The Role of Procurement Cards in the Source-to-Settle Process

accenture

High performance. Delivered.

• Consulting • Technology • Outsourcing

The Role of Procurement Cards in the Source-to-Settle Process

Contents

Executive Summary

Organizations need a fresh and insightful look as they face continued pressure to drive down Source-to-Settle process costs and respond to ongoing complexity in their businesses. To evaluate the changing nature of procurement processes over the past few years, Accenture partnered with American Express to offer a fresh perspective on its 2003 study Procurement to Payment Processes and the Role of Procurement Cards.

For 2007, we focused on leading companies in the U.S., Canada and Europe that were equally distributed by company size, industry, and annual revenue to further understand end-to-end procurement effectiveness, process costs and efficiencies.

Overview

This study revealed that organizations are continuing to focus on addressing Source-to-Settle process efficiencies through automation. These organizations also recognize the need to drive compliance to preferred supplier agreements and to find ways to reduce costs of procured goods and services in indirect spend areas. To do so, organizations are planning to expand their use of eProcurement and Procurement Card solutions.

Today's organizations are using a wide range of Source-to-Settle processes with varying degrees of automation to deliver these savings. This study looked at the most popular processes by average percent of indirect spend. The process types with the highest spend volume are:

- Manual / Paper Process with Check Payment (31%)
- Manual / Paper Process with Electronic Payment (25%)
- Procurement Card (21%)

Process Efficiency

The end-to-end Manual Paper Process is still the most commonly used process for indirect spend, but has gradually decreased since 2003 on an overall basis to 21% of indirect spend transactions. Overall manual paper process costs have decreased as organizations increasingly integrate electronic payment mechanisms with their manual processes. In addition, 2007 results indicated the average cost of a transaction following an end-to-end manual paper process is $59.

Processes that utilize some manual steps now account for 57% of indirect spend and 52% of indirect spend transactions.

In a significant change from the original study, Procurement Cards have seen tremendous growth in spend, 28% in 2007 vs. 6% in 2003. They have also seen significant growth in transactions, representing approximately 57% in 2007 vs. 16% in 2003.

Procurement Cards, when used as an end-to-end process, allowed organizations to reduce process costs down to an average of $9 per transaction. This is a per transaction decrease of over 50% from the 2003 average transaction costs for Procurement Cards of $19.

Over 80% of companies perform a 2-way (reconciliation of purchase orders with invoices) or 3-way (reconciliation of purchase orders with invoices and recipients) match up 20 percentage points from 2003.

Sourcing Effectiveness

Participants stated that they gained the greatest sourcing benefits from spend consolidation (3.4% of indirect spend), 24% of which is attributable to the Procurement Card.

In 2007, survey participants received average contract savings of 8%, down 3 percentage points from the 2003 average discount level.

Discounts varied widely by category of spend. The overall participant average discount per commodity ranged from 11% on office supplies to 4.9% for utilities

Compliance

Contract compliance, maverick spend, and regulatory pressures persist and drive organizations to scrutinize their Source-to-Settle processes.

Companies without Procurement Card experienced approximately 81% contract compliance, while companies that utilized a Procurement Card for indirect spend had a higher contract compliance rate at 86%.

94% of the companies indicated that policy compliance increased by 33% after implementing the Procurement Card. This directly correlates to the numerous controls provided by Procurement Card issuers.

Organizations are becoming more conservative as they advance further into this new age of regulatory compliance. Sarbanes Oxley requirements and compliance audits are a well established part of procurement processes and have had a direct impact on the visibility of Procurement Cards and the benefits of the controls they offer.

The Role of Procurement Cards

Procurement Cards allow organizations to achieve the lowest process costs among all Source-to-Settle processes in use today whether used on their own or with eProcurement solutions.

Compared with other solutions, Procurement Cards offer a cost effective way to process indirect purchases. Installation costs are approximately $92,000, down from $150,000 in 2003 and are still significantly lower than the several million dollars needed for other solutions.

As Procurement Card use increases, categories that once were considered "inappropriate" for Procurement Cards, such as direct spend commodities, are now being managed via Procurement Card programs and discounts are being realized at an earlier point in the supplier relationship.

In addition, as procurement card programs mature and companies continue to drive per unit costs down (i.e., supplier rationalization, spend consolidation), we found overall average contract discounts will decrease.

Study Overview

Objectives

The procurement environment has grown increasingly complex over the past several years. Accenture, in partnership with American Express, conducted this study to determine how organizations manage their Source-to-Settle processes, as well as understand the role of Procurement Cards in today's procurement environment and how their role will continue to evolve over the next few years.

In particular, we looked across industries at leading companies in the U.S., Canada, and Europe to further understand end-to-end procurement process effectiveness, costs and efficiencies.

