PayStream Advisors

The Value of Purchasing Cards

Utilizing P-Cards as a Strategic Form of Payment

Q4 2012

Featuring Insights on ...

- The Increased Use of Purchasing Cards
- Benefits of Purchasing Card Programs
- Incentives for Starting a Purchasing Card Program
- Purchasing Card Success Factors
- Various Types of Purchasing Cards
- The Value of Rebates
- Selecting a Purchasing Card Provider

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Executive Summary

In an effort to manage company expenses and maximize savings, more companies are adopting or expanding Purchasing Card (P-Card) programs, resulting in an increase in the use of Purchasing Cards over the past few years. Purchasing Card programs are a form of company charge card that allows goods and services to be procured without utilizing a traditional purchasing process. P-Cards are a payment tool designed to make the business purchasing process more efficient by reducing paperwork, providing greater control over spending, and visibility into spending patterns. Purchasing Cards can reduce the workload for both accounts payable and purchasing departments at essentially no cost to an organization. In addition, P-Card purchases simplify the reconciliation process, eliminate out-of-pocket expenses, and improve supplier negotiations.

PayStream research indicates that P-Card use is on the rise as more companies transition away from paper checks in an effort to streamline their accounts payable (AP) processes. Our most recent survey shows that 64 percent of companies that responded are currently utilizing P-Cards for business purchases, with an additional 6 percent of companies reporting they are currently deploying or have plans to deploy a P-Card program over the next six months.

Key drivers of increased P-Card usage are rebates earned for high volume card use and the convenience of swiping a card over carrying cash and processing a receipt. Most organizations recognize that a large number of check payments are made for low value purchases to a large number of suppliers, which is a costly and inefficient process. When check payments are switched from the traditional process to a Purchasing Card, efficiency savings range from 55 percent to 80 percent of the traditional process cost. Companies are now utilizing Purchasing Cards as a strategic form of payment in AP on higher priced items and business-to-business services. Additional benefits of P-Card usage will continue to help drive this trend upward. It's important to note that simply putting Purchasing Cards into the hands of employees will not reap the benefits of a best-practice Purchasing Card program that is put in place to help identify budgets, spending limits, compliance issues and much more.

PayStream Advisors has developed this Vendor Analysis and Buyers Guide report titled "The Value of Purchasing Cards", for finance professionals who are currently contemplating the adoption of a P-Card program or have a program in place that is currently underperforming. This report is based on the responses of more than 600 finance, treasury, and accounting professionals polled in PayStream's 2012 Electronic Payments and Invoice Automation surveys. For more information on this and other research reports available from PayStream Advisors, visit our Research Library.

Purchasing Card Market Overview

The use of Purchasing Cards generates administrative cost savings when compared to traditional PO payment methods that translate into a substantial transactional cost savings. Companies are currently striving to obtain these transactional cost savings, which is currently driving the 16 percent annual growth of P-Card spend. PayStream predicts that P-Card programs will continue to grow and increase their relevance for payment and procurement managers from 2013 – 2015.

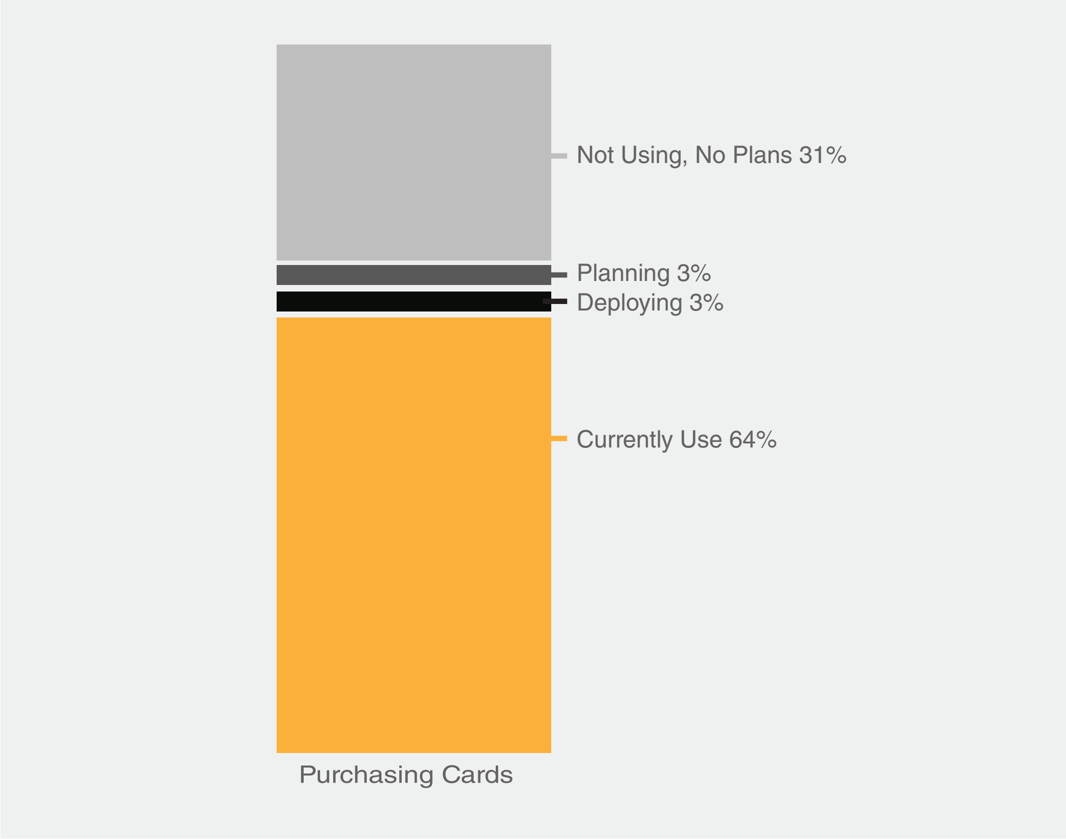
P-Cards provide an efficient, cost-effective method of purchasing and paying for small-dollar as well as high-volume purchases. P-Card programs are used as an alternative to the traditional purchasing process and can result in a significant reduction in the volume of purchase orders, invoices and checks processed. P-Cards can be used whenever a purchase order, check request, or petty cash would have been processed and with any vendor that accepts credit cards.

While large companies are winning the race in P-Card adoption, medium and small companies are also utilizing Purchasing Card programs in an effort to rein in spending and reap the rewards of P-Card programs, including rebates.   Large companies that currently engage in successful P-Card programs are pushing to further expand these programs to include high-priced items. Middle market and small companies that have

Figure 1

Utilization of P-Cards

Purchasing Card usage is on the rise; with 64 percent of companies surveyed report they are currently utilizing a P-Card program.

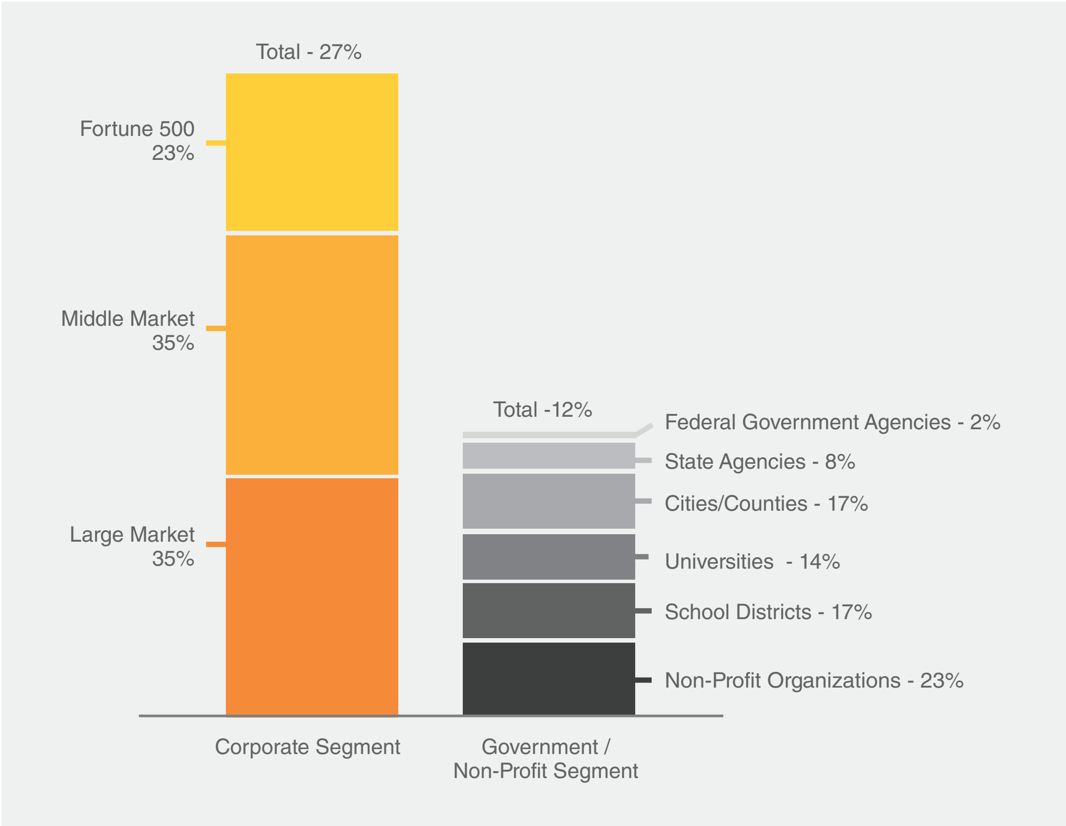


never adopted P-Card programs are actively searching for providers who will support their programs. According to the results of a 2012 PayStream survey, 64 percent of companies surveyed currently have a purchasing card program in place.

