Creating a Card-Based B2B Payments Program
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Introduction

Not long ago, the challenges for a state-of-the-art business-to-business (B2B) payments program were fairly modest: pay invoices on time but not too soon, pay the right amount, and capture early payment discounts where possible. Modest, perhaps, but not necessarily simple. Payment clerks labored to match invoices, purchase orders and packing slips. Requests for payment approvals often had to be routed, physically, from one executive's desk to another. Once payments were approved, companies were obliged to print and mail paper checks. Duplicate data entry procedures provided ample opportunity for errors, disrupting cash flows and frustrating vendors. In some cases, these cumbersome processes were so slow enterprises would fail to meet contractual payment terms—never mind take advantage of early payment discounts. Such inefficiency only adds to the many cost-management challenges companies already face (see Fig. 1, on pg. 5).

Today, best-in-class organizations are combining the lessons of yesterday with the technology of today to streamline the payables process in ways that simply weren't possible a decade or so ago. They are consolidating spending among fewer suppliers, and giving vendors that could impact their profitability readier access to information about their inventory needs. They are establishing standardized payments terms for their purchasing departments. They are implementing strict authorization procedures for purchases made on non-standard terms, and integrating spending approvals into purchase processes to minimize late sign-offs that can trigger payment delays.

On the technology front, best-in-class organizations are making a dramatic shift away from paper-based payment systems in favor of electronic programs that automate much of the payables process. While the majority of B2B payments are still made by check and ACH, a number of new card payments can improve cash flow, payment efficiency and data visibility and control. For B2B transactions, card-based programs include procurement cards and single-use accounts.

This report looks at:
- Using procurement cards
- Using single-use accounts
- Maximizing card-based B2B payments
- Measuring & tracking results

1 http://bit.ly/dDxOXK
Procurement Cards

Procurement cards, commonly called purchasing cards, allow an organization to charge purchases from multiple vendors and then pay a single bill at the end of each month to the card provider, allowing organizations to earn rebates on their purchases. Vendors are typically paid within a few days by the card issuer allowing the organization to enjoy a cash float before paying its monthly bill to the issuer.

A physical plastic card may be issued to an individual or virtual account number to a company department that employees can use to purchase goods or services from one or more merchants. Program administrators can manage their account online to set up preferred supplier lists and manage other features of their card program.

Procurement cards offer numerous advantages over the manual process of issuing purchase orders, entering

Fig. 1 – Cash Flow Management Strategies

Companies are using a variety of methods to better control cash flow, with one in five turning to electronic payments, according to a 2013 report by CFO Research for American Express.

“Over the next year, my company is most likely to focus on ______________ to improve its cash-flow management.”

<table>
<thead>
<tr>
<th>Priority</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving operating efficiency to ensure that delivery of goods meets customer expectations</td>
<td>22%</td>
</tr>
<tr>
<td>Accepting and issuing electronic payments more systematically</td>
<td>20%</td>
</tr>
<tr>
<td>Improving cash flow forecasting</td>
<td>19%</td>
</tr>
<tr>
<td>Motivating account-relationship holders to participate in collections</td>
<td>11%</td>
</tr>
<tr>
<td>Improving reporting on cash positions and requirements</td>
<td>7%</td>
</tr>
<tr>
<td>Improving customer service to reduce returns and encourage prompt payment</td>
<td>4%</td>
</tr>
<tr>
<td>Reducing the number of invoicing errors</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: “A Valuable Turn for Finance,” CFO Research for American Express, May 2013
Procurement Cards (cont.)

invoices into a general ledger system, and paying by paper check. These advantages include:

- Cost savings
- Spending controls
- Cash rebates
- Convenience
- Enhanced productivity

According to a May 2013 report by CFO Research for American Express, companies are moving toward making greater use of credit- or purchasing-card float as a cash management tool. Thirty-eight percent of finance executives in that survey increased their use of such cards to manage cash over the course of the past year, while 42 percent plan to increase use of the cards over the next year (see Fig. 2).

Fig. 2 – Trends in Credit and Purchasing Card Use

Companies are increasingly using credit and purchasing cards to manage their cash flow, according to a 2013 report by CFO Research for American Express.

“Over the past year, my company has made ______________ of credit- or purchasing-card ‘float’ to manage its cash position.”

<table>
<thead>
<tr>
<th>Card use</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>More use</td>
<td>38%</td>
</tr>
<tr>
<td>Less use</td>
<td>10%</td>
</tr>
<tr>
<td>Not sure</td>
<td>3%</td>
</tr>
<tr>
<td>Doesn’t apply</td>
<td>50%</td>
</tr>
</tbody>
</table>

“Over the next year, my company is likely to make ______________ of credit- or purchasing-card ‘float’ to manage its cash position.”

