Value of Commercial Cards in the New Economic Climate in Asia Pacific

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Trends in trade, business and consumer preference have caused supply chains across Asia Pacific (APAC) to evolve. Underpinning these trends, usage of commercial cards in APAC has been growing at a CAGR of 28% to USD 59 bn by 2021.[1]

To derive maximum value from their commercial card programs, companies could start by working with their banks to analyze their payment flows and to build out a sound business case driven by working capital optimization, transaction processing costs savings, and a consolidated purchasing data view. Companies could also develop a comprehensive suppliers engagement strategy built around proper supplier education and appropriate incentives, where appropriate. Subsequently, a phased roll-out plan can be devised, guided by a robust set of commercial cards policies to encourage wider use.

This paper is structured by first examining the payment and supply chain challenges faced by companies in the new economic climate and the value-add of commercial cards in addressing these challenges (Section A).

This is then followed by the potential barriers that hinder full adoption of commercial cards and the best practices in overcoming these barriers (Section B).

What's inside?

- Challenges faced by companies and how commercial cards add value
- Potential barriers to deriving full value and best practices to overcome them

[1]2017 RPMG Purchasing Card Main Report

Key highlights

How commercial card programs help to make business easier

Roll over

- Extend payment terms
- Simplify the purchasing process and automate reconciliation
- Enhance data visibility and control
- Mitigate fraud concerns

Potential barriers to full adoption of commercial cards and related best practices

Roll over

- Low supplier acceptance
- Lack of business justification to roll out a full-fledged commercial card program
- Risk associated with commercial card fraud

Section A: Challenges faced by companies and how commercial cards add value

Supply chains in APAC are undergoing a dramatic transformation which is causing companies to shift parts of their production to lower cost locations due to increased tariffs and rising labor costs.[2] Furthermore, increasingly rapid shifting of consumer demand trends puts pressure on companies to keep up with the changes and ensure supplier readiness. These factors have driven companies to revisit their procurement networks, ultimately causing supply chains to evolve.

This section addresses how key treasury objectives – including improving control and transparency of expenses, spend policies and working capital – can be achieved through commercial cards.

Objective 1: Extending payment terms

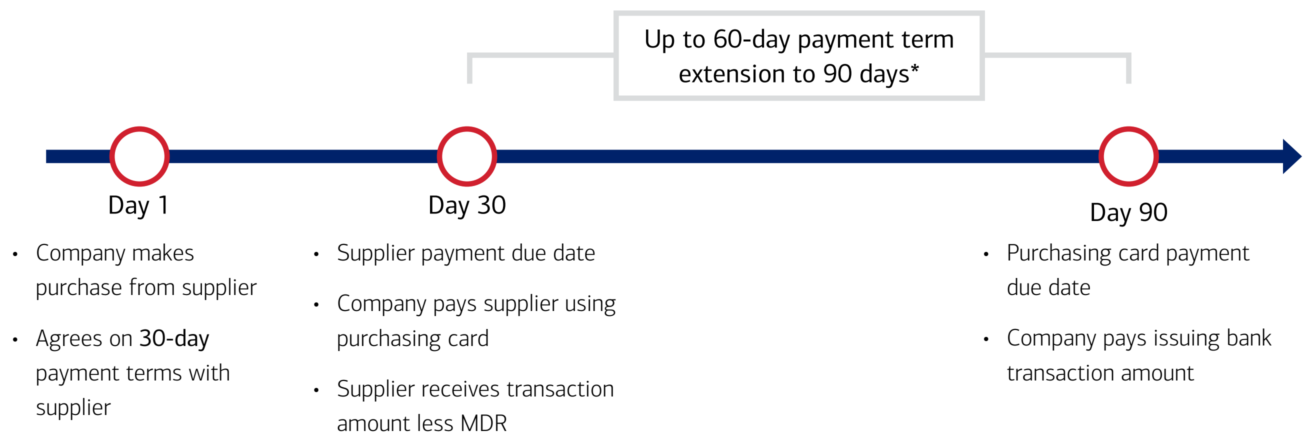
Suppliers typically offer 30-60 day payment terms. With strategic/ preferred suppliers, companies have the bargaining power to extend these payment terms to their benefit. The challenge lies with non-strategic suppliers where companies might not have enough buying power to request extended payment terms. On the other hand, smaller suppliers may not serve new geographies, companies may then be forced to source for new suppliers, which causes spend to be spread across a wider base, diluting buyers' bargaining power and making it more difficult to negotiate for better discounts from each supplier.

Opportunity

A purchasing card **can** enable better working capital management by extending a company's payment terms without compromising the supplier's. (See diagram 1 below). While typical supplier payment terms are between 30-60 days, with large organizations there is typically a delay in payments due to the level of rigor and approvals that need to be completed prior to payment being made. This can actually lead to payments being made to suppliers in the 80-90 day window.

