Virtual cards and eCatalogs: a powerful combination

WHITE PAPER

Many companies today are looking to maximize the benefits of a comprehensive commercial card program — one that employs both distributed plastic card and cardless "virtual card" electronic payables transactions. To do that, a growing number of organizations are taking advantage of electronic catalogues ("eCatalogs") and integrating virtual card payment into that increasingly popular buying channel.

This trend is emerging as companies discover that the traditional wisdom — that cards should only be used to pay for small-dollar transactions — no longer applies. Companies are learning that the level of risk presented by any particular card payment is determined by controls within the chosen procurement channel rather than by the size of the transaction.

The trend is also being driven by the fact that more companies are using sophisticated supplier segmentation to identify the suppliers most likely to accept payment through a lower-cost, more advantageous payment channel such as card.

In this paper, we'll look at the benefits companies have traditionally accrued by using cards to make payments in the purchase requisition channel — and how electronic payables ("ePayables") is helping multiply those benefits as a payment method, particularly in the eCatalog procurement channel.

THE VALUE OF A TRADITIONAL CARD PROGRAM

Most organizations have started their commercial card programs by distributing plastic credit cards to employees and authorizing them to use the cards to make small-dollar purchases.

Cards help maximize payment efficiency. They streamline the entire procure-to-pay process, eliminating many of the steps associated with using the purchase order channel, as they are used to make purchases and initiate payments that were historically made by issuing a purchase order and paying by check. It has been long understood that the cost savings associated with card usage can enable redeployment of Accounts Payable staff to more value-added work.

In addition, commercial card payments enable buyers to pay their suppliers almost immediately — eliminating much of the float associated with check payments for their suppliers — while improving their own days payable outstanding (DPO) performance. A buyer on 30-day terms that pays with a card on day 30 doesn't have to release funds on its card payments for another 30 to 55 days, due to the card's 30-day monthly statement cycle and the standard 25-day grace period.

Also, daily, weekly and monthly transaction limits — and Merchant Category Code (MCC) restrictions — can easily be put into place to prohibit unsanctioned card usage and force cardholders to purchase from preferred suppliers that are under contract.

Finally, many banks offer a revenue-share opportunity based on a client's annual commercial card charge volume.

INCREASING SPEND WITH EPAYABLES

The emergence of ePayables solutions is enabling companies to marry other channels with card payment and multiply traditional card program benefits.

ePayables refers to a fully automated accounts payable solution that, for transaction purposes, employs a number associated with a card account — called a "virtual card" number — but no physical plastic card. Many organizations are building expanded, comprehensive commercial card programs that also support larger-dollar ePayables transactions.

With companies looking to ePayables as a way to increase card program spend and benefits, the volume of ePayables transactions is on the rise. According to the most recent Electronic Accounts Payable Benchmark Survey from RPMG Research Corporation[1], an estimated 29% of organizations using purchasing cards have adopted ePayables. Also, in the three years leading up to the survey, monthly ePayables spending per organization more than doubled, as did the size of their average ePayables transaction (to nearly $5,000). RPMG Research is forecasting annual ePayables market spend will reach $110 billion by 2019, up from an estimated $65 billion in 2014.

Based on these trends, integrating ePayables into a commercial card program clearly offers enormous potential

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for companies to improve process efficiency and build their card spend.

Results from the RPMG study suggest that companies, in embracing that potential, are adopting an entirely different approach to the size of transactions they are willing to initiate through a card program. Half of respondents reported using ePayables to pay for a single purchase of more than $125,000 in the past year, and a quarter reported making at least one ePayables purchase exceeding $400,000.

A NEW PERSPECTIVE ON CARD TRANSACTION RISK

The rise of ePayables suggests a new perspective on card transaction risk is at work.

Again, the traditional approach has been for companies to identify transactions appropriate for purchase card programs based on their dollar amount. Low-dollar transactions have been presumed to be less risky and therefore appropriate for card purchases, and many companies have traditionally limited distributed-plastic purchasing card transactions to $2,500 or less.

The rising volume of larger-dollar ePayables transactions reflects a growing understanding that the risk associated with plastic card transactions — where often employees are making purchases in the field or buying commodities for the business — is different from that of ePayables transactions that are integrated into the accounts payable stream.

The surge in ePayables volume can be expected to continue in conjunction with the debunking of two myths.

The first myth is that purchase requisition-purchase order-receipt-invoice-payment is the main method of buying in most organizations. Plastic purchasing cards were designed to offer a more efficient alternative when paying for low-dollar purchase requisitions, but there is a growing recognition that procurement is also performed through many other channels, and commercial cards can play a role in making some of those channels more efficient.

The second myth is that limiting card transactions to a certain dollar amount controls the risk of card usage. The truth is that the purchasing channel — not the size of the transaction — dictates the risk of procurement.