Figure 2

Purchasing Card Spend in North America

The corporate segment is leading the way in P-Card spending growth.



Source: RPMG Research Corporation, 2012 Purchasing Card Benchmark Survey

Rationale for Purchasing Card Strategy

The attraction of a P-Card program is the automation and process efficiency it brings to both the buyer and supplier. On the buyer side, the convenience of a P-Card program for small items, where it is difficult to justify the high overhead of using requisitions, purchase orders, approvals, matching and settlement by check through the AP process, is the number one benefit. By simply using a P-Card for small items, companies can shave a lot of overhead from the process and provide the convenience of simply swiping a card. Further increasing the attraction of P-Cards is the rebates that buyers can obtain from the P-Card provider. Rebates are based on the dollar amount spent on the card, and can add up to significant savings. Additional buyer benefits of P-Card programs include:

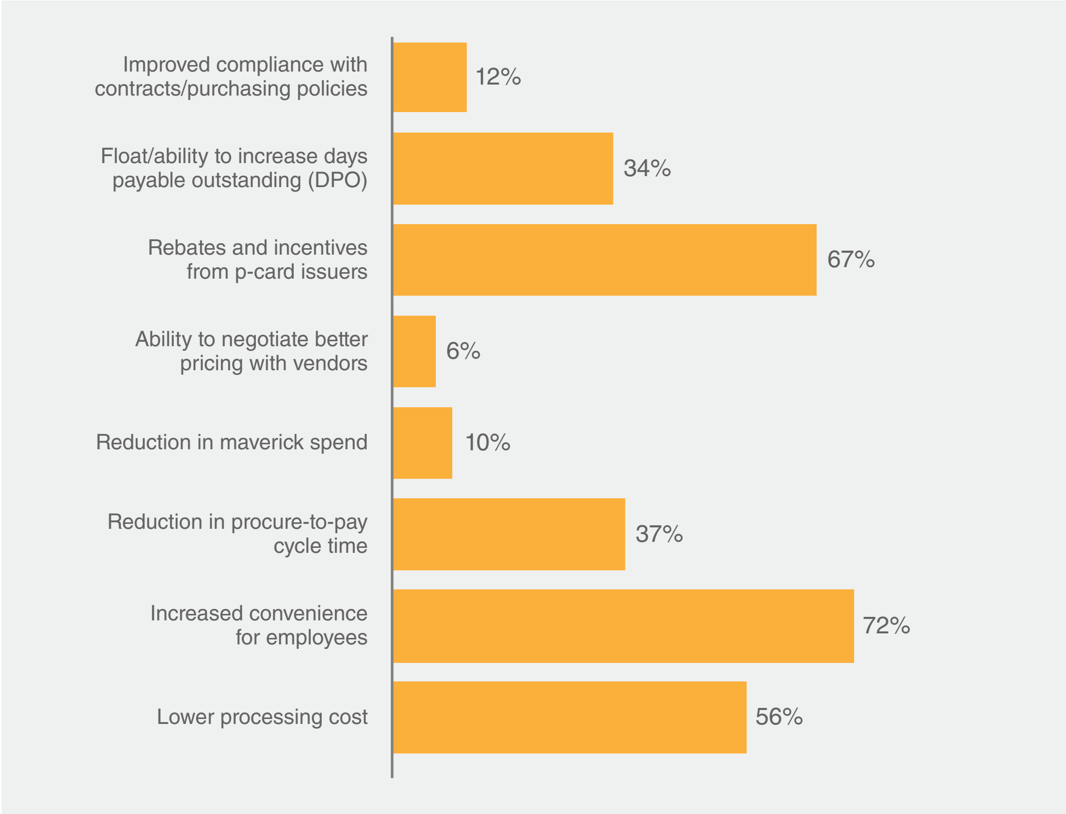
» Convenience of purchasing without a PO – reduce cycle time of purchasing transactions

- Increased efficiency through automated payments is a result of utilizing P-cards as a strategic form of payment in AP on high priced items and B2B services
- Increased employee satisfaction and reduced manual labor hours – payment requests, petty cash and personal funds are eliminated
- Simplified purchasing and payment process
- Lower overall transaction processing costs per purchase
- Increased visibility into spending patterns
- Ability to set and control purchasing dollar limits – restrict maverick spend
- Ability to control purchases to specific merchant categories and vendors
- Receipt of rebates from the purchasing card provider based on dollar volume of total purchases
- Expedited delivery of goods
- Better pricing on goods
- Reduction in paperwork
- Improved supplier relations – suppliers receive payment within 2-5 days

Figure 3

Benefits of P-Card Programs

Convenience ranks as the number one benefit of P-Card programs, followed by the receipt of rebates.



In addition to buyer incentives, the benefits of P-Card programs also extend to the suppliers, and include:

- Expedited payments
- Reduced paperwork
- Lower risk of nonpayment

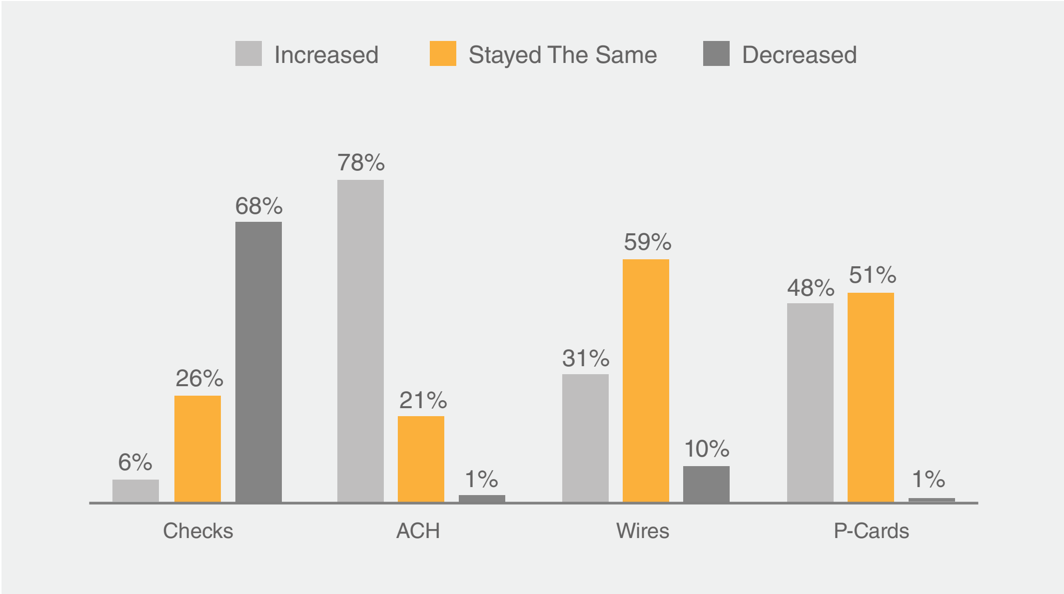
Automation Goals Behind Electronic Payments

Demand for electronic payment systems is at a record high. Last year, 69 percent of the finance professionals PayStream surveyed said they were actively seeking to increase their company's use of electronic supplier payments, including Purchasing Card payments for accounts payable. In 2012, 68 percent of those polled in our most recent survey reported they were writing fewer checks. Significantly, 48 percent reported an increase in P-Card transactions.

Figure 4

Electronic Payments are on the Rise

P-Card transactions increased by 48 percent.



Key drivers leading to the increased demand for electronic payments are a desire to reduce procure-to-pay transaction costs, a push to eliminate paper, and a desire for better cash management.

Figure 5

Factors Driving Enterprises to Focus on Electronic Payments

Reducing payment costs remained the biggest driver for ePayments.

With electronic payment methods being faster, cheaper, and more convenient than paper based checks, it's no surprise that electronic payments are on the rise as the use of paper checks is declining. While Automated Clearing House (ACH) payments are the preferred electronic payment method across payment attributes, P-Card payments rank a close second (See Figure 6).