> "We were able to extend payment terms up to 90 days, from 30 days, without impacting the supplier."
>
> – Procurement manager, multi-national mining company

DIAGRAM 1



*Extension of payment term will be assessed based on client's creditworthiness.

[2]Supply chains are undergoing a dramatic transformation: https://www.economist.com/special-report/2019/07/11/supply-chains-are-undergoing-a-dramatic-transformation

Objective 2: Simplifying the purchasing process and automating reconciliation

Most companies in APAC are still using traditional procurement methods such as purchase orders (PO), which require an average 2.3 approvals per order and utilize bank transfers or even cheques to settle.[3] With changes in supply chain and transactions made across a larger supplier base, this issue is more relevant than ever. On the T&E side, employees' expenses are often submitted via physical claim forms which can be challenging to track and verify, given the possibility of forged receipts.

Opportunity

Interviews with companies' leads of finance and procurement departments have indicated that simplification of the purchasing process and automated reconciliation are key goals in optimizing their business. Using a commercial card solution reduces administrative workload and approvals required in traditional PO processes, which significantly drives down the average cost per transaction (78% reduction).[4] This is especially important for high volume, low risk transactions such as ordering office supplies where going through a standard PO process is not the most optimal way to procure such commodities. Companies should review the associated transaction costs and cycle time for their existing purchasing process and accounts payable spend volume to identify the potential for cost savings.

In addition to process cost savings, certain issuing banks also offer rebates for eligible customers based on annual card spend. This is another opportunity for savings that is not available when supplier payments are made through payment channels other than card.

> "We were able to reduce costs by USD 7 million, using purchasing cards [through payment term extension, freeing up working capital]."
>
> – Steve Silby, Director of Finance Operations, Sensis

Objective 3: Data visibility and control

Without an aggregated and comprehensive view of spend and transaction data, internal budgeting and negotiating for best rates from suppliers becomes a challenge. This is further compounded when companies establish new procurement networks and forge new supplier relationships.

Opportunity

Using a commercial card solution integrated with their systems, companies can have an aggregated view of spend and transactions. This makes it easier for them to monitor spend with suppliers to ensure compliance with contractual terms and/or internal policies. Some commercial card solutions, such as a Central Travel Account also provide enhanced data such as traveler's information and trip details.

Furthermore, improved reporting from spend reports allows companies to better understand employees' purchasing behavior and develop cost-saving procurement strategies such as consolidation of orders for bulk purchases. Companies could review current commercial payments data to assess the value of commercial cards via data-driven monitoring and decision making.

> "We manage expenses centrally through a platform linked with our enterprise software installation, allowing us to monitor company-wide spend data, which we leverage to negotiate better commercial terms with suppliers."
>
> – Procurement manager, multi-national mining company

> "We are able to capture more data when using purchasing cards such as what good or service was being procured and other in-depth information. Another type of bank transaction can't give us any of that."
>
> – Todor Nikolov, Manager, Payment Technology & Solutions, Mastercard

[3] 2017 RPMG Purchasing Card Main Report, Chapter 6 Cost Savings, Value Creation and Benefits from Purchasing Card Use, Process Simplification and Convenience
[4] 2017 RPMG Purchasing Card Main Report, Chapter 6 Cost Savings, Value Creation and Benefits from Purchasing Card Use, Exhibit 33: Cost Savings and Cycle Time Reduction Attributed to Purchasing Card Use

Objective 4: Mitigating fraud concerns

Lack of data visibility and vulnerabilities in reporting and reconciliation may increase the risk of first party fraud. This could include false supplier invoices for B2B payments or reimbursements for non-business related charges amongst T&E claims. This is exacerbated with a larger base of suppliers, particularly when many are new and unfamiliar with buyer processes and security protocols. In these situations, payment security controls and clear data visibility are paramount.

Opportunity

Commercial cards solutions offer controls that are effective in helping prevent misuse by employees. Controls in T&E cards include blocks on certain merchant category codes and spend limits. Similarly, virtual cards enable controls such as amount and lifespan limits to be set for specific suppliers, or a single use 16-digit number which can be set for a specific payment. Automatic reconciliation enhances traceability, further deterring attempts of fraud.

Companies should assess their current fraud prevention mechanisms and review processes to identify potential out of policy spending and vulnerabilities. They could consider third party service providers, such as Oversight Systems, which leverage technology to perform pattern-driven data analysis and statistical benchmarking on various sources of corporate data to help identify and detect anomalies and suspicious behavior.

