"OneCard" *PROGRAMS* have the ABILITY *to effectively and efficiently* CONTROL *all types of routine business spending.*

Deloitte & Touche recently conducted a study of "One Card" programs. The study focused on charge card programs that consolidated any two or three of the following types of business-to-business spending:

- Travel & Entertainment
- Operations Support Purchasing
- Vehicle Fleet

While many financial managers may have thought it unlikely, the techniques and tools exist to effectively control, streamline and simplify the management of business travel, vehicle fleet expenses and operational support purchases – with just a single card program, issuing just one card per employee. This conclusion, and other insights into card programs that exhibit such benefits, are found in a study conducted from April through July of 1999 by Deloitte & Touche, sponsored by MasterCard International.

Background

Through site visits, telephone interviews and mail surveys, information was gathered from 19 organizations across the United States. Study participants of all sizes spanned a wide variety of industries including financial services, government, healthcare, manufacturing, packaged goods, real estate, retail and utilities.

Twelve of the participating organizations already have "one card" programs, ranging from mature programs in place as long as ten years, to programs still being implemented. Others that participated in the study have separate card programs for Travel & Entertainment (T&E), Vehicle Fleet and/or Purchasing, and are considering a "one card" solution.

The study found that "one card" programs are still widely viewed as unique and innovative. However, as evidenced by the study results, the "one card" solution is already in place and considered successful in a wide variety of organizations, while its acceptance is growing in the general marketplace. Participants provided a wealth of specific information on their programs, and the key findings are described here within the following broad categories:

- Internal Controls
- Process Efficiency
- Diversion Billing
- Fleet Data Capture
- Corporate vs. Individual Liability
- Accounting and Tax Compliance
- Implementation Barriers
- Executive Sponsorship

ATTRIBUTES OF STUDY PARTICIPANTS

Criteria	Range From	Range To	Median	Mean
Sales	$356 MM	$41 B	$3.0 B	$7.7 B
Number of Employees	1,200	300,000	17,500	38,200
Number of Locations	10	6,000	50	776
"One Card" Program Age (Months)	2	120	19	28
Number of "One Card" Cardholders	398	55,000	1,350	6,854
"One Card" Program Annual Transactions	5,400	1.5 MM	91,000	298,426
"One Card" Program Annual Spending	$65,000	$375 MM	$11 MM	$44.6 MM

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KEY finding #1

Utilizing a "one card" program saves both time and money compared to using several card programs.

BENEFITS EXPECTED

The top three reasons a "one card" program was chosen by study participants:

1. Program administration effort and cost reduction
2. Overall process cost and effort reduction
3. Employee convenience of one piece of plastic

BENEFITS REALIZED

All of the "one card" study participants indicated the top three benefits realized were the same as those expected, although their rank order changed:

1. Overall process cost and effort reduction
2. Employee convenience of one piece of plastic
3. Program administration effort and cost reduction

Process Efficiency

Data were gathered on the total process costs of card programs, capturing the time required by all affected personnel. Because programs vary widely in their approach, transaction process costs can vary significantly. Half of the participating "one card" programs employed traditional expense reporting procedures for T&E, a key driver in total process cost. The other programs treated airfare, hotels and rental cars like other purchases, and did not require their users to separately report T&E. Whether or not employees created individual expense reports, only one-third had their card issuers bill T&E to their individual employees, and the balance preferred the far less costly approach of central billing for all charges.

The other key difference among the programs studied was the maturity of the program. As with any card program, new "one card" programs require an investment of time in implementation and roll-out, including development and refinement of procedures, user training and reports. Once programs are stabilized and those key steps are completed, subsequent increases in transaction volumes absorb more of the fixed overhead costs, which results in a decrease in cost per transaction and, over time, the realization of the full potential of "one card" program benefits.

"One Card" Process Efficiency

Low:	$ 1.98
Mean:	13.78
Median:	16.74
High:	22.80

Total Process Cost per Charge Transaction

Key variables:
- Program maturity
- Transaction volume
- Diversion billing of T&E

Internal Controls

With each study participant, policy compliance was reviewed in depth. The study found that in most cases, policy compliance improved because using one card was simpler for the cardholders. The simplicity and convenience of the cards increased their internal acceptance and awareness of policy, and through consolidated reports, the programs improved the accessibility of information and visibility of spending to management.

The majority of study participants reported that their overall internal control environment was actually enhanced as a result of implementing their "one card" programs. As with most card programs, the majority experienced no losses. To assure the controls of new "one card" programs, half of them actually spent more time auditing than they did under their previous (separate) card programs. Seventy-five percent of the study participants reported that detection of exceptions to policy was easier using a "one card" program. To further assure their clients, card issuers provide fraud liability insurance — and all of the "one card" study participants reported sufficient or more than sufficient levels.

CASE STUDY

Mid-sized Real Estate Developer

- New program began May 1999
- Decentralized (regional) program administration
- Program includes fleet data capture (vehicle identification number / odometer)
- Internet-based software facilitates reconciliation and coding directly by users into the issuer's charge card data server
- Central billing and payment of all charges
- Travel expense reports are not required - monthly card statements with receipts are approved by line managers
- Issuer gives reward points to employees for travel charges, based on Merchant Category Codes

Diversion Billing

One of the features unique to the one card solution is the ability for card issuers to divert charges according to Merchant Category Code (MCC). Among other things, this enables individual employees to be liable for T&E charges from merchants categorized as airlines, hotels, car rental agencies and restaurants, while the employer is liable for other charges. While two thirds of the "one card" program managers elected not to divert billings for T&E, several programs utilized MCCs to divert T&E data into automated expense reporting systems. When questioned about the accuracy of MCCs for such purposes, the manager of one of the oldest programs expressed his opinion that, "MCC accuracy is about 97 percent, and I can live with that." However, in some cases, MCCs may not provide sufficient granularity. The key to successfully using MCCs for diversion billing or accounting is to define a clear and simple procedure for dealing with exceptions, accepting the errors that are immaterial, and reprocessing the few that matter.

