

# Taking Purchasing Cards to the Next Level



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# There Is An Ongoing Evolution In The Payments Space

Organizations are moving from checks to card solutions:

- Cost reduction
- Risk mitigation
- Working capital optimization

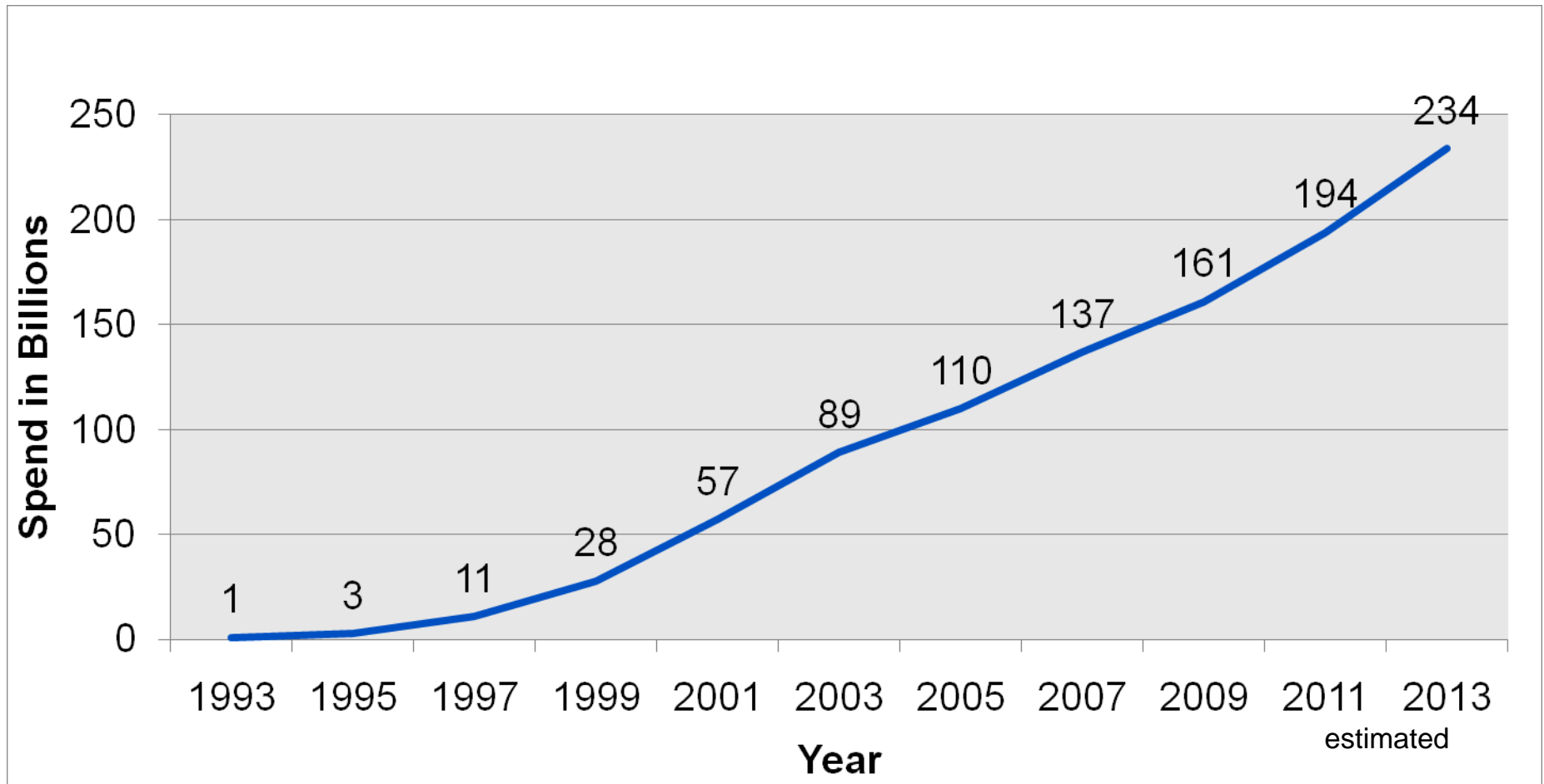
***Today there are new tools for gaining even more efficiency and optimizing program effectiveness.***