> "We do have monthly reports on [which employees] are using their corporate cards in the restricted categories."
>
> – Area Treasurer (JAPAC), large global pharmaceutical company

> "[Spend reports] allow us to determine what the non-compliant transactions are and in some instances, we block some transactions that are not supposed to go through for a particular product type."
>
> – Eugene Yeoh, Co-head of Procurement (APAC), Bank of America

Section B: Potential barriers to deriving full value of cards and best practices to overcome them

Low Supplier Acceptance

Barrier: Suppliers are highly focused on cost and may not want to bear the additional cost from Merchant Discount Rate (MDR) by accepting credit cards as a form of payment. This cost may also be passed along to buyers. Other factors include costs of implementation and not fully understanding the benefits of accepting card payments, such as immediate payment. The belief that there is relatively low supplier acceptance in certain APAC markets is one of the key reasons why companies are not adopting purchasing cards.

Educate suppliers on the benefits of accepting card payments

Suppliers may welcome card payments once they understand the benefits. Given cash flow is of utmost importance to suppliers and a typical 60-day payment term can be stretched up to 90 days due to delays in administrative processing, some suppliers value earlier payment despite cost of MDR.

Encourage suppliers to accept card payment by offering appropriate financial incentives and "preferred supplier" status, where appropriate

Given that suppliers' main concern is the additional cost incurred from accepting card payments, appropriate financial incentives can be employed to encourage card acceptance, where appropriate. Examples include sharing of eligible rebates and negotiating early payment discounts. Companies can also encourage their suppliers to opt for card payment with the promise of a "preferred supplier" status. Suppliers with a "preferred suppliers" status can enjoy benefits, such as increased volume of business and priority to new contracts, and are willing to take on the added cost of accepting card payments.

> "When suppliers are informed of need to pay by purchasing card, they in turn raised the need to increase pricing…""
>
> – VP Finance (APAC), leading global hotel chain

> "Communication from our chief procurement officer to suppliers was key in getting them onboard… about 85% of targeted suppliers converted to card acceptance."
>
> – Todor Nikolov, Manager, Payment Technology & Solutions, Mastercard

Lack of business justification to roll out a full-fledged commercial card program

Barrier: The lack of a sound business case may prevent the roll-out of full-fledged commercial card program, hence limiting the potential benefits that purchasing cards can bring to the organization. Other challenges might include lack of resources, or senior management buy-in to support a commercial card program roll-out. Some companies have relatively strict usage policy, where purchasing cards can only be used for transactions below a low threshold and for non-strategic purchases (e.g. food catering, printing). For purchases above that, employees are to use the conventional purchases process.

Analyze accounts payable data and construct business case to identify opportunities for commercial card use

An analysis of the company's accounts payable data should be conducted to identify opportunities for commercial card use. Issuing banks can assist with determining which suppliers are already accepting cards and based on this assess the probability of spend that can be moved to a card program. This will help build a sound business case to justify a card program roll out. Buy-in from various parts of the organization such as Accounts Payable, Finance and Procurement can also help drive the business case. Subsequently, a policy should be developed or reviewed periodically to encourage wider use of commercial cards while having a set of guidelines to adhere to, thereby providing better governance on card usage.

> "...Conducted workshop-style exercises to identify the suppliers who would be more suited to accept card payments...Identified professional services and tax bills as the ideal target for this type of payment method."
>
> – Steve Silby, Director of Finance Operations, Sensis

Concern of commercial card fraud deters companies from expanding use of card

There are concerns with card information being exposed to malicious third party hacks if employees are permitted to use purchasing cards for online purchases. This would therefore restrict a wide range of spend categories that purchasing cards could be used for. Furthermore, putting plastic in the hands of an employee could expose the company to first party fraud, as employees may not seek the correct approvals before making purchases.

Leverage card fraud mitigating controls, and stakeholder education

Control features within commercial cards can help address first party fraud. These include merchant categories block, spend limits, expense monitoring, auto-reconciliation, real-time alerts, as well as 2-factor authentication. Single-use VCN is also effective as it renders misappropriated card information invalid once the related transaction is complete.

To address third party fraud, companies should use a combination of preventive measures such as ensuring firewalls are up to date and detection technologies to identify suspicious spend behavior. It is also important for companies to provide training to employees on the proper use of commercial cards to help prevent potential misuse.

> "We educate the company staff who hold the corporate credit cards that it is their responsibilities to ensure that the company is minimized from risk."
>
> – Area Treasurer (JAPAC), large global pharmaceutical company

> "We have had a few occasions where the card is being blocked automatically because of suspicious transactions."
>
> – Area Treasurer (JAPAC), large global pharmaceutical company

Conclusion

In summary, commercial cards provide companies with immense value and potential in working capital and cash flow, data visibility, reporting and reconciliation, and security. However, barriers preventing them from reaping the full benefits remain, but can be overcome by adopting best practices.

Thereafter, companies should assess current state of their card program by periodically reviewing payments flows, set new targets and measure performance. This will ensure the longevity of the benefits from their commercial card program.

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