Where appropriate, this study will reference the 2003 study, Procurement to Payment Processes and the Role of Procurement Cards, to identify trends. While we will make references to the original report, it is important to note we intentionally set out to have a broader representation of companies than was looked at in the 2003 study (see Figure 1).

This study captures an equal representation of company sizes, industries, and revenue ranges. This emphasis on equal distribution resulted in a noted departure from the earlier study and had a material impact on the findings.

Methodology

Within the U.S., Canada, and Europe, Accenture conducted:

- Primary research survey with over 30 leading organizations across multiple industries
- Primary research interviews with 3 of these organizations across multiple industries
- Secondary research including: subject matter experts and other Accenture research

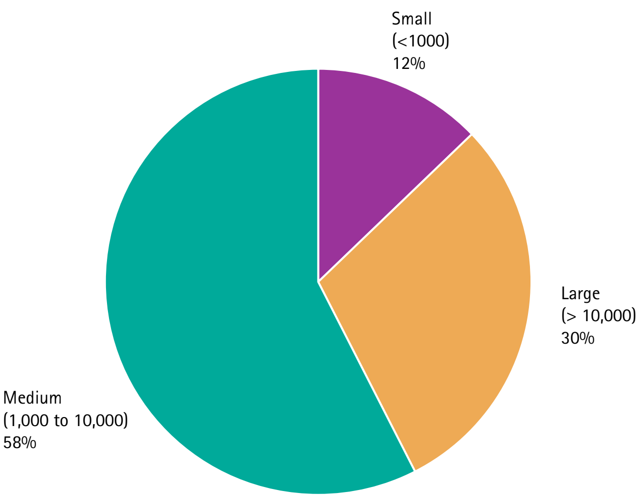
Demographics

The survey covered a range of industries and company sizes (see Figure 1):

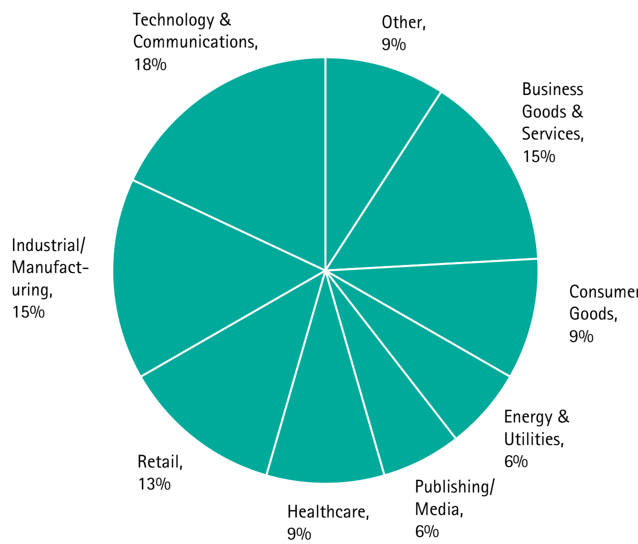
- 58% of the organizations had between 1,000 and 10,000 employees
- 30% of the organizations had over 10,000 employees with only 12% having less than 1,000 employees – in 2003, 56% of organization had over 10,000 employees
- 73% of the participants had operations in the US, 33% in Europe and 30% in Canada. (The Other category includes companies based in Europe, US, or Canada that had operations in Latin America, the Caribbean, and Asia).
- Organizations from over 10 different industries participated in this study (the Other category includes Defense, Engineering, Mining, Real Estate, Construction, Food Services, Biotech, and Government)
- 35% of the participants had revenues of less than $1 billion, 35% of the participants had revenues between $1 billion - $5 billion, and 29% had revenues over $5 billion. Since we will make a limited number of comparisons to the 2003 study, it is important to emphasize the 2003 study had 63% of participants with annual revenues over $5 billion.
- 76% of the participants had Procurement Card programs

Figure 1

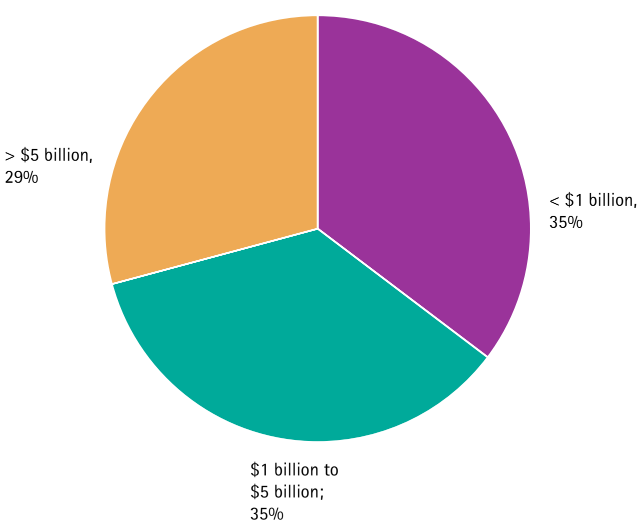
Study Participant by Number of Employees



