

# One Card Versus Multiple Card Products

What Every Organization Should Know

Executive Summary



## Introduction to One Cards

The *one card* – a single charge card that combines procurement with travel and entertainment (T&E) features, and, in some cases, fleet and phone charges – is an emerging alternative in the commercial card marketplace. Visa Issuers have provided one card programs since at least 1994, and report high levels of satisfaction among users. In addition, as they evolve, one card programs are gaining visibility as an increasing number of corporations consider them as replacements for more traditional multiple card programs.

With traditional multiple card programs, organizations use separate physical cards to charge different types of purchases: purchasing cards for procurement of general goods and services, T&E cards for expenses incurred while traveling, and fleet cards for fueling and maintaining company-owned cars and trucks.

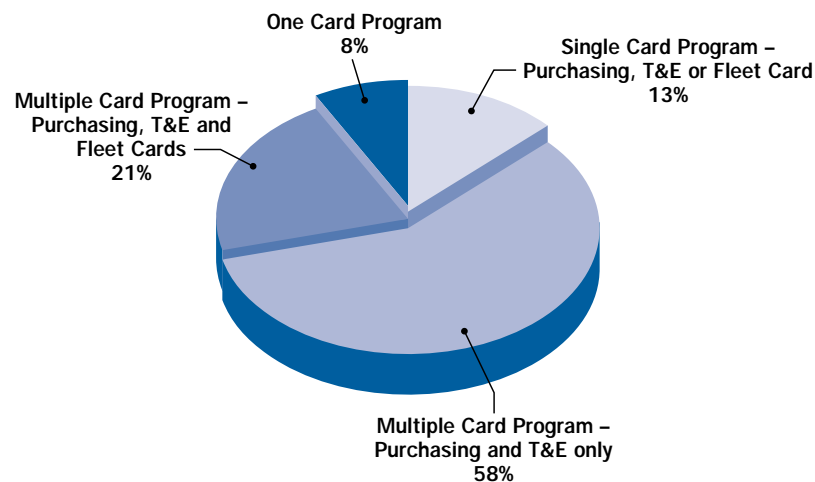
One card programs can be attractive alternatives to traditional multiple card programs, offering the opportunity to enhance employee convenience and provide incremental savings opportunities.

### The Position of One Cards in Today's Marketplace

In May, 1999, Visa U.S.A., in conjunction with Hackett Benchmarking Solutions and AnswerThink Consulting Group Inc., conducted a comprehensive study of the commercial card market, with survey responses from approximately 200 participants across a variety of industries, organization sizes, and card program providers. In-depth interviews were conducted with an additional 30 targeted participants.

The results of the *Commercial Market Assessment Study* (the Study) showed that one card programs have existed for a number of years, with slightly under 10 percent of respondents reporting use of one card programs.

