Purchasing Card Best Practices: The Key Elements of Building a World-Class Program

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About the NAPCP

The National Association of Purchasing Card Professionals (NAPCP) is a membership-based professional association committed to advancing Commercial Card and payment professionals and industry practices worldwide. The NAPCP is a respected voice in the industry, serving as an impartial resource for members at all experience levels in the public and private sectors.

The NAPCP provides unmatched opportunities for continuing education and peer networking through its Annual Conference, Regional Forums, webinars, website, virtual demonstrations, newsletters and regular communication. The association sponsors research and publishes timely and relevant white papers, survey results and other documents. The NAPCP also offers a certification program: the Certified Purchasing Card Professional (CPCP) credential.

Please visit http://www.napcp.org to learn more about Commercial Card and payment programs in general, the value of membership, current member demographics, upcoming events and benefits of becoming a year-round partner sponsor.

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Acknowledgement

The original best practices paper was compiled in 2000 by an NAPCP best practices task force comprised of Purchasing Card program managers in various sectors. Subsequent editions (2006 and 2012) were updated by NAPCP staff to reflect relevant changes in the industry.

Introduction

Since its inception, the Purchasing Card (P-Card) industry has continued to evolve and grow. What were once considered best practices employed by only the best-managed P-Card programs have emerged as standard practices essential to program success. This paper is intended as a guide to help organizations—especially those new to P-Cards—develop, launch and strengthen their programs. It addresses key program elements related to:

- exploration
- design
- partnership
- preparation
- implementation
- management

Program Exploration

Establish a Purchasing Card Team

Adopting a cross-functional team approach is important for a first-time P-Card program launch, as well as for organizations rebidding an established program. Such an approach can also be useful when pursuing program expansion. The team should include representatives from the various stakeholder departments, including purchasing, accounts payable (A/P), internal audit, tax, treasury and information technology (IT). Participants should be decision makers and capable of influencing others, as P-Card implementation (and, often times, expansion) require thinking "outside the box," challenging the way things have always been done.

Research the Opportunities

The P-Card team should understand the value proposition of a program by conducting both external and internal research. For example, the team should review industry benchmark data, as well as evaluate the specific impact of a P-Card program on the organization. This is a good time to consider other types of card and payment solutions the organization might want to pursue, such as electronic payables, to complement P-Card. Further, give some thought as to where P-Cards will fit within the organization's payments strategy. To discern the P-Card opportunity for your organization, analyze A/P payment history.

During the research stage, you should determine the costs of current purchase-to-pay (P2P) processes, especially labor-intensive "traditional" processes based on a requisition, purchase order (PO) and check payment. Such research will contribute to the business case.

Develop the Business Case

A clear and concise business case serves to justify a project, taking the form of a structured proposal for decision makers. P-Card business case elements include:

- cost of "traditional" P2P processes
- procurement cycle time
- cost of P-Card P2P process and the associated savings
- other benefits of P-Card usage and opportunity for improved cash flow
- impact of P-Card program on A/P and purchasing
- benchmark statistics

Obtain Management Support

Use the business case to solicit and obtain management support. Throughout the life of a program, support from a senior-level champion lends the program greater visibility, promotes timely decision making, and can facilitate change management. Ultimately, senior management support or lack thereof can make or break a P-Card program.

Program Design

Several design elements form the foundation of the P-Card model, shaping it for long-term success. Many should be conveyed within your request for proposal (RFP) document when seeking a card issuer. Begin the design groundwork pre-RFP, but recognize that many elements will need to be refined prior to program implementation.

Assign Program Ownership and Oversight

P-Card programs are often managed in purchasing or A/P, but are not limited to these areas. Typically, program management is a centralized function that has direct contact with, and support from, senior management. A dedicated program manager is critical for guiding the team and executing P-Card initiatives.

The skills of the people managing the program are more important than the department in which the program resides. Traits of successful program managers include tenacity, excellent communication skills, analytical abilities and project management experience.

