



Purchasing Card Programs

HFMA Western Michigan Chapter
Meeting March 13, 2008

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Agenda

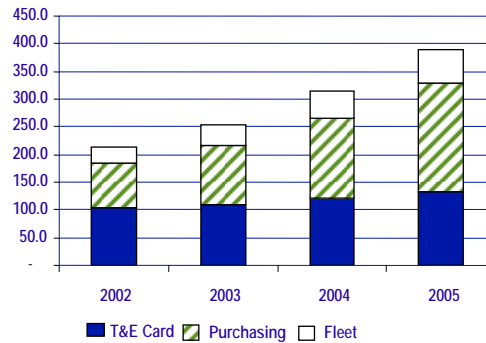
- ✓ Industry Trends
- ✓ Why Purchasing Cards?
- ✓ Considerations in Program Evaluation
- ✓ Best Practices
- ✓ Questions and Answers

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Commercial Card spending continues to grow

Total Commercial Card spending volume reached \$388 billion in 2005



MasterCard International

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U.S. Purchasing Card Industry in 2005

- ✓ Average Monthly Spend = \$1,297,453
- ✓ Median Monthly Spend = \$259,483
- ✓ Average Monthly Spend per Card = \$1,831
- ✓ Average Transaction Size = \$263
- ✓ Average Monthly Transactions per Card = 7.0
- ✓ \$75 Billion in Growth Over Next Five Years; 2010 => \$185B

RPMG Research

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Industry Trends

Historical Goals diminishing in relative importance

- ✓ Reduce processing costs
- ✓ Increase process efficiency
- ✓ Increase convenience for employee
- ✓ Reduce time needed to obtain goods/services

Emerging Goals increasing in relative importance

- ✓ Obtain better data about spending
- ✓ Generate rebates and incentives
- ✓ Increase control over spending
- ✓ Leverage spending to reduce prices
- ✓ Leverage working capital

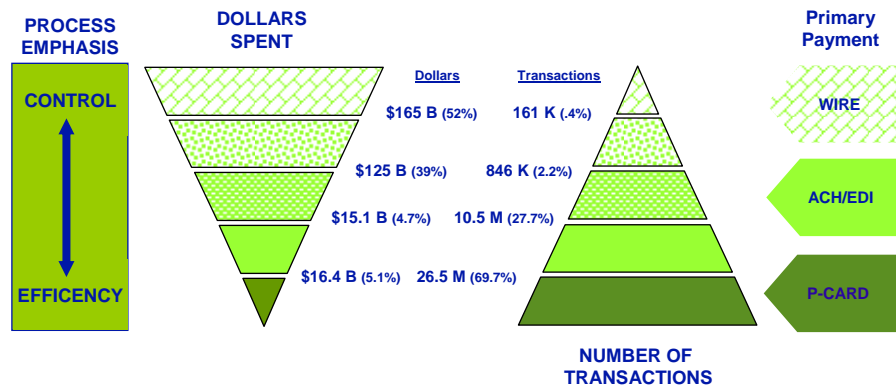
[RPMG Research](#)

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Industry Trends

Using Federal Procurement Data we can validate and evaluate payment types.



Different payment forms can be used where appropriate. Paper checks are still a predominate form of payment.

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Why Purchasing Cards?

- ✓ Estimates of the transactional cost of purchase order and payment process range from \$50 to \$250
- ✓ Purchasing Card efficiencies result in savings ranging from 55% to 90% of this transaction cost
- ✓ Values go beyond transactional savings when you embrace the behavioral changes needed to make a Purchasing Card Program work:
 - Supply base consolidation
 - Reinforcement of general purchasing best practices
 - Significant source of spend information
 - Streamlining payees in the accounts payable system

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Why Purchasing Cards?

Simplify by paying with a Card

- ✓ Receive supplier invoice, pay with a Card
- ✓ Improve “float”

Use as a Check 21 alternative

- ✓ Regain “float” by using a Card

Better manage your supply base

- ✓ Direct purchases to key suppliers
- ✓ Use data for supplier negotiation

Process Improvement = Cost Savings = Improved Working Capital!

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Why Purchasing Cards?

Three big drivers in Treasury:

1. Opportunity to gain greater operational efficiency (70%)
2. Chance to lower cost (50%)
3. Ability to optimize availability of funds (40%)

A Purchasing Card program addresses every driver

Business Finance Magazine Survey

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Evaluating Programs

“One Card” Solutions

Web-based Tools

- ✓ Card Program Analysis
- ✓ Spending Analysis
- ✓ Cost Allocation and Data Integration
- ✓ Customizable Reporting

Program Controls

- ✓ Limits
- ✓ Restrictions (Merchant Category Codes, Transactions)

Card Management

- ✓ Online real-time card maintenance
- ✓ Denial management

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Evaluating Programs

Corporate hierarchy

- ✓ Ability to define your operating structure within the card program
- ✓ Reporting/data flows to hierarchy

