MasterCard

WHY CFOS ARE READY TO WRITE OFF PAPER CHECKS

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With advanced card-based payment solutions, businesses are improving control over corporate spending, while enhancing efficiency and working capital

69% OF EXECUTIVES EXPECT THE USE OF PAYMENT CARDS TO INCREASE OVER THE NEXT THREE YEARS.[1]

EXECUTIVE SUMMARY

The business-to-business payments landscape is evolving as companies move increasingly towards electronic transactions. To gain insight into the corporate view of this transition, MasterCard collaborated with CFO Research on a study of senior finance executives at U.S. organizations representing a broad range of industries.[1] Among the insights:

- Most finance executives (71 percent) expect corporate spend to increase over the next three years
- To manage this growth, CFOs would like to achieve greater automation in transaction processing (80 percent), reduced processing costs (65 percent), better integration with vendor/supplier systems and processes (63 percent), and improved functionality in information acquisition (62 percent)
- Over 60 percent of B2B payments are still being made by check, and only 10 percent are paid for by card[3]
- More than 90 percent of CFOs anticipate a move away from paper checks over the next three years, with 69 percent predicting increased use of payment cards
- Card-based payment solutions are preferred for their fast processing time (75 percent), ease of use (68 percent), lower cost processing (65 percent), and greater security (38 percent)
- While CFOs recognize that advanced card-based solutions enable even greater automation and efficiency, more than 40 percent say they “don’t know as much as they need to know” about latest innovations such as Virtual Card Number (VCN) solutions

This white paper discusses the challenges and benefits in transitioning to a more integrated and automated payables process, and explains the functionality and applications of various card-based solutions. By understanding and communicating the value of these solutions to internal business leaders and suppliers, financial executives help their organizations evolve to a commercial payments strategy that will deliver greater value to the business and its partners.

October, 2014

$70

Purchasing card programs save $70 per transaction vs. the traditional P.O. driven acquisition process.[2]

In Search of Higher-Level Business Benefits

In a recent survey of senior finance executives at U.S. corporations, conducted by CFO Research, over two-thirds (71 percent) report that their companies' spending is expected to grow over the next three years. As spending increases, so too does the pressure to realize greater value and efficiency from payment processes.

CFOs recognize the inefficiency of paper-based payment processes and seek new solutions to better manage their spending. They want to tap into the higher-level benefits new technologies can provide, such as:

- Better management and informed decision-making
- Reduced payment processing costs
- Greater control over working capital
- Deeper insights into corporate spend
- Tighter integration with suppliers

FIGURE 1: IMPROVEMENTS NEEDED IN ACCOUNTS PAYABLE

Percent of executives responding that significant or incremental improvement is needed over the next year.

Level of automation in transaction processing	80%
Processing costs for payables	64%
Integration with supplier receivables systems and processes	64%
Functionality for information systems used by accounts payable	62%
Control over company spend	53%
Standardization of payables processes	48%

Source: CFO Research in collaboration with MasterCard, Accounts Payable at a Crossroads: The Next Phase for Business-to-Business Payments, 2014.

Automated Clearing House (ACH) has long been viewed as the logical successor to paper checks for most corporations surveyed. However, this electronic funds transfer system does not enable companies to take advantage of the working capital benefits that card-based payments allow. In addition, ACH requires sharing of sensitive deposit account information and entails more time-consuming and potentially error-prone reconciliation processes. Although ACH and card payments are likely to grow in the near term, CFOs surveyed expect a shift towards card payments technology to enable the next level of improvement in corporate payments processes. According to the survey:

- 40 percent of respondents anticipate an increase in the usage of corporate and purchasing cards for business-to-business payments
- 29 percent of finance executives also expect use of virtual card numbers to grow

"Commercial card programs have changed dramatically in the last decade. CFOs need to ensure they are educated on all the features they offer."

Martina Hund-Mejean,
Chief Financial Officer,
MasterCard

Unlocking the Value of Card Payment Solutions

Commercial card programs have helped reengineer purchase-to-pay practices in most corporations in North America, eliminating nearly six billion purchase orders and generating overall transactional cost savings of more than $38 billion per year.[2]