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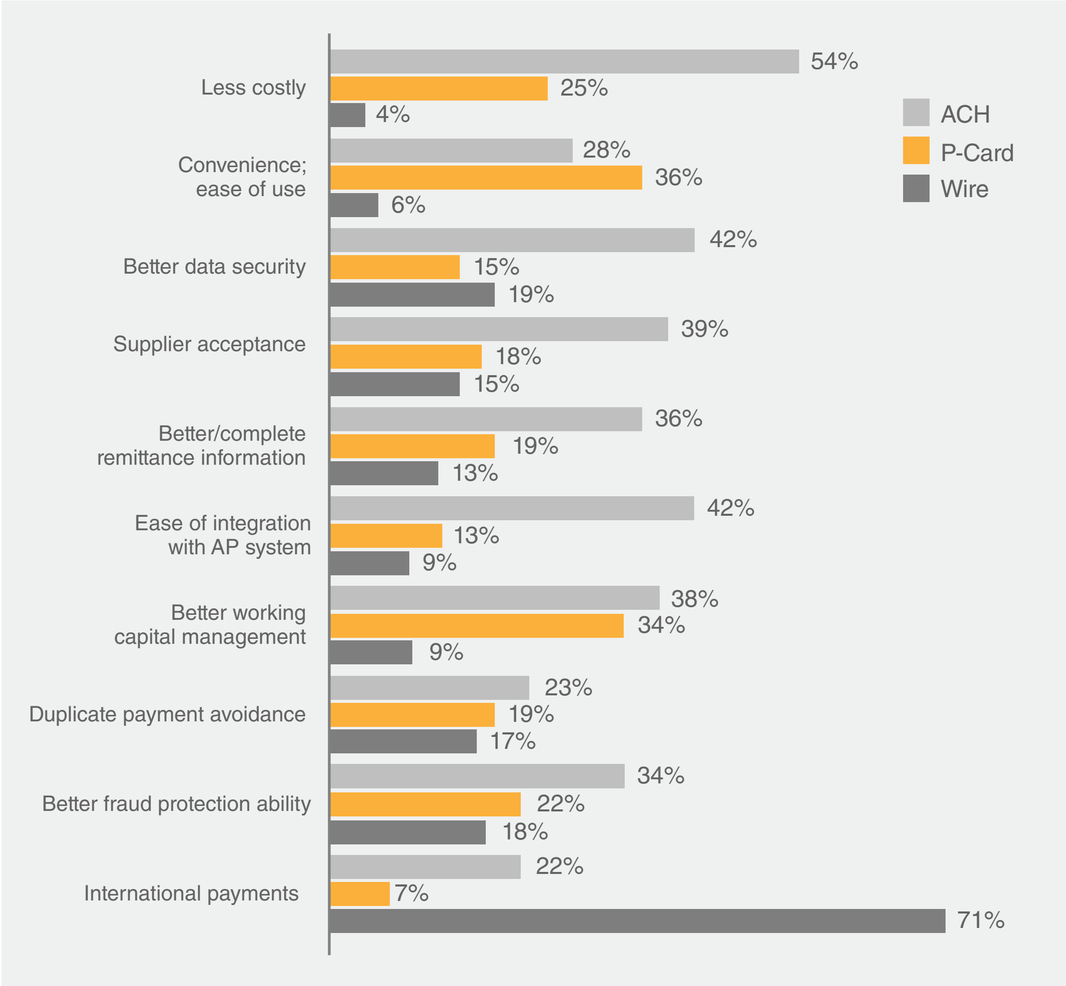
Figure 6

Preferred Electronic Payment Methods across Payment Attributes

P-Card payments rank second across the board.



Incentives for Starting a Purchasing Card Program

PayStream analysts believe that companies choose to enroll in a Purchasing Card program for three primary reasons.

1. **Lower Processing Costs** – Organizations want to automate and reduce overhead in the purchasing process and P-Cards provide an effective way of realizing significant cost savings. Whether a company is purchasing a million dollar piece of equipment or a five dollar tape dispenser, most companies use identical processes for these transactions. Cost studies have shown that the typical cost to process a single transaction can be over $15. Obviously, cost-conscious purchasing operations don't want to send over $15 to purchase something that is worth about $10. By utilizing purchasing cards, most of the overhead can be eliminated by cutting out requisitions, approvals, purchase orders, purchasing channels, receipts and follow up to be sure the item is charged to the correct department. Such an elaborate, carefully controlled process may be justified for large purchases; however, fewer stewards think such an expensive process is justified for small purchases.

Typically low risk and low value purchasing transactions represent an excellent target for purchasing cards which can remove the bureaucracy and administration cost while empowering employees. By eliminating the typical purchasing route, the purchasing process is streamlined by removing the traditional purchase order steps and approvals. Predetermined spending controls and requirements such as spending limits are able to be channeled via more cost effective routes.

2. **Transaction Control** – Companies want to control where purchases are made. Most companies make an effort to consolidate the number of suppliers they use, in an effort to channel more business to fewer providers to increase purchasing volume and negotiate price discounts. The more often employees are permitted to engage in "rogue buying" – going anywhere they want to purchase company goods – the more the buying company's negotiating leverage is diluted. On the opposite side, the more employees purchase through preferred providers, the greater the price discounts the company can negotiate. Thus, a successful P-Card program is the key to reduced overhead and discounted or lower prices for items purchased.

   In an effort to rein in rogue buying, a company can issue Purchasing Cards to employees, instruct them to purchase what they need and charge it to the card and block usage of the card at any merchant in a merchant category that does not have preferred status. For example, a company can contract to purchase office supplies at Staples for a 3 percent discount and block purchasing card transactions with all vendors in the office supply category except Staples. Such a policy provides better control over letting employees purchase needed items with their own funds or cash advances and then turn in expense reports for such purchases.

   In an effort to help control transactions, card providers have identified three levels of data capture and reporting for card transactions. Level-3 is the highest level of processing and defines what is being purchased and combines that information with the payment transaction and delivers it electronically to the customer. Level-3 line item detail provides specific purchase information, detailed merchant establishment information and cardholder information. Level-3 information is useful to P-Card customers to help streamline accounting, merge purchase data with eProcurement systems and accurately manage transactions with the least amount of costly manual intervention.

3. **Attractive Rebates** – Organizations want to collect rebates based on their purchasing volume. Purchasing cards are a lucrative product of the banks that issue them; therefore, the marketplace has become very competitive. Large volume programs can earn a significant amount in rebates. With the right Purchasing Card provider, a company can save money on overhead, obtain lower prices for goods and services purchased and get cash back from the card issuer. It's no surprise why P-Card usage is on the rise and why small and medium size companies want to get in on the savings.

Purchasing Card Management Functional Map

P-Card solutions streamline the purchasing process for small items by giving end users a highly automated self-service option. They can also be structured to steer buyers to preferred suppliers that are under contract to provide price discounts and earn the buying company attractive rebate checks. Each of the Purchasing Card solution providers profiled in this PayStream Advisors report has effective tools and automation packages that reduce overhead costs, lower the cost of goods and services purchased and bring back a premium for program success in the form of rebates. A successful P-Card program can be broken down into six specific parts, including:

1. **Cardholder Administration** – Purchasing Card programs require a person to oversee the operation; issue new cards, terminate cards when an employee leaves or is reassigned; monitor activity, including times when a transaction is refused; generate reports to management and communicate with the issuer. Typically, one person does this as a full time job, but a small program might have a part-time administrator and a large one might have a staff of two. Most of the features in issuers' reporting and management software have been designed with the program administrator in mind, including tools to turn cards off and on, adjust credit limits and receive a host of reports.

2. **Supplier Management** – Card acceptance is critical to the success of a P-Card program. If the majority of a company's suppliers do not accept card payments, the program will stall. Therefore, enrollment of suppliers is a key component to any good program. Much of that effort consists of notifying suppliers that do not accept card payments that the buying company would like them to start accepting. Many P-Card providers have supplier onboarding programs to help with this step in the process. Such programs should be taken into consideration when evaluating the right P-Card solution for your company. Beyond enrolling suppliers, supplier management involves tracking spending with particular suppliers and using this data to show the supplier how much business you bring them. This documented volume can be used to try to negotiate supplier discounts. P-Card providers are able to differentiate card spend by merchant, which is a useful tool for negotiating supplier discounts.

3. **Transaction Control and Integration** – Restrictions such as transaction limits whether they are daily, weekly or monthly limits can quickly and easily be put into place and work to prohibit unsanctioned card usage. PayStream research shows that creating card spend limits are the number one method companies deploy to prevent card misuse. In addition, unauthorized merchants can be blocked by Merchant Category Code (MCC). This forces buyers to purchase from preferred suppliers that are under contract to provide discounts and earn the buying corporation attractive rebate checks. Different limits and restrictions can be built into company card programs for different card holder accounts – e.g., a CFO may have fewer restrictions on his/her account than a new hire middle manager. The customized controls or restrictions placed on the card protect the buying company against fraud and misuse.

