

Improving Accounts Payable Efficiency with Purchase Cards


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Purchase cards—also known as P-cards or procurement cards—provide businesses with significant opportunities to streamline processing and improve working capital. By replacing paper invoices and manual systems, P-cards help businesses cut operating costs, automate expense reconciliation processes and provide valuable insights on spend patterns. In addition, risk controls are enhanced and quicker payments improve supplier relations and help businesses earn valuable rebates and discounts.


Replacing Paper with Electronic Payments

While great strides have been made in migrating from paper to electronic payments, traditional paper checks continue to be the leading payment vehicle for B2B transactions. Two out of every three payments by middle market companies are still made by check, while nearly half of large corporation payments are paper-based. In addition, many organizations still use inefficient paper-based invoice and payments processing systems that are not only error-prone and time-consuming but susceptible to fraud.

Key Takeaways

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Companies can gain significant benefits from increased transaction data and control capabilities provided by P-cards.
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Utilizing cards for AP as well as card-in-hand transactions offers companies materially greater benefits.
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Best-in-class programs have ongoing management with insights and analytics from their card provider.



Corporations Continue to Rely on Costly Checks

As % of Total Corporation Payment Transactions	Middle Market	Large Corporation
Checks	67.3%	48.9%
All other	32.7%	51.1%

Source: Phoenix-Hecht 2014 Treasury Management Monitor and Service Quality Report to Responders

It comes as no surprise, then, that organizations are seeking ways to replace paper-based payments with electronic transactions. This is amply reflected in the results of the 2015 AFP Payments Cost Benchmarking Survey, which reported that 79% of all organizations are looking for ways to convert paper checks to electronic payments.

P-cards can play an important role in the transition to automating payments to suppliers. A form of company charge card, P-cards replace checks when a company buys goods and services. Used instead of a purchase order, check request or petty cash, purchase cards can be used for both high-dollar and low-dollar transactions with any vendor that accepts credit cards. With the potential to sharply reduce the use of purchase orders and invoices and the volume of checks processed, P-cards can make a significant contribution to an organization's payment efficiency.







P-card Opportunities

A KeyBank Middle Market Business Sentiment Survey released in July 2015 revealed that more than a quarter of businesses may not understand the potential opportunities and benefits available to them with purchasing cards. As a result, many organizations are not taking advantage of the enhanced efficiency that P-cards provide.



Benefits of P-cards

P-cards offer a variety of benefits to companies, including:





	<p>Improved working capital</p>	<p>Delaying the payment of purchases for up to 45 days increases working capital.</p>
	<p>Enhanced expense management</p>	<p>Automation of expense reconciliation processes provides more transaction data and better spend analysis.</p>
	<p>Employees refocused on value-added work</p>	<p>Reduced overhead and administrative costs in an accounts payable department frees up resources for other priorities.</p>
	<p>Strengthened fraud monitoring capabilities</p>	<p>Real-time online tools can improve account-level controls.</p>
	<p>Faster payment transactions</p>	<p>Quicker payments can lead to preferred vendor status.</p>
	<p>Potential economic incentives</p>	<p>P-cards provide the opportunity for revenue share in the form of a cash rebate back to the buying organization.</p>

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Purchasing cards generate administrative cost savings of about \$70 per transaction, reduce the procurement cycle time by approximately eight days, and improve cash flow by extending the time to payment.

– Robert Palmer and Mahendra Gupta,
RPMG Research Corporation

Payment Speed

P-card		Instant
Wire		Instant
ACH		1-day debit, 2-day credit
Check		6–9 days

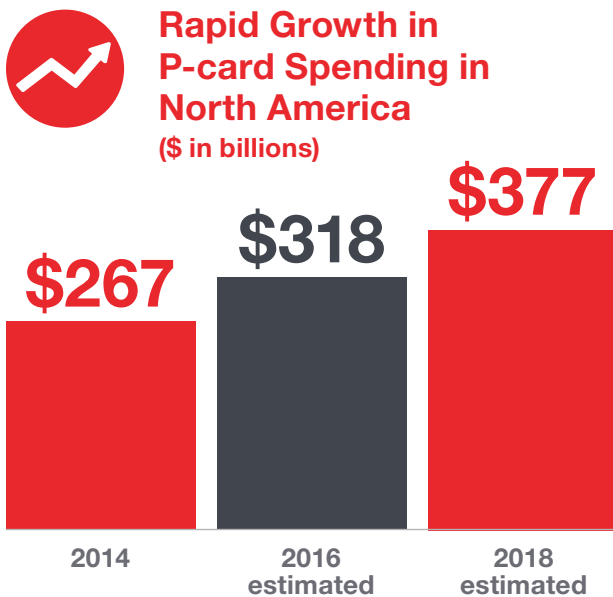
P-card Types

A company may issue standard purchase (distributed) cards and virtual accounts payables (nondistributed) cards. Each type enables authorized cardholders to place orders and make payments directly and efficiently for the business. An organization may use a combination of card types—the optimal mix will depend on the company's needs and circumstances.