<table>
<thead>
<tr>
<th>Card use</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>More use</td>
<td>42%</td>
</tr>
<tr>
<td>Less use</td>
<td>9%</td>
</tr>
<tr>
<td>Not sure</td>
<td>8%</td>
</tr>
<tr>
<td>Doesn’t apply</td>
<td>42%</td>
</tr>
</tbody>
</table>

Source: “A Valuable Turn for Finance,” CFO Research for American Express, May 2013
Single-Use Accounts

Single-use accounts are similar to procurement cards but provide higher levels of control and automation over purchasing processes. These payments don’t involve a physical card. Instead, a unique, virtual account number is assigned to each transaction. That account number is authorized only for a specific period of time and for the exact amount of the transaction with a specific vendor.

Organizations obtain virtual account numbers by making a web-based request or sending an electronic file directly from their accounts payable or procurement system, allowing organizations to leverage virtual single-use accounts within their existing processes. Virtual accounts also provide access to the network of merchants that accept the issuers’ corporate and procurement cards.

Like procurement cards, single-use accounts can be integrated into existing processes and software applications with minimal engineering.

Maximizing Card-Based B2B Payments

Organizations can maximize the benefits of procurement cards, virtual card payments and BIP by adopting these best-practice policies and procedures:

- **Choose a compatible provider.** Look for a payments provider whose information systems will be easy to integrate with your own, with widespread acceptance among your vendor base.

- **Make procurement cards widely available.** You may not want everyone in your organization to have a procurement card. But best-in-class organizations make them available to the broadest possible cross-section of employees, increasing the percentage and volume of purchases made with the card and thereby increasing the organizations’ rebate benefits.

- **Seek supplier acceptance.** Actively target high-volume suppliers to migrate to electronic payments. Consider setting up an internal advisory council of influential stakeholders from treasury, procurement and other departments to periodically meet and discuss ways to improve your payments program.

Continued on next page
Maximizing Card-Based B2B Payments (cont.)

- Ask your payments provider for help enrolling vendors. Some vendors may not recognize that they can accept e-payments, or may not appreciate the associated benefits. Your provider’s enrollment specialists can help persuade vendors to accept card payments.

- Use multiple payment options. If you work with vendors that aren’t technically capable of accepting B2B, you may still be able to charge orders to a procurement card or a single-use account. The more card-based purchasing options you use, the more efficient your payments process will become and the higher your rebate rewards will be.

- Get senior management’s sponsorship. It’s more likely that vendors will accept card-based payments if they know such systems are important to your C-suite.

- Establish controls. For procurement cards, set spending limits and restrictions appropriate for each user, and review guidelines periodically to make sure they are realistic. The more precise the spending controls, the more comfortable you can be distributing cards among the widest possible number of employees.

- Establish compliance. For procurement cards, develop and publicize a graduated scale of consequences for violating spending policies. Repeat violations may indicate areas where you need to expand or tighten spending controls.

- Link transaction data to IT systems. Work with your payments provider to integrate card-based spending transactions and reconciliations into your general ledger system. This will maximize the efficiencies a payments program offers.

- Negotiate with vendors to accept card-based payments. Vendors pay a modest fee to accept card-based payment solutions, but they also benefit from receiving accelerated payment for goods or services rendered, process efficiencies and reconciliation. Your organization can leverage this benefit to push vendors for better pricing. You might also petition for better prices in exchange for including vendors who accept card-based payments on your preferred vendor list.

- Make implementing a card-based payments program a cross-functional undertaking. Instead of only working with your purchasing manager and head of accounts payable, involve other finance team members, business unit leaders and supply chain managers. You’ll discover more opportunities to shift spending to your payments programs.

- Communicate with employees. Use quarterly newsletters, email and your intranet or website to regularly tell employees how payments programs work. The more they know, the more they are apt to use them responsibly.

Consider setting up an internal advisory council of influential stakeholders to periodically meet and discuss ways to improve your payments program.
Measure & Track Results of Your B2B Payment Solution

To ensure proper use of payment solutions and spot opportunities for improvement, track common success metrics. These could include:

- Number of active cardholder accounts
- Dollar volume of purchases made through card payments
- Number or percent of paper invoices eliminated
- Number of percent of purchase orders eliminated
- Dollar amount of rebates collected

For procurement card programs, generate exception reports to flag purchases made on weekends or evenings, shipped to an employee’s home, made from a non-preferred vendor, or that fall just under a user’s spending limit. Perform periodic audits to assure compliance and create a dashboard of key usage metrics to share with your CFO and other senior administrators to keep them abreast of how your programs are working.

Percent of payments made through card-based B2B solutions relative to total expenditures
- The percent of preferred vendors that accept card-based payments
- Number or percent of paper checks eliminated

Perform periodic audits to assure compliance and create a dashboard of key usage metrics to share with your CFO and other senior administrators to keep them abreast of how your programs are working.

Conclusion

Today’s best-in-class card-based B2B payment options streamline the payables process in ways that weren’t possible a decade ago. They give organizations control over spending, and help reduce costs by automating manual processes and minimizing the need for paper checks. In many cases, they also reward users with cash rebates. Organizations that fail to take advantage of them are, quite simply, leaving money on the table.
Learn how American Express Global Corporate Payments can help streamline processes, increase visibility and drive savings for your company. Additional information can be found at: http://business.americanexpress.com/us/payment-services