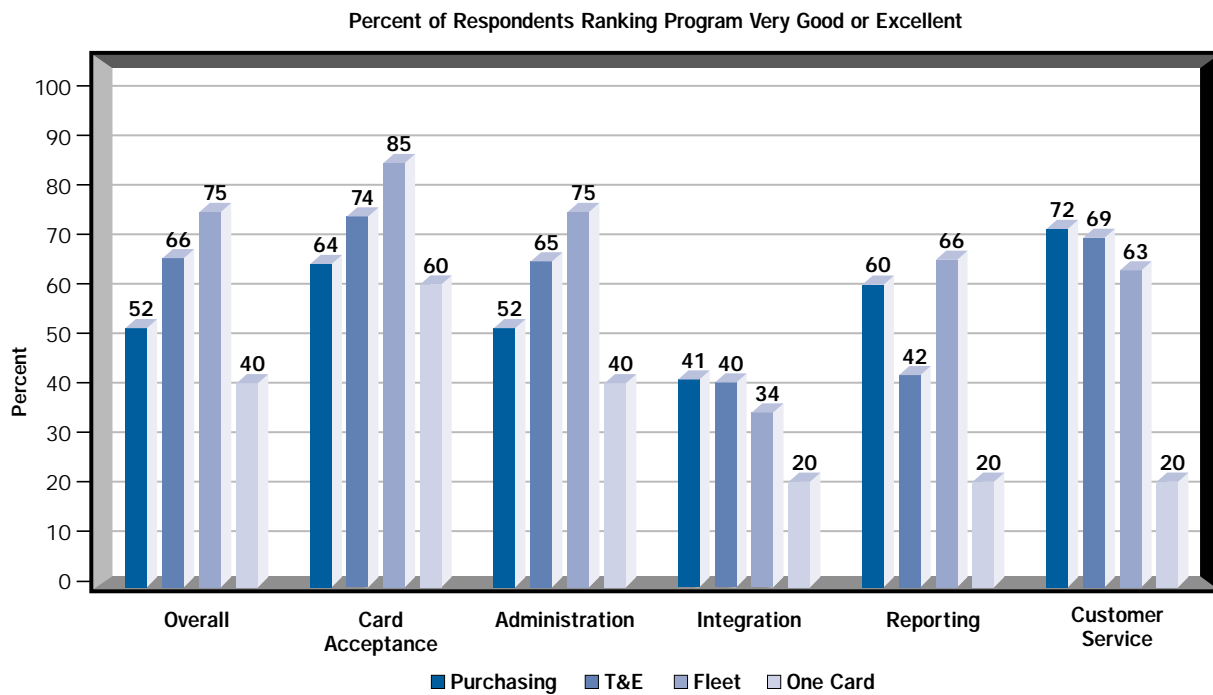
Of the 8 percent using a one card program, 3 percent reported using a card for purchasing, T&E and fleet expenses, while 5 percent used the card for only purchasing and T&E charges.



## Are One Card Programs a Better Solution?

The Study findings were mixed. While most Study respondents indicated they would consider a one card program, more than one third of the respondents were not interested even if the product met all of their business requirements. Some who were not interested expressed concern that the suggested benefits of one card programs are not realistically achievable in their business environment. For others, different card products emerged to meet specialized needs of different market segments. Consolidating multiple purchase types onto a single card requires some trade-offs and process reengineering that these organizations could not justify.

Current users feel one card programs are a superior choice. Of the 8 percent of respondents with one card programs, an overwhelming majority, 88 percent, preferred them to multiple card programs used in the past. Despite this finding, when asked to rate their program on a variety of attributes, the one card programs received fewer “very good” or “excellent” ratings than did the separate purchasing, T&E and fleet programs. However, with a smaller number of one card participants, these rankings may be more easily skewed.



## Anticipated One Card Benefits

According to the Study, participants expected one card programs to provide:

- ▶ Enhanced cardholder convenience from using a single card instead of carrying multiple cards for different purposes.
- ▶ Increased efficiency resulting from having a single contract with a single card Issuer for all commercial cards, as well as increased revenue sharing opportunities.
- ▶ Reduced cost from a centralized administrative staff supporting all commercial cards.
- ▶ Additional savings associated with consolidating all commercial card transaction accounting to a single process including billing, reconciliation/allocation, financial system posting, and payment.
- ▶ Increased leverage when negotiating with suppliers as a result of the consolidation of card volume reporting.

Interviews with users of one card programs indicated that organizations have been able to realize these benefits. Although, it should be noted that some of these benefits are not exclusive to one card programs. They can be achieved, to varying degrees, by integrating administration and/or reporting for existing multiple card programs.

## Should Your Organization Use a One Card?

While many users prefer one card programs, and they offer incremental savings, they are not for every organization. Prospective users will find that consolidation of existing multiple card programs – each with its own functional, process and control issues - into a single platform will require some changes to existing policies and procedures.

To help you evaluate if a one card program is right for your organization, this section outlines the major issues that should be considered.