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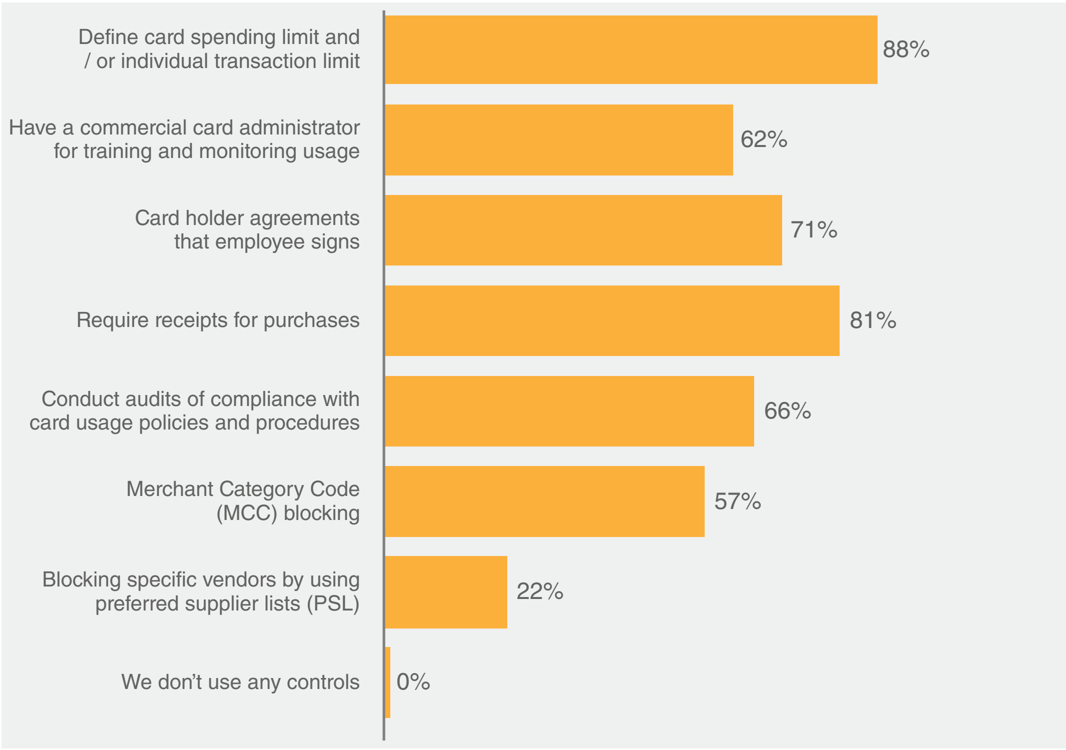
Figure 7

Controls to Prevent P-Card Misuse

Defining card spending limits is the number one mechanism companies implement to prevent card misuse.

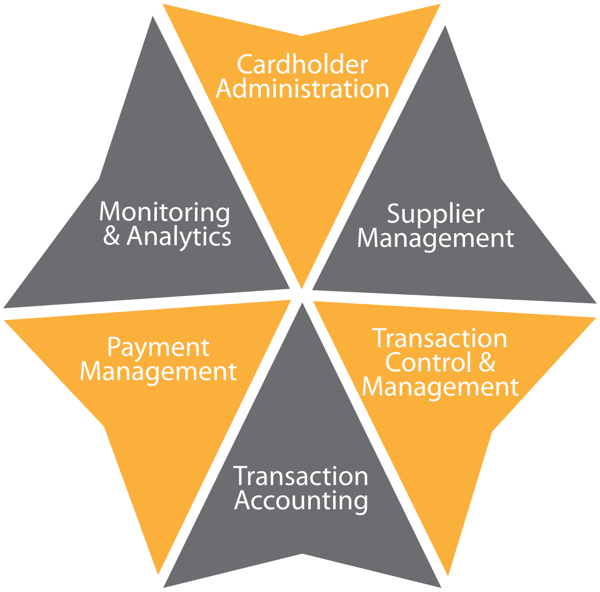


4. **Transaction Accounting** – Purchasing card programs seamlessly integrate with accounting systems and provide accuracy and efficiency. Card purchases are matched to transaction statements and card transactions are allocated to the appropriate General Ledger (GL) and Cost Center codes. Purchases can easily be split and administrators have the ability to override default codes and redirect purchases to other accounts based on the GL codes. This automated process reduces errors and processing time, allowing for timely payment and control.

Figure 8

Purchasing Card Management Universe

P-card programs work to streamline the purchasing process.



5. **Payment Management** – Paper checks are waning as more efficient payment processes gain in popularity – such as purchasing card programs. Suppliers are happy because they get paid promptly with the bank's money and with no action required on the part of the buying company. The bank provides credit to the buyer and the bank pays the buyer. As a result, the supplier takes a discount due to the early payment. Since there is a benefit to early payment, the bank and buyer negotiate a payment date. Most often payments are paid monthly but there can be additional rebates or lower program fees when payments are made bi-monthly, weekly or daily. Payment schedules can be negotiated by the buyer and bank.

6. **Program Monitoring & Analytics** – With purchasing cards come powerful reporting functionality that allows program administrators and procurement, financial and accounting executives to precisely track how the cards are being utilized. The high level reporting capabilities provide detailed data for spend analysis and financial decision making. Visibility into spend patterns and spend activity is another added benefit of P-Card programs. P-Card solution providers offer a wide range of standard and ad hoc reporting capabilities. Reports can be scheduled for certain days each week or month, to meet a company's specific needs.

Challenges to Implementing a Purchasing Card Program

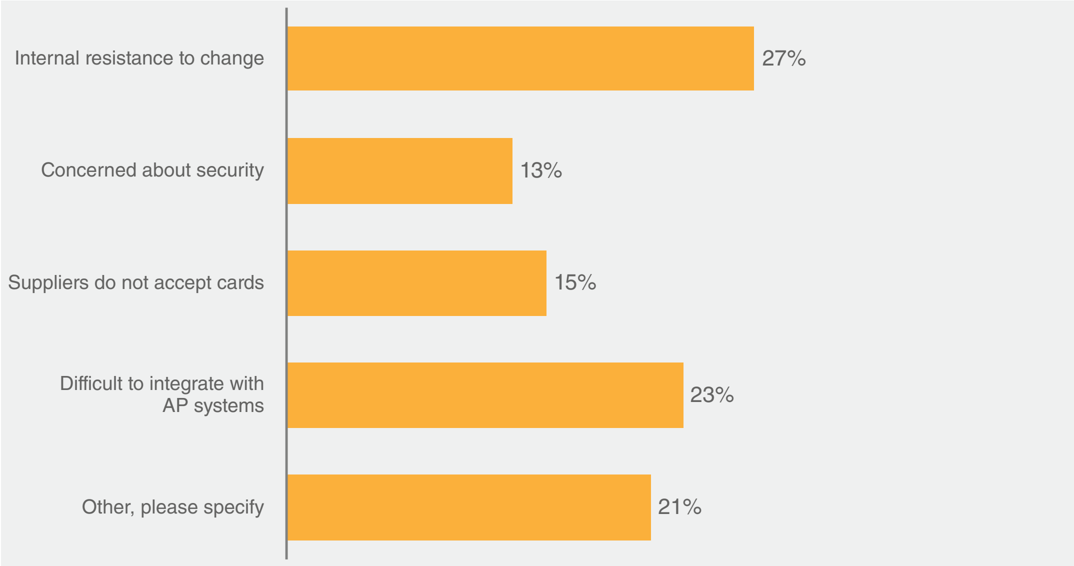
Despite the powerful incentives to purchasing card programs, there are still challenges to converting purchasing transactions to P-Card settlement that can give companies pause.

Internal Resistance to Change – PayStream 2012 survey results reveal that internal resistance to change (27 percent) is the primary reason companies have not implemented a Purchasing Card program. When staff members do not understand the benefits of a new program, there is an immediate resistance to change. Cost savings are often interpreted as reducing staff and downsizing. However, when employees are educated on the benefits of the Purchasing Card program they are more apt to capitalize on the program and reap the time and cost saving rewards for the company.

Figure 9

P-Card Program Challenges

Survey results reveal that internal resistance to change ranks as the primary reason organizations do not use P-cards.



Accounting Application - A stumbling block that has prevented some companies from adopting Purchasing Card programs is the issue of charging purchases to the correct department, project or other accounting category. There are a number of techniques that companies can implement to ensure the purchased products are coded correctly.

Employee cards can be assigned a particular accounting category for which that employee is most likely to buy. On the off chance the employee purchases a product outside that category, the employee can manually override the default accounting code and easily enter a different accounting code. This can quickly be done online. The system then automatically applies all that cardholder's purchases for that month to the correct accounting categories. Companies can also issue multiple cards to persons who would buy for multiple accounting categories. The card used would depend on the accounting category that the purchase would fall under.

Another option is for companies to utilize ghost cards. A ghost card is assigned to a particular vendor, rather than to an employee. When an employee needs to purchase something from that vendor, they would simply make the purchase online, call, email or visit the vendor in person. If the vendor sells for different accounting codes, the vendor would collect the correct accounting information at the time of the sale and attach it to the record that would be reported back through the card network and the issuing bank, and it would be applied automatically to the correct accounting category.