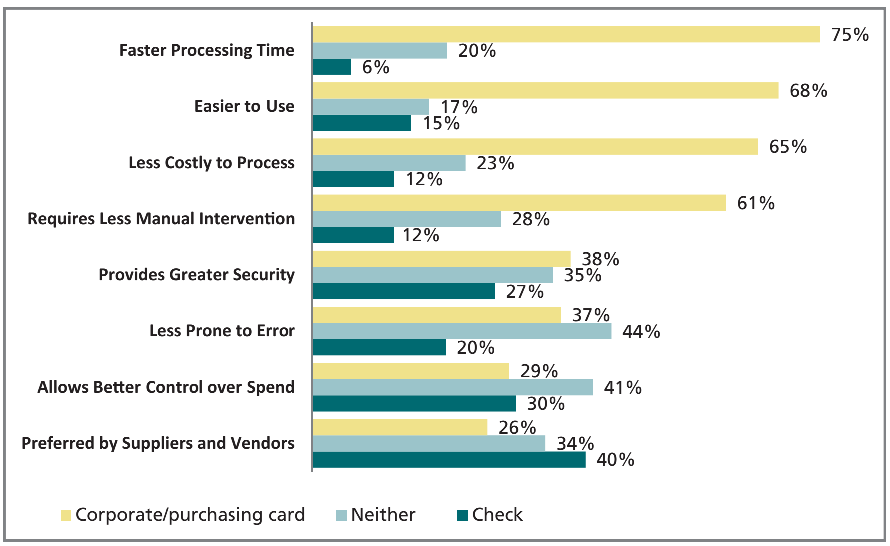
The majority of finance executives say corporate or purchasing cards have many advantages over checks (Figure 2), including:

- Faster processing time
- Easier to use
- Less costly to process
- Requires less manual intervention
- Eliminates paper and is more environmentally friendly

In addition, many respondents believe cards offer better security and are less prone to error.

FIGURE 2: CARD PAYMENTS DELIVER CLEAR ADVANTAGES OVER CHECK

Percent of executives responding that payment method provides clear advantages over the other method.



Source: CFO Research in collaboration with MasterCard, Accounts Payable at a Crossroads: The Next Phase for Business-to-Business Payments, 2014.

$38 Billion

Commercial card programs have generated an overall transactional cost savings of more than $38 billion per year in North American corporations.

"[We use credit card-based payments to] reduce transaction processing costs while maintaining or increasing internal controls, data access, and accounting integrity."

CFO Research Survey respondent

40%

More than 40% of CFOs admit they don't know enough about virtual cards.

While CFOs acknowledge the benefits of corporate cards, many are not taking full advantage of them:

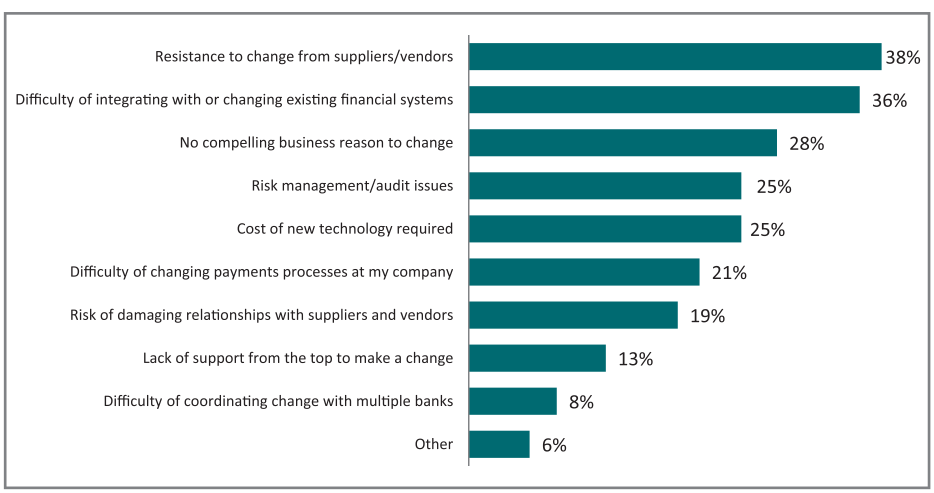
- The use of paper checks remains prevalent with over 60 percent of B2B payments still being made by check[3]
- Only 10 percent of business-to-business transactions are currently paid for by card, admitted respondents to a survey by MasterCard and Kaiser Associates[3]
- Half of those same respondents use cards mainly to manage travel and entertainment (T&E) expenses and small-volume purchases such as office supplies[3]
- Over 40 percent of respondents to the CFO Research/MasterCard survey admitted they "don't know as much as they need to know" about using virtual credit cards in everyday business-to-business payments

This selective usage leaves potential savings on the table for many corporations. In a survey of more than 4,000 purchasing card users across North America, respondents reported administrative cost savings of $70 per transaction when purchasing cards were used versus the traditional purchase-order driven procurement process.[2] In addition, organizations using purchasing card spending data to obtain higher discounts realize, on average, a 1.8 percent improvement in discounts. Thus, an organization with $19 million in annual purchasing card spending would generate an additional price reduction (savings) of $340,000 per year on the goods and services acquired.[2]

Given their proven abilities to reduce costs and improve efficiency, why have card-based solutions been slow to penetrate more areas of business-to-business commerce? While executives admit their own lack of awareness about the benefits of card-based payments is a factor, many also believe that suppliers and internal IT decision-makers will resist the change (see Figure 3).

