

**NAPCP Report:**

# **The P-Card Value Proposition**



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**NAPCP**  
**[www.napcp.org](http://www.napcp.org)**

*Advancing Commercial Card and Payment Practices Worldwide*

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## Who Uses P-Cards?

Approximately 70% of organizations within the United States use P-Cards. Outside the United States, they are used to a lesser degree. End-user organizations include companies within the private and public sectors (middle-market to large corporations in particular), government (federal, state and local), school districts and higher education institutions (e.g., universities, colleges).

## Why Use P-Cards?

### The traditional procure-to-pay process is costly

Organizations spend a disproportionate amount of time on small-dollar purchases. Typically, at least 80% of an organization’s payments are less than \$2,500 each, yet these equate to only 5% of total spend. Further, these payments are usually made to a large number of suppliers—80% of which are used only once or twice per year. The traditional procure-to-pay (P2P) process—involving a requisition, purchase order, invoice and check payment—can be costly and inefficient. Cost estimates of the traditional process range from \$45 to \$225 per purchase. This cost is the same regardless of the dollar amount of the purchase. In other words, the process cost of a \$25 purchase is the same as a \$2,500 purchase because the same process is followed. It may cost more to purchase the item than the value of the item itself.

### A P-Card program simplifies the process

P-Cards were originally targeted as a payment method for small-dollar purchases, streamlining the P2P process for increased efficiencies and cost savings. For these types of purchases, many steps of a traditional P2P process are not merited. As such, organizations should not simply tack a P-Card payment onto the end of a current, inefficient process.

When the P2P process is switched from the traditional process to a streamlined version designed for P-Cards, the process cost tends to be less than \$25 per P-Card transaction. The key to this benefit is to re-engineer inefficient processes for a new, P-Card procure-to-pay model, eliminating steps that do not add value and putting cards into the hands of employees who need to acquire goods and services.

### An Example of Quantifying P-Card Savings

|  | Traditional P2P Process | P-Card P2P Process | Difference                     |
|--|-------------------------|--------------------|--------------------------------|
| Average process cost <sup>1</sup>                                | \$90.00                 | \$20.00            | \$70.00 savings                |
| Average process cost per month (1,789 transactions) <sup>2</sup> | \$161,002               | \$35,778           | \$125,224 savings per month    |
| Annualized process cost  | \$1.9M                  | \$429,338          | <b>\$1.5M savings per year</b> |
| Number of steps  | More than 30            | Fewer than 15      | Omission of at least 15 steps  |

<sup>1</sup> As specified within the *2014 Purchasing Card Benchmark Survey Results* by RPMG Research Corporation

<sup>2</sup> Based on average monthly card spend of \$1.0M and average transaction size of \$559, per results of a 2015 NAPCP poll.

## Summary of P-Card Benefits

| Benefits   | Explanation  |
|--|--|
| Process savings  | Re-engineered P-Card P2P process requires fewer people and steps, increasing efficiencies and lowering costs by \$70 per purchase, on average  |
| Staff reallocation and/or reduction, especially within the purchasing and accounts payable (A/P) departments | Fewer purchases for purchasing to “touch,” enabling staff to work on more value-added activities, such as supplier selection and contract management; fewer suppliers for A/P to set up within the accounting system and fewer invoices for A/P to process                     |
| Reduction in procurement cycle time  | Industry studies have consistently shown a reduction of more than 50%, on average; departments obtain what they need when they need it, purchasing directly from suppliers   |
| Petty cash reduction or elimination  | Purchases previously paid or reimbursed through petty cash are paid via P-Card, reducing or eliminating time spent managing petty cash   |
| Spend data availability  | Technology and reporting options associated with P-Cards provide more detail about spending activity than typical A/P systems. The ability to electronically massage and evaluate the data provides organizations the opportunity to identify strategic sourcing opportunities |
| Supplier consolidation   | Related to the above, P-Cards allow organizations to identify and pursue strategic sourcing opportunities, thus reducing the supplier base   |
| Employee satisfaction  | No need for purchasing to be involved with most purchases; employees are empowered to complete their jobs more quickly and efficiently   |
| Opportunity for improved cash flow   | Extended payment terms, as card issuers typically invoice end-user organizations once per month, requiring payment several days or even weeks after invoice date (depends on contract terms)   |
| Revenue-sharing potential  | Card issuers commonly offer revenue-sharing incentives (e.g., rebate) to organizations that meet certain criteria, such as spend thresholds; details and terms vary by contract  |

| Benefits  | Explanation  |
|---|--|
| Increased visibility into employees' activities | An organization may discover, as a result of P-Card technology and reporting tools, previously undetected employee policy infractions  |
| No federal 1099 reporting                       | As of 2010, IRS federal 1099 reporting is not required for P-Card transactions (reporting responsibility shifted to the merchants' banks/acquirers) while it is still required for other payment types |

## What is the Opportunity for Your Organization?

Understanding the benefits of P-Cards enables you to research the specific opportunity for your organization.

### Determine P-Card's place within your organization's payments strategy

At the broadest level, what issue can P-Cards solve for your organization? Know your organization's goals and priorities, so you can identify how P-Cards fit. Gather industry benchmarks and data to support your goals. Originally, P-Cards were targeted for low-value transactions, but the usage has expanded as the industry has grown. In addition, P-Card "variations" have emerged. Learn about options that go beyond traditional P-Cards, ranging from Ghost Cards (accounts typically issued to specific suppliers) to complementary solutions, such as Declining Balance Cards and automated payables. There's a place for all payment methods within an organization's payments strategy; the best option for a particular expense may fall outside the P-Card realm.

### Analyze your organization's current processes and payment statistics

Because every organization is unique, it is important to analyze the specifics of your organization. You can evaluate the opportunity multiple ways; for example, by reviewing payment statistics (e.g., dollar amounts, payment volume, suppliers, accounting/budget codes). Specific elements to explore include:

- What percentage of your organization's payments are, for example, less than \$1,000, \$2,500 and \$5,000? These payments could be well-suited for P-Card.
- What P2P processes are used today and what are the associated process costs?
- How many infrequently used suppliers are in your master supplier file?
- If x% of payments moved to P-Card, what are the estimated savings and what would be the workload reduction to: a) purchasing and b) A/P?

As a next step, your research should be formulated into a business case that justifies the project, taking the form of a structured proposal for decision-makers.

## About the NAPCP

The 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 conferences, Regional Forums, webinars, website, virtual demonstrations, newsletter and regular communication. The association sponsors research and publishes timely and relevant white

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papers, survey results and other documents. The NAPCP offers a Certified Purchasing Card Professional (CPCP) credential ([www.napcp.org/cpcp](http://www.napcp.org/cpcp))