Control Issues – Lack of control has been an issue that has scared some companies away from providing P-Card programs to their employees. Rigorous controls can be pre-set by companies to prohibit rogue spending and to steer buyers to preferred suppliers to maximize discounts and rebates. Cards can be subject to a wide variety of controls, including:

- A limit on transaction size – e.g., no more than $100 can be spent on any one transaction.
- A limit on daily, weekly or monthly transactions – e.g., no more than three card transactions will be per permitted in one day.
- A limit on the value that can be charged in a given day, week or month – e.g., no more than $250 per day can be charged to certain employee cards.
- Blocking certain merchant categories where the card should never be used – e.g., no charges will be accepted for purchases at jewelry stores or casinos.

If an employee presents a P-Card for a transaction that violates any pre-determined restrictions the transaction is denied and the company can be notified of card misuse. Since the transaction is denied there is no sale and no abuse.

Various employees throughout a company will be expected to make different kinds of purchases and charge different amounts. Card restrictions can be adjusted for each card holder by card number. A company administrator can easily add, remove or adjust card restrictions online. A buyer in a procurement department can have high limits while a clerk in the mail room can have low limits.

P-Card Success Factors

The advantages to streamlining the procure-to-pay process through P-Card programs far outweigh the disadvantages to such programs. A variety of factors contribute to the success of a P-Card program or its stagnation. PayStream has identified some of the key factors that will lead to a successful P-Card program.

1. **Implementation of a good program administrator** – An effective Purchasing Card administrator who knows the P-Card industry and best practices is key to the success of a company's program.

2. **Solid partnership with card issuer** – Be sure to choose a program that best fits your company's needs and expectations. Discuss roles and responsibilities with your card issuer to be sure both sides are clear about set expectations.

3. **Strong internal communication and supplier communication** – A good communication plan is key to getting internal employees to embrace the Purchasing Card implementation. In addition, Purchasing Card requirements will need to be conveyed to suppliers. Early supplier education and onboarding are key factors to the success of the program.

4. **Set program goals and benchmarking** – Goals need to be clearly defined for policies and procedures to be developed. Benchmarking needs to be completed to measure progress and success against goals. Benchmarking can also be used to identify improvement opportunities.

5. **Proper training** – Be sure the card issuer you choose to partner with provides a mandated training program.

6. **Policies and procedures** – Documented policies and procedures need to be aligned with program goals and be updated as the program evolves and grows.

7. **Strike a control balance** – Companies don't want to under control or over control a P-Card program. Striking the right balance of controls is more important that the sheer number of controls. Auditing each and every transaction for every cardholder in every period reduces the process savings inherent to P-Cards. A long term approach is for companies to review the cost versus benefit and consider its level of risk tolerance.

8. **Effective card distribution** – Put cards in the right hands by determining which employees initiate purchases or requisitions.

Different Types of Purchasing Cards

P-Cards are not limited to plastic cards; they can also utilize non-plastic account numbers. The term "card" is used when describing any type of commercial card product, regardless of whether or not a plastic card is issued. Other types of P-Cards include Corporate/Travel Cards, One Card, Fleet Card, Ghost Cards, Virtual Cards and Single Use Card – each card is used to handle different types of purchases and/or spend categories.

Corporate Card/Travel Card

The Corporate Card or Travel Card is generally used by organizations for employee travel and entertainment related expenses. The card allows employees to use the card for payment of travel expenses and provides essential data to the employer. Employees are provided the Corporate Card for payment of approved, business-related expenses that are most often travel-related as designated by the employer. The card is issued in the company's name with the name of the individual employee displayed on the card.

Corporate travel cards are divided into two groups, individual payment cards and company payment cards. If an employee is given an individual payment card, the employee is responsible for submitting their own expense reports. Company policies must be followed and the card issuer is paid directly for charges incurred. If an employee utilizes a company payment card, the employer pays all company charges. If there are unapproved or personal charges, the employee pays the card issuer directly.

One Card

The One Card is a type of commercial card that simplifies card administration and reporting without compromising control or convenience from payment to vendor negotiations. Processes are streamlined through eliminating steps such as vendor set up and purchase order data entry. The card leads to increased productivity and employee convenience because it is a single payment solution. The One Card offers better management of expenditures, such as business supplies, maintenance, repair, operational and travel expenses through spending controls and point of sale restrictions. The single payment solution integrates data with a company's general ledger, ERP and other existing systems to reduce manual data entry and create a single monthly payment for all transactions. The result is a complete view of the corporate spending pattern.

The One Card provides flexibility and convenience through managing procurement and travel expenses. The One Card is the payment tool of choice for many organizations based on the card's versatile controls and online approval process for transactions.

Fleet Card

A Fleet Card or Fuel Card is a product used by organizations to pay for fuel and related expenses on company vehicles. The card is used as a payment card that is commonly utilized for fuel purchases such as gasoline, diesel, and other fuels at gas stations. The fleet cards may be used to pay for vehicle expenses and maintenance if allowed by a fleet owner or manager. The benefits of a fleet card are increased security for cardholders and the decreased need for fleet drivers to carry money or personal funds for company-related fuel and maintenance expenses.

With the use of fleet cards, the fleet owners or managers receive real-time reports that reveal transactions. The fleet owners or managers can set purchase controls that provide detailed use of business related expenses. The fleet card provides convenient and comprehensive reports of business transactions.

Ghost Cards/ Virtual Cards/ Single Use Cards

Ghost Cards, Virtual Cards or Single Use Cards are card accounts issued to a specific supplier to process all the organization's transactions. Companies can use virtual cards as another payment option instead of providing a credit card to each employee. The ghost card provides a single account for organizations to pay employee charges.

Ghost Cards reduce fraud and overspending. Unless the company, which owns the Ghost Card, approves the charges to the account, the employee cannot spend the funds. Approval is required. Purchases are only finalized after the employer authorizes the charges to the account. The employer budgets expenses such as business trips and expenses above the budgeted amount will not be permitted.

Companies can provide a single Ghost Card number to more than one employee. For example, everyone in the IT department can be given the same single Ghost Card number. The single card number helps a company to organize and track departmental expenses.

A company can also assign their vendors with a single Ghost Card number. When several employees buy office supplies from the same company, the single card number provides an easier method to track receipts for all of the supplies purchased from the vendor. It would be more tedious for a company to track each individual receipt for each employee.

State of Current Purchasing Card Market

Purchasing Card programs and spending have continued to grow in a time of continuing economic challenges. To date, organizational Purchasing Card spending increases were driven primarily by increased card distribution throughout the organization, an increase in card spending limits, the increased use of Ghost Cards and Virtual Cards, and increased card acceptance by vendors. Moving forward, more companies will shift their focus to purchasing higher priced items on P-Cards. Key growth categories for P-Card use include: capital assets, printing and duplicating services, transportation and delivery services, utilities and lease or rental payments and telecommunication services.

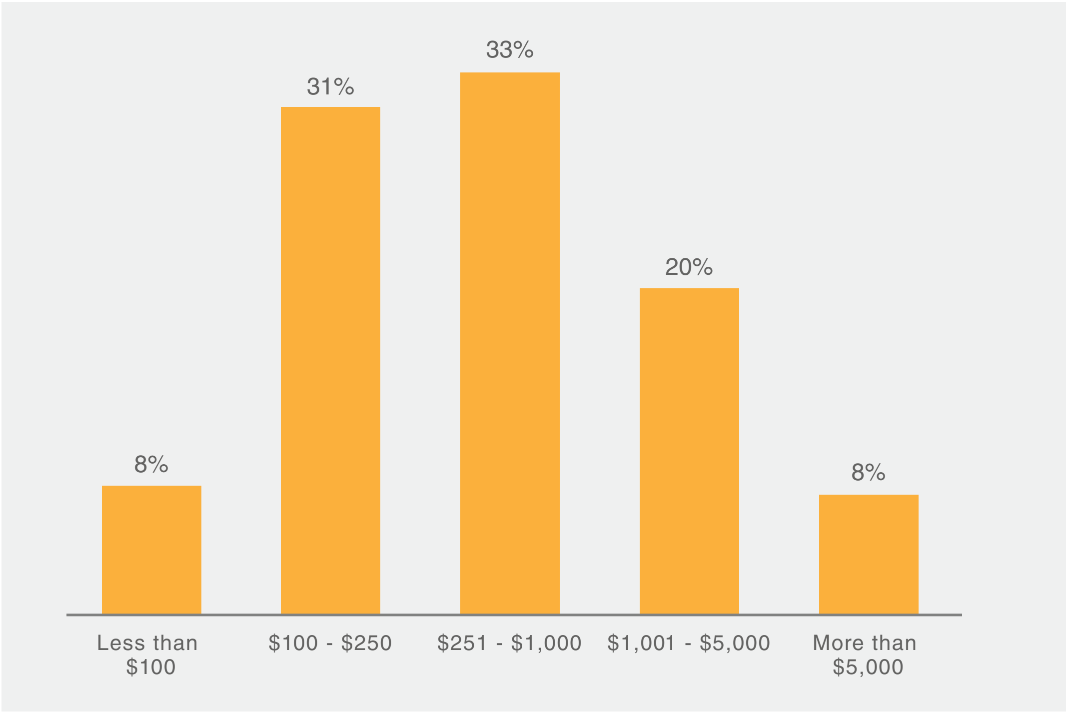
Going forward, the predicted Purchasing Card growth is 8 percent for 2012 and about a 9.6 percent per year average over the next five years, according to RPMG Research Corporation. Annual Purchasing Card spending is expected to increase to $212 billion in 2012, $247 billion by 2014, and $290 billion by 2016. Corporate respondents project an annual average Purchasing Card spending growth rate over the next five years (11.2%) that is higher than that projected by Government and Not-for-Profit respondents (6.4%).

