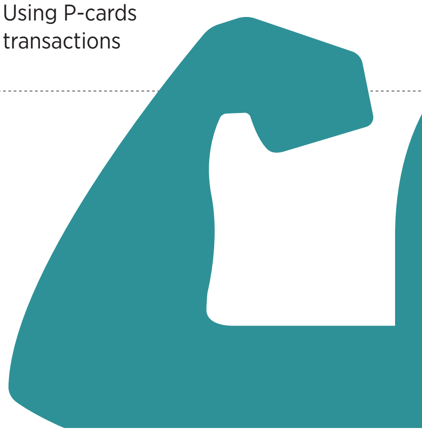
The power of P-cards

NEW TECHNOLOGIES ARE TRANSFORMING PROCUREMENT CARDS AND ENABLING COMPANIES TO MAKE THEIR PURCHASING PROCEDURES MORE EFFICIENT. RUPERT WALKER EXPLAINS



Over the past decade, procurement cards (P-cards) have increasingly replaced the traditional process that companies used to buy goods and services from their suppliers. But already, even physical P-cards themselves are becoming obsolete. Presenting a merchant with a piece of plastic is set to become a thing of the past thanks to virtual cards that are activated by mobile technologies.

"P-cards are turning virtual, which adds a whole new dynamic to making payments," says Douglas Gray, head of product at Barclaycard Global Commercial Payments. "Now, you have users (or automated processes) that can make card-based payments in a truly automated way." He adds that there will be a further roll-out of virtual cards, which will "move into payment channels that would not have otherwise been available for P-cards".

P-cards, known as purchasing cards in the US, are essentially a type of credit card that a company issues to employees. These employees can then buy goods and services from suppliers without going through the lengthier process of issuing purchasing requisitions and purchase orders.

Of course, companies' increased fondness for virtual cards is based on the assumption that the advantages outweigh the risks when it comes to using them instead of a conventional enterprise resource planning (ERP) system.

The pros and cons of P-cards

Advocates of P-cards say they reduce the number of invoices that must be processed (hence fewer accounts payable staff are needed). They also enable more efficient cash flow management, better reconciliation processes and greater transaction transparency. Finally, they even foster a sense of empowerment among employees.

Certainly, a company's working capital is freed up for longer simply because payment of P-card bills takes place typically up to 56 days after receipt of a statement.

Spending is also more visible at "a granular level", argues Gray. The details of each transaction are broken down to show clearly what was bought, where and when, and further clarified for VAT purposes. As a result, each purchase can be reconciled back to the company's general ledger more effectively, making cost-centre allocation more accurate.

David Wojcik, founder of working capital consultancy JustOne, believes that P-cards are best used for low-value purchases. "The upper threshold of 'low value' will vary with the size of the company, but it is usually less than €500," he explains. "These purchases, often referred to as 'nuisance spend', can represent more than 50% of an organisation's transactions, but less than 3% of total spend. Using P-cards can take these transactions

THE MARKET FOR MOBILE

Although virtual cards are now becoming a reality, the progress of that other widely expected development – mobile payments – is less sure-footed.

Barclaycard's Douglas Gray believes that mobile payments will play a large role in the future because they will become more common for retail transactions, but Cathy Dargue of RBS is more cautious about how soon that will be. "Although much has been discussed about mobile payments over the past few years, the market is still in its infancy, and with the recent withdrawal of some mobile wallets, there is a focus on access and capturing enriched transaction data at cardholder level," she says.

But rapid progress is certainly taking place. Mobile intelligence platforms can now capture and upload receipts from mobile phones, which strengthens controls. Meanwhile, providers of card schemes are working to develop end-to-end payment platforms, according to Dargue, which would mean that suppliers could be paid in real time for single-use transactions.

In addition, online purchasing platforms are starting to be integrated into e-markets (electronic markets used by different organisations in the economic value chain), which should eventually allow companies to tender for supplies and pay for goods and services within a single platform in real time, she says.

As always, successful companies are those that have a great product or service and are able to deliver it through a wide range of channels. By using better purchasing methods to minimise costs and operational inefficiencies, they can gain an extra advantage – and the application of new technologies to the P-card process is the route that is being taken.

out of the purchase-to-pay process, making purchasing simpler and less bureaucratic, and allowing more focus on the remaining 50% of transactions that make up 97% of spend."

But while P-cards appear to strengthen companies' control and monitoring of their purchases, surely there is an inherent danger with them that a maverick employee could set off on a fraudulent or erratic spending spree?

