Card Payments in A/P: Leveraging the Card Dynamics

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Presented by:
Terry Endres

Government Treasury Services
The “techno-sophistication continuum”

- Where is your organization?
- Where are your trading partners?

ACH

ACH/Card with Elect. Remittance

Check Card EDI, ERP
Accounts Payable – Payments transformation challenges

- **Critical to Quality Objectives – CTQs**
  - "Do more with less"
  - Leverage financial investment in ERP/Accounting system
  - Take advantage of state-of-the-art technology
  - Migrate from paper to electronic payments
  - Implement scalable and flexible solutions
  - Establish shared service centers
Accounts Payable – Payments transformation challenges

- Challenges
  - Difficult and time-consuming to determine electronic readiness of thousands of suppliers
  - Some suppliers are hesitant to accept electronic payments
  - Management may be “attached” to check float
Accounts Payable – Payments transformation solutions

• Evaluate

– Is your ERP/Accounting system able to support multiple payment types?
– How much active control do you want to retain?
– Do you have dual controls in your ERP/Accounting system?
– Would you be willing to let the Bank do the “heavy lifting” to move your company quickly towards electronic payments?
Accounts Payable – Payments transformation solutions

• Solutions
  – ACH payments
  – Card-based payment solutions (Plastics)
  – A/P Cards (Ghost Cards with automated processing)
  – Comprehensive Payment Solution (Payment Portal)
Cards help companies achieve payables objectives

- **Cost Reduction/Financial Return**
  - Lower bank fees and overall processing costs
  - Maximize payment float
  - Revenue sharing for larger programs
Cards help companies achieve payables objectives

- Control, fraud prevention and dispute management
  - Reduce risk associated with payment
  - Increase security measures
Purchasing Card acceptance high

- High acceptance enables rapid deployment with modest effort
- Detailed transaction data available from many key suppliers
The Payments Market

- About 1% of business-to-business payments are made by commercial card
  - $50B purchasing card, $150B other cards (T&E, Fleet, Small Business)
  - Card payments growing over 25% per year

- This is a vast untapped market, especially in the area of A/P disbursements, which are traditionally the domain of checks
Extending Purchasing Card Reach

- **Individual cardholder spend**
  - Establish spend controls in addition to overall credit limit
  - Multiple card profiles based on intended use
  - Empower higher level purchases at time of need

- **Accounts Payable disbursement**
  - Replace physical checks with card payment on invoice
  - Ghost card assigned to each supplier
  - Substantially higher average transaction, with single transactions into the 7 figures
Using card payments for A/P

- **Direct financial benefit**
  - Provides a NO cost alternative to traditional fee-based payment types
  - Extends float increasing cash flow
  - Provides cash payout incentive paid when annual spend targets achieved

- **Payment control benefit**
  - Improves transaction risk management
  - Decreases fraud

- **Supplier relationship benefit**
  - Reduces suppliers’ Days Sales Outstanding
  - Reduces suppliers’ processing costs
A/P Card solution process flow

1. Three-way match performed on PO, receiving document and invoice.
2. Card run sent to Card system through FTP or XML over HTTPS for payment of processed invoices.
3. Available funds' balance on each card set to amount of payment and remittance advice sent to supplier via email or fax.
4. Payment processed through credit card network and matched back to original payment authorization.
5. (Optional) Paid items export file posted to ERP system.
AR System | eMail or fax remittance advice received from client via Works system with notice of payment approval

AR Clerk enters payment advice for invoice in ERP system with appropriate detail on short pays, etc. (Typically an existing process for suppliers)

Payment processed automatically through ERP/ AR system

~ OR ~

Payment Processed Through Credit Card Network

Funds deposited in Suppliers merchant Account within 24-72 hours

AR System

Payment manually processed on POS terminal and noted in ERP/ AR system
Benefits to the supplier

- **Relationship benefit**
  - Competitors may accept purchasing cards

- **Control benefit**
  - Avoid giving out bank information for ACH payments

- **Cost benefit**
  - No per-piece check processing cost

- **Time benefit**
  - Funds made available on card at time of email
  - More efficient process with no phone calls

- **Float benefit**
  - 5-20+ day faster receipt of funds to improve A/R
Bottom Line Benefits of A/P Cards

- Process efficiencies
- Increased rebate
- Cash flow optimization
  - Faster vendor payment without cash flow impact
  - Can extend float by leveraging p-card payment terms
- Reduced check management costs
- Improve Fraud Control