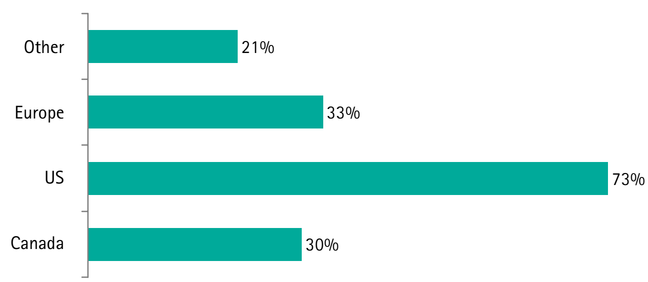
Study Participant by Industry**



Study Participant by Company Size**



Study Participant by Region of Operation*



Note:

* Study participants were asked to indicate which regions data was being provided for. Many Participants provided data for multiple regions. Therefore, the regions do not total 100%

** Industry and Company Size percentages may not total 100% due to the rounding of decimals

Process Efficiency

Upon analyzing Process Efficiency, we discovered that companies have seen a rise in indirect expenditures over the past several years. In 2007, 53% of participants' expenditure was a result of purchasing indirect commodities, a 13 percentage point increase from 2003. This increase suggests the growing importance that strategic procurement initiatives play in corporate management.

Although our study showed that the number of transactions is not positively correlated with the amount of spend, procurement professionals still display sensitivity to transaction costs. This is evidenced by the heavy use of Procurement Cards in low dollar spend, high volume transactions such as Manual Process with Procurement Card and eProcurement with Procurement Card (see Figure 2).

The three most common processes by spend are:

- Manual / Paper Process with Check Payment (31%)
- Manual / Paper Process with Electronic Payment (25%)
- Procurement Card (21%)

The end-to-end manual paper process is still the most commonly used process for indirect spend, but has gradually decreased since 2003 on an overall basis to 21% of indirect spend transactions. Overall manual paper process costs have decreased as organizations increasingly integrate electronic payment mechanisms with their manual processes. For example, the manual paper process / with electronic payment accounts for 25% of spend and 3% of transactions (see Figure 2). This compared with 4.5% spend and less than 3% of transactions in 2003.

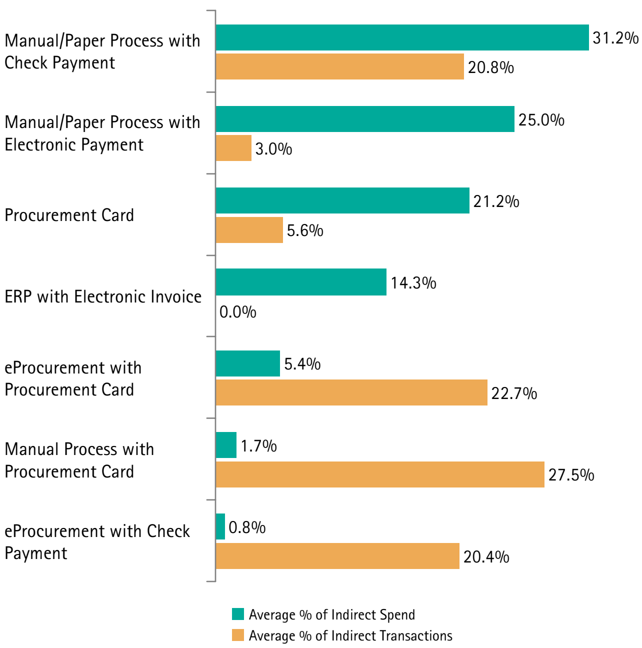
Processes that utilize some manual steps now account for 58% of indirect spend and 52% of indirect spend transactions.

In the past it was relatively common to have order-to-receipt (front-end) electronic processes and invoice-to-payment (back-end) manual processes. Data from this study showed a significant trend towards increased automation on the invoice-to-payment (back-end) processes as companies look to drive savings. This is demonstrated by an increase of transactions and spend processed via manual process with electronic payment since 2003 (see Figure 2).