Companies implementing successful P-Card programs are reaping the rewards and turning their AP initiatives into a profit center by cashing in on rebates and early payment discounts. The visibility that P-Card transactions provide also puts companies in a much stronger position when renegotiating supplier contracts, which can also be a tremendous opportunity for savings.

Figure 10

Average Value of Transactions Processed using P-Cards

Thirty-three percent of P-Card transactions range from $251 to $1000.



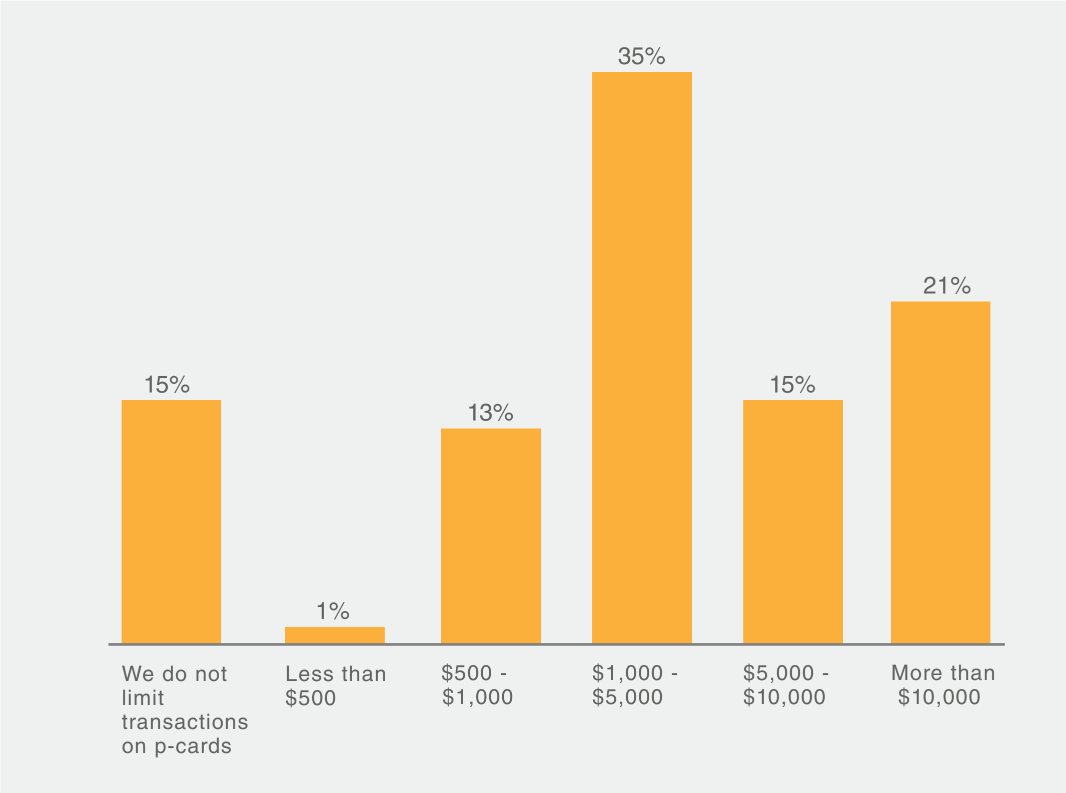
With considerable savings and efficiency, the importance of increasing P-Card usage is evident. According to PayStream survey results, over 80 percent of companies reported they used P-Cards to process transactions ranging from $100 - $5000, with the largest percent (33) utilizing P-Cards for transactions ranging from $251-$1,000.

Survey results also reported the maximum limit range per transaction made on Purchasing Cards. While 15 percent of respondents reported they do not limit transactions on P-Cards, the highest (35 percent) reported the maximum limit range per transaction on a Purchasing Card was between $1000 and $5000.

Figure 11

Maximum Limit Range per Transaction made on Purchasing Cards

Thirty-five percent of companies reported the maximum limit range per transaction on a P-Card was between $1000 and $5000.



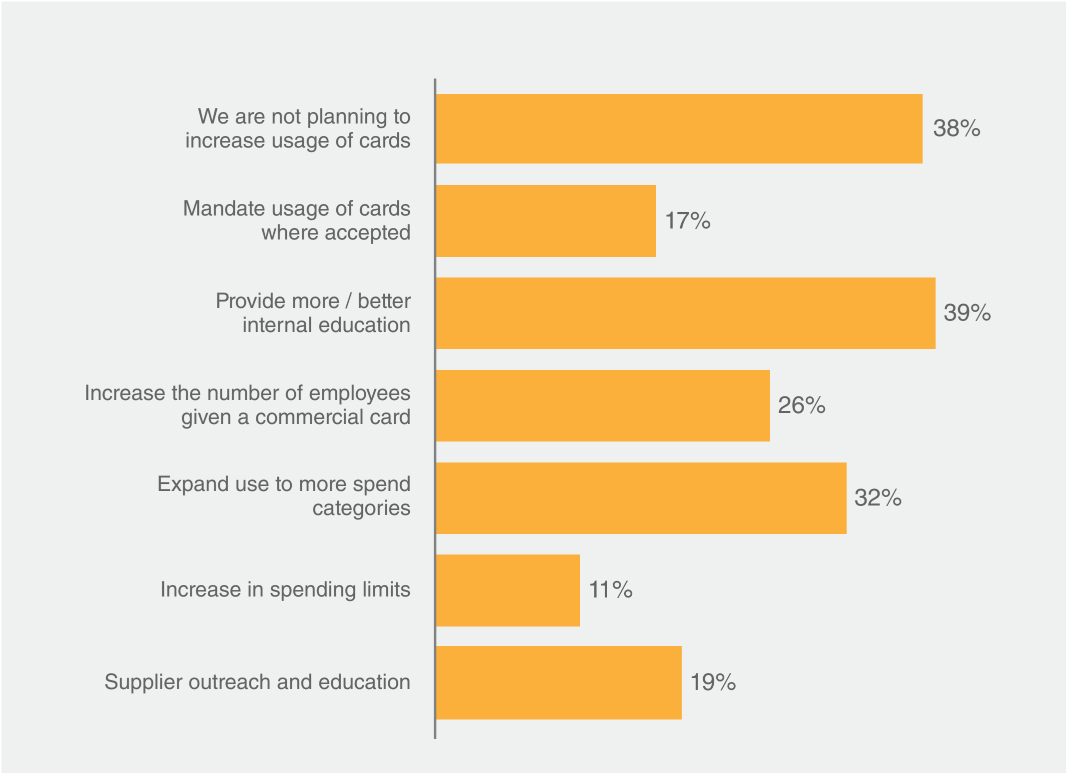
The lure of Purchasing Card programs is expanding among organizations of all sizes and in virtually every industry. Companies are taking strategic steps to increase the usage of Purchasing Cards, including providing better internal education (39 percent).

Organizations typically use Purchasing Cards to target low value goods and services, as it offers a mechanism to do these transactions at a significantly lower cost than traditional methods. However, more and more companies are now using Purchasing Cards as a strategic form of payment in AP and are now replacing checks with P-Cards. By using the card to settle purchase order driven transactions, like a check or ACH, the company is able to capture the rebates associated with P-Card transactions and bypasses the work processing check payments involves.

Figure 12

Steps Taken to Increase Use of P-Cards

Companies are looking to provide more and better internal education to increase P-Card usage among employees.



Crafting a Purchasing Card Strategy

A strategy must be formulated prior to implementing a Purchasing Card program. The overall success of the program will largely depend on the important decisions made prior to implementation and should include:

Which purchases to put on the card?

Most companies make a large number of small purchases or low dollar value purchases, and these purchases are a logical starting place for P-Card purchases. Some companies draw a line between small purchases from suppliers used often and small purchases from suppliers used only occasionally. Adopting a policy of using the P-Card to charge all small dollar purchases from infrequently used suppliers is a quick way to cut overhead with minimal financial risk. The small purchases from suppliers used frequently justify more planning. Talk with your issuer about the relative merits of opening a ghost card account for frequently used suppliers versus the merits of having individuals purchase from that supplier using their individual cards. The usual strategy is to start with small purchases and then work up to higher value transactions.

Who should get cards?

The usual complaint is that companies are too suspicious and security conscious, resulting in the restriction of cards to only a handful of trusted employees. This undercuts the premise and value of the program. Each company will have to make its own choices on exactly who gets cards. Some companies issue cards to procurement professionals and continue to channel small purchases through them, but the consensus among companies with successful Purchasing Card programs is that the greatest gains in process efficiency come from putting the cards in the hands of end-users and letting them buy what they need, when they need it – with predetermined restrictions and controls set to prevent misuse.