Create Goals and Objectives

P-Card program goals and objectives should support the organization's goals and payments strategy. Note: Your organization's payments strategy might need to be revised to accommodate P-Card initiatives. Goals should also be measurable, presented in a format that can be adopted by various departments/business units, and adjusted over time as the program changes and matures. A good starting point is the P-Card business case from which you can develop goals pertaining to:

- number of transactions (payments) eliminated in A/P
- number of POs eliminated
- process cost savings
- estimated annualized savings
- number of suppliers eliminated
- reduction in procurement cycle time

Appropriately communicate goals and objectives throughout the organization and within the RFP document, as well as to suppliers when appropriate.

Identify Targeted Transactions and Suppliers

Consider the program goals and objectives when identifying targeted transactions and suppliers for P-Card. For example, aggressive goals will likely require P-Card usage with many suppliers for a broad range of transactions. Based on the organization's spend and payments history, try to define a certain dollar threshold for which P-Card use will be mandated. Outline a supplier strategy that will include supplier education on the benefits of the card program—both to your organization and theirs.

Draft Policies and Procedures

Common policy elements include:
- rationale for using P-Cards—advantages to the organization
- program goals and objectives
- where P-Cards fit in the organization's payments strategy
- targeted transactions and suppliers, as well as those excluded/prohibited
- card limits/restrictions (e.g., single transaction limits, monthly limits)
- potential consequences for fraud, misuse and abuse

Procedures for program participants (e.g., cardholders) and the program manager should expand on the policies, explaining:
- roles and responsibilities of cardholders and others
- the P-Card application process and training requirements
- card receipt, activation and security
- P-Card P2P process
- supporting documentation requirements for transactions
- transaction reconciliation/statement review
- the auditing process
- records retention
- how to address lost/stolen cards
- troubleshooting (e.g., responding to declined transactions)

A periodic review of policies and procedures (P&P) is advisable, especially as the program grows and changes. Ensure that P&P are documented and remains current; this is usually necessary to fulfill Sarbanes-Oxley compliance in the U.S. P&P are also a key part of the P-Card control environment.

Design the Control Environment

It is extremely important to design an effective control environment—one that neither under- nor over-controls the program. Excessive controls restrict card usage, are time-consuming and costly. Partner with internal audit to establish appropriate controls and separation of duties. Internal audit should also be able to assist with requirements associated with the Sarbanes-Oxley Act or similar regulations, as applicable.

Key controls include: cardholder reconciliation of posted transactions; independent review of a cardholder's transactions, such as by the cardholder's manager; and the P-Card audit program. Other important controls include P&P, as noted above; appropriate card spend and velocity limits; appropriate restriction of Merchant Category Codes (MCCs); mandatory training for program participants; and effective use of technology.

Conduct a P-Card program risk analysis that includes an evaluation of the program objectives, potential risks, mitigating controls and required actions. Review and update regularly to support the P-Card business case and provide valuable documentation for audit purposes.

Determine a Tax Strategy

The items subjected to a tax, as well as the tax amount, are established by the taxing authority such as a state/province, unit of local government or special taxing district. Become familiar with the tax rules and regulations impacting your organization and, specifically, your targeted P-Card purchases. Involve your tax department and A/P from the start to develop a strategy that allows cost-effective compliance without unnecessary risk.

Outline Technology Requirements and Desired Automation

Automating as many processes as possible within a P-Card program is ideal, as automation reduces manual efforts and provides additional cost savings. Most aspects of program management should be facilitated through the use of electronic tools and/or automation.

One key process is the integration of P-Card data with the finance system through an electronic interface. Work with internal stakeholders and subject-matter experts to identify the requirements for such integration, which need to be relayed during the RFP process for selecting a card issuer.

Other aspects for which technology and/or automation should be utilized include:

- treasury and payment processes
- P-Card application and cancellation processes
- card maintenance, such as limit adjustments
- transaction reconciliation and statement review
- program reporting
- auditing

Card issuers, the networks and third-party providers offer technology solutions to assist with various components of program management.