FIGURE 3: OBSTACLES TO CHANGING PAYMENT METHODS AT THEIR COMPANIES

Percent of executives citing the following factors as the main obstacles to changing payment methods at their company.



Source: CFO Research in collaboration with MasterCard, Accounts Payable at a Crossroads: The Next Phase for Business-to-Business Payments, 2014.

Making the Case for Cards to Internal Stakeholders and External Suppliers

Commercial payment solutions have evolved significantly in the last decade and now offer substantial business advantages in terms of efficiency, control, transparency, and security. **Financial executives seeking to modernize their payments infrastructure and increase corporate profitability need to convince Internal Stakeholders and suppliers that these new capabilities are a win-win value proposition for everyone.**

For corporations, today's innovative card payment solutions deliver enterprise-wide value, including:

- **Visibility** – Customized spending activity reports, detailed folio data, and key information put the business in a strong position to negotiate better terms with suppliers.
- **Control** – With transaction-level controls, it's easier to manage how, where, and when employee accounts are used. Buyers have a high level of control over the payment process resulting in improved cash flow.
- **Efficiency** – The reconciliation and reporting process is simplified, while employees find it easier to order and receive goods and services.
- **Labor savings** – In a 2014 study by RPMG, 65 percent of organizations reported a reduction in headcount of AP and Purchasing personnel as a result of purchasing card usage. Over 50 percent of respondents report a change in labor savings after exceeding 2,400 transactions paid on card.[2]
- **Improved working capital** – Card usage lengthens the gap between purchase and disbursement, effectively lowering working capital requirements. By funneling detailed, timely spend data into corporate financial information systems, cards support more accurate planning and forecasting.
- **Significant discounts and rebates** – According to RPMG and MasterCard Analysis,[2] an organization that leverages purchasing card data to obtain supplier discounts could potentially realize more than $1 million annually in discounts on a yearly purchasing card spend of $59 million. Higher rebates due to increased card spend also help improve cash flow.

For suppliers, card payments help reduce day sales outstanding (DSO) and lower costs. In fact, among finance executives surveyed, 41 percent say that credit card payments provide benefits to both buyers and vendors, with 12 percent believing the advantage falls primarily to suppliers. Among those advantages:

- **Faster access to capital** – The prospect of quicker payments helps suppliers avoid more expensive financing options, such as factoring. And payment is guaranteed, helping to reduce or eliminate bad debt.
- **Reduced A/R costs** – It costs 37 percent less for a supplier to handle a $500 card transaction versus a check or ACH.[3]
- **Better forecasting** – Improved visibility into the approval process arms suppliers with higher quality data for forecasting.
- **Fewer lost invoices** – Improved accuracy of electronic over paper processing reduces payment processing issues, including invoices that languish in the system.

37% less

It costs 37% less for a supplier to handle a $500 card transaction versus a check or ACH.[3]

Advanced Card-Based Payment Solutions

Today's advanced corporate and purchasing cards allow financial executives to take advantage of greater payments accuracy, control, and cost savings, as well as improved security, transparency, and access to data for decision-making.

Virtual Card Numbers (VCNs)

Virtual card numbers offer businesses the broadest set of transaction-level spending controls available.

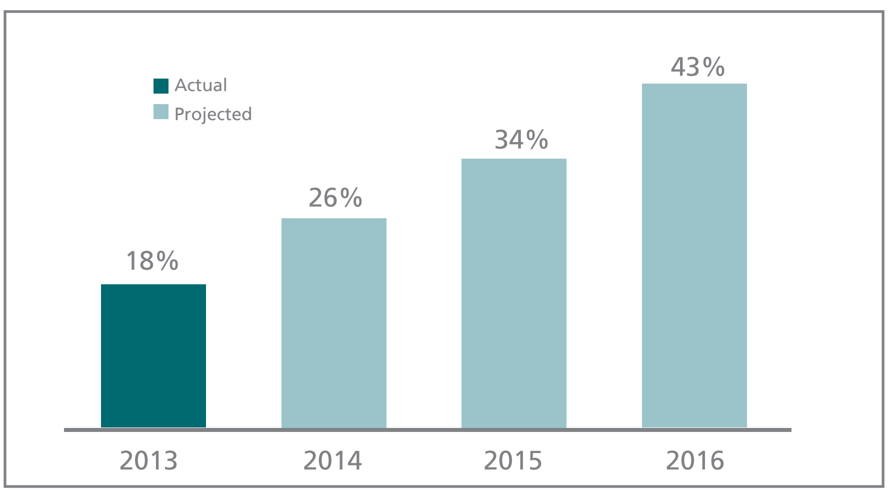
With VCN capability, the accounts payable department can assign a unique 16-digit card number to each transaction, or to a single vendor. It can be used multiple times or only once—enabling AP departments to precisely identify transactions for a specific purpose or with a certain vendor. Since the VCN can be used only within the parameters of its approval—transaction amount, date, and vendor—there is built-in transaction security, control, and traceability to every purchase.