# First, There Was P Card...

- The P card is a physical card launched in the early 1990s as a means to
  - Drive efficiencies and savings in the procure to pay process
  - Reduce procure to pay cycle time
  - Eliminate invoices
  - Reduce check processing costs
  - Capture incremental point of sale transactions
  - Provide data on company spending
- Also known as “distributed card,” the plastic P card was put in the hands of appropriate employees to
  - Offer authorization controls
  - Provide low credit limits to enable high volume, low dollar transactions on card for corporations
- Variations to the P card include Ghost cards and department cards



# Purchasing Card Spending in North America (in \$ billions)



Source is 2010 Purchasing Card Benchmark Survey Results. Richard Palmer and Mahendra Gupta.

## ...Then Came Electronic Accounts Payable (EAP)

### WHAT IS EAP?

RPMG research corporation defines EAP as non-plastic card accounts used to pay for goods and services for which an invoice has already been received by Accounts Payables (AP)\*

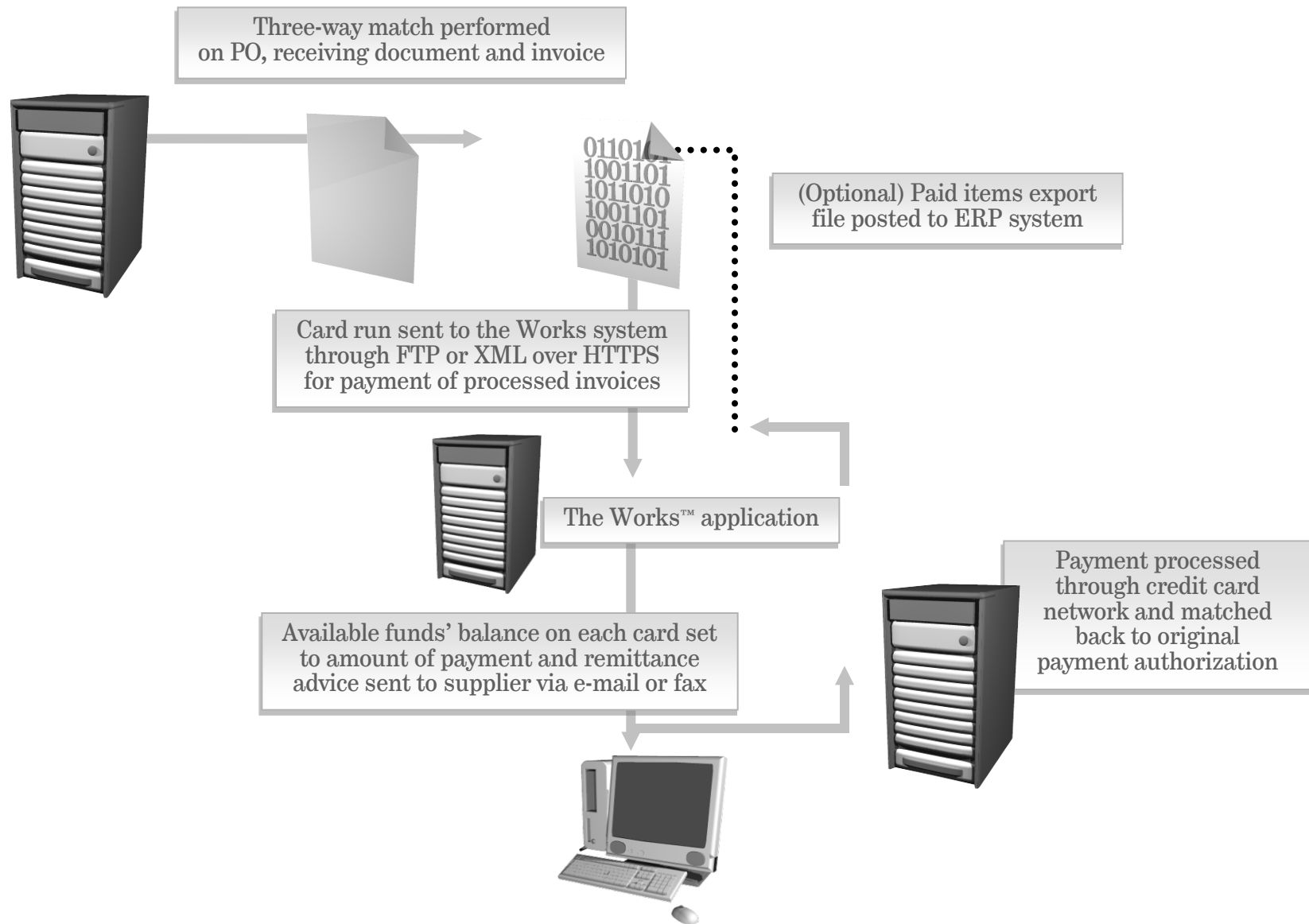
***Bank of America Merrill Lynch's EAP equivalent is ePayables***