Program Partnership

Conduct a Request for Proposal (RFP) Process

The P-Card team should write a comprehensive RFP that conveys the applicable design elements and program requirements. Demonstrate to bidding card issuers your organization’s P-Card status and potential by sharing where P-Cards fit within the organization’s payment strategy, the targeted transactions and estimated volume (spend and transaction) that the targets represent.

Pre-RFP launch, determine the criteria and weighting of each factor for selecting a card issuer. Consider implementation support, ongoing customer service, technology and reporting capabilities, fees and incentives, etc. Specify the selection criteria within the RFP. Allow plenty of time for the process; it could take several months just to write and launch the RFP, respond to questions, and receive issuers' proposals.

Select a Card Issuer

It could take several additional months to review proposals, narrow the pool of candidates, conduct meetings with potential issuers and finalize your selection. The card issuer relationship is important. Select the issuer that has the ability to help your organization achieve its program goals.

Program Preparation

Refine the Program Model

To progress toward program implementation, partner with your card issuer to further refine and finalize the program model initiated pre-RFP. For example, complete the P&P, create a training program, develop the P-Card interface for the finance system, and prepare appropriate communications to announce the program throughout the organization and to your targeted suppliers.

Establish a Mandatory Training Program

Educating cardholders and their supervisors/managers is critical to the success of the program. Employees who are uncertain as to how the P-Card process works will not use it. Prior to issuing a card, require training on P-Card P&P, as well as each participant's role and responsibilities. Subsequent training sessions may be needed to educate program participants on the specific P-Card technology that they will use. Mandatory refresher training (e.g., annually) is also a best practice to maximize compliance and ensure participants are informed about P&P changes.

Utilizing some type of quiz as part of the training requirements often reveals topics that may need more clarification and/or additional training. Overall, there are many available methods for delivering a training program, including traditional face-to-face approaches and technology-based solutions.

Develop a Marketing Strategy

Communications relaying the P-Card goals, benefits and controls must begin early, prior to program rollout. Tailor communications to the respective audiences: various levels of management, cardholders, A/P, purchasing and suppliers. Communication tools include presentations (in-person and virtual/electronic), internal websites, newsletters, and e-mail announcements.

Policy and procedure information should be readily available, such as through the internal website. Electronic information is a best practice; avoid paper-based communications, which are harder to maintain and more expensive to produce.

Communicate with Suppliers

Work with your targeted suppliers to map out the P-Card P2P process, including the ordering process, level of data, and supporting documentation requirements. Also discuss account data security and supplier compliance with the Payment Card Information Data Security Standard (PCI DSS).

The P-Card team should manage the supplier solicitation process with support from the business unit or manager of the preferred supplier relationship. Don't overlook how your issuer can aid the process. It is often beneficial to incorporate P-Card terms and conditions within RFPs to suppliers and any resulting contracts, as well as within work agreement documents.

Program Implementation

Conduct a Pilot Program

A pilot program with an average life of three months provides an opportunity to evaluate the benefits of the P-Card, test procedures, uncover issues and refine the model. Identify measurable goals and objectives by which to evaluate the pilot. This is critical for proving you have a worthwhile program to implement on a larger scale. Similar to the business case, key measures include:

- percent of payments eliminated in A/P
- reduction in the master supplier file
- reduction in POs
- cost savings through P-Card usage

Communicate metrics on an ongoing basis throughout the implementation period and beyond. Also gather feedback from cardholders and others through a survey or other technique to learn about improvement opportunities.

Once any issues are addressed and adjustments made, turn your attention to full program rollout.

Progress with Full Program Deployment

Determine whether the program will be rolled out across all business units at once or through a phased-in approach. A well-coordinated and communicated plan will enable efficient implementation and increase the likelihood of acceptance by your organization and its suppliers. Establish a support network, such as a contact person within each business unit, to assist in the implementation. A train-the-trainer approach, involving personnel from various business units, can promote buy-in.

Program Management

Optimal program success requires ongoing and effective program management, including strong partnerships, supplier acceptance, metrics, marketing and education.

