

VISA COMMERCIAL SOLUTIONS 
GLOBAL PROCURE-TO-PAY AND
COMMERCIAL CARD BEST PRACTICES

New perspectives on commercial card benefits during a difficult economy.



In response to a weaker global economy, today's corporate leaders and financial executives are refining their focus on the efficiency of their business operations and cash management processes. An effective and efficient approach to managing working capital has become critical in an era of tightening credit where adequate cash flow is paramount in maintaining liquidity and sustaining business operations.

Within this challenging environment, the value of commercial payment cards is becoming more apparent when it comes to streamlining the management of your company's cash flow and related payment processes. A commercial card program can help you strengthen your cash management function, refine your focus on strategic supplier relationships, improve spending controls, streamline payment processes and operate more efficiently in an adverse economy. Gaining a new perspective on these many benefits of commercial cards, and taking the appropriate steps to put them in place at your company, can help boost your bottom line in a variety of ways.

Cash management and working capital

Today's corporate financial executives are being driven by the tough economy to find better and more efficient ways to manage their cash, improve liquidity and maintain working capital. When maintaining capital becomes more difficult due to declining access to credit, companies can become more adept at better managing existing cash resources. This takes on added significance when considering that three-quarters of financial executives expect access to credit will be a major factor affecting their business over the next 12 months.¹

Moreover, corporate financial executives see the lack of streamlined operational processes as the leading challenge to cash management process efficiency.² Utilizing a commercial card program to more efficiently manage company payables, and then optimizing the card program to help streamline cash management processes, can be an effective way to help maintain higher levels of working capital and improve liquidity in response to declining access to credit.

Commercial cards may also enable longer payment cycles than checks and provide the financial data necessary to help accounts payable more efficiently manage your company's cash position. Longer payment cycles are the result of consolidating purchases on cards so that only a single monthly payment to the card-issuing financial institution is required instead of separate more frequent payments to individual suppliers. For example, if your company pays its card balance every 25-30 days, you might be able to extend your payables cycle by another 15 days while your suppliers have been paid by your financial institution within just 1-2 days of charging the commercial card.

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¹ Association of Financial Professionals, 2009 *Business Outlook Survey*.

² Visa Inc., 2008 *Global Cash Management Survey*.

Buyer-supplier relationships

In a difficult economic environment, improved purchase terms become a high priority for buyers and better payment terms take on added importance for suppliers. Because of the flexible functionality of card programs, the needs of both buyers and suppliers can be much more easily met than with traditional paper-based payment and reconciliation methods.

As a buyer, your company wants the assurance that key suppliers stay in business. Therefore, you may be increasing your focus on these strategic relationships to make sure your suppliers get paid in a timely manner to help them better deliver the goods and services you need. In addition, data available through electronic reporting from card issuers helps you better analyze what you're buying and from whom. This allows you to more easily consolidate purchases with a smaller number of key suppliers. Your suppliers can benefit from this increased loyalty that may translate into greater business revenue for them and you could enjoy higher levels of strategic sourcing and more favorable negotiated pricing.

Card programs can help benefit your key suppliers because they may get paid sooner and in a more consistent manner, thus reducing the cost of funds. Suppliers are relieved of the stress associated with determining credit worthiness of a buyer, risks that accompany check acceptance and the costs of tracking late payments or a collections process. In a difficult economy, the value proposition of a reliable payment process may be changing supplier perspectives on the perceived costs associated with card acceptance.³

Visibility into spend

During a difficult economy, enhanced visibility into company spending and the ability to better analyze expenses can contribute to cost reduction and more efficient operations. In order to run a business at the highest levels of efficiency, it's important that you have a clear, detailed and more holistic view of what employees are buying, from whom they are buying and at what price. Key to this process is the assurance they're making approved purchases from preferred suppliers and that the company is taking full advantage of negotiated pricing and payment terms.

Commercial card programs are valued for their ability to deliver a high level of spending visibility by means of detailed purchase information from suppliers who provide enhanced transaction data. Many financial institutions that issue commercial cards have improved their reporting technologies to provide real-time access to key reports and electronic data feeds that seamlessly integrate with your company's spend analytics. In addition, card issuers are helping companies by conducting spend analyses to identify Visa-accepting suppliers in an effort to move more payments to cards instead of costlier and less efficient paper-based transactions. All of this can add up to better management of company payables and measurable cost savings that migrate to your bottom line.