### Program Management and Administration Considerations

Survey participants expect a one card program to streamline program management and administration, and to provide cost savings from a smaller, centralized administration staff and through consolidation of financial institution relationships.

To some extent, these benefits can be obtained by integrating support for multiple card programs. When deciding between a one card program and multiple card programs, either with or without integration, organizations should consider:

- ▶ **Relationship(s) with existing providers.** One card programs can increase negotiating leverage and streamline relationship maintenance. Although for some organizations, maintaining relationships with two or more card providers is not an issue. Other lending or cash management relationships can influence the service provider decision(s), and multiple card programs provide flexibility, giving organizations the option to consolidate programs with a single provider or to split the business between financial service providers.
- ▶ **The degree of overlap between cardholders.** Organizations with a high degree of overlap between purchasing and T&E cardholder populations will benefit more from implementing a one card program, since they have the opportunity to substantially reduce the number of accounts managed. If the cost and effort to maintain multiple additional accounts is not significant, then reducing the number of accounts will not result in material savings.
- ▶ **Complexity of spending controls.** Companies that have a number of spending control profiles, and that vary these controls by cardholder, may find that maintaining different account numbers for different purchase types facilitates administration of these controls.
- ▶ **Support staff expense.** If the size of the program support staff cannot be reduced substantially, or if only lower paid positions can be eliminated, the potential savings from implementing a one card program, or from integrating support of multiple card programs, may not justify the effort.
- ▶ **Impact of corporate culture.** Administration of existing card programs is usually controlled by different departments e.g., purchasing controls the purchasing card program, finance controls the T&E card program, etc. The philosophies of these departments regarding program management and administration may vary. As companies shift responsibilities from one department to another during centralization of program administration, resistance can be encountered. Overcoming strong departmental differences will require support from senior management.

## Program Liability Considerations

Adoption of a one card program may require changes to existing liability structures, while use of multiple cards facilitates use of different liability structures for different types of purchases. For every card issued, someone is held liable for ultimate payment of authorized transactions. Card Issuers typically offer one of three different liability structures on commercial card products. Corporate liability places responsibility for payment of card charges with the company, while individual liability places responsibility for payment on the individual cardholder. Contingent liability places responsibility for payment of card charges with the individual and, in the event of cardholder default, holds the company ultimately responsible for payment.

When deciding upon which approach is best, organizations should consider:

- ▶ **Willingness to accept corporate liability for all transactions.** Some organizations already use corporate liability with all of their card programs, so this is not an issue. Organizations that use programs with individual liability face changing to corporate liability, adopting split liability, or continuing to use multiple cards. Employees tend to like corporate liability, since it does not require them to qualify for the card based on their own credit-worthiness. Changing from individual to corporate liability may have more of an impact if employees charge non-reimbursable expense to the card or if cash advances are permitted, since new tracking procedures may be required.
- ▶ **Potential for use of split liability.** Not all service providers offer split liability, so if an organization requires this feature, the choice of providers may be limited. In addition, organizations considering a one card program should discuss split liability functionality with the potential service provider to ensure they are comfortable with the benefits and limitations of this alternative. Some organizations have found that assigning liability based on Merchant Category Codes does not meet their needs.

## Transaction Accounting Considerations

Based on the results of the Study, companies with existing multiple card programs often have different transaction accounting processes for multiple card programs. Multiple card programs facilitate use of processes tailored to the transaction type and allow organizations the flexibility to streamline or to standardize practices across card programs. One card programs usually require implementation of a single, unified transaction accounting process, which can result in cost savings. Factors to consider are:

- ▶ **Importance of consolidated workflow.** Some organizations find that streamlined commercial card transaction accounting procedures result in significant savings. The increase in efficiency depends on the new procedures adopted and the inefficiency of the existing procedures. However, if there are significant savings available from reengineering the transaction accounting process, much of the benefit may be available even if the physical cards are not combined.
- ▶ **Existing differences in transaction accounting.** To evaluate the feasibility of a unified workflow, organizations with existing non-integrated multiple card programs must review the entire transaction accounting process to identify differences in existing practices. Because existing procedures may have been established to meet specific control needs, whether real or perceived, organizations may find that the corporate culture, or internal auditors, will not allow for changes necessary to unify procedures.

