



# Performance Optimization

## Leveraging a World-Class Card Program

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# Agenda

- The Opportunity
- Supercharge Your Card Program
- Start Today



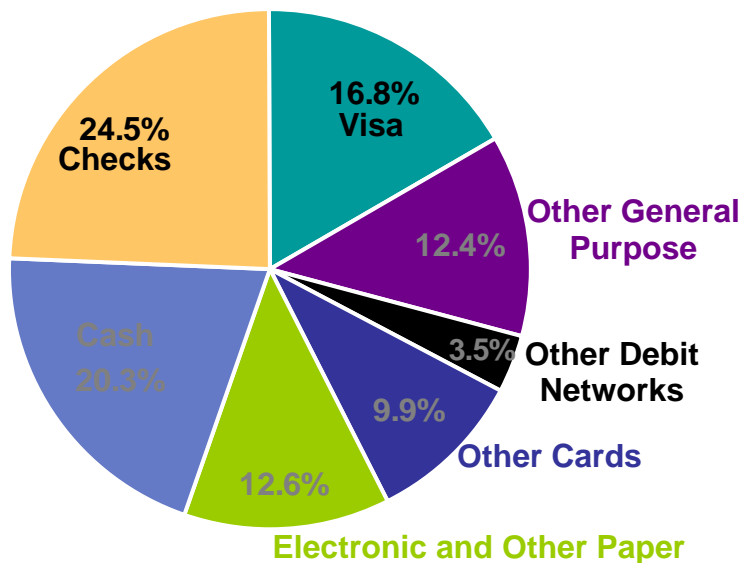
# The Opportunity



# The Opportunity: Room to Grow

## Personal Expenditure

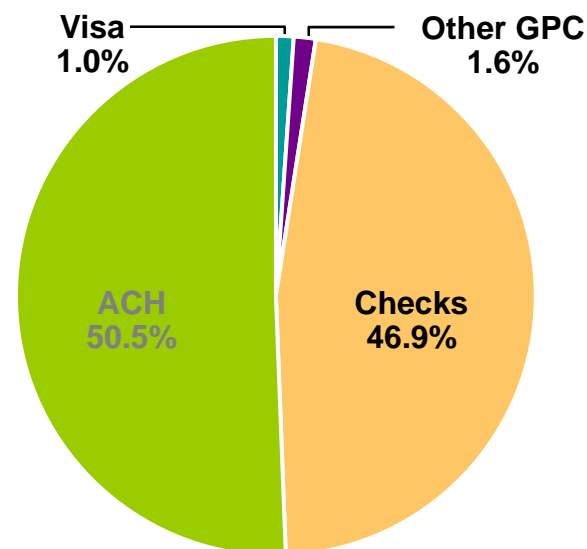
\$7.2 Trillion



2006

## Commercial Expenditure

\$17.3 Trillion



2006

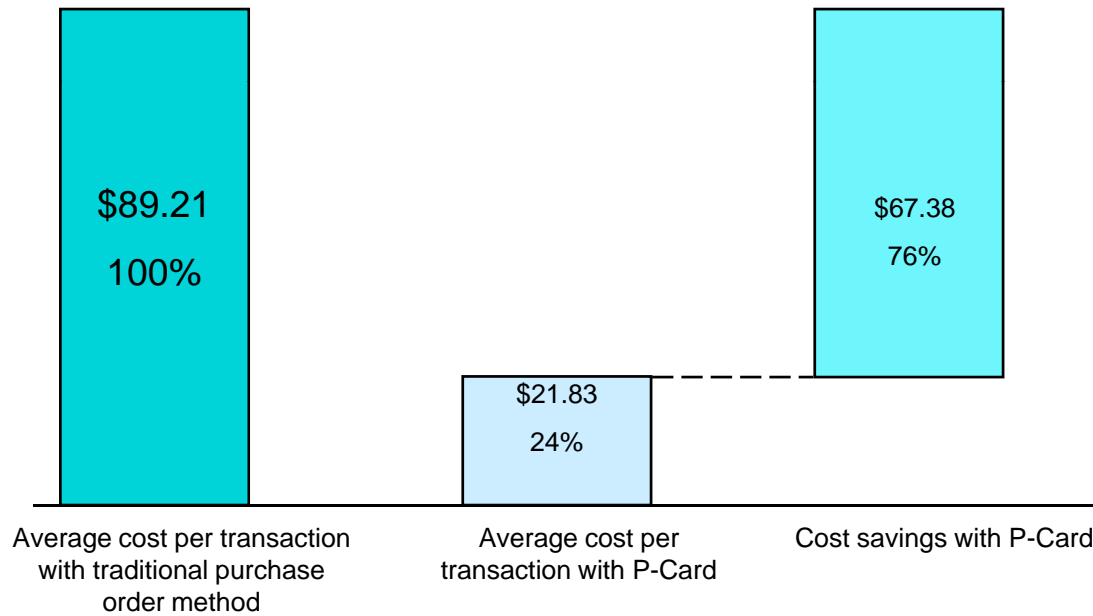
\*Excludes non-purchase transactions (i.e., health care costs paid by employer)