On the contrary. Cathy Dargue, head of commercial cards at Royal Bank of Scotland (RBS), insists that P-cards can be used to check management spending throughout the company, at both a departmental and an individual level. For instance, companies can confine spending to designated suppliers, cap it for each transaction and even place restrictions on the number of times a P-card can be used within a specific time period. Limiting spending to specific suppliers is a way to negotiate discounts and other favourable commercial terms.

"It is possible to set controls that specify approved spend types or even limit spend to a particular merchant using a preferred vendor solution," she says. "Also, individual account settings and online limits can be better managed in real time."

"I would recommend locally held cards rather than widely distributed cards since they are easier to control," says Wojcik. "Random, retrospective audits of card use with tough penalties can discourage abuse."

Andrew Hollingworth, treasurer with US financial services company USE Credit Union, sits on the audit committee for a local airport. The audit committee recently undertook an audit of its P-card programme. "There were some abuses," he says, "mainly managers who did not adequately review their employees' P-card use. Internal controls need to be in place or else there will be some abuse. Other than that, it seemed to work."

"There is often a perception of risk, especially if employees have cards with open limits. But, if tight controls and monitoring are imposed, then the risks can be greatly reduced," notes Gray.

Wojcik adds: "A regular objection to P-card use is that it is difficult to categorise the spend. But since P-cards represent just 3% of spend, I believe this is minor issue."

Robust reporting

The online reporting tools that accompany a P-card programme for VAT-accredited suppliers mean that the traditional purchase order and invoice process can be abandoned and replaced with an online end-to-end solution, argues Dargue. This eliminates the need for manual reconciliation. "P-cards are unique in that they offer e-invoice data as well as consolidated evidence of VAT, which can be accredited with the appropriate national tax authority," says Gray.

A company can channel the data from all its P-programmes as files directly into its ERP system or it can integrate that data more tightly into its ERP system by attaching account codes to individual transaction data, then configuring reports and generating journals to quickly and accurately assign costs across its business.

Some companies also reconcile and, where appropriate, recharge transactions as soon as they have been posted to a supplier's account, either in an online management information system provided with the programme or as part of the direct file feed into their ERP.

Advanced technologies

The capabilities of P-card systems are increasing as technology evolves and they respond to users' demands.

Gray points out that, for instance, transaction-reporting packages have been

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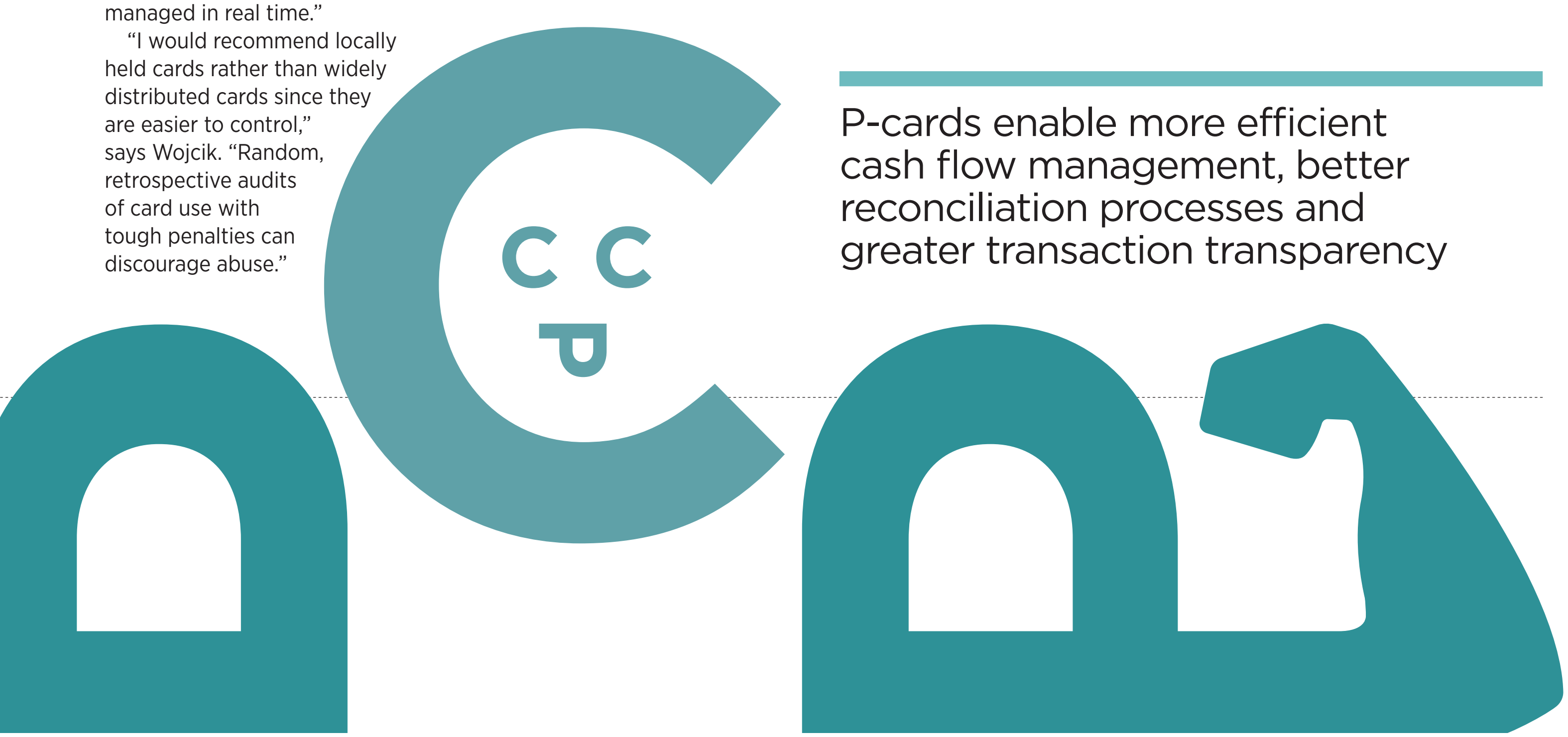

