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Purchasing Credit Cards Introduction

By LeRoy H. Graw, EdD, DBA, CPP, CPPM, C.P.M., CPCM, CISCMI, President
International Purchasing and Supply Chain Management Institute

A procurement credit card simplifies the procurement and disbursement process by facilitating point-of-demand procurement. Procurement authority is delegated to the ordering department enabling the authorized cardholder to place an order directly with the supplier. The procurement credit card program provides enhanced control for all transactions by producing immediate decisions on several specific authorization criteria.

When a purchase authorization is requested by the supplier, the procurement credit card system validates the transaction against pre-set limits established by the buying organization. All transactions are approved or declined (instantaneously) based on the following procurement credit card authorization criteria:

- Number of transactions allowed per day.
- Number of transactions allowed per month
- Single purchase limit not to exceed \$_____
- Spending limit per month.
- Approved commodity code.

The authorization process occurs through an electronic system that supports the procurement credit card processing services under the buying organization's agreement with the issuing bank..

In addition, Purchasing and Accounts Payable have the capability to view a large selection of daily reports to effectively monitor the use of procurement credit cards. Purchasing can also identify opportunities to further maximize the buying organizations's significant buying power through contract negotiations.

Interview with GE's Mike O'Malley

Debbie Wilson, February 2006

The corporate procurement card used to be 'the' cool technology in procurement. Does it still have a place in this new world of automation? Find out about GE Corporate Payment Services' view in this chat between Debbie and her old friend, Michael O'Malley, GE marketing manager and PCard guru. For more information, visit GE's website at www.gebusinessmarketplace.com.

Debbie: Thanks for taking the time to talk today! I heard that you have some fresh snow today in Salt Lake City. I'm jealous! We've had a pretty lean winter here in New Hampshire.

Mike: (laughing) Well, I was tempted to take a powder day today and perform what we call a 'trail audit.'

Debbie: Tell me, how are things going at GE in terms of procurement cards?

Mike: Business is terrific. We continue to grow year after year at a healthy, double-digit rate. We're earning more business from our existing customer base, and we're still helping lots of companies implement PCards for the first time.

Debbie: Are you really?

Mike: We sure are. More and more mid-sized companies with \$5 million or less of spend are jumping into PCards.

Debbie: What do you think is driving the expansion?

Mike: One of the biggest shifts I've seen in our market over the past five years is the willingness of accounts payable departments to accept purchasing cards. They're more familiar with them, more comfortable with their controls, and more accustomed to the reports. They understand how PCards interface with their general ledger and how they impact the reconciliation process. When I go to A/P trade shows, I find most managers and directors are really interested in how PCards work and how they can expand their programs, if they have one.

Debbie: That's interesting. I'm kind of surprised to hear you say that, because the big

thing in procurement automation over the last year has been adding support for the invoice and the settlement process.

Mike: I see the same trend, but how much ramp-up are you seeing for those solutions?

Debbie: I would characterize the market for those tools as being in the press release stage. The companies that are trying it out are the early adopters.

Mike: I agree to a degree, but there are more and more success stories out there. Certainly, a lot of our product development has been focused on wiring electronic settlement into procurement systems such as Ariba, SciQuest, and Verian, and we're beginning to see adoption.

Debbie: How are your established customers expanding their PCard programs?

Mike: There's so much potential for further purchasing card penetration, with or without a procurement system. Our customers are highly motivated to shift settlement away from checks, which don't pay anyone a volume rebate. We have a very successful program that involves sending in a GE consultant to a customer to complete an A/P spend opportunity analysis. That exercise typically yields a double-digit increase in PCard spend.

Debbie: What types of purchases are they finding they can move to PCards?

Mike: Many magazines accept credit cards as payment for advertising. Corporate meetings at hotels and legal services are other examples. You'd be surprised how many law firms will take credit cards. We're not just handling the \$250 office supply invoice anymore; we're talking four, five, and even six-digit invoices.

