

Purchase Card Review

What are Purchase Cards supposed to do?

Purchase Cards started in the 1980's in the US. Their purpose was to reduce the transaction cost for low value purchases by getting rid of costly purchase orders and invoices while improving working capital for both the buyer and the supplier. Spend would be controlled by the use of spend categories and managers would get detailed breakdowns of expenditure on a monthly basis.



How does that compare to actual experience?



P-Cards were initially developed for the Federal Government before expanding to private sector organisations in the 1990's as a means of dramatically cutting the cost of small value purchase transactions. It proved to be a big hit very quickly with many companies and private sector organisations. It is estimated that more than 70% of major US organisations have a P-Card programme and that more than \$110 billion of expenditure is made with P-Cards every year.

In the private sector P-Cards have been very successful for a number of reasons, but the two main reasons have been the fact that US organisations have a different attitude to financial control of small value transactions and the lack of a value added tax system. This means that tax authorities have made it much easier to eliminate paper invoices and organisations are more comfortable letting employees use P-cards for a wide array of procurement categories.

In Europe, things have proved to be very different. The first P-Cards were introduced in the UK in the early 1990's, but it is estimated that although the UK has the highest percentage of P-Card usage in Europe that less than 1% of organisational spend goes through this route. There are many European countries where P-Cards do not exist at all. There are several reasons for this lack of success.



Merchant charges in Europe have traditionally been as high as 6% per transaction putting off many potential merchants. Tax authorities have been unwilling to accept P-Card transactions as a replacement for a paper invoice since most European banking systems cannot store the required line item detail. Even in the three countries where the line item detail is available (UK, Netherlands and Norway) you are still at the mercy of the merchants' IT capability to produce such data. Finally many companies have been scared off by the potential for employee fraud and the many stories emanating from the US of such mis-use of P-Cards.

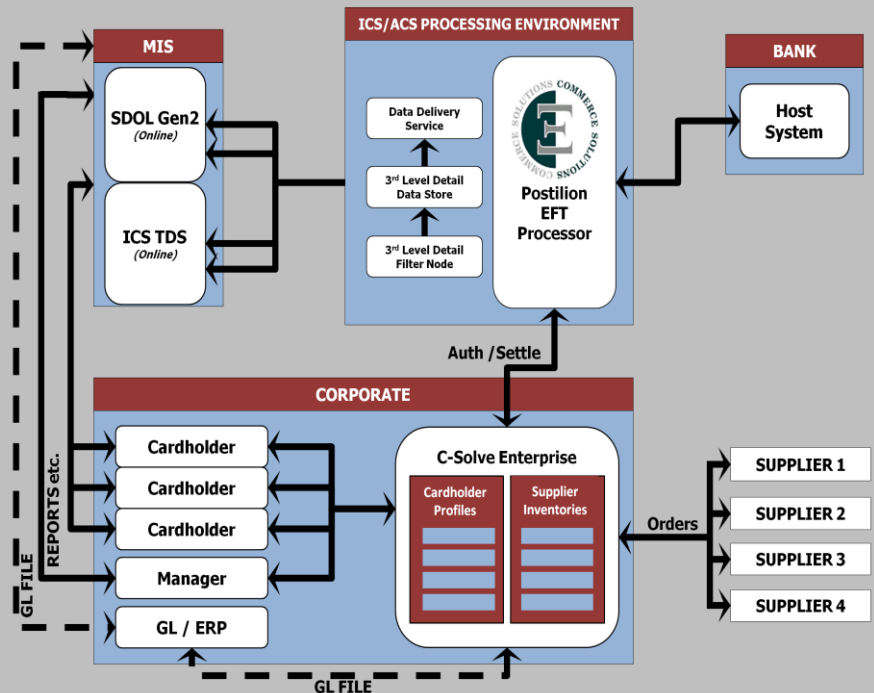
C-Solve Enterprise - A New Solution

ICS are a South African company that started in 1999 and specialise in the field of corporate credit card solutions. Just like in most European countries, it is not possible to record invoice line item data with credit card transactions in South Africa. Hence no one had attempted to introduce P-Cards. But ICS saw the opportunity to combine catalogue technology with a credit card solution. This has created a P-Card solution where the invoice line item data is captured, full spend control is maintained at all times, the supplier is paid very quickly and the supplier does not need any technology beyond e-mail to use the facility.

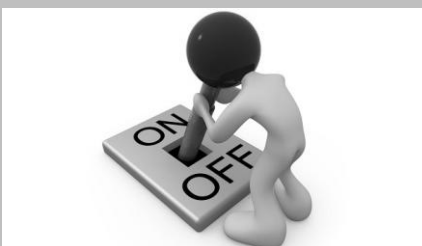


So how does it work?