- ▶ **Importance of maintaining segregated transaction accounting.** Some organizations may be interested in one card programs for cardholder ease or other benefits, but want to retain existing segregated accounting procedures. This approach limits the benefits of a one card program, but there are alternatives for such companies. Organizations can segregate transactions by type, either through split billing, or through use of an electronic feed from the card provider. The company can use the electronic feed to segregate the transactions by type, e.g., by using Merchant Category Codes, or by allowing cardholders to designate transaction type during the review and allocation process.

## Tax Compliance Considerations

Due to the complexity, the tax department should be actively involved with any proposed change to existing programs – be it adoption of a one card program or integration of transaction accounting for multiple card programs. Consider:

- ▶ **Impact to Use Tax Calculations.** Calculation and accrual of state use tax liability is an important aspect of managing a purchasing card program, yet is not a significant consideration with T&E expenditures. When considering implementation of a one card program, existing use tax calculation procedures should be reviewed to ensure any impact is properly mitigated.
- ▶ **IRS Documentation Requirements.** In order to deduct certain travel and entertainment expenses, the IRS has documentation requirements which must be fulfilled. Often this information is gathered during the expense reporting process, but some one card programs have substantially reduced expense reporting as part of the reengineering. Organizations must consider how documentation required by the IRS will be gathered and retained.

## Transaction Information Considerations

Use of a single card may reduce the information available about the purpose of the transaction. Multiple card programs enable the user to select a card type based on the nature of the transaction – e.g., using a corporate card for fueling a rental car versus using a fleet card for fueling a company car. With one card programs, organizations lose the ability to use choice of card to differentiate transactions within merchant type. Organizations considering a one card program should review:

- ▶ **Merchant Category Code Usage by Card Type.** Analyzing historical usage by card type will show Merchant Category Codes, like service stations and restaurants, where selection of card type can provide additional data. Each organization must determine if this type of information is important to them, and if so, if there are other low-effort methods of obtaining this data.

## Which Program to Choose?

While some are positioning one cards as the next great revolution in commercial card programs, the real answer to the question as to whether or not they are a better solution is, “It depends.” A number of organizations will embrace the concept and find that a one card program is a better solution for them. For other companies, the trade-offs required, especially the changes to the existing liability structure, may be too significant to support adoption of the one card solution.

Among Study participants who used and expressed satisfaction with one card programs, most had a common profile that included a significant business process reengineering focus and emphasized process efficiencies and cost reduction over control. Among the common critical success factors driving these programs were:

- ▶ **Management mandate to consolidate the administrative support units.** This is necessary to overcome cultural and territorial issues.
- ▶ **Willingness to reduce stringent approval and review techniques as prerequisites for allocation and payment/reimbursement of charged expenses.** Because of the changes required in the accounting process, a company with a one card may have to pay the Issuer before it completes the entire transaction review, allocation and approval process.
- ▶ **More frequent use of back-end management exception reporting to enforce program controls.** Compared to purchasing cards, T&E cards have fewer up-front controls on usage. One card programs require more flexible up-front authorization controls than stand-alone purchasing cards, since they must meet a variety of needs. As a result, transactions which may not comply with company policy cannot be prevented as easily, which means compliance monitoring must be done after the transaction has occurred.
- ▶ **Increased use of technology to provide downloads of charged expenses, automated application of control parameters, and automated allocation of expenses.** Several of the one card users made use of technology (e.g., Issuer-provided or internally developed tools, or third-party provided travel and expense reporting automation packages which automate account allocation, and statement review and approval) to facilitate consolidation of the transaction accounting and reporting processes.
- ▶ **Adoption of random sampling auditing techniques rather than detailed audits of all expenses and receipts.** Spot checking expenditures for compliance can improve efficiency and may be required due to changes in transaction accounting (i.e. the company may not be getting all the receipts with expense reports, as it use to, making sampling a necessity).