PCE Sources: Global Insight, BEA, Nilson, IDC, Visa Business & Economic Analysis, VISA includes: Consumer Credit, Offline Debit, Prepaid and Interlink purchases, OTHER GENERAL PURPOSE includes: MC/Diner's, Discover, Amex Consumer Credit purch, MC Consumer Offline Debit, Maestro and prepaid, OTHER DEBIT NETWORKS includes: regional on-line debit purchase trans (non Visa, MC); on-line debit cash trans are included in CASH, OTHER CARDS includes: Proprietary credit (private label), prepaid (exclusive of Visa and MC prepaid) and EBT, ELECTRONIC AND OTHER PAPER includes: Remote or Preauthorized payments, money orders, travelers checks, food stamps, CASH includes: credit, offline debit, and online debit cash advances and all other cash, CHECKS includes POS, direct payment checks. Excludes: balance transfers, child support, alimony, prepay, repayment of other payments,  
 CCE Sources: Visa USA Product Development and Management, Economy.com, Census Bureau and Deloitte LLP (breakdown of CCE into different payment types was part of an independent study sponsored by Visa)



# The Opportunity: Cost Savings

## Potential Cost Savings Using P-Card





# The Opportunity: Desire Exists

67%



## The Opportunity: The Reality

- **68%** reduction in procurement cycle time
- **31%** reduction in the number of suppliers in the AP master file
- Card data-generated discounts equal to **2%** or more of card spend
- **9%** average discount on travel budget
- **\$30** in administrative costs *per petty cash request*
- **56%** increase in expense report efficiency
- **40%** decrease in cycle time to reimburse expenses



# The Opportunity: How and What

## Process Improvements

- 10 – 30% increase in card volume
- 25 – 50% increase in card transactions
- 10 – 20% increase in number of cardholders
- From \$250 to \$800 increase in the average card transaction
- 50 – 80% card penetration into targeted spend categories
- 20 – 60% increase in suppliers paid by card
- 2 – 25% increase in the percentage of total spend paid by card use

## Financial Benefits

- 20 – 30% reduction in FTE costs in procure-to-pay process
- 5 – 10% increase in rebate potential
- 25 – 50% reduction in check processing costs



## The Opportunity: What differentiates best in class companies?

- More employees have cards – on average 12.2% of employees have purchasing cards compared to low performing companies
- Transaction limits that are twice as high as low performing companies
- Over twice as likely to refuse requisitions not on purchasing card that should be on purchasing card
- Issue travel cards to all employees who travel more than twice each year
- Mandate use of card for all expenses in specific categories
- Export card transaction data electronically into reporting mechanism



# The Opportunity: An Actual Case

A Global Manufacturer

## Before Optimization

- 634 cards
- 94,600 p-card transactions
- \$241 average p-card transaction
- 17% of purchases <\$2,500 on card
- \$385MM expense spend, 52% with Card-accepting suppliers
- 762,000 invoices, 72% less than \$2,500
- 15,048 active suppliers, 54% accept Card
- 82% of suppliers infrequently used, 2,235 one time



# The Opportunity: An Actual Case

A Global Manufacturer

## Major program improvements

- Issued card to each cost center for web purchasing & imbedded account number into profiles (120 new cards)
- Set up ghost accounts for recurring invoices and key suppliers
- Validated card acceptance prior to new supplier set up
- Established a full time Program Manager