How controls should be set?

Research shows that too many controls can stifle purchasing card programs and limit savings. Many companies start with strict controls and gradually relax them over time. To kick a purchasing card program off, it's wise to use controls that are absolutely necessary. Program administrators can easily log in to the program online and make adjustments to controls as necessary.

How to Grow a Successful P-Card Program

As organizations realize the benefits of using Purchasing Cards to reduce costs and control expenses, many forward-thinking companies are exploring ways to expand their program's reach. The advent of robust controls and security measures that card issuers have implemented to prevent unauthorized charges or employee misuse provides companies with the comfort to convert higher dollar, low volume payments to cards.

Utilizing virtual cards allows companies to lock down purchase controls as they see fit. Each virtual card is tied to an underlying billing account that is not shared with suppliers, which prevents the chances of unauthorized spending or fraudulent activity. When virtual cards are combined with a successful Purchasing Card program, it can help organizations derive greater financial benefits and process improvements.

Issuers of P-Cards can help companies grow their programs through supplier on-boarding initiatives. Ongoing support and communications programs to targeted suppliers can help educate suppliers on the benefits of Purchasing Card acceptance.

Rebates

More and more companies are cashing in on Purchasing Card rebates to drive savings. Rebates which provide cash back to an organization are based on annual purchase volume; therefore, companies with large volumes reap the most rewards from rebates. With a rebate program, the card issuer pays back to your organization a negotiated portion of the volume of purchases made with the cards. Rebates typically are paid annually and generally are made available to organizations that meet an established card volume threshold.

Rebates can be ideal for situations in which commercial card use can be mandated. If a company can develop and enforce a policy that all employees participate in the card program, companies will capture more spend and maximize rebates. The more a company spends, and the faster the card issuer is paid, the greater the rebate is likely to be.

PNC Financial Services

PNC Bank is one of the largest banks in the U.S. and is part of The PNC Financial Services Group, a diversified financial services organization serving retail, business and corporate markets. Headquartered in Pittsburgh, Pennsylvania, PNC has offices nationwide with 2,900 branches in 19 states and the District of Columbia. PNC Bank's large client base turns to their trusted, world-class team of experts for innovative and valuable financial process solutions in payables, commercial card and invoice automation services. As one of the leading financial service providers in the country, PNC consistently works to find opportunities to better serve customers, shareholders and the community.

PNC Bank is the seventh largest U.S. bank by total assets of $299 billion and the fifth largest with total deposits of $207 billion (as of June 30, 2012). With a Standard & Poor's rating of A- on its senior debt and an A on its long-term deposits, PNC has one of the best credit ratings within its peer group. Within the last five years, PNC has doubled in size and remained committed to responsible lending practices while retaining a strong balance sheet and maintaining solid capital ratios.

Website	www.pnc.com
Founded	1852
Headquarters	Pittsburgh, PA
Other Locations	Corporate & Institutional Banking offices are located nationwide as well as Toronto, Canada. Approximately 2,900 branches are located in 19states and the District of Colombia
Number of Employees	57,000 employees in the U.S. and abroad
Number of Customers	More than 32,000 Corporate & Institutional Banking clients
Number of End Users	Over 6 million accounts
Key Clients	Provide banking services to a large portion of Fortune 500, the U.S. Treasury, and many State government agencies and universities
Target Verticals	Comprehensive Payables, Commercial Card and Invoice Automation services targeted to Healthcare, Higher Education, State and Local Government, Insurance / Financial Services, Real Estate, Large Corporate and Commercial customers
Transactions Processed Annually	Over a billion payments processed annually

Awards / Recognitions	» Most Admired Companies, Fortune magazine (2012) » One of the World's Strongest Banks, Bloomberg Markets magazine (2012) » Bank of the Year in the United States, The Banker magazine (2010) » CIO 100 for Technology Innovation, CIO magazine (2011) » Top 125 Companies for Employee Training, Training magazine (2012) » Greenwich and Associates (2011) – Ranked #1 in Overall Customer Satisfaction among all providers of Treasury Management Services (Large Corporate) » 2011 Phoenix-HechtTM Large Corporate Quality Index – Payables – A+ for overall features and capabilities
Solution Name	PNC ActivePay® - Commercial Card & Payables solution
Current Version	Version R.1.2012
Year Introduced	2002
Frequency of Upgrades	Bi-annually

Solution Functionality

PNC's ActivePay® solution, introduced in 2002, was the first automated card payables solution. It is the first commercial card application that integrates directly with an organization's legacy systems to initiate account payables payments via on-line or batch file transfers through the use of virtual vendor cards. ActivePay's virtual card limits are controlled in real-time to maximize controls and reconcilement, enabling organizations to put larger dollar payments on commercial cards and maximize payment controls. ActivePay provides enhanced transaction and data management that allows companies to expand their card program and increase the financial benefits of card usage, including greater control, streamlined reconciliation, enhanced recordkeeping, reduced payment risk, lower payment processing costs and increased working capital.

ActivePay allows one-time payments through a Single Use Ghost Account (SUGA), which provides the capability to assign single use accounts to payments for invoices, purchase orders, insurance claims and healthcare provider benefit disbursements. ActivePay's SUGA allows users to email merchants a link to securely access their single use account for payment via a PIN. Fax notifications to merchants are also available.

ActivePay enables a straight through card settlement process as it dynamically controls the open to buy on cards and delivers remittance information directly to suppliers. ActivePay can support both vendor 'Pull' and 'Push' pay settlement processes on the same payables module and vendor database. ActivePay facilitates the automatic reconcilement of payables transactions through system matching and online reconcilement management.

In addition, ActivePay supports traditional Purchasing and Travel card programs through the same user interface and sign-on. This functionality includes on-line expense reporting, GL allocations, workflow approvals, out-of-pocket expenses, receipt image retention, and GL interfaces all on a single enterprise level application.

The versatility of ActivePay provides users with visibility into every transaction and account. It gives PNC clients control over managing the exact timing of payments and communication of transactional information directly to suppliers. This improved communication with suppliers helps to strengthen business relationships.

The ActivePay solution supports English, Spanish and French languages. An upcoming 2012 release will support mobile functionality and will provide the ability to access ActivePay via Smartphones.

Integration

ActivePay integrates with all customer legacy systems and third-party ERP / AP applications to initiate electronic card payments on both traditional purchasing and virtual ghost cards. Companies can use existing ERP or other AP technologies, incorporating two-or three-way match approval.

Supplier Management

PNC has a dedicated payables consulting team that works directly with clients to analyze their vendors and payments. This team builds a targeted vendor recruitment campaign to migrate customers' vendors from checks to card payments. PNC contacts the vendor base on behalf of their customers to explain the program and facilitate the migration process.

Real-time Controls

ActivePay provides for real-time payment initiation through the accounts payables capabilities. When a payment instruction file is received by the customer, cards are allocated credit in real-time and merchants receive the electronic remittance advices delivered by e-mail within minutes. The application enables a true straight-through card settlement process while dynamically controlling the open to buy on cards and delivering remittance information directly to suppliers.

ActivePay enables real-time card closing, suspension, single transaction limit changes, cycle credit limit changes, MCC controls, temporary limits based on time, declining balance (budget) limits, and restoration of cycle credit limits based on reconcilement activities.

In addition, ActivePay's Exact Authorization capabilities enable companies to lock cards down to approved payment amounts only, declining transactions that do not match to the exact amount including cents.

Security Measures

The ActivePay application has multi-tiered access privileges and authentication. Users ID's and passwords are used to control access to the ActivePay application and customer data. The levels of privileges include: bank level administrators, company level administrators, managers, cardholders, and viewers. Customer level access is provided to an organization's authorized program administrators. The program administrators are trained to provide access privileges to individual users.

ActivePay is a PCI-compliant and certified application. The application utilizes secure web sessions and encryption for all file transfers. ActivePay is password protected and all sensitive data such as card numbers are encrypted behind firewalls.

Workflow Management

To better streamline the process for Purchasing and Travel cards, ActivePay provides the ability for clients to define their own GL extract within the application including fields, formats and frequency of uploads. Clients have the ability to establish their own transactional management workflow to review, allocate and approve transactions. ActivePay's easy-to-use interface allows company administrators to select transactions based on status, GL codes, dates, and other fields to filter GL extracts to desired data. Expense reports can also be downloaded and include out-of-pockets transactions. Automated file transmissions can be established based on customer desired protocol and timing.

Reconcilement Management

ActivePay provides for two different transaction matching reconcilement processes within the application. The first reconcilement process is the accounts payable process whereby ActivePay provides an automatic transaction matching process of payments/invoice received by the customer back to the settled Visa transactions. Transactions are matched by amount, card number, Level II (invoice) data, and percentage thresholds. Unmatched transactions and payments are categorized and placed in work queues, which enables clients to research, manually match, and reconcile.