Maximize Your Partnership with the Card Issuer

Your card issuer is a significant resource. To maximize the partnership, the roles and responsibilities of each party should be clearly communicated and agreed upon from the onset. Post-implementation, the partnership should continue to evolve along with the program. Developing a method for review of issues and concerns, including regularly scheduled communication and periodic meetings, facilitates the achievement of program goals.

Maintain Internal Relationships

Consider the original P-Card team and the departments/business units represented—purchasing, A/P, internal audit, tax, treasury and information technology. Their continued involvement with the program contributes to the ongoing success; for example:

- Purchasing should address P-Card acceptance during supplier selection processes and within any subsequent contracts.
- A/P is the go-to resource for information regarding payments, suppliers and missed P-Card opportunities.
- Seek the input of internal audit on ways to improve internal controls in a cost-effective manner.
- Tax subject-matter experts should keep you informed on applicable tax requirements and help ensure P-Card program compliance.
- IT can assist with integration, automation and data-mining endeavors.

Improve Supplier Acceptance

Define an approach to improve supplier relationships and enlist additional suppliers for card acceptance; for example:

- Ensure suppliers receive the benefits of card acceptance by utilizing efficient P2P processes.
- Educate yourself and suppliers on the process and economics.
- Continue to analyze A/P transactions to identify P-Card targets.
- Internally, communicate the supplier setup process to cardholders and their respective business units through brochures, e-mail, Intranet and training.

Utilize Metrics

When incorporating the regular use of metrics into your program management strategy, focus on the ones that will increase program buy-in and lead to program optimization, such as those pertaining to process savings, impact on A/P, program performance and compliance. Evaluate metrics in relation to program goals and compare to previous years' data as the program matures. Regularly present the results to management by providing relevant reports and synthesizing the key points into a few concise bullet points.

Continue Marketing, Educating and Seeking Input

To raise the awareness of the program, take metrics a step further by marketing successes—for the program overall and by business unit. Continue educating program participants to expand card usage and reduce errors, misuse and frustration. This will also reduce redundant and time-consuming inquiries made of the P-Card program management team.

Create opportunities for two-way communication between cardholders/managers and the program management team. Encourage these program participants, as well as other stakeholders (e.g., purchasing, A/P) to share information regarding best practices **and** pain points to facilitate process improvement. Utilize various methods to obtain program feedback, such as surveys, the organization's Intranet, periodic face-to-face meetings and an advisory council or steering committee. Improving the program will lead to additional cost savings.

Expand Your Knowledge

Stay abreast of best practices and industry information by taking advantage of as many educational opportunities as possible, including conferences, webinars, industry reports, websites and more. The NAPCP, of course, offers all of these opportunities, but others do as well. Card issuers often host client conferences that are an excellent source of information. Networking and benchmarking with other organizations are important ways to identify process improvements and solidify current program strengths.

Conclusion

Empowering employees to make purchases is usually the easy part. Effectively communicating, educating, monitoring and enforcing compliance is the ultimate challenge for sound Purchasing Card program management. By knowing the common pitfalls and proven success strategies, organizations are better-equipped to achieve a best-practice P-Card program.

Common pitfalls include:

- program administrator or manager is not suited for the position
- lack of infrastructure to support the process
- lack of a senior-level sponsor and management support
- ineffective training
- unclear policies and procedures
- lack of communication to suppliers

- over- or under-controlling the program
- too many manual processes

To avoid pitfalls, implement successful strategies and follow best practices, including, but not limited to:

- ensuring P-Cards are easy to use
- setting appropriate controls
- promoting liberal distribution of cards
- establishing and communicating clear policies and procedures
- attaining the ongoing support of a senior champion
- establishing a dedicated P-Card program manager or team, who possess the right credentials, experience, and qualities
- using metrics to evaluate the program, making changes as needed

Optimal program performance will result when organizations strive for continuous improvement and build upon the best-practice building blocks outlined herein.

In-Depth Guide Available for Purchase

To learn more about *Purchasing Card Essentials: The NAPCP's Guide to Establishing and Managing a Program* and order online, please visit www.napcp.org/P-CardEssentials.

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