- ▶ **Willingness to accept corporate liability for all one card expenses.** Corporate liability was most commonly used among companies that reported success with their programs. Only 20 percent of respondents used diversion or split billing to segregate central from individually billed charges.

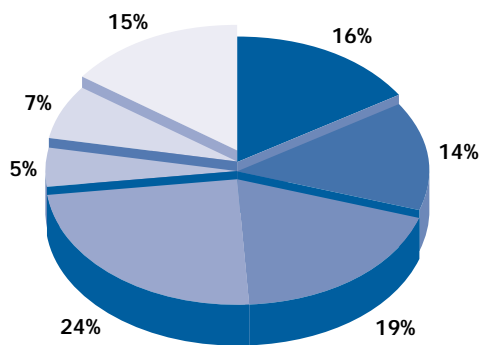
Historically, separate card programs were developed to meet very specific marketplace needs for different types of purchases. Now that organizations have adopted cards as convenient and cost-effective procurement and payment tools, they are pursuing ways to streamline operations even further. One card solutions have the potential to provide substantial benefits over traditional multiple card programs, especially in companies where cardholder profiles overlap significantly and where the organization is aggressively reengineering processes. What is most important is for individual organizations to carefully weigh the many benefits and potential issues related to implementation of a one card program to determine the right solution for their unique needs.

## Appendix – Study Summary

As part of the *Commercial Market Assessment Study*, survey responses were received from 196 organizations across a variety of industry types, organization sizes, and card product providers. Respondents were asked about their organizations’ history, card usage, and opinions regarding current purchasing cards, T&E cards, fleet cards and one card programs. In addition, over 30 interviews were conducted with current and prospective users of one card products.

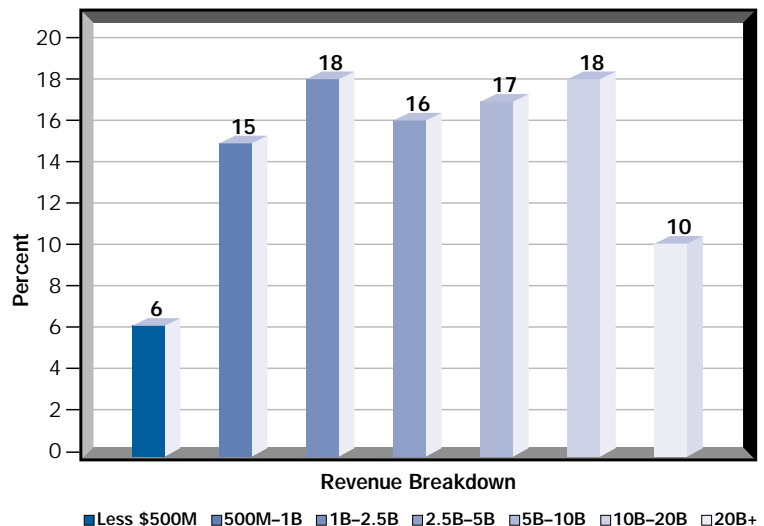
### Study Participant Profile

Percent of Survey Respondents by Industry Type



■ Chemicals & Refining ■ Consumer Products ■ Services – General & Financial  
 ■ General Manufacturing ■ Government ■ High Tech ■ Telecommunications & Utilities