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³ Association of Financial Professionals, *Minding Both Sides of Balance Sheet*, 2008.

Control and compliance

Achieving greater control over company payables and increasing compliance with both company and regulatory requirements takes on added importance during difficult economic times. Since a high percentage of your company's indirect spend may be in the hands of employees, increased employee accountability is vital. Card programs can play a significant role in this area by providing the controls, reporting, tracking and audit visibility required for financial officers to demonstrate that their payables are within company control guidelines. Enhanced transparency through better data reporting and analysis may also help improve compliance with external regulatory requirements such as Sarbanes-Oxley (SOX).

Key control-related functions of commercial cards that can foster greater employee accountability include merchant category code blocking, monthly spend and individual transaction limits, integration with company-wide manager approval hierarchies and customized usage reports provided by card issuers. These control-related reports can help reduce fraud potential and can increase employee compliance with company spend and payment strategies.

Process efficiency and cost savings

As the economic downturn puts increasing pressure on company profitability, expense management professionals may feel corresponding pressure to reduce costs. Despite this challenge, a weak economy provides an opportunity to look for new ways to transform your business and improve performance. Corporate financial professionals can provide leadership to help improve internal process efficiency that can result in both immediate cost savings as well as long-term value for your organization.

Transitioning from paper-based payment and reconciliation methods to electronic payment and reporting can be a key source of new process efficiency and cost savings. A commercial payment card program that is fully integrated and automated within your accounts payable function can be one of the most effective ways to achieve this. Corporate financial executives cite the reduction of administrative and process costs, as well as process streamlining leading to cost reduction, as leading benefits of commercial cards.⁴

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⁴Visa Inc., 2008 Global Cash Management Survey.

Also, industry research reveals that the fully-allocated costs when using a commercial payment card versus traditional paper-based payment and reconciliation methods are reduced by 78 percent, resulting in an actual average cost savings of \$69 per transaction.⁵ When considering the number of individual purchase transactions your company may make on an annual basis these savings can add up quickly. In addition, issuing financial institutions may offer incentives to encourage optimization and greater use of their commercial card programs.

Best practices that deliver results

As a leader in providing global commercial payment solutions, Visa has conducted a comprehensive study of leading-edge companies from across the globe that are maximizing the benefits of commercial cards in streamlining their procurement and payment processes. With the *2008 Visa Global Procure-to-Pay and Commercial Card Best Practices Study*, you can benefit from companies who have applied commercial card best practices to achieve measurable results to their bottom line by using their experience to help your company achieve its goals.

Following are just a few examples of what best-practice companies in a range of industries were able to achieve:

- A \$30+ billion global media and entertainment company achieved over \$100 million in annual cost savings by strategically sourcing direct and indirect spend categories.
- An \$800 million global manufacturing company was able to reduce its supplier base 70 percent from 4,500 to 1,300 through rationalization and formal supplier management. Of the 1,300 remaining suppliers, the top 100 suppliers represented over 80 percent of the company's total spend.
- A \$2.5 billion global technology company established a goal of moving all suppliers to electronic forms of payment, including EFT and purchasing card. In just over one year, the company had shifted 85 percent of its payments to electronic methods.
- A \$7.5 billion global manufacturing company realized over \$350,000 in process savings by moving non-purchase order transactions under \$1,500 to the purchasing card.

You can benefit from companies who have applied commercial card best practices to achieve measurable results to their bottom line.

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⁵RPMG Research Corporation, *2007 Purchasing Card Benchmark Survey Report*.