# The Opportunity: An Actual Case

A Global Manufacturer

## Business impact

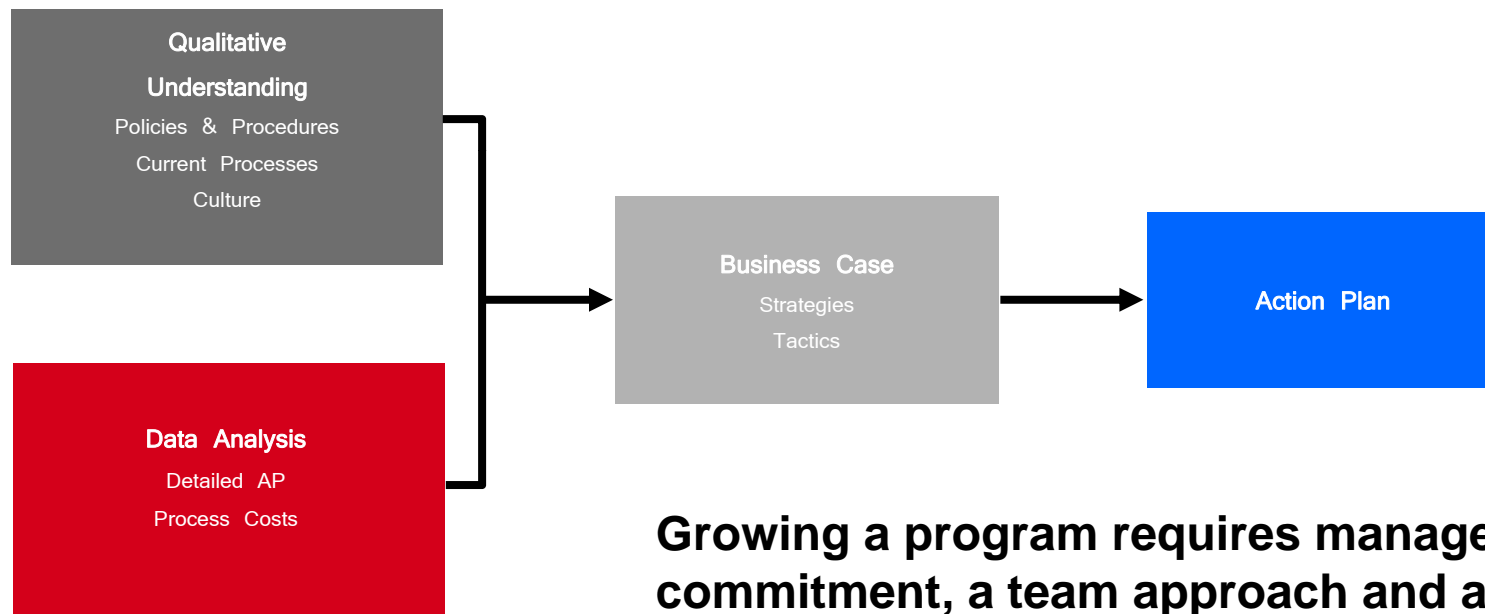
- 46% of payments <\$2,500 made via card
- 130,000 invoices eliminated
- Reduced AP masterfile by 1600 + vendors
- Program spend and rebate increased 82%



# Supercharge Your Card Program



# Supercharge Your Card Program: A Disciplined Methodology



**Growing a program requires management commitment, a team approach and a modest investment of time.**



# Supercharge Your Card Program: Qualitative Understanding

## Qualitative

### Understanding

- Policies & Procedures
- Current Processes
- Culture

## Understand your organization's objectives

- Is there a correlation between payment processes efficiencies and my company's strategic objectives?
- Would a demonstration of financial efficiencies motivate my organization's leadership team?
- Will systems/process upgrades or changes in the coming year impact the program? Can optimization positively impact these changes?
- Can the optimization process enhance my company's supplier strategy?
- Can increased rebates potentially earned from the success of optimization be used to further expand the program?



