

Optimizing A Purchasing Card Program

The purchasing card opportunity

In an economic climate that simultaneously advocates increased business earnings and reduced costs, companies are doing what they can to dig up hidden savings opportunities. And more often than not, their purchasing function is the prime target. Under pressure to cut back costs, these companies have relied on the advanced and economical benefits of corporate purchasing cards to reduce transaction costs and improve processing efficiencies.

Speed and simplification

When calculating business expenditures, many companies find that the majority of their purchasing transactions – such as office supplies, temporary labor and telecommunications – account for a relatively small percentage of their total purchasing spend. Moreover, processing and administrative costs for each purchase are the same – regardless of an item's unit price.

This is where the benefits of implementing a purchasing card program come in. By eliminating conventional paper-based purchase and payment methods, the delivery, payment and reconciliation process is accelerated – and simplified. Additionally, purchasing cards enable companies to restrict purchases to a list of preferred suppliers, resulting in unit price savings and reductions.

Ideally, a corporate purchasing card should also provide:

- Online access to comprehensive transaction information
- Card limit customization for reduced corporate liability
- Real-time card maintenance
- Automated allocation of purchase transactions to the company's accounting system
- Robust reporting tools to analyze transaction information

Such functionality can result in meaningful savings in many aspects of the purchasing process, including reduced invoice processing costs, reduced cycle time for completing purchases, and reduced overall administrative burden. Purchasing cards can also effectively increase productivity, particularly in a firm's Purchasing and Accounts Payable departments. And when preferred merchants are specified in the card program, this practice can curtail "maverick" and unapproved spending.

Optimized compliance savings

By gaining control over travel, commodities, and a variety of other low value, high volume transactions, businesses have found purchasing cards an ideal way to drive compliance with corporate purchasing guidelines. This can include:

- Improving contract compliance through clearly defined buying processes.
- Using embedded controls that authorize purchases only from preferred suppliers.
- Increasing spend visibility to maintain budget compliance, utilizing card features like spending limits per transaction and per month.
- Capturing line item detail and tax information to ensure tax compliance and automate tax processing.

Compliance savings is generally defined as the difference between preferred and non-preferred pricing, multiplied by the average level of compliance; in other words, optimized compliance savings is achieved through a combination of better pricing and increased adoption by both users and suppliers.

The use of purchasing cards not only helps a company improve process efficiency (reducing procurement staff), but the organization will realize increasing compliance savings as users securely consolidate spending and take advantage of competitive pricing achieved through RFP, negotiation or online bidding.



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In addition, purchasing cards offer an array of powerful reporting capabilities – which can result in even better pricing in the next round of supplier negotiations. They also enable users to do their own purchasing, providing greater flexibility and quality control, meaning fewer errors and more user satisfaction.

Effective implementation and policy adoption

Despite the opportunity to renovate purchasing processes and gain considerable savings, many companies fail to implement or stick with a purchasing card program. The more a program is utilized, the more opportunities to save are presented – yet many companies fail to realize this, giving up on their purchasing card before its benefits have fully evolved.

To fully reap those benefits, companies may need to make slight adjustments to their organizational structure. This can include obtaining support and cooperation at the executive level, assembling a cross-functional team to ensure group participation, and appointing a committed program manager to oversee the program's development. Without a team that includes a strong program champion, dedicated workers and a knowledgeable manager, a purchasing program could not sustain at any company.

Successfully transitioning into a new purchase card program and ensuring satisfactory adoption levels necessitates effective change management. This requires:

- Defining a program goal and a transition strategy to reach that goal
- Analyzing commodity spending patterns
- Implementing a performance measurement system
- Developing communication programs to educate and support company purchasing card users

Elevated front and back end technology

Ease of use is of utmost importance when implementing a new purchasing card program. Technology that is perceived as complex will inhibit change and leave users in the dark. There are various front-end and back-end technologies that help both the purchase card user and the processor adapt to a new program more quickly, including automatic reconciliation and exception information, reduced manual invoices in accounts payable, detailed and customized management reporting, and flexible allocation controls.

Implementation of a purchasing card such as the Wright Express® Corporate MasterCard® can maximize opportunities for savings and efficiency, and can improve compliance with corporate purchasing policies by 20% or more. Used in conjunction with other Corporate Payment Solutions like online AP Programs and Wright Express' Universal Fleet Card, it is a proven tool for streamlining an organization's supply management functions.



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