Thought leadership you can trust

Continuing a long tradition of commitment to thought leadership in global commercial payments, Visa commissioned Deloitte Consulting to conduct the best practices research. In this latest study, you'll gain valuable insight from research and market intelligence to help improve business processes in response to current economic conditions. Past studies revealed how procedural shifts led to significantly improved business performance and profitability. Early best practices included:

- Implementing an automated end-to-end financial process
- Using supplier relationship management tools
- Incorporating full data integration to provide enhanced reporting and spend analytics
- Adopting control and compliance measures

These changes in business practices remain important and continue to be recommended in the current best practices study. However, in 2008 new best practices have emerged as equally critical, particularly in the areas of:

- Creating visibility and mainstreaming commercial payment initiatives
- Socializing initiatives with corporate executives and staff
- Utilizing cross-functional teams with centralized management
- Implementing full systems integration with enterprise applications
- Committing to ongoing program optimization

The objective of the 2008 study is to better understand changes in commercial payment best practices across the entire Procure-to-Pay process and within commercial card programs. Analysis of the Procure-to-Pay process covers sourcing, order placement, payment and settlement, reconciliation, control and audit, and reporting. And for commercial card programs, the focus is on strategy, management and reporting. The result is a comprehensive review of global best practices you can use to help ensure that your Procure-to-Pay process and commercial card program match the best in the business with accompanying efficiency-driven cost savings that can help boost your bottom line during these difficult economic times.

Learn from industry leaders

The 2008 *Global Procure-to-Pay and Commercial Card Best Practices Study* uncovered key findings and emerging trends that can help improve your card program and Procure-to-Pay process.

1 Align with corporate goals

Integrate commercial card program objectives into enterprise-wide performance improvement initiatives. Integration allows for consistency in strategy and execution. And encourages companywide compliance. Key emerging trends:

- *Integrate the commercial card into enterprise-wide cost reduction initiatives.* Executives at leading companies have adopted cost-saving goals of 5 to 15 percent and view the commercial card as a mechanism for achieving those goals.⁶
- *Integrate the commercial card into corporate green initiatives.* Leading companies are increasingly focused on reducing their carbon footprint. They have incorporated card programs as a way to reduce dependence on paper.

2 Secure buy-in at the highest levels

Gain ongoing support from senior management and key stakeholders. By encouraging key executives to actively participate in the development and implementation of the Procure-to-Pay and commercial card strategies, the programs gain companywide credibility and stature as a critical means of achieving corporate performance goals. Key emerging trend:

- *Share performance scorecards with senior management.* Leading companies know that keeping open communication with senior management is critical for program success. This is why best practice companies schedule regular meetings to share program performance.

3 Make Procure-to-Pay a center of excellence

Establish center-led management of the Procure-to-Pay process and commercial card program. Centralized management allows companies to align goals, improve cross-functional communication and drive process standardization. Key emerging trends:

- *Create a dedicated Procure-to-Pay shared services organization.* Improve communication between employees who perform different job functions by establishing central program management. Over 90 percent of study participants had established a centralized shared services organization.
- *Establish employee performance goals.* Ensure employees understand and follow uniform program procedures by developing specific performance metrics that align with your company's overall Procure-to-Pay objectives.

After implementing a purchasing card program, one study participant was able to reduce its carbon output by almost 150 tons. This savings was based on the reduction of 38 million sheets of paper associated with check transactions.

⁶Survey of Fortune 500 Financial and Operational Executives, Deloitte Consulting, 2007.

4 Automate from start to finish

Implement an end-to-end automation strategy for every step in the Procure-to-Pay process. By incorporating technology throughout the entire Procure-to-Pay process, companies can improve process efficiency, enhance spend visibility and optimize internal resources. Companies are implementing Enterprise Resource Planning (ERP), e-Procurement and expense-reporting technologies. The key to success is the integration of all into one smooth operation. Key emerging trends:

- *Evaluate accounts payable automation solutions.* This can help companies make more timely payments while improving the ability to take advantage of early payment discounts.
- *Implement an Evaluated Receipt Settlement (ERS) solution.* This process automatically triggers approval for payment based on a two-way match between Purchase Orders and goods receipts, eliminating the need for invoices.

5 Design program parameters

Establish a commercial card program management framework. Development and communication of a program framework allows companies to address cardholder needs while maintaining a high level of compliance and control. For leading companies, a standard framework typically includes issuance criteria, parameters for eligible purchases, policies, procedures and training requirements. Key emerging trends:

- *Establish mandatory training with testing requirements.* Leading companies not only provide commercial card training to their employees, but also require cardholders to pass a test to ensure the highest level of compliance.

