Purchasing Cards – Streamlining the Purchasing Process while Maintaining Proper Controls

By Brian Rosenberg

Accounts Payable departments are constantly challenged to address increasing volume of invoices as their organizations grow. As AP is an overhead function, accounts payable managers are often unable to obtain the budget necessary to hire additional staff and need to explore alternative methods to reduce the amount of manual entry.

Purchasing departments also operate on limited resources and may be bogged down by small routine requests for supplies and services that continue to grow while their staff size remains the same.

Purchasing Cards provide an option that can reduce the workload for both the accounts payable and purchasing departments at essentially no cost to your organization. By reducing the number of transactions being processed, less staff is necessary, leaving remaining personnel to focus on more value-added activities.

About P-Cards

Purchasing Cards, also known as Procurement Cards or P-Cards, are corporate charge cards which work in a similar way to credit cards. Most P-Card programs are Visa or Mastercard branded and can be used at any retailer or supplier that accepts credit cards. P-Cards provide a mechanism for authorized staff to make small, routine purchases without involving the accounts payable and purchasing staff.

> **Opportunity:** Purchasing Cards can reduce the workload for both the accounts payable and purchasing departments at essentially no cost to your organization.

Many organizations have a large number of small dollar transactions that are being processed by the AP department, resulting in costs to receive, approve, and issue checks. The 2003 Purchasing Card Benchmarking Study found that 90% of transactions are for amounts less than $2,000.

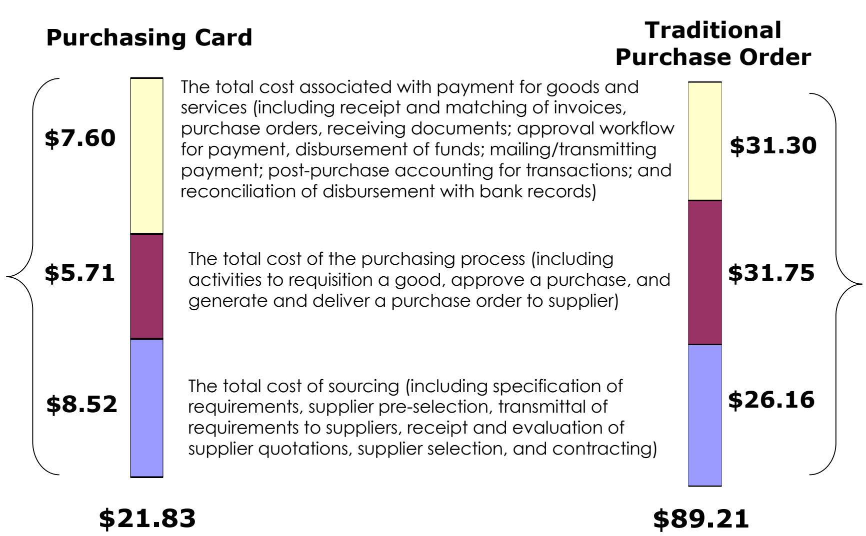
In some cases, the cost of processing these transactions exceeds the amount of the original payment. The cost to process a purchase order and invoice is essentially the same regardless of the invoice amount. Purchasing Cards provide a solution that not only significantly reduces the cost of these transactions, but also provides a rebate to the organization.

Purchasing Card transactions are usually interfaced directly from a file provided by the bank into the Accounts Payable or General Ledger system, eliminating the need for manual entry of purchase orders and invoices. The result is a reduction in the number of invoices processed by the departments, allowing them to process other transactions or focus on other value-added activities.

There are other efficiencies gained from the use of Purchasing Cards, including faster payment to vendors and elimination of the need for petty cash accounts. The 2003 Purchasing Card Benchmarking Study demonstrated that P-Cards reduce the procurement cycle time by **74%**, reduce the number of petty cash accounts by **57%,** and reduce the number of Maintenance, Repair and Operating (MRO) suppliers by **42%**.

In addition, most P-Card programs offer rebates to participating companies that are about 1% of expenditure volume. While these rebates can provide an additional savings, it should be noted that the P-card processor is passing on the fee to the vendors and rebates should not be the primary intent of a P-card program (see sidebar, page 3).

Cost Breakdown of PO vs. Purchasing Card



2005 Purchasing Card Benchmark Survey Results – RPMG Research Corporation

Proper Controls

While Purchasing Cards are becoming more common in organizations across many industries, there are still many detractors from the use of Purchasing Cards. One of the most common concerns expressed by leadership is a concern about loss of control – an increase in rogue purchases and fraudulent use of the cards for personal purposes.

Properly implemented, however, a purchasing card program will increase, not decrease, the controls and visibility surrounding these transactions.