### WHY EAP?

Further improvements in technology enabled upfront controls, and made card a more secure vehicle to capture high dollar transactions

- Allows extension of card use beyond small dollar purchases
- Uses cardless accounts in lieu of plastic cards
- Drives further efficiencies in the procure to pay process

# How EAP Works



## Challenge: Driving Greater Efficiency in Reconciliation

- Reconciliation issues occur in only approximately 3% of EAP transactions, where vendors do not charge the expected amount.
- In response, the industry has developed two solutions:
  - Push Payments
  - Virtual Accounts with Exact Match Functionality

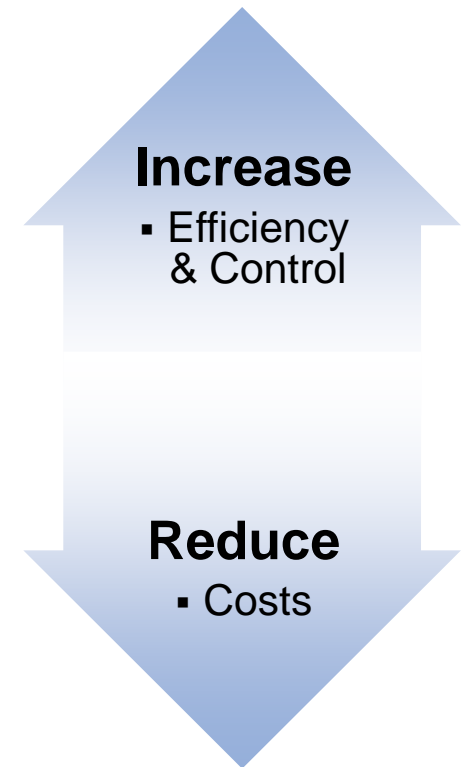
## ...And Now There's Push Payments

### What is push payments?

- Buyer's ability to push payments directly to merchants' DDA account
- Requires no merchant intervention to initiate authorization and settlement of transaction
- Relatively new solution in the industry that requires a specific merchant ID to accept the payment

### Why push payments?

- Achieve auto-reconciliation by eliminating possibility of vendor taking partial payments
- Capture additional spend on card by targeting vendors inability to keep card on file
- Eliminates need to communicate card account numbers to suppliers
- Reduces cost to accept card payments



## ...And Virtual Accounts with Exact Match Functionality

### What is a Virtual Account?

- Provides an account number for one-time use in processing a transaction.
- Increases security by linking a virtual account number to a different underlying account number.
- Changes the virtual account number each time the vendor has a transaction.

### What is Exact Match Functionality?

- Inhibits vendor from undercharging or taking partial payment.

### Why Virtual Accounts with Exact Match Functionality?

- Eliminates reconciliation issues, since suppliers can only charge for amount as agreed.
- Provides value to suppliers by enabling them to maintain control over transaction.