Here's another example. Our parent division, GE Consumer Finance, issues and manages a number of branded department store credit cards. You can just imagine how much they must spend in printing, because they send every customer a monthly statement with colorful inserts. They routinely use our MasterCard® products to pay for their very large printing bills.

Debbie: I did just get a letter from my accountant saying that he is accepting credit cards as payment for corporate returns this year.

Mike: There you go.

Debbie: I was surprised. Why do you think suppliers would accept credit cards for such large amounts?

Mike: The value proposition hasn't changed. Accepting credit cards means getting paid quickly and avoiding the collections process. Furthermore, any time a supplier or buyer moves to an electronic environment for settlement, they take a step forward in back-office efficiency.

Debbie: How do you think the PCard compares to other options popping up now, like the online ability to factor receivables on an invoice by invoice basis?

Mike: I'm not an expert in factoring, but I can tell you that we're clearly seeing more interest in the application of technology to the entire order-to-pay cycle.

Organizations are recognizing that there are tools available to help them manage their cash more efficiently. It's a broad trend that will boost a variety of solutions.

Debbie: Buyers will have multiple options going forward.

Mike: Yes, they will, and we feel we're very well positioned to compete, particularly with our vPayment program.

Debbie: Isn't that the GE application that assigns end users a unique credit card number for a specific purchase, so managers aren't just handing over a credit card?

Mike: That's it. vPayment runs on the MasterCard railroad track. It uses a pool of accounts that authorized buyers access in an automated fashion, through integration with procurement systems like Oracle or through batch A/P. Users can also access the system through a special website to retrieve a vPayment account on demand.

But that's only the tip of the iceberg in terms of functionality. vPayment also sets up caps for each transaction, plus a small buffer on the approved amounts so you can go over a bit for tax and freight, or you can authorize the exact amount of the purchase. This also means your supplier charges only what you agreed to pay. There's no slapping on that extra \$50 for a special delivery charge on the account, for instance.

Debbie: I think that's the coolest thing.

Mike: The three most important things about vPayment are control, control, and control.

Debbie: What's the fourth?

Mike: Reconciliation.

Debbie: (laughing) Thank you, Mike!

Mike: Seriously, when a user requests a vPayment number on demand, they can manually input a description and accounting information into the record, so reconciliation is easy. When vPayment is integrated in a procurement system, a unique transaction ID automatically transfers over to the transaction file. It doesn't matter whether the supplier they're buying from is at level 1, 2, or 3 in terms of data capture. They're going to get the exact PO number or account code in the credit card transaction record. In the SciQuest model, for example, the only time someone touches the accounting code is when they build their shopping cart. It all happens at the front end; posting to the general ledger is hands free.

Debbie: So reconciliation happens automatically?

Mike: With vPayment, we're seeing automated reconciliation in the 98% range and higher. That compares very favorably to the ghost PCard approach in eProcurement.

Debbie: A ghost PCard is an account that is automatically billed when you place an order through your eProcurement system, right?

Mike: That's right. That account may be a mega-account that you use for everything, or it could be one you associate with a particular supplier.

Debbie: How does vPayment put a cap on a transaction?

Mike: It uses patented technology that GE developed.

Debbie: What happens when you have to return something? Will the virtual credit card number work?

Mike: Yes. It's just like buying something with a normal MasterCard credit card. vPayment can even handle split shipments. If your supplier sends you only half of your order, the authorized remainder stays available for the follow-up shipment. The beautiful thing about our solution is that you can implement it overnight with 24 million suppliers. To the supplier, vPayment looks just like a regular MasterCard. As organizations gain experience with vPayment, and they observe first-hand the value in blocking unapproved transactions and enforcing controls, they are using it for higher and higher dollar value transactions.

Debbie: How much of your PCard volume flows through the vPayment program?

Mike: I was looking recently at the Nilson report covering issuer volumes. I don't want to give you exact figures, but if vPayment were an independent commercial card issuer, it would be high on the list.

Debbie: Nilson rates credit cards?

Mike: Yes, it ranks issuers by overall volume. vPayment is a significant part of our business; a good portion of our existing customer base uses it. One of the reasons it's done so well is our on-demand manual interface option. I know you love technology, Debbie.