To illustrate this, consider one of the many other procurement channels that companies are using today — automated inventory ordering with order controls. When using this channel, a company monitors inventory levels through an ERP-supported inventory management system that automatically triggers creation of a purchase order and sends it to the supplier when inventory requires replenishment. Everything about the purchase is controlled and predetermined — the supplier, the goods, the volume and the price. So whether the order was for $100 worth of goods or $10,000, the risk doesn't change. The risk of that purchase is defined by the controls built into the auto-replenishment process.

EVALUATING PROCUREMENT CHANNELS

This new perspective on card transaction risk suggests companies should evaluate their various procurement channels to determine where they can safely and efficiently introduce ePayables in order to maximize card spend and program benefits. Among the many procurement channels that companies use today are:

- Retail store purchases
- Online shopping
- Vendor managed inventory (contract based)
- Inventory with order controls (auto purchase order)
- Inventory without order controls (manual P.O.)
- Direct buy work order (manual P.O.)
- Free text work order (manual P.O.)
- Catalog (contract)
- Non catalog (blanket P.O.)
- Check request (blanket P.O.)

A company should evaluate all of the channels it's using to determine where cards can improve efficiency in the ordering and payment process. In certain channels, card payments can eliminate invoicing and improve efficiency when used to pay at the time of purchase. Efficiency improvement is often greatest when a card payment can replace a check payment, and card products can be used as a settlement mechanism in most procurement channels.

CARDS AND ECATALOGS

One channel that's emerging but still underutilized by many companies is the eCatalog channel. Moving transactions from higher-cost channels to catalog channels results in process efficiency, reduced costs and happier users and suppliers.

Organizations have been purchasing supplies and other goods from buyer-hosted internal eCatalogs since the 1980s. The arrival of the internet and eCommerce in the mid-1990s led service providers to connect multiple buyers and sellers electronically using third-party hosted eCatalogs. Today the market has shifted with suppliers vying to host their own catalogs and encouraging buyers to use them.

What happened is that suppliers discovered the cost savings potential of moving purchases to the catalog channel. This created a paradigm shift. Whereas it used to be the buyers who were the most active proponents of catalog purchasing, now it's the suppliers in that role.

As a result, there's been a surge in usage of business-to-business eCatalogs.

Buyers gravitate toward this type of online purchasing too, in part because that's the way those in Procurement positions

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have become accustomed to making purchases conveniently in their personal lives as consumers. eCatalogs have also become popular with buyers because they facilitate lower, negotiated pricing on frequently purchased commodity products. Furthermore, they enhance spending control by reducing maverick buying, as companies that leverage eCatalogs as a procurement channel are able to dictate both the vendors that can be used and the specific products that can be purchased.

eCatalog is typically an ideal channel within which to integrate virtual card payment. When orders are generated online, it's a very efficient process to eliminate invoicing and have the buyer make payment with a card number while completing the online order. And even more importantly these days, when purchases are made through a catalog, card is how suppliers now want to be paid.

Indeed, with the growing popularity of eCatalog purchasing, the marriage of eCatalogs and cards — often in the form of single-use virtual card accounts — makes great sense as a strategy to achieve process efficiency and reduce cost, while increasing card spend and card program benefits.

COORDINATION BETWEEN PROCUREMENT AND A/P

Efforts at increasing use of ePayables to achieve process efficiencies can only truly be successful if a company's Procurement and Accounts Payable (A/P) departments work together to streamline the entire end-to-end requisition-to-pay process.

For example, Procurement can help by identifying high-cost procurement channels, such as those using manual and free-form requisitions for the purchase of low-risk commodity products, and by migrating them to a catalog ordering solution. At the same time, A/P can help increase payment efficiency and further eliminate check payments by appealing directly to suppliers in campaigns promoting card acceptance.

Also — and this is critical — while Procurement may proactively negotiate card payment into contract terms with the supplier, the goal of increasing card spend is only achieved if Procurement informs A/P of the negotiated terms so A/P doesn't continue to pay that supplier by check.

BETTER RESULTS FROM A NEW APPROACH

The many benefits of commercial card programs — efficiency, better working capital management, greater negotiating power, enhanced spending controls and revenue share opportunities — can be multiplied many times over by increasing the number of procurement transactions moved to a card-settled process.

The realization that the risk of a card transaction has more to do with procurement channel controls than the size of the transaction has companies making concerted efforts to boost their card spend levels through ePayables solutions. The smart strategy is to evaluate purchase channels, utilize the lowest-cost channel based on efficiency and risk considerations, and introduce card payments into the buying process where it can add further efficiency.

One of the most promising procurement channels for introducing card payments is the rapidly growing eCatalog channel. With a coordinated effort between Accounts Payable and Procurement, your company can make the combination of virtual cards and eCatalogs a powerful one.

LEARN MORE

Contact Treasury Management Sales at 800-883-0285.

[1] RPMG Research Corporation (www.rpmgresearch.net) has been conducting an Electronic Accounts Payable Benchmark Survey every three years. Partial results of the most recent survey, conducted in 2015, are publicly available at: www.rpmgresearch.net/product-view.php?product_id=69.

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