Current programs allow administrators to restrict usage of cards based on a variety of business rules, including dollar restrictions per transaction and per timeframe. Also, restrictions can be set for particular types of businesses eligible for P-Card payments.

Purchasing Cards create clear ownership and accountability of transactions, and provide more information about buying habits than is generally available for non-purchase order transactions. Pattern based audits, such as reviewing transactions over particular amounts , for particular business types, or on weekends can be combined with random audits to reduce risk of fraud and ensure that cardholders are aware that their buying habits are being monitored.

P-Card Success Factors

Upon implementing a P-Card program at your organization, there are several key success factors managers should follow to better ensure that the card program meets its fullest potential and is seamlessly integrated into the procurement process. These best practices include:

- **Dedicated resource -** It is important to have a dedicated resource committed to handling all aspects of the P-card program including training, monitoring, performing spot audits, and answering cardholder questions. This staff member helps to ensure the smooth operation and growth of the program for increased effectiveness.
- **Clear guidelines –** Discuss, develop, document, and communicate very clear guidelines as to what types of purchases should be on a purchasing card as opposed to purchase orders and other procurement methods.
- **Controls –** Establish realistic limits and be prepared to reassess the limits as the program progresses.
- **Vendor selection** - For best results, the card management program selected should be flexible and user friendly, enabling the administrator to set or alter usage parameters for all cardholders in real time, with changes taking effect immediately. The program should also provide transparency in its monitoring capabilities for all cardholders and transactions, thus ensuring crucial accountability.
- **Card deployment –** Create a clear communication approach to share key information as cards are deployed, including appropriate usage, training on statement review process, replacing lost cards, and addressing card rejections.
- **Monitoring** – Establish a program to provide a combination of random and threshold-based audits and inform cardholders of the results of your audits so they know usage is being monitored. Audit not only for fraudulent use, but also for any use that violates established purchasing policies.

Rebates - Are they really free?

P-Card providers, as with all bank charge cards, make their money by charging the vendor a transaction fee, typically 2-2.5%. By offering you a rebate, the bank is offering to "share" a portion of this fee with you as their customer. The vendor gets immediate payment, but makes less profit.

For vendors that accept credit cards as a regular course of business, such as your local Home Depot, credit card fees are built into their everyday prices. However, if you ask your largest supplier working off of tightly negotiated prices to accept a credit card, you may find that they want to pass the cost back to you in higher prices. And if they really are willing to give up 2-2.5% for faster payment, you might be better off asking for a prompt payment discount instead of sharing with the bank.

Rebates are only valuable if they are truly savings as opposed to paying more to get something back. Therefore, we recommend focusing on the primary intent of the cards, automating low dollar transactions. Consider rebates a bonus from using p-cards, not the reason to do it.

Procurement Card Management for Lawson

To facilitate Purchasing Card transaction approval, organizations in the Lawson community have typically relied on manual methods or limited software provided by p-card programs. In addition, transactions are typically uploaded into the General Ledger in a consolidated form, eliminating access to valuable purchasing history and preventing compliance with 1099 requirements.

Lawson's new Procurement Card Management Module provides an ideal solution that allows you to integrate your purchasing card program with Lawson Purchasing and Accounts Payable. Key functionality includes:

- Transactions are imported from your card provider to Lawson.
- Cardholders can review, approve or dispute charges using Procurement Card Self Service as well as code transactions to accounts and activities.
- All merchant spend data is maintained in Lawson without expanding the regular Lawson vendor file.
- Purchasing cards can be used as a payment method for purchase order or non-purchase order invoices as well as a purchasing method.
- Allows interfacing with multiple different purchasing card programs on a common platform for invoice approval.
- Cardholder requests can be processed in Lawson and routed for approval.
- Creates 1099's for purchasing card vendors, ensuring full compliance with IRS requirements.

Summary

Properly deployed and managed, purchasing cards can offer a simple, cost effective way to reduce the volume of transactions being processed by your Accounts Payable and Purchasing operations. Rather than spending time on small dollar transactions, they can focus on ensuring accuracy and best pricing of larger transactions and spend more time on other tasks, such as improving service.

An increasing number of banks are offering purchasing card programs at essentially no cost to their clients. In fact, many customers may find that rebates actually cover or exceed the labor costs associated with managing the project.

About RPI Consultants

With over 10 years of experience optimizing Procure-to-Pay processes for Lawson customers, RPI combines the utmost expertise in best practices and business process redesign with a deep understanding of Lawson forms, tables, and functionality.

RPI assists organizations with the evaluation and design of purchasing card programs. As a Lawson Specialty partner, RPI assists Lawson customers with leveraging Lawson Procurement Card functionality to enhance their existing purchasing card programs.

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