Percent Of Market Survey Respondents by Revenue Group

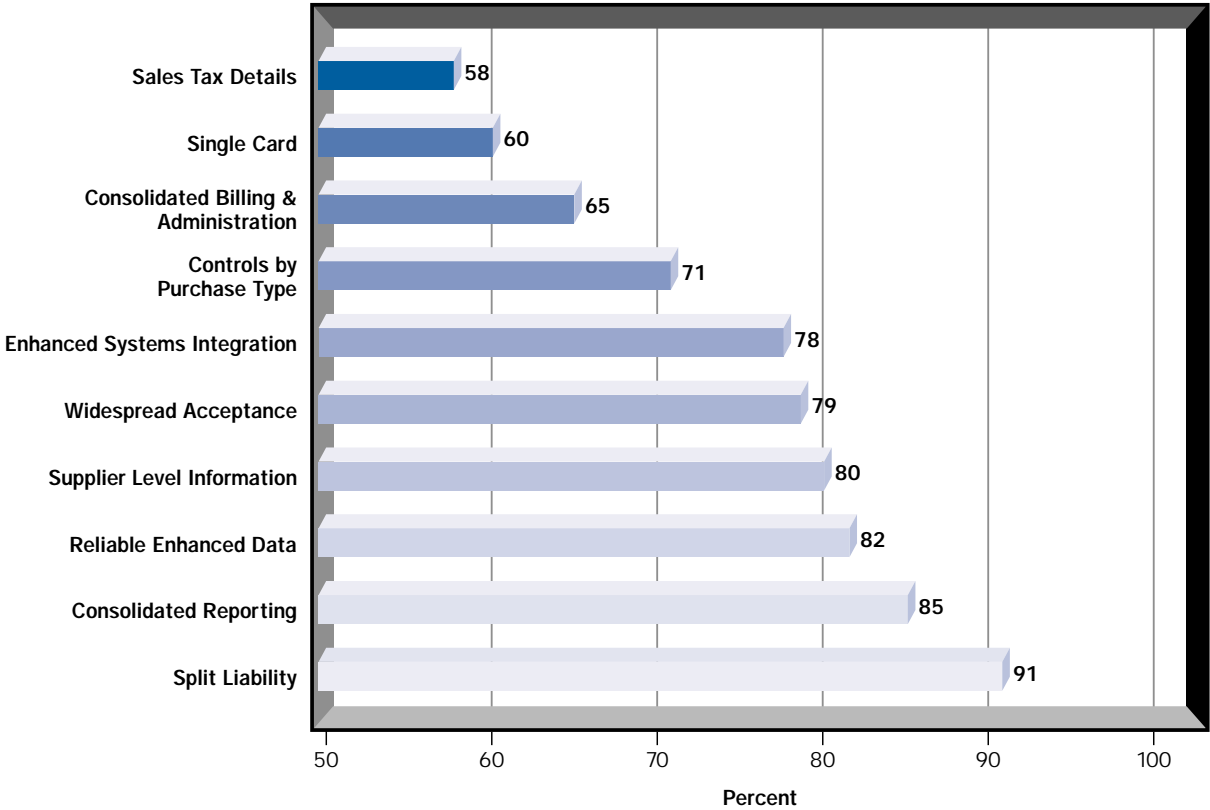


■ Less \$500M ■ 500M-1B ■ 1B-2.5B ■ 2.5B-5B ■ 5B-10B ■ 10B-20B ■ 20B+

### Study Highlights

- ▶ The average respondent switched to a one card program 34 months ago, with the oldest reported one card program implemented in 1994 and the newest less than 6 months old.
- ▶ Conversion to a one card program took the average respondent 4.5 months, with the longest conversion taking 9 months and the fastest taking only 3 months.
- ▶ More than three-quarters of one card programs reported using transaction dollar limits, compared to 94 percent of purchasing card programs and 50 percent of T&E card programs.
- ▶ Almost two-thirds of one card programs reported use of Merchant Category Code blocking to restrict where cards can be used, compared to 94 percent of purchasing card programs and 50 percent of T&E card programs.
- ▶ Over half of the one card programs used corporate liability, as did most purchasing card programs, while 66 percent of T&E card programs used individual liability.
- ▶ Almost three-quarters of the purchasing card respondents receive electronic feeds used to post their financial systems, compared to 26 percent of T&E card users and 10 percent of fleet card programs.

One Card Product Requirements Identified by Percent of Respondents





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