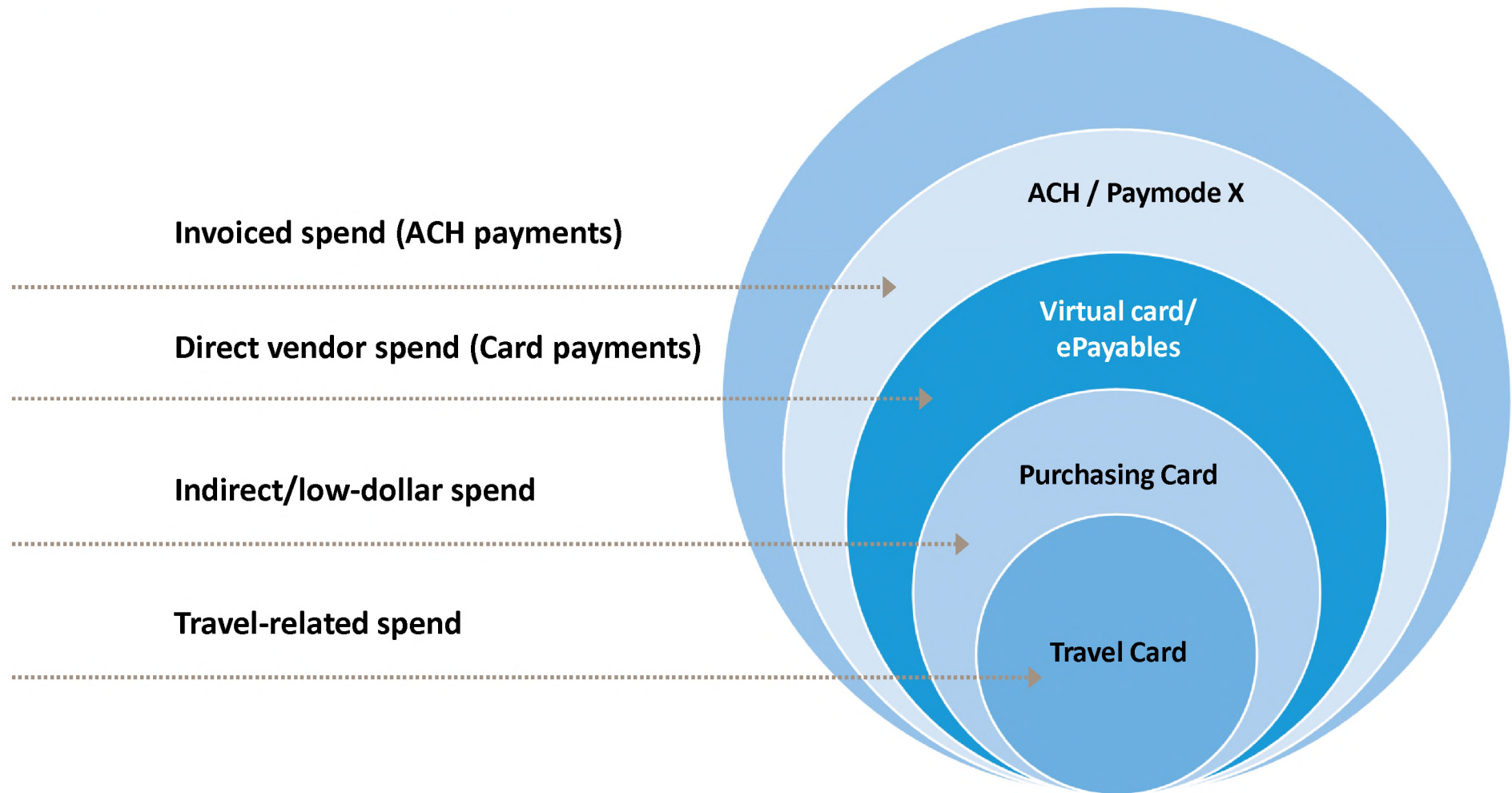
Did You Know?

71% of all enterprises are now fully capable of paying a supplier electronically.

Payment solutions for every type of spend

B2B Payment Spectrum

Convert paper-based payments
to electronic transactions



Reduce costs, Improve return	Supplier benefits	Vendor file Management
<ul style="list-style-type: none">▪ Implement scalable and flexible payments solutions▪ Create efficiencies by abandoning and automating labor intensive paper processes▪ Leverage financial investment in ERP or AP system to limit use of proprietary bank applications	<ul style="list-style-type: none">▪ ePayment solutions must deliver value to parties on both sides▪ Adoptability both internal and external	<ul style="list-style-type: none">▪ Analyze, understand and segment your vendor mix▪ Create payments transformation strategies around vendor segmentation▪ Develop, communicate and incent new vendor payment type adoption strategy

Supplier adoption execution - not technology - is the #1 reason electronic payment initiatives succeed or fail.