Fleet Data Capture

As in the case of travel data, participants with vehicle fleets noted the ability of their "one card" programs to capture and divert fleet expense details into their vehicle asset management systems. Two such participants reported plans to migrate their fleet card programs onto their "one card" platforms once enough fueling locations prompt for fleet data. Users of "one cards" report that petroleum retailers are rapidly upgrading their POS software to capture fleet data when presented with fleet-capable "one cards."

CASE STUDY

Large Federal Government Agency

- New program began December 1998
- 55,000 cards (>80% of employees)
- $375 MM and 1.5 MM transactions per year
- Internet-based issuer software, interfaced to legacy system for cost re-allocation (needed by >70% of transactions)
- Travel expense reports are required
- MCCs used by some groups to divert some T&E billings
- MCC blocking widely used to refine users' purchasing capabilities
- Strong executive sponsorship via many channels

➔ **Strong user support for the convenience of only one card**

➔ **Cite increased policy compliance due to report visibility**

CASE STUDY

A Large Process Manufacturing Firm

- Central billing and payment of T&E, for 10 years
- 5,500 cards (over 50% of employees)
- For card transactions, no user expense reports required
  - Users simply write notes on and mail receipts to administrator
  - Central data entry of all receipts capturing line item detail any supplemental coding (tax and/or accounting related & business purpose for meals)
  - Charges that remain unaccounted for are debited to employees
- Central reconciliation, auditing by a staff of 12
- Central generation of management reports
  - Central auditing for detection with only two terminations in 10 years
- Custom mainframe IT - fast and cost effective but inflexible
  - Demand for better reporting justified new PC-based system
- Strong CFO sponsorship
- Recent CEO edict for greater Card volumes via Purchase Order avoidance

➔ **User time savings @ 57 FTEs vs. traditional expense reports**

➔ **$1.98 total process cost per transaction**

➔ **High user policy compliance with no related losses to date**

➔ **Implementation of issuer's PC-based management information system is underway**

Corporate vs. Individual Liability

One concern noted by some travel managers is that moving to central billing of T&E charges would increase their organization's risk of loss. Seventeen percent of the participants with "one cards" reported that their programs provide for individual employee liability for T&E charges, as well as potential recourse to their organization via reductions in program revenue share. This refutes the notion that employee billing and liability provide a savings, because card issuers track any resultant losses within the organization's program performance metrics. Such losses usually reduce an organization's revenue share, in effect resulting in a backcharge for unpaid amounts. With central billing of business T&E, issuers can share more revenue with their clients, a benefit in addition to the significant staff time savings to cardholders, who then don't have to collect from employers and pay card issuers for business travel — spending time otherwise available to work for their employer.

Accounting and Tax Compliance

A common concern, particularly among travel card program managers, is how charge data will be properly accounted for to ensure tax compliance. For example, charge card data alone usually does not provide enough information about restaurant expenses to determine their deductibility for tax purposes. The study identified three key techniques to capture a meal's business purpose and specific coding. 1) some organizations have users capture extra data on reports or logs, often electronically and sometimes via the Internet; 2) some organizations automatically pre-populate reports with card data, which are then supplemented by users; and 3) some organizations rely only on handwritten details on original receipts. The significant finding here is that tax and policy compliance does not require the level of staff time and overhead costs associated with having employees manually complete expense reports for individual bills and then be reimbursed. As for state sales and use tax compliance, the techniques proven and available with purchasing cards clearly are the same for "one card" programs.

Implementation Barriers

Study participants also reported on more traditional, distinct card programs, including seven purchasing card programs, seven travel card programs and nine fleet card programs. Program managers of each card type were asked to cite the barriers impeding their organization from implementing a "one card" program. From 50 to 83 percent reported that ***their*** current card platform would be suitable for all types of spending, as relates to ***their*** programs' information management and internal control features. However, 75 to 100 percent reported they would consider one card suitable for ***all*** types of routine spending, ***if*** it could deliver the same information delivered by separate cards. The perception among many managers of traditional card programs is that a single card cannot deliver the same information and controls as provided by separate card platforms.

In fact, none of the barriers cited above by the managers of separate card programs were, in practice, true barriers to those that implemented "one card" programs, since they were shown to enable the same or better information and controls than can be delivered under separate card programs – without redundant costs.

Executive Sponsorship

As with any new idea or program within a company, the tone is set at the top. Deloitte & Touche found that strong executive sponsorship and change leadership are critical factors in the success of "one card" programs. Seventy-five percent of study participants report sponsorship of their "one card" program as "strong" to "very strong" by top executives – and they are sponsored by the CEO, CFO or the COO. Without such support, paradigm shifts are not achievable.

KEY *finding* # 2

Utilizing a "one card" program consolidates and generally improves the quality of both management information and business process control.

- Enables centralization of processing and program management - 92% of study participants with a "one card" program administer their programs centrally
- 33% of "one card" study participants reported no change to the internal control environment. 59% reported an enhanced internal control environment due to
  - Preventive controls (e.g. dollar limits and Merchant Category Code restrictions)
  - Detective controls via highly visible reports
  - Positive user responses to simplified procedures
- 100% of study participants reported that detection of non-compliance to policy is no more difficult within a "one card" program - 82% reported it was easier
- 100% of study participants reported that more than sufficient levels of fraud liability insurance were provided by their card issuer