# A Purchasing card program YOU can be PROUD of

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LAVANTE

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Between 2005 and 2007, the amount of spending transacted through purchasing card programs in North America grew by about 25 percent, from $110 to $137 billion, reports RPMG Research Corporation . In fact, 80 percent of the 1,200-some respondents to RPMG's survey indicated that their p-card spending increased during this time. The researchers also predicted that purchasing card spending would grow 12 percent annually through 2012, to $218 billion.

It's not difficult to figure out why p-card use continues to rise. The cost of processing a transaction done via a purchasing card comes to about $19. That's less than one-fourth the $89 it takes to move a transaction through the traditional purchase order process, RPMG notes. P-cards also remove about eight days from procurement cycle time.

Clearly, purchasing card programs have much to offer. However, several steps are key to achieving these benefits. The program has to win acceptance internally from executive leadership, as well as with managers and frontline employees. Policies that encourage purchasing card use need to be established and applied, as do controls to reduce the likelihood of misuse. Accounts payable professionals also need to work with their vendors to bring as many as possible into the program.

To gain greater insight into the components of effective purchasing card programs, as well as the challenges many face, Lavante talked with several professionals that have implemented and managed successful programs. Joanne Hunsicker currently is an accounts payable consultant and Susan Trevisano is manager of shared services with a $250 million aerospace manufacturer. Several years ago, both directed the successful expansion of a purchasing card program at a $10 billion healthcare products firm. Sherry DePew, now vice president of product management at Lavante, helped to launch and oversee a purchasing card program at a $3 billion wood products firm. Together, these experts have 30 years of experience in leadership roles with successful purchasing card programs.

Susan and Joanne's job was to resuscitate and then expand a languishing p-card program. When they began in 2000, the accounts payable department processed about 16,000 invoices each month, including about 1,200 p-card transactions. Over the next few years, as the purchasing card program ramped up and the company itself grew, the number of invoices processed shrank to 12,000, while the number of p-card transactions hit about 10,000 per month.

The expansion of the purchasing card program, coupled with other streamlining efforts, enabled the company to avoid hiring three FTEs and eliminate the use of nine temporary employees. "We had to drive efficiencies and the purchasing card was the perfect opportunity," Trevisano says.

To get there, Trevisano's and Hunsicker's first step was to garner management support for a more robust program. To make their case, the two assembled benchmark data from other organizations that already had implemented purchasing card programs. They could point to the success these companies were having, and extrapolate from these figures the estimated savings their own firm could achieve.

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[1]See http://www.rprmgresearch.net/product-view.php?product_id=29

To be sure, the duo met with some resistance early on, particularly at the management level. Many were concerned that some employees would receive the cards and embark on shopping sprees. To alleviate their concerns, Trevisano pointed out that that the employees already were making these purchases, and that the purchasing cards actually offered greater control over their purchasing activities. For instance, the cards were set up to work only at retailers within certain merchant category codes (MCCs), and only to the dollar amounts already authorized by the managers. “The limits were no higher than the authority already delegated to the employees,” Trevisano says.

In discussing the program, Hunsicker and Trevisano also emphasized that the cards really were another method of payment – not another way to spend. They also pointed out that the existing purchase order process could be subverted if employees tried. The p-card program actually offered more controls over transactions.

Some managers also questioned what they saw as extra work created by the purchasing card program, as it required them to review employees’ card statements to ensure that the expenses were legitimate. Hunsicker and Trevisano pointed out that this really wasn’t any more work than reviewing and signing off on invoices, as they had done in the past. What’s more, rather than signing dozens of invoices, approving managers had to sign just one statement each month.

What’s more, the program offered managers a more comprehensive picture of the spending occurring in their departments. Because information regarding all purchases was online, they could easily drill into the details to see just who was purchasing what. “They got consolidated visibility, versus having expenses floating in here and there,” says Hunsicker. With the enhanced controls, the few instances of deliberate misuse were caught on a timely basis. The consolidated view of transactions also helped purchasing negotiate better pricing with some vendors.

Hunsicker’s and Trevisano’s experience wasn’t unique, DePew says. At most companies, purchasing card statements tend to be scrutinized more closely than traditional expense reports.