The second reconcilement process is the distributed card process, which is built upon either an individual transaction management process or an expense reporting process.

Cardholders and their managers can review, reallocate, and approve transactions through an online workflow. Notifications can be emailed to users when transactions are ready for review and approval. Transactions can be marked as declined or disputed with comments. Reports can be generated based on status of transactions. The restoration of cardholder credit limits can be tied to review or approval processes. In addition, reconciled transactions can be locked down and extracted in company defined GL file formats for automated posting.

Reporting & Analytics

ActivePay has a large number of standard report templates in addition to ad hoc reporting capabilities that enable customers to select data fields, filters, and formats to create customized reports that are available for pre-defined frequencies or on demand. Reports can be generated online and downloaded in multiple formats including PDF, CSV, and Excel. Recurring report notifications can be sent with reports attached to the email or written to a user's file folder for access and archiving. A company's reporting units can be defined within ActivePay to generate reports at any organizational level.

Implementation and Support

PNC realizes the key to any successful commercial card program is the program support through design, training, launch and roll-out. PNC has a three-tiered dedicated program support team assigned to all card implementations including:

» Card Account Manager – Acts as overall project manager and stays on post implementation to ensure program success.

» Technical Support Representative – Responsible for ActivePay set-up, training, and all file and system interfaces.

» Account Service Representative – Acts as the day-to-day service contact to all company program administrators and site coordinators.

In addition to this company level support, PNC provides 24 x 7 x 365 cardholder service via toll free phone number both with a VRU and live operators.

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ActivePay is a registered mark of The PNC Financial Services Group, Inc.

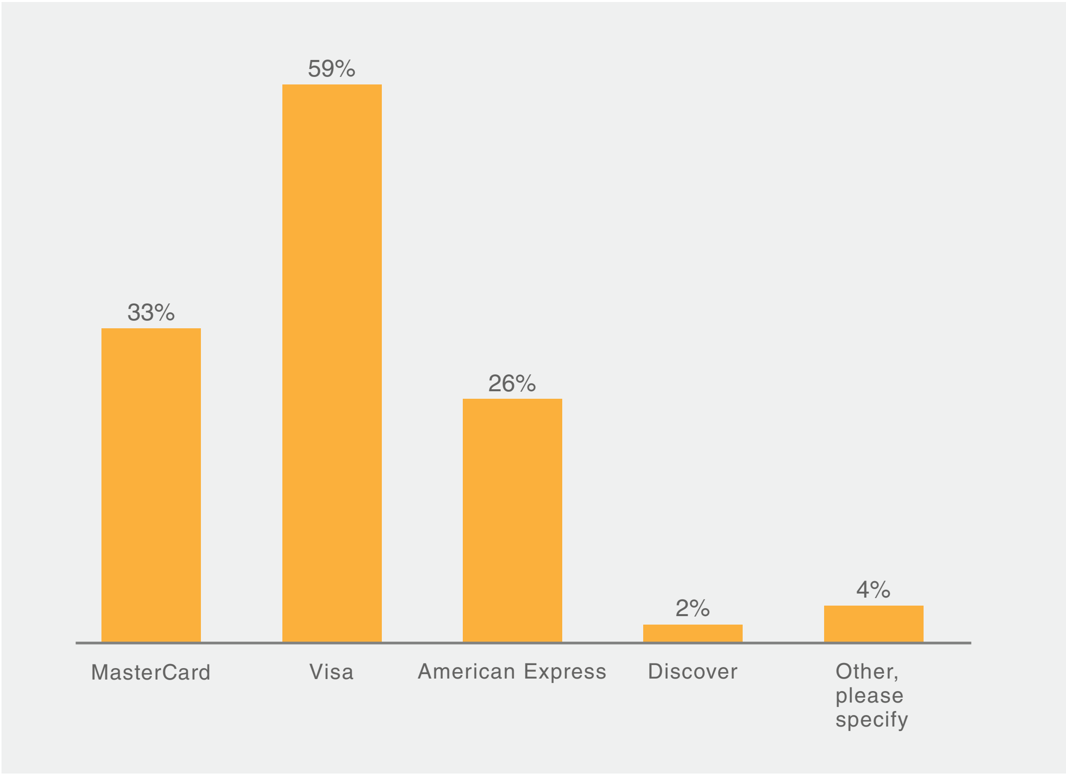
Selecting a Purchasing Card Issuer

According to new PayStream research, the most popular purchasing card network is Visa (59 percent), followed by MasterCard (33 percent) and American Express at 26 percent. Deciding on what purchasing card issuer to partner with will be based on several criteria.

Figure 13

Utilized Purchasing Card Networks

Visa is the most commonly used purchasing card network.



Merchant Acceptance

The more vendors your company uses that accept Purchasing Cards, the larger your program can be and the more you can save and collect in rebates. From a merchant's perspective, a Visa card is a Visa card – regardless of which bank issues it. The same is true of MasterCard. Since most merchants accept Visa and MasterCard, it makes relatively little difference in merchant acceptance which label or bank issuer you choose to partner with.

American Express will have a different merchant acceptance pattern. Some merchants and B2B suppliers may accept American Express but not MasterCard or Visa. However, in general, American Express is accepted by fewer merchants and suppliers. Therefore, merchant acceptance may depend largely on how aggressive the issuing bank's onboarding program is.

Reporting Software

Process automation and increased visibility into spending patterns have always been big selling points for Purchasing Cards. In the past, card issuers competed aggressively on who had the best reporting capabilities. However, today's robust reporting capabilities have leveled the playing field in standard and ad-hoc reports. Program management software that makes card information available for reporting capabilities does vary among card providers. It's important to find out what is available, when the information is made available and what tools are available to manipulate the information into usable data to meet your company's specific needs.

Rebates

Rebate structures vary from issuer to issuer. Some will base rebates on total dollars charged, while some will pay a premium for programs that increase the average transaction size or charge larger ticket purchases to the card. When exploring a P-Card program be sure to inquire about the rebate program and how it works. Rebates alone should not be a deciding factor on who to work with. An issuer that offers a high rebate but less help with supplier onboarding may provide less rebate money in the long run than one that aggressively helps your company build program volume.

Working Capital

There is a substantial cash flow benefit in getting your suppliers paid with the bank's money and then waiting until the end of a monthly cycle to pay the bank. Banks charge for this service so the more often your company repays the bank, the lower your fees will be and the higher your rebate will be. Monthly settlement is still most common, but some banks offer weekly, bi-weekly or even daily settlement options. Companies with high levels of surplus cash invested at low rates may want to pay quickly; whereas companies with high levels of expensive debt may want to pay slowly. Exactly how far an issuer will go to accommodate your liquidity situation and working capital management strategy may have some bearing on the choice of an issuer.

Implementation

The process of implementing a Purchasing Card program can vary among providers. A good implementation starts with a strategic exploration of the role the program is to play, which employees should have cards and how stringent controls should be. Time constraints of implementation deal with the accounting aspect of card spending and the mapping of card numbers to particular accounts in the general ledger. A program administrator is trained to learn how to quickly maintain the day-to-day aspects of the software such as adding new card members or adjusting spending limits. Finally cardholders need to be trained on the proper use of cards and encouraged to use them as much as possible within the prescribed limits. Use and training of virtual cards and ghost cards will also be necessary.

Customer Service

All issuers provide customer service. The level of customer service will vary from issuer to issuer and should be researched prior to choosing a provider. Talk to references and dial into the help line or online help desk before choosing a card partner.

Integrated Payables

Research shows that Purchasing Cards are an increasingly popular electronic payment option. However, companies are still paying for purchases with paper checks, wires and ACH transactions. Purchasing Card providers have come a long way in integrating payable solutions in an effort to ease the pain of migrating from check to card payments. It's much easier for employees to learn control and reporting features in one system that it is under numerous systems. Be sure to inquire about issuers' integrated payables features.

Final Thoughts

Purchasing Card programs are an excellent tool companies can utilize to manage expenses and maximize savings. P-Card programs make the business purchasing process more efficient by reducing paperwork, providing increased control over spending, and visibility into spending patterns. Purchasing Card programs provide a win-win situation for companies by reducing the workload for AP and purchasing departments at essentially no cost to an organization. Companies can cash in on rebates and work to increase Purchasing Card volume amounts by utilizing cards for larger purchases.

Research Methodology

The findings in this report are based on the results of PayStream Advisors 2012 Invoice & Workflow Automation Adoption and Electronic Payments surveys. Participants in the surveys included more than 600 AP professionals. Based on our experience and the number of respondents, the survey has a confidence level of +/-5 percent.

About PayStream Advisors, Inc.

PayStream Advisors is a technology research and consulting firm that improves the way companies plan, evaluate, and select emerging technologies to achieve their business objectives. PayStream Advisors assists clients in sorting through the growing complexities of IT applications related to business process automation with the goal of making objective, analytical, and actionable recommendations. Wherever business process automation technology is an issue, PayStream Advisors is there to help. For more information, call (704) 523-7357 or visit us on the web at www.paystreamadvisors.com.