# Supercharge Your Card Program: Data Analysis

## Data Analysis

- Detailed AP
- Process Costs

Benchmarks for High/Low Transaction Capture	High	Low	Your Company
<b>Card-to-employee ratio</b>	12%	4%	
<b>Monthly spend per employee</b>	\$326	\$64	
Average transaction size	\$362	\$228	
Active cards	83%	76%	
<b>Percent of AP transactions &lt;\$2,500 on card</b>	56%	7%	
Percent of AP transactions <\$10,000 on card	37%	1%	

Attributes of "High Transaction Impact" programs,  
2005 Purchasing Card Benchmark Survey Report, RPMG Research Corp





# Supercharge Your Card Program: Data Analysis

## Data Analysis

- Detailed AP
- Process Costs

## Who is spending?

- Review who is able to spend within your organization
- Review which departments follow these spending patterns:
  - Most purchasing activity by volume
  - Most purchasing activity by transactions
  - Most one-off purchases
  - Departments which DO NOT currently have access to purchase by card
  - Under-performing departments



# Supercharge Your Card Program: Data Analysis

What are you paying with cards?

- Courier Services
- Electrical Supplies
- Equipment Leasing
- Fax Machines
- Fax Supplies
- Freight
- Furniture
- Guard Services
- Hardware
- Relocation Services
- Industrial Supplies
- Inventory
- Janitorial Supplies
- Legal Services
- Locksmith
- Maintenance Contracts
- Mailing Equipment
- Medical Exams
- Document Management
- Nursing Services
- Office Supplies
- Overnight Mail
- Pagers/Wireless
- Parking
- PC Leasing
- Periodicals
- Pest Control
- Photocopying
- Photographic Material
- Printing
- Printing
- Production Services
- Promotional Items
- Virtual Offices
- Storerooms
- Subscriptions
- Temporary Services
- Trade Shows
- Training
- Truck Parts
- Uniforms
- Work Orders
- Fleet Costs



# Supercharge Your Card Program: Build Your Business Case

Review department/cost center activity to identify areas that need

- More cards
- Increased limits
- More selling/training

COST CENTER	AMOUNT	Invoices	Matched Amount	Matched Invoices
998	\$2,022,840,138.91	227,955	\$493,742,629.71	211,492
996	\$445,299,798.40	28,914	\$132,764,088.30	11,296
962	\$6,526,509.83	1,878	\$3,780,053.82	1,566
992	\$5,247,271.15	1,493	\$3,107,812.92	1,093
1420	\$6,364,555.34	1,286	\$4,157,695.71	1,011
966	\$9,651,950.67	1,265	\$7,542,105.78	1,134
990	\$4,868,985.97	1,126	\$3,041,776.54	873
960	\$6,006,968.22	1,111	\$3,516,054.50	898
961	\$5,974,841.50	1,031	\$3,256,293.74	560
973	\$901,180.19	1,020	\$791,882.97	726
955	\$5,281,654.36	862	\$3,222,967.98	735
964	\$2,485,359.93	801	\$1,489,402.20	620
1419	\$5,632,515.62	699	\$5,128,993.50	653
951	\$18,229,713.99	649	\$9,979,400.63	550
965	\$3,972,651.49	579	\$3,161,306.55	472
1410	\$1,807,495.02	529	\$1,818,567.10	442





# Supercharge Your Card Program: Build Your Business Case

## Business Case

- Strategies
- Tactics

### Individual purchasing cards

- Focuses on small dollar, high volume and one-off payments
- Empower employees per policy to defined limits
- Eliminate low value work, gain process savings
- Gain rebate on existing spend (added discounts)



# Supercharge Your Card Program: Build Your Business Case

## Business Case

- Strategies
- Tactics

### Accounts Payable disbursement

- Focuses on AP payments
- Retain process/controls where necessary
- Replace physical checks with card payment on approved invoices
- Substantially higher average transaction value
- Additional rebate potential
- Leverage card payment terms to extend working capital



# Supercharge Your Card Program: Action Plan

## Establish Goals

- Clear
- Attainable
- Measurable

Baseline performance must be understood by all before specific goals can be established and accepted.