With VCNs, businesses can:

- Simplify the reconciliation process, with the card number acting as a unique identifier
- Provide an accurate, secure payment method for suppliers
- Access rich data to support spend tracking and forecasting, regulatory compliance, and vendor negotiations

FIGURE 4: ELECTRONIC PAYMENTS SOLUTIONS BEING WIDELY ADOPTED

Actual and projected trends of organizations adopting electronic accounts payable solutions, 2013-2016.



Source: RPMG 2014 Purchasing Card Benchmark Survey.

Case Study

FOOD PRODUCER BOOSTS REBATES AND LOWERS COSTS WITH VCN

Challenge: Major producer and distributor of branded food products sought to reduce costs associated with check-based vendor payments.

Solution: Issuing Virtual Cards in place of checks for 10,000 transactions, averaging $2,850 per transaction. In one year, the company realized $356,250 in rebates (1.25%* of $28.5MM) while eliminating $54,300 in check preparation costs ($5.43 per check).

Bottom Line:

$410,500

total annual return to the manufacturer

*Illustrative, rebate based on billing and payment terms.

Case Study

ONLINE RETAILER REDUCES CHECK PROCESSING COSTS AND GAINS ADDITIONAL REBATES WITH VCN

Challenge: Large online retailer sought to reduce costs, streamline business processes, and improve margins.

Solution: Rather than issue check payments, the company leveraged Virtual Cards for 10,000 transactions, averaging $4,800 each. As a result, they eliminated $51,400 in check processing costs ($5.14 per check) and gained rebates totaling $675,000 (1.4%* of $48MM).

Bottom Line:

$726,400

total annual return to the retailer

*Illustrative, rebate based on billing and payment terms.

Enhanced Reporting

Advanced card-based payment solutions typically are accompanied by powerful reporting, analysis, and compliance tools that enable organizations to:

- Identify spending inefficiencies and generate savings with consolidated spending data, powerful analytics, and reporting tools
- Automate expense allocation for more accurate, timely tracking and management of all spending, while using fewer resources and lowering costs
- Easily generate standard and custom reports to identify spending trends and patterns to guide smarter purchasing decisions
- Make better supplier decisions and negotiate volume discounts and more favorable vendor contracts based on aggregated, receipt-level transaction data
- Use spending controls to set card limits and automatically enforce reporting policies, and to receive alerts about out-of-compliance purchases

$182K

Corporations can generate an average of $182K in value—through reduced processing costs and increased discounts and rebates—for every $1M in spending converted to cards.[2]

Profiting from the New Corporate Payments Landscape

With corporate spending and cost control pressures on the rise, it's critical for financial executives to assess their current business-to-business payment processes and consider the innovative card-based solutions available to put greater control, richer data, and increased cost savings in their hands.

As a leader and innovator in commercial card-based payments, MasterCard stands ready to support corporations with a range of advanced commercial payments solutions including:

- **MasterCard In Control™** – VCN technology provides the ultimate in transaction-level control to help companies reduce fraud, ensure compliance with spending policies, improve supplier management and negotiation, and minimize processing time and labor.
- **MasterCard Smart Data** – Delivers global, web-based reporting to help corporations seamlessly organize, consolidate, analyze, and manage rich financial data.
- **MasterCard Spend Optimization Services** – Organizations can take advantage of supplier enablement resources such as benchmarking, analysis, and conversion tools to successfully transition more B2B payments to purchasing and virtual cards.

Plus, MasterCard's unsurpassed global acceptance, best-in-class fraud management systems, and dedicated support team make MasterCard the best partner to organizations seeking to optimize their payments processes and maximizing the benefits of card-based technology.

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1. Unless otherwise indicated, all data is from CFO Research in collaboration with MasterCard, Accounts Payable at a Crossroads: The Next Phase for Business-to-Business Payments, 2014.
2. RPMG 2014 Purchasing Card Benchmark Survey.
3. MasterCard and Kaiser Associates, Commercial Card Acceptance Cost-Benefit Study, November 2012.