Billing cycles and grace periods

- ✓ There are options!
- ✓ Understand impact to rebate opportunity

Rebate opportunity



Best Practices

Key Areas in a Well-Designed Program

- ✓ Establish Program Goals
- ✓ Assess Current Practice and Processes
- ✓ Construct Program Parameters (Design)
- ✓ Supplier Enrollment
- ✓ Establish Policies and Procedures
- ✓ Training and Roll-out

Establish Goals

Establish Goals	Current Processes	Program Design	Supplier Enrollment	Policy & Procedures	Training & Roll-out
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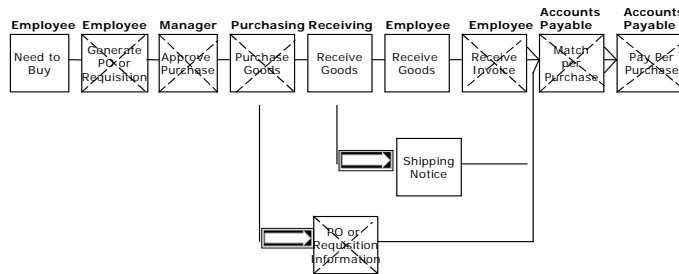
Clearly defined goals and objectives help raise awareness to the opportunity the P-card provides. They need to be specific and quantifiable.

- **Quantify Potential Savings/Earnings**
 - Number of PO's eliminated
 - Number of checks eliminated
 - Supplier consolidation
 - Float benefit
 - Rebate Earned
- **Process Efficiencies**
 - GL default allocation
 - ERP integration

Process Mapping



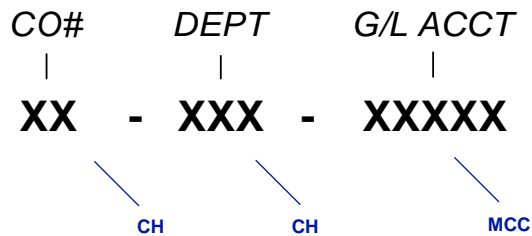
- Map out and document current procurement process.
- Identify steps eliminated by using p-card and identify potential obstacles.



Process Mapping



- Identify necessary approvals and controls.
- Define accounting string and understand the driver for each segment.



Program Design



Card Controls

- Who is eligible for a card
- Authorization limits
- Velocity restrictions
- MCC profiles

	YOUR ORGANIZATION			
	Purchasing Officer	Traveling Salesperson	Fleet Driver	Executive Officer
MCC Profile	Purchasing	All	Fleet	T&E
Cycle Limit	\$75,000	\$5,000	\$500	\$35,000
Purchase Limit	\$5,000	\$1,000	\$100	\$10,000
Daily Limit	No	No	\$150	No
Annual Limit	\$500,000	\$50,000	No	No

Supplier Enrollment



Broad acceptance of the P-Card by suppliers is necessary for a successful program. A defined approach to enlisting suppliers will expedite the setup.

Elements of this include:

- ✓ Perform a vendor match
- ✓ Prioritize suppliers who currently accept card
- ✓ Determine data-level requirements
- ✓ Communicate with suppliers
- ✓ Develop supplier action plan

Policy & Procedures

Establish Goals	Current Processes	Program Design	Supplier Enrollment	Policy & Procedures	Training & Roll-out
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- ✓ Business case which explains to employees the importance of using the process
- ✓ Cardholder agreement of responsibility
- ✓ A definition of targeted transactions as well as those which are excluded
- ✓ HR policy documenting how misuse will be enforced
- ✓ Lost/Stolen procedures
- ✓ Dispute Process
- ✓ Cardholder process for verifying and reconciling all account activity

Training

Establish Goals	Current Processes	Program Design	Supplier Enrollment	Policy & Procedures	Training & Roll-out
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- ✓ Data management – Train the trainer
- ✓ Customized training material - Quick reference guides
- ✓ Review of processes and internal contacts
- ✓ Require cardholders to complete training session to receive card
- ✓ Ask senior management to kick off training session

Best Practices: High Performing Card Programs

- ✓ Broad distribution of cards
- ✓ Identify ghost account opportunities
- ✓ New card concepts still emerging (AP, Ghost, Department Cards)
- ✓ Card use policy
- ✓ Integration with technology
- ✓ Higher spending limits, driving more active card use
- ✓ Expanded span of acceptable purchases
- ✓ Continuously review for program opportunities

Best Practices: High Performing Card Programs

- ✓ Perform a payments process analysis
- ✓ Quantify purchasing card ROI
- ✓ Garner senior managements strong endorsement (mandate)
- ✓ Set & Track performance goals
- ✓ Provide comprehensive training and communications
- ✓ Optimize purchasing card deployment (to at least 25% of employee base)
- ✓ Manage supplier relationships
- ✓ Form a cross-functional project team
- ✓ Rationalize expense policies & procedures
- ✓ Manage supplier relationships



Questions?

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