Just like any other P-Card solutions, suppliers are pre-registered. But in addition the supplier must supply a catalogue of its goods and services. The specific goods and services are pre-agreed inclusive of all pricing. Each buyer is then registered with specific authorisations of the suppliers that can be used, the products and services that can be purchased and their maximum spend limit per transaction. If this limit is exceeded a work-flowed authorisation routine is initiated, which potentially can go through multiple levels. Once the transaction is properly authorised, the merchant is



informed by email of the purchase order. Only when the goods or service are marked as received by the buyer is payment initiated. The supplier then receives payment 2 to 5 days later. Every month a statement is received from the credit card issuer, just like a normal credit card statement, and because the line item detail is recorded in the C-Solve solution the statement can now qualify as a taxable invoice. The data from C-Solve is interfaced with your regular ERP system to ensure that all normal accounting records are up to date and are fully compliant with statutory accounting requirements. The buyer then settles the credit card statement. This means that the buyer can get up to 56 days working capital on each transaction. C-Solve can also be configured to update stock records, deal with partial deliveries and back-orders and to conduct 3-way tender processes for items not in the current catalogue.



Control is absolute

All this means that there is no danger of any employee fraud as suppliers, items and process are all controlled by procurement and workflow authorisation ensures that only permitted expenditure can ever happen. Finally all transactions are performed by a virtual card, so there is no opportunity to use the solution via a retailer.

MasterCard

In order to ensure that the solution could be accepted anywhere in Europe, ICS have an arrangement with MasterCard so that buyers can have C-Solve set-up in any European country where MasterCard has an issuing bank relationship. This means that transactions can be initiated anywhere from the Atlantic Ocean to the Urals. To avoid cross-border transactions, it is possible to set-up multiple issuing banks, which may be affiliates of the same banking parent or completely different issuing banks. This also helps buyer companies to leverage on their existing banking relationships.



Supplier Benefits

Traditionally the benefits to your supplier were the fact that they got your business and got paid quickly. While this is still true of the C-Solve solution, the other important circumstance in Europe is that since 2008 merchant charges have fallen dramatically. In Southern Europe it was not uncommon to see card charges as high as 6%. And this has meant that suppliers felt actively discouraged from signing up to such a programme. Thankfully, due to a mixture of increased competition in key credit card markets and the imposition of legislation at both EU and national levels, card charges have been in decline. Most EU countries now have interchange rates as low as 1.5%. This means that if you compare the cost of borrowing for a small supplier via a P-Card scheme versus the same company borrowing via a bank

overdraft, using P-Cards can halve your regular borrowing cost. In addition, the fact that you get payment within 2 to 5 days means that you have almost instant cash flow. In an economy where many large companies are increasingly aggressive in extending payment terms with small suppliers, it is increasingly important that small businesses have more access to quick cash than ever before.

So what happens next?

C-Solve is only now available in Europe and it will take time for C-Solve to become known in the marketplace. The bigger issue is the level of resistance that has built up against P-Card usage in the last 25 years, to the point where the majority of European banks don't even market P-Cards anymore. But the savings are there to be had by the early adopters. At last we will see major drops in traditional invoice transactions and increased usage of P-Cards in business to business transactions across the continent. For suppliers the relatively cheap form of cash flow, the ability to capture extra business and the lack of any new technology investment should be compelling. It's safe to say that there is currently no solution available in Europe that comes close to offering the functionality and control that C-Solve has as standard.



Conclusion

We at Informita have been looking at P-Card solutions in Europe for more than 20 years and they have always succeeded in disappointing our expectations. So when we saw this solution we were equally skeptical. But we have been pleasantly surprised and initial feedback from clients who have seen C-Solve in more detail is extremely positive. If you remember a guy called Victor Kiam, he used to say “I loved the product so much, I bought the company!” Equally when we saw this solution we liked it because it is simple to use, has very good functionality and finally means that there is a workable P-Card solution for use throughout Europe. So that’s why we decided to partner with ICS and look forward to enabling this solution to making a real difference to the procurement and payables landscape.

About Informita

Informita was formed to act as an advisor to companies in the areas of working capital and procurement, focusing on Analytics, Implementation and Advisory. Informita is there to support your working capital and procurement programmes from cradle to grave in a cost efficient and effective manner. Our people have a mixture of deep industry and consulting experience across many sectors and geographies. This gives us the ability to bring insights across many industries and cultures.

About ICS

Integrated Commerce Solutions (Pty) Ltd (ICS) is a privately owned company with offices based in South Africa’s capital city, Pretoria. ICS specialises in comprehensive procurement & payment solutions, including the development and provision of secure world class 3rd Level Data technology and services specifically designed for Commercial Card Programs such as Corporate Card, Procurement Card, Distribution Card and Travel Lodge Card programs. The Company applies its expertise, world class skills, business knowledge, professional services and industry leading technology products to enable 2nd generation payment and procurement solutions of the Card associations such as Visa and MasterCard and their Commercial Card Issuers throughout Sub Saharan Africa and the world.

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The logo for Informita, featuring the word "Informita" in a black, cursive-style font. A thick red horizontal line is positioned below the text.