Questions



Appendix

Optimization drives program growth, process savings

Traditional purchase order process

\$90

Average
process cost*

\$253,526

Average
process cost
per month**

\$3,042,312

Annualized
process cost

Between **30-40**

of steps

Purchase Card process

\$20

\$47,362

\$568,344

Less than **10**

Savings

\$70
process cost

\$206,164
process cost per month

\$2,473,968
annualized process cost

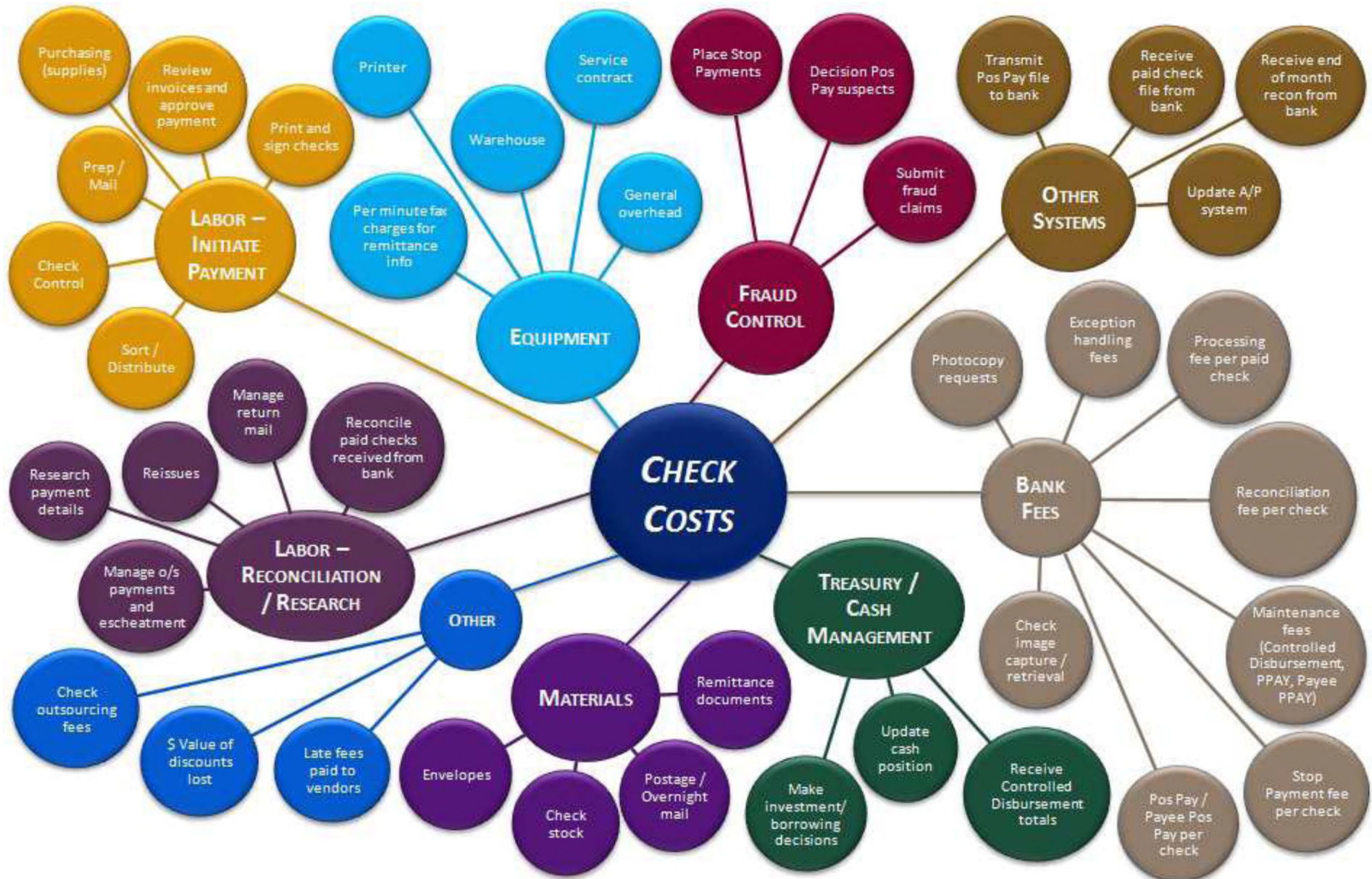
20-30 steps

“84% of respondents report increased efficiency and reduced costs are important benefit of purchasing card use.”

*Based on the 2014 Purchasing Card Benchmark Survey results by RPMG Research Corporation

** Rounded transaction count; based on average monthly card spend of \$1MM and, per the results, of the 2012 NAPCP poll, average transaction size of \$359 (based on 2,786 transactions).

Components of Check Costs



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