Debbie: It's true, I do!

Mike: I don't want to burst your bubble, but sometimes simple is good. This manual interface is a basic meat-and-potatoes means of access that allows users to obtain their credit card number online.

Debbie: That's still technology! (Laughing)

Mike: Here's how it works. Let's say I want to pay a subscription invoice for Cool Tools. I log into the website and request a payment number, cap the value, and set a date that you have to process it by. In the user-defined field I enter, "Cool Tools, invoice number XYZ," or whatever accounting string I want. That information appends to the transaction. I hit submit, and then 'boop boop beep,' a card number, an expiration date, and a CVC (credit card verification code) number comes back. I can fax that information to you. vPayment offers all the benefits of control and reconciliation, but it doesn't have the electronic back-end of eProcurement system. It's a very simple check replacement tool.

Debbie: I would think, even if you have the most advanced eProcurement solution in the world, that there's still going to be many purchases that it won't cover.

Mike: Exactly. Think about the A/P department: vPayment gives them another way to replace paper checks and drive volume to the PCard program, because we count vPayments in PCard volume. It's efficient, it's more automated, and we notify managers when buyers are approaching their spending limits, so there's some control. It takes about five minutes to train an A/P staff person on it.

Some of our university customers are using on-demand vPayments to give student organizations access to their budgets. The students can use it to cover their expenses, and the program will automatically enforce, say, the \$10,000 annual budget the school put in place.

Debbie: What if one of the students wants to go to Staples and pick up some stationary to send out invitations? Does vPayment work in a real retail environment?

Mike: Last fall, I was in Mystic, Connecticut delivering a presentation at our customer conference. I was sharing how some of our utility customers can use vPayment to get credit card numbers into the hands of people working in areas devastated by hurricane Katrina. One of the attendees asked me the same question. I retrieved a vPayment account number online right then and there, and when my session was over, I walked with her and several other attendees down to the Starbucks Coffee in the hotel lobby. I used a vPayment account number to buy everyone a latte.

Debbie: And they accepted it?

Mike: Yes, they did!

Debbie: Most of these retail outlets have the card swipe thing, right? Now you're giving them a piece of paper.

Mike: You're right, we're not giving users a physical piece of plastic, but a lot of merchants will still accept vPayment, because the numbers work in their point-of-sale terminals. I'm sure Starbucks hires bright people, but I bet they don't spend any more time training their employees on the cash register than any other retailer. It was an interesting test.

Debbie: What did the clerk say?

Mike: She said, "Well, OK, I guess all I need is the number, the expiration date, and the verification code." Retailers are beginning to run into this. And vPayment certainly works on any online site. Your student could go to Staples.com to place his or her order, and then go pick up the items at the store.

Debbie: I have worked with people in a corporate environment who love to go out shopping for a break. I couldn't stop them! At some level, I think they needed to be out to be happy.

Mike: vPayment works in emergency situations and in procurement environments. It will even get you a double-tall, decaf, no-fat, no whip cream, extra-hot mocha.
Debbie: Do you print out paper bills for your customers anymore?

Mike: Sure. Lots of people still want paper. But things are moving online more and more all the time. For example, greater than 75% of our customer service is delivered online. Our web tools provide electronic statements, and they give users the ability to pay their bills, research a specific transaction, and dispute a charge. The people manning our help desk are solving higher-level issues because cardholders can more frequently solve their basic problems online.

Debbie: Where do you see PCard volumes going in the future? Will they come primarily through procurement systems, or from standalone programs like on-demand vPayment?

Mike: I predict broad growth for a variety of order-to-pay solutions. ACH [Automated Clearing House payments], for example, is another tool that will benefit from the widespread efforts to address the entire settlement process. Treasury, A/P, and procurement will work more closely together not only to manage working capital and streamline accounts payable, but also to support and enforce supplier contracts more effectively.

I forecast that PCards will continue to play a great role in procurement. It's an effective solution supporting a significant trend.

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