# Today's Value Scale – Weighted Towards Buyer



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# Spotlight on Vendor Portals

- Eliminate card account storage and communication.
- Increase process efficiency through automation
  - Self-service (e.g., payment status)
  - Network vendor capability streamlines acceptance, increases marketability
- Increase vendor adoption

# EAP provides benefits to internal stakeholders

## Finance

- Enhance working capital advantage
- Improve cash flow visibility
- Increase revenue sharing

## ● Accounts Payable

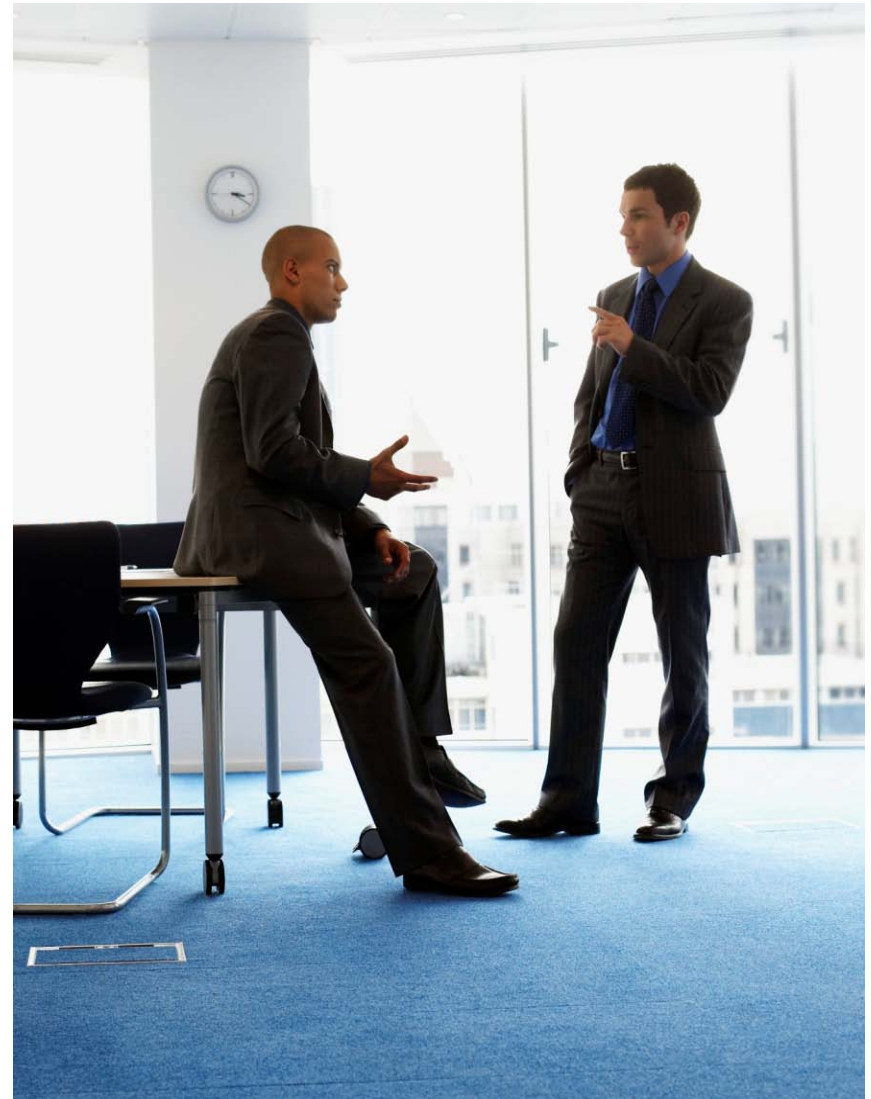
- Helps to reduce paper checks, driving efficiencies
- Helps to reduce vendor follow ups

## ● Procurement

- Improve supplier relationships
- Maintain existing control points in purchase process

## ● IT

- Streamline implementation, no software to buy



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