Study participants that implemented mandatory training with testing requirements established a minimum passing score between 80 and 100%.

- *Mandate commercial card use for eligible purchases.* Maximize the benefits of commercial cards, such as increased spend visibility and processing agility, by enforcing employee use of cards for all eligible purchases.

One study participant used Evaluated Receipt Settlement for its large, direct materials suppliers. When combined with the purchasing card program for indirect material suppliers, this process allowed the company to automate over 65% of its payment process.

6 Manage suppliers strategically

Establish a formal supplier management program. Developing a center-led program for the selection and ongoing management of suppliers allows companies to take a strategic view of the supplier relationship. Supplier management programs provide a consistent approach to strategic sourcing, supplier rationalization, negotiation and ongoing performance monitoring. What's more, these programs can provide companies with significant cost savings. Key emerging trend:

- *Develop a contract lifecycle management process.* Leading companies use third-party solutions to support and automate the stages of the contract lifecycle, from drafting to renewals. This creates standardization and consistency of contract terms, ease of management and optimized internal resources.

7 Improve controls

Develop an enterprise-wide controls strategy for your Procure-to-Pay process and commercial card program. A comprehensive Procure-to-Pay controls strategy improves compliance, mitigates risk and ensures successful execution. Address ownership, policies, procedures, technology and audit processes in your controls strategy for greatest benefit. Key emerging trend:

- *Minimize receipt storage requirements.* By integrating the commercial card data into expense management systems, innovative companies minimize the number of receipts they need to retain while ensuring key data for controls is readily available.

8 Evaluate Procure-to-Pay continuously

Commit to ongoing scrutiny of Procure-to-Pay processes to identify improvement opportunities. This ensures the ability to target maximum efficiencies in your commercial payments program and growth in your bottom line. Key emerging trend:

- *Benchmark the Procure-to-Pay process.* Innovative companies use external benchmarks to identify improvement opportunities by comparing themselves to their industry peer group.

One study participant eliminated paper receipt requirements (with the exception of out-of-pocket expenses greater than \$75). The company maintained electronic receipts by integrating the corporate card purchase data, including the hotel folios for bookings made through the travel agency, into its expense management system.

9 Pursue card optimization

Expand review and identification of commercial card optimization opportunities.

Drive ongoing incremental benefit to the bottom line by regularly reviewing the existing commercial card program and usage. This allows you to identify optimization opportunities, including new spend categories, more suppliers who accept card payment and desirable changes in program management (such as issuance criteria, and transaction and monthly limits). Key emerging trends:

- *Identify innovative card uses.* Leading companies identify new commercial card uses, including meeting/event cards, ghost cards, virtual accounts and Accounts Payable cards, to consolidate and control even more of their spend.
- *Communicate card benefits to non-accepting suppliers to encourage card acceptance.* To gain more spend visibility and control, companies are developing formal strategies to increase supplier acceptance. These include methods to identify, prioritize and communicate with non-accepting suppliers.

10 Crunch the numbers

Use enhanced reporting and analytic tools to monitor and optimize spend.

Consolidating data from multiple sources enables rigorous analysis and reporting on the Procure-to-Pay process and commercial card programs. This provides enhanced spend visibility, improved management of supplier relationships, identification of improvement opportunities and monitoring of compliance.

Key emerging trends:

- *Use enhanced data to support supplier negotiations, compliance tracking and tax reclamation.* Leading companies use Level III data derived from their card program spend to help them better understand, manage and leverage line-item purchases. Level III data includes transaction-level details such as number of units, unit description, commodity code and line-item amount as well as travel itinerary and hotel folio details.
- *Capitalize on issuer and/or provider analytical tools and consultative support.* Leading companies use sophisticated analytical tools and expert services offered by their commercial bankers or other third-party providers to identify, implement and measure performance enhancements.

