

Vertical Markets

Back in Business

After a Slow Start, B2B Purchasing Cards Have a Bright Future

By Thomas Wright

Introduced in the 1980s, business-to-business purchasing cards (p-cards) have taken a long time to gain traction, but now appear to be making headway in the marketplace. Long used by the federal government and larger corporations, p-cards are gaining wide acceptance in the mid-market. Deloitte Consulting estimates that government agencies and businesses will use p-cards to purchase more than \$650 billion in goods and services this year, and they predict that number will balloon to a whopping \$1.5 trillion by 2009.

Commercial Cards

B2B purchasing cards fall under the broad category of commercial cards. Under the commercial cards umbrella there are three main types: the well known corporate card/travel and expense (T&E) card traditionally used by traveling sales people; the small business credit card designed for firms with 10 or fewer employees; and the B2B purchasing card. Under the B2B p-card there are a few different subsets as well. “We have the supplier card which is sometimes referred to a ghost card, and we have a virtual card which is often used for large, one-time purchases,” says Marcie Verdin, vice president of corporate payment solutions at MasterCard International.

Large corporations may use dozens of supplier cards—one dedicated to each major supplier—while mid-size and smaller firms may just have one p-card for all of their purchases. These cards could be physical plastic cards or virtual in the sense that they are assigned to the business groups by their accounting departments who in turn receive a range of numbers from their issuer. These numbers may actually be embedded in accounting, purchasing or ERP (enterprise resource planning) systems. Meanwhile, their large dollar purchases are protected by truly virtual numbers in the sense that they are used only one time and then discarded.

Janet Zablock, vice president at Visa Commercial Solutions, says, “The average ticket on our p-cards is running about \$380, but we see departmental cards running the gamut from small petty cash-like payments all the way up to around \$10,000.”

Aaron Bills, vice president of business development and strategic relationships at 3Delta Systems Inc., describes typical users. “Procurement cards are popular with facilities departments, information technology personnel, vehicle fleet programs, and general administrators who need everyday office supplies,” he says. “The federal government alone used p-cards for \$17 billion in purchases last year. Can you imagine how inefficient they would be if they had to use paper purchase orders for all of that?”

Advantages for Buyers

There are many advantages to buyers using p-cards, most notably the bottom line. “It costs a typical corporation anywhere from \$80 to \$140 to pay by check, whereas a p-card purchase may only run \$4 to \$15,” says Christopher Speer, a principal with Deloitte Consulting. He estimates that p-cards can slash accounts payable costs an incredible 60

percent to 80 percent. Christopher Rauhen of Xign Corporation, which is a provider of on-demand Order to Pay software, notes that “there are so many errors and delays with paper invoices, not to mention that they are really labor intensive to process on both ends.”

Deloitte’s Speer explains the next big benefit. “In addition to the real dollar savings that p-cards have as a PO/invoice replacement tool, they also offer a wealth of reporting and tracking tools,” he explains. Properly implemented, a p-card program will streamline the entire procurement process and maximize the efficiency of purchasing departments.

“We are witnessing a much deeper integration of p-card account numbers into general ledger and other e-procurement systems now,” says MasterCard’s Verdin. “More consultants are on board as well to help companies with audit and spending analysis that clearly shows that p-cards simplify the purchasing process and take costs out of AP.” With Xign’s electronic settlement network, buyers and suppliers have complete visibility into their electronic invoices and payments via a browser over the Internet which helps ensure an easy to manage electronic audit trail.

B2B purchasing card proponents also tout the security of their systems as another huge plus. 3Delta’s Bills is quick to point out that “with all of the controls that p-cards have in place, fraud is really negligible.” Security is usually handled by profiles that the company sets up when they implement their p-card program. John Ostrowski, director of commercial card market strategy development for First Data Corp., knows from experience that “p-card programs demand a lot of implementation support to get the right controls and reporting processes in place.” There are many ways to prevent employee misuse of corporate cards including: spending limits by transaction or month; supplier-specific p-cards; cash advance prevention; and MCC (Merchant Category Code) blocking.

Merchant Benefits

While the benefits are obvious for buyers, there are certainly advantages for merchants to accept p-cards as well. Visa says that they more than five million businesses accept p-cards and that number is growing rapidly. Of course businesses that have historically accepted only checks may be reticent to accept p-cards because of their aversion to Interchange fees. Yet, First Data’s Ostrowski believes that it is to business’ advantage to accept p-cards because it offers a convenience to their customers and promotes loyalty.

“Suppliers receive more consistent payments, and there is the potential for higher volumes, concurs Speer. “It is also important to note that some buyers are consolidating their orders with merchants that accept their p-cards.”

For those suppliers that offer classic 2/10 terms (2 percent discount for payment within 10 days), p-cards can actually offer better terms and faster payment. **Bills believes that cash flow is crucial to many businesses and accepting p-cards can be a benefit to cash-strapped companies.**

As for independent sales organizations (ISO), Bills is convinced that they should be out canvassing business parks and offices buildings as part of their “feet on the street” sales efforts. “The potential is huge, the churn is lower, the margins are higher and there are less chargebacks,” he insists. However, he also admits that “B2B p-card sales are very much system- or solution-oriented. They are definitely not a product-oriented sale.” Manufacturing, distribution, law firms, and IT consultants are just some of the firms that he suggests targeting. “If you know

companies that use p-cards, ask them which of their suppliers are not accepting p-cards and follow those leads,” he suggests.

With the vast majority of payments between American businesses are still mired in the inefficient and costly paper check world, everyone agrees that B2B purchasing cards have a very bright future. “There is still a very large runway for p-cards because they are just starting to hit the middle market,” says Ostrowski.

Visa’s Zablock adds, “The mid-market is still fairly new, but it is growing and we are seeing higher dollar transactions.” Even fairly small businesses can use p-cards to get their arms around tax reporting, inventory tracking and general reconciliation issues.

“P-cards were leading edge in the mid 1990s, then starting going mainstream around 2000,” concludes Bills. “Going forward, these programs will migrate from a simple buying tool to full scale electronic payments systems.”

Thomas Wright is a freelance writer based in St. Louis.