To gain even more support for the program, the AP department shared with the other departments the rebates it received from the company issuing the p-cards.

At the same time, the two weren’t afraid to question employees when they noticed suspicious transactions, such as two purchases at the same time, each of which was just under the employee’s limit. These could be attempts by employees to get around their spending limits. Similarly, if they saw a purchase that seemed questionable, they would email the employee, asking how it would be used. “There was some hand slapping,” Susan says.

Similarly, Hunsicker and Trevisano pushed back when invoices continued to come through for vendors that accepted p-cards. As a starting point, they would call the vendor, and reiterate the fact that the company was going to pay only with the purchasing card. They also would call the manager involved, and politely tell them that they needed to start putting their purchases on the card. In most cases, the manager was unaware that the vendor was part of the purchasing card program, and it took just one call to set things straight.

Ensuring that p-card vendors are paid only through the purchasing card system is one key to effective control. “If a vendor is set up to take your purchasing card, you never want to purchase outside that,” says DePew. That’s because you increase the likelihood of making duplicate payments – one via the card, and another through a check. “You want to pay one way or the other,” she adds.

As the use of purchasing cards has increased, so have instances of duplicate payments, says Tom Flynn, vice president, account management with Lavante. If this is not appropriately managed, it can eat into the savings a purchasing card program generates.

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A Lavante product, Strategic Recovery, can identify instances in which vendors are sending invoices for transactions that were already paid for via purchasing cards.

**Working With Vendors**

At the same time that they were selling the program internally, Trevisano and Hunsicker worked with their bank to identify hundreds of current vendors that already accepted purchasing cards. About 60 percent of this group was able to move from the purchase order process to the p-card program; the rest needed to remain on the purchase order process because of the types of products they sold.

To be sure, some vendors that were capable of switching initially resisted because they didn't want to pay the merchant fee. Over time, however, about 80 percent of the potential vendors came around. Most were sold by the fact that they would get paid more quickly, and that they no longer had to worry about lost invoices or mistakes that could hold up their payment, Trevisano says. One even gave the company a rebate of two percent on all p-card purchases; this was on top of the rebate from the issuing bank.

Once a post-audit review is complete, the recommendations need to be put into practice. As with many processes, the practice of segregating duties is ongoing, Hunsicker notes. To remain effective, AP professionals need to continually confirm that the theory is being applied in real life.

Once the p-card program was launched, identifying the most appropriate employees to receive the cards took a bit of trial and error. Initially, it seemed like it would make sense to provide them to employees at or above the manager level. However, Hunsicker and Trevisano quickly found that it often was the administrative staff that ordered office and other indirect supplies. So, the two began issuing cards to support staff, while placing restrictions on the types of vendors and the maximum amount of purchases for which the employees could use the card.

As the purchasing card program proved successful in one division, Hunsicker and Trevisano would expand it to another. They could point to the benefits already captured, which helped garner support for the program before it was rolled out in another area.

Indeed, the benefits are compelling. Along with not having to hire three more employees and eliminating nine contract workers by streamlining, the annual rebates from the card issuers began hitting seven figures a few years after Hunsicker and Trevisano started working with the program. At the same time, replacing manual processes with automation enhanced control and reduced the opportunity for errors. "We've seen how well the program can work," Trevisano says. "The folks that fought it – now, you couldn't take their cards away from them."

**About Karen Kroll**

Since 1994, Karen has been reporting and writing on business, corporate and consumer finance, technology, and workplace trends. Her work has appeared in CFO Magazine, Business Finance, IndustryWeek, TheStreet.com, and Inc. Magazine, as well as a variety of consumer and trade publications. She is a frequent writer and contributor for AP Matters, the magazine produced by IAPP. Check out Karen's latest AP Matters feature, "AP Navigates the Great Recession".

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Lavante is helping to educate and promote discussion within the AP profession about the ever-changing and increasingly strategic role of AP within the larger business organization. Throughout the year, we will team up with industry experts to bring you topical and relevant webinars, whitepapers, and articles discussing wide-ranging issues such as: how to turn a recovery audit into a strategic audit for long-term impact; how to manage your vendor file to improve cash flow; and, other procure-to-pay trends and best practices that matter to you, the AP professional. See www.lavante.com for the latest information.

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