

P-CARD PROGRAMS

An All-Inclusive Tool for the Global Supply Chain

By Steve Abrams, MasterCard International



Worldwide, companies and government agencies spend trillions of dollars each year just on the goods and services they need to stay in operation. These include everything from paper clips to tankfuls of fuel to power Navy vessels. The payment options for these goods and services are equally varied, ranging from ACH, wire transfers and financial EDI to checks, payment cards, and cash and barter. While these payment forms offer unique advantages, depending on the type of transaction, their disparate natures and equally unique limitations have created long-term headaches for CFOs and other financial decision makers who need to see the big picture of what their organization is spending and with whom.

One payment form, the purchasing card, is rapidly evolving as an all-inclusive tool to meet the needs of these corporate leaders by coupling the reporting and data-management capabilities of the Internet to inherently superior transaction efficiencies, buyer-seller protections and end-user flexibility. Consequently, the role of the p-card program as an e-purchasing tool is also expanding, from the usual maintenance, repair and operations (MRO) items to inventory parts, raw materials, capital equipment and even temporary labor. In fact, the Canadian and Chilean navy fleets now use a p-card program to fuel their ships. Other large-ticket items routinely purchased with a p-card include industrial machinery and equipment, transportation equipment, and freight services.

Intersecting Worlds

The once very separate worlds of ACH/EDI and purchasing card programs are now converging. The space they share is the segment where dollar values range between \$25,000 and \$150,000 per transaction. And as p-card programs continue to evolve to facilitate the purchasing diversity of large, multinational corporations and

federal governments, the average transaction paid for with purchasing cards is expected to grow. Here's why:

Corporate and government financial leaders need rich transaction data that is streamlined, flexible, interoperable and easily accessible so they can act on it in a timely manner to help their organizations. While very little data accompanies ACH, wire transfer and financial EDI transactions, p-card transactions generate a plethora of data related to the purchase. In addition to basic billing information, each transaction can contain such details as product description, accounting codes, supplier tax ID numbers, tax amount, freight amount, duty amount and more.

This data can then be accessed, consolidated and formatted via readily available web-based tools to help financial managers analyze and manage their organization's procurement activities around the world. Many organizations are taking the next logical step and consolidating all travel and entertainment, fleet and MRO purchasing payments on a single card platform. When they use a "one card," charges including hotel folio, such as room service charges, taxes, telephone calls, flight legs and itineraries are accessible. Likewise, fleet expenses which

describe repairs, part numbers, odometer readings and fuel quantities are available for analysis.

"One card" programs offer financial managers a high level of data reporting, data consolidation and spending management in a more integrated manner. Card charges and their related data are automatically categorized according to merchant code and the rules set up by the card program administrator in conjunction with the card issuer. This data management and reporting system provides financial managers with an even stronger financial picture of their organization as it simplifies employee expense reporting, reduces clerical errors, streamlines administration processes and reduces costs.

Of course, this payment card data doesn't work in a vacuum. It can be combined with leading enterprise resource planning (ERP) systems to further streamline procurement and expense processes, while providing world-class organizations with significantly reduced costs and increased speed of operations. For example, one leading university in South Africa recently linked its purchasing card data with its SAP R/3 system using an innovative program called MasterCard SmartLink. The program automatically matches purchase orders, supplier invoices and goods received notes on the university's SAP R/3 system with the purchasing card transactions of its globally based staff. This process goes beyond the previous capability to integrate into the SAP financial module. Corporate and government entities are now able to promulgate p-card transactions into the materials management and production modules within SAP.

While the staff routinely purchases books and other academic supplies in different countries, the university is able to download all of this data from a central database on a daily basis. The integration of the these once disparate systems not only improves the efficiencies of the university's procurement system and reduces paperwork, but also enables their administrators to obtain a real-time picture of the university's financial status and product inventory.

Rapid, Safe and Secure Transactions Between Known and Unknown Parties

Besides facilitating easy and swift access to remotely based financial data, the Internet has profoundly impacted the purchasing industry by rapidly increasing the number and reach of supply channels worldwide. Company size and location are now less important, making the process of finding sellers for buyers easier than ever. However, the financial advantages of these new buyer-seller opportunities

Other advantages include:

Fraud protection. Purchasing card programs have built-in protections against misuse of company payment card privileges.

Guaranteed funds. Supplier settlement via p-card programs are swift and often settled within 48 hours.

Repudiation. While most payment systems accommodate only the transfer of funds, payment card accounts have a built-in process for resolving disputes.

Value Added Tax (VAT) assistance. Another benefit of e-procurement via purchasing card accounts is the ease with which VAT paid on business conducted in the European Union may be identified and recovered.

The future

Despite the severe challenges facing e-commerce companies in recent months, there is little doubt that electronic payments are going to flourish. What e-channels they take will be irrelevant, whether it will be buyer-initiated, or via a horizontal marketplace, or vertical marketplace, etc. That's because the potential economic savings of e-procurement, even at this early stage, far surpass alternate processes, including paper checks and transfers. The payment system that best utilizes this incredibly powerful electronic medium will become an indispensable component of e-commerce itself.

Indeed, organizations around the globe – from small businesses to the largest multinationals – are already seeing the p-card account for what it is – a flexible, powerful productivity tool for establishing and maintaining safe and secure supply chains in the age of e-procurement. And as they use it to reengineer their inefficient procurement processes, they are building the business processes that will ensure success into the future.

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can quickly evaporate if a company's payment infrastructure lacks the speed, safety and flexibility that many of these new relationships demand.

Here, too, purchasing card programs offer a unique advantage over other payment systems. By design, purchasing cards provide an end-to-end solution, from transaction initiation, validation and security prior to purchase; the transmission of data with settlement advice during the purchase; and payment, reconciliation and dispute resolution post-purchase. These advantages of this global infrastructure are the same for both domestic and cross-border relationships, regardless if the transaction is between known or unknown parties.

Purchasing card programs also offer established, worldwide merchant acceptance, providing an immediate and ubiquitous payment option for organizations. There is no lengthy or costly set-up process, as with some electronic payment systems. They can also be used for virtually all business-to-business purchases and usually require no manual intervention to provide data-rich reporting. Most importantly, purchasing cards are an essential tool to help organizations restructure their procurement processes, allowing them to decentralize purchasing responsibilities while maintaining tight control of the process.



Corporate Payment Solutions