Nondistributed Card		Distributed Card	
Single-Use Ghost Account	Vendor Ghost Account	Travel & Entertainment Card	Corporate Purchase Card
<ul style="list-style-type: none"> • Ghost accounts are cardless and used to pay for goods and services after an invoice has been received. • Available credit on the card is fixed and not adjusted for each transaction. • Transactions take place at the point of payment and can be made for a specific project budget or spending allowance. 		<ul style="list-style-type: none"> • A plastic card is used for travel & entertainment or corporate purchases. • Purchases for transactions are at the point of sale, over the phone or via the Internet. • Distributed P-cards reduce times for receipt and payment of goods and services. 	

Trends in P-card Usage

P-card spending in North America has grown rapidly, a trend that is expected to continue. Purchase card spending throughout the continent is projected to increase at annual rate of nearly 10%, reaching \$377 billion by 2018.



Source: 2014 RPMG Purchasing Card Benchmark Survey

Businesses of all sizes are seeking electronic payment options to sharply reduce their reliance on checks and labor-intensive, paper-based handling:

- The 2014 RPMG survey reported that 74% of organizations expect to increase spending on traditional purchase cards over the next five years.
- According to the Phoenix-Hecht 2014 Treasury Management Monitor and Service Quality Report to Responders, the year-over-year card-usage growth rate is strong, with use by middle-market companies rising at an annual rate of 20% and large corporations at 9%.

An important development in the expansion of P-cards is the growth of Electronic Accounts Payable (EAP), a non-plastic purchase card account used to pay for goods and services after an invoice has been received. On average, EAP spending is now nearly 60% of total purchase card spending by organizations—up from 49% at the beginning of 2012. Driven by efficiency and cost-savings opportunities, EAP spending is projected to grow at an annual rate of 14% companies through 2019*, referring to total card spend.

Companies today are implementing EAP programs alongside their T&E and corporate purchase cards. By combining the two, organizations are able to harvest the full benefits that P-cards offer.

*Source: 2014 RPMG Purchasing Card Benchmark Survey

Implementing a Successful P-card Program

Companies considering implementation or expansion of a P-card program can benefit by incorporating best practices of industry leaders in purchase card usage.

One of the most important determinants of success is the selection of a seasoned financial payments partner. A bank that has specialized expertise and a commitment to payments technology can play an invaluable role in helping companies from strategy through implementation. In addition, a strong bank partner will continue to work with an organization to optimize P-card utilization on an ongoing basis after the program launch.



Other best practices include:

- Gaining corporate buy-in and executive sponsorship to ensure the project is given a high priority.
- Forming a cross-functional team that is dedicated to the P-card project.
- Completing a thorough vendor-match analysis to gain insight into the overall card opportunity and determine where to target P-card spend. Your bank partner can often provide meaningful assistance with this.
- Building a business case that includes a review and documentation of the current procurement process and costs, determination of the costs of paper management vs. purchasing card utilization, deciding on the mix of P-card types to use, and quantification of the expected return on investment, including potential rebate opportunities.
- Establishing benchmarks against which the program can be measured and forming or modifying expense policies, procedures, and the audit and compliance framework.
- Spreading P-card adoption in all lines of business.
- Developing and implementing a communications and training strategy to keep card users and program participants informed and on board.

Successful programs also track performance diligently to demonstrate the value of P-cards and identify opportunities for expansion.

Making P-cards a Reality at Your Company

An important and widely accepted part of today's electronic payments environment, P-cards help companies optimize cash flow, streamline processing, reduce expenses and safeguard your company from fraud. In addition, P-card programs can enable your company to track expenses, take advantage of supplier discounts and revenue in the form of rebates, and reduce or redirect staff in the accounts payable department.

To learn more about gaining the benefits of a P-card program at your organization, please contact: [Matt Miller, Head of Commercial Cards, KeyBank Enterprise Commercial Payments](mailto:Matt_Miller@keybank.com), at Matt_Miller@keybank.com or 216-689-7683.

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