# Supercharge Your Card Program: Action Plan

Demonstrate the Value

- Obtain ongoing active senior management support
- Identify additional opportunities for program growth
- Quantify and emphasize value to your organization



# Supercharge Your Card Program: Action Plan

## Establish Governance

- Identify program management
- Define roles and responsibilities
- Document policies and procedures
- Publish communications channels
- Establish management routines: monitoring and reporting



# Supercharge Your Card Program: Action Plan

## Communicate with Stakeholders

Review department/cost center activity to identify areas that need

- More cards
- Increased limits
- More selling/training
- **What cost centers are leading the way? How can you leverage their success for the broader organization?**
- **What training, incentives, other tactics will work for underperforming units?**

COST CENTER	AMOUNT	Invoices	Matched Amount	Matched Invoices
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992	\$5,247,271.15	1,493	\$3,107,812.92	1,093
1420	\$6,364,555.34	1,286	\$4,157,695.71	1,011
966	\$9,651,950.67	1,265	\$7,542,105.78	1,134
990	\$4,868,985.97	1,126	\$3,041,776.54	873
960	\$6,006,968.22	1,111	\$3,516,054.50	898
961	\$5,974,841.50	1,031	\$3,256,293.74	560
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# Supercharge Your Card Program: Action Plan

## Communicate with Stakeholders

Supplier Name	CARD			CARDABLE		
	Annualized Spend Amount	No. of Trans	Avg. Tran Amount	Annualized Spend Amount	No. of Trans	Avg. Tran Amount
LANDAIR TRANSPORT INC	\$694,615	2,366	\$294	\$3,918,604	54	\$72,567
HENKEL ADHESIVES	\$7,056	1	\$7,056	\$3,425,547	238	\$14,393
ACCURATE RECYCLING CORP	\$150	1	\$150	\$866,403	51	\$16,988

### Maximize Results/Capture Lost Opportunity

A portion of the client employee base is utilizing the P-Card at known accepting suppliers, while a significant number of transactions for the very same suppliers are still being processed through AP.

KADANT BLACK CLAWSON INC	\$473,865	111	\$4,269	\$403,378	57	\$7,077
ELTROMAT ELECTRONICS INC	\$4,541	4	\$1,135	\$385,689	27	\$14,285
FLEETWOOD INC	\$172,376	76	\$2,268	\$362,884	42	\$8,640
CHEMTREAT INC	\$588,638	206	\$2,857	\$352,183	106	\$3,322
WASTE MANAGEMENT	\$3,877	12	\$323	\$337,114	186	\$1,812
WILLIAM H EBEL & SON INC	\$584	7	\$83	\$336,467	820	\$410



# Supercharge Your Card Program: Action Plan

## Develop Supplier Plan

- Review where you're spending – look at your AP information.
- Segment the vendors into the following categories to help define a vendor recruitment strategy:
  - % of AP transactions on Purchase Order versus Card
  - % of purchases large in size, but small in number
  - % of purchases \$1,000 or less
- Identify how many multiple transactions are \$2,500 in size or less
- Identify how many multiple transactions are \$5,000 in size or less
- Number purchases made to single vendor?

Look for areas where quick,  
material gains can be achieved.



# Supercharge Your Card Program: Action Plan

## Execute Supplier Plan

- Understand supplier challenges and benefits
- Engage banking partners in encouraging supplier participation
- Include card acceptance in RFPs
- Make card the preferred payment method in new supplier setups
- Use card data to drive pricing and term negotiation
- Apply the 80/20 Rule



# Supercharge Your Card Program: Action Plan

Execute Supplier Plan

## Supplier Benefits

- Reduces Days Sales Outstanding
- Reduces paper and check handling and costs
- Eliminates credit approval costs – receive payment directly from your merchant bank
- Lowers costs of collections inquiries; improved data integrity
- Improves cash forecasting
- Receives payment in 2-3 days
- Eliminates risk of check delays



# Supercharge Your Card Program: Action Plan

Monitor and Celebrate

- Performance versus goals tracked monthly
- Share best-practices and success stories
- Hold quarterly cross-functional team call to review results



# Communicating value & setting goals – why is this important?

Monitor and Celebrate

Purchasing Card spend is 79% higher in organizations that review performance statistics and issue reports than those that do not, according to the 2005 Purchasing Card Benchmark Survey conducted by Palmer & Associates

Additionally, the Palmer study finds that Purchasing Card spend is 147% higher in organizations where the data is used in trend analysis combined with accounts payable information used to search for improvement potential (missed opportunities).



Start Today



## Start Today: Critical Success Factors

- Take the time to analyze the data and quantify the opportunity.
- Create and communicate the business opportunity internally to all key stakeholders.
- Do not try to conquer the world in a day.
- Focus on continuous improvement.

# Bank of America



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