Companies' commercial card program policies and procedures have evolved over the years to keep up with changing market conditions. For example, the average monthly credit limit for the 2002 Best Practices study participants was \$14,800; the average for the 2008 participants had almost doubled to \$26,000.⁷

Working with its issuer, an insurance company participated in a Visa Program Optimization review, which identified \$12 million in process savings and opportunities to expand the commercial card program by over \$75 million.

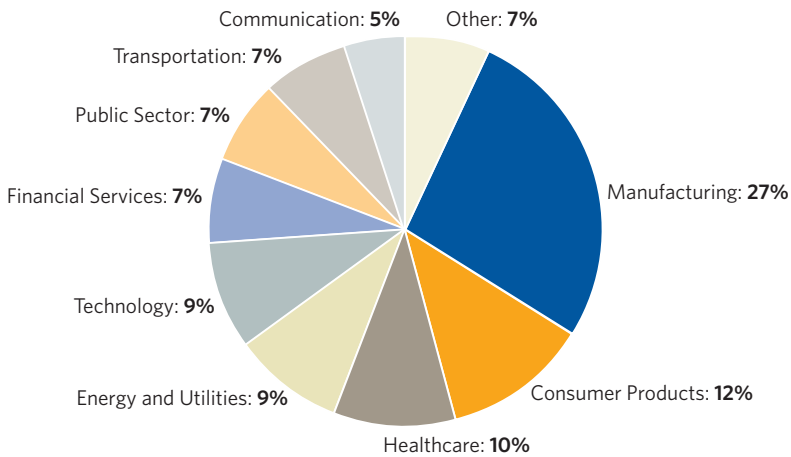
⁷ 2002 Visa Procure-to-Pay and Commercial Card Best Practices Study; 2008 Visa Global Procure-to-Pay and Commercial Card Best Practices Study.

Designed for maximum utility

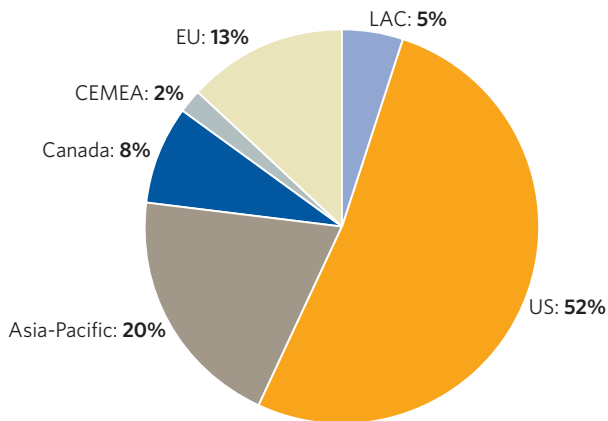
Study methodology was designed for wide reach, inclusive coverage and broad application. Visa commissioned Deloitte Consulting to conduct 90 in-depth interviews in the summer of 2007 with more than 60 global/multinational, mid-size and large corporations as well as federal and local government agencies across the world. Interviewees included Regional Controllers, Chief Procurement Officers, Directors of Strategic Sourcing, Procurement Managers, Accounts Payable Managers, Global/Regional/Local Commercial Card Program Managers and Travel Managers.

Study participants had a range of commercial card programs in place, including purchasing card, corporate card and commercial “one” card programs with each of the top three card providers: Visa, MasterCard and/or American Express.

Study Participants by Industry



Study Participants by Region



Get the whole story

The key findings included in this Summary were selected from a collection of 63 best practices from leading companies around the world.

To request the complete *2008 Visa Global Procure-to-Pay and Commercial Card Best Practices Study*, contact your commercial banker.

Note: Survey results, research and practice recommendations are intended for informational purposes only and should not be relied upon for marketing, legal, technical, tax, financial or other advice. When implementing any new strategy or practice, you should consult with your legal counsel to determine what laws and regulations may apply to your specific circumstances. Visa is not responsible for your use of the information, including errors of any kind, or any assumptions or conclusions you might draw from its use. Much of the information contained in this document applies internationally, but a certain amount of information applies only to certain countries or regions. Although Visa tries to mark all country- and region-specific information with a country indication, it does not warrant or represent that all information without indication applies internationally. You should check the applicability of any information in this document to you or your organization.