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CASE STUDY: WESSEX WATER

David Kitchener is cash and payments manager at Wessex Water and manages its P-card scheme. He describes the introduction of P-cards eight years ago as "the most successful operational move" during his two decades at the company.

"Much of the buying process from suppliers and contractors takes place over the counter, where transaction volumes are high and the individual amounts tend to be small," he says. The company needs the services and products of electricians, pump suppliers and myriad other merchants on a daily basis. The P-card system ensures that they are paid promptly and Wessex Water has a transparent, accessible and comprehensive audit trail.

"In the past, the vast number of low-value transactions were difficult to follow and monitor," Kitchener says. But they add up: about £35m worth of transactions last year were processed through P-cards.

A partnership with HSBC has led to even greater efficiency. The bank pioneered its MiVision online system for P-cards with Wessex Water, with the company helping to design its functional specifications. Now the system can generate files containing details of P-card purchases that can be easily exported to the general ledger.

Wessex Water has also reached an agreement with HSBC and electronic processing provider Global Payments for its suppliers to join its no-obligation affinity scheme. This scheme enables suppliers to take advantage of very favourable processing rates and it guarantees payment within 24 hours, rather than 48 hours, for HSBC-banked suppliers. Retaining the goodwill of suppliers and helping to sustain their businesses was especially important to Somerset-based Wessex Water earlier this year, when vast tracts of southwest England suffered weeks of flooding.

The company is also looking at the future potential of P-cards, which Kitchener believes could have an important use for fuel purchases since they could capture details such as vehicle registration and mileage.

enhanced in recent years. They now give greater detail about individual deals, permit cardholders to code general ledger tables and add extra data to a transaction to provide better clarity. Some packages even allow the whole system to be driven by logical analysis, providing more material to be examined throughout the purchase and supply process.

In addition, these advanced packages mean that data can be extracted automatically from one discrete system and transferred to another, removing the costs and risks of error that manual processes are vulnerable to when integrating data.

As systems incorporate more advanced technology, companies should be able to attach even more upfront information to the details of a transaction, while tightening approvals and restrictions to ensure that spending is made only for legitimate purposes, by the right people and in adherence to company policy.

It is all well and good automating the buyer's payment process, but the system lacks scalability if the supplier still processes payments manually via a computer terminal. Straight-through-processing resolves this asymmetry, however. Typically, this involves making payments automatically to a third party that has a contractual relationship with the supplier. The supplier is notified that payment has taken place, but it doesn't need to process it. A further advantage from the buyer's perspective is that the supplier will not have details of the P-card used, reducing risks of fraud and error.

"When virtual cards and straight-through-processing are combined, you have a very strong and fully automated procure-to-pay solution," says Gray.

P-card schemes are continuing to leverage new technologies while focusing on purchase control and further streamlining the purchasing process, notes Dargue. In the future, near field communication (NCF) and radio frequency identification (RFID) wireless technologies are likely to be used more often, according to Gray, although he doesn't envisage card payments going fully virtual in the near term.

But he does believe that, eventually, physical cards *will* disappear and be replaced by RFID- and NFC-enabled devices or e-wallets, which will allow users to choose their preferred payment method. "We're already seeing a move in this direction today," he says, "but it is still largely fragmented at present."

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