In a significant change from the original study, Procurement Cards have seen tremendous growth in spend, 28% in 2007 vs. 6% in 2003 (see Figure 2). They have also seen significant growth in transactions, representing approximately 57% in 2007 vs. 16% in 2003. As we looked into this further, our data showed that more non-traditional commodities such as utilities, meetings, and professional services were being purchased with a Procurement Card.

eProcurement solutions, on average, only account for 6.2% of spend, but account for approximately 43% of transactions. Procurement Card with eProcurement spend has increased since the 2003 study while eProcurement with other methods of payment have decreased (see Figure 2). The data suggested that while electronic solutions play a role in reducing overall procurement process effort, they also increase effort for some tasks. The efforts expended to create a requisition, complete a purchase order, receive goods, and create an invoice have all decreased significantly. Conversely, approval and error handling times have increased sharply (see Figure 3). These increases are consistent with organizations' goals of ensuring policy and regulatory compliance.

Figure 2: Average Percent of Indirect Spend and Transactions by Process

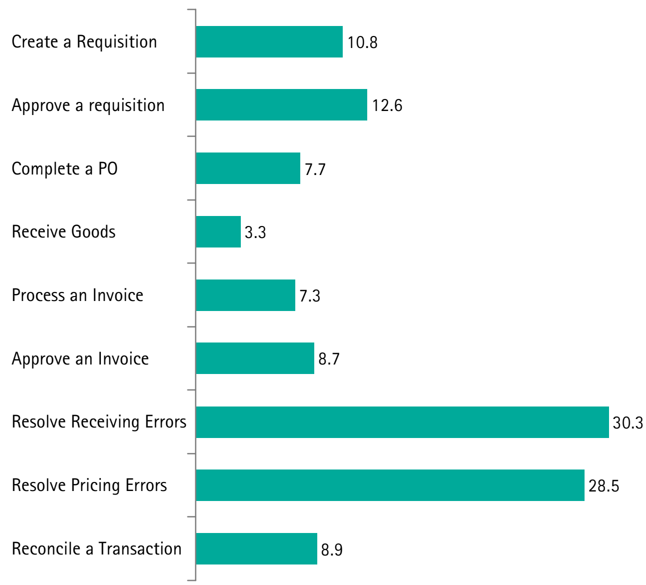


Survey participants were asked to provide the number of transactions and amount of spend for several different commodities- these results were combined with the procurement processes used for those commodities and sorted by the percent of indirect spend.

Note: Data was lacking for the Average % of Indirect Transaction processed via ERP with Electronic Invoice. However, since the Average % of Indirect Spend was significant, we chose to include this process type in our analysis.

A regional analysis showed that there were notable differences in the processes used in the U.S. vs. Europe. European participants placed roughly the same percentage of transactions on Procurement Cards but had a far higher percent of spend than their U.S. counterparts. European programs tend to put more strategic spend on Procurement Cards. This is due to European participants' tendency to use their Procurement Cards as a strategic tool with specific suppliers rather than as an ad hoc end user plastic solution.

Figure 3: Average Effort for Core Process Activities (Minutes)



Participants were asked for the average time spent to complete the activities above.

Process Costs

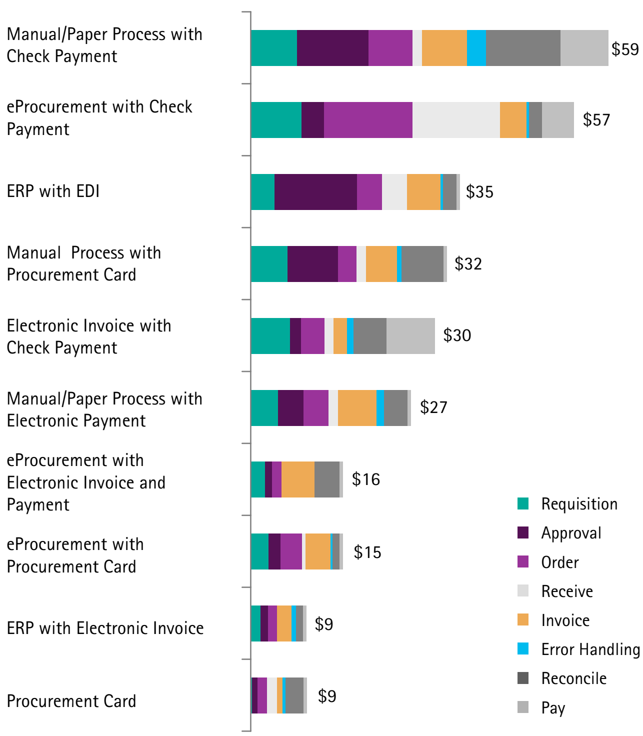
Following the release of the 2003 study, the most discussed result revolved around process costs for indirect expenditure. Therefore, we found it imperative to analyze this again to see what the change has been, if any, over time. To do this, we disaggregated the Source-to-Settle process into its rudimentary cost drivers, (i.e. requisition, approval, order, receipt, invoice, error handling, reconciliation and payment). This detailed analysis helped us to understand the costs associated with each step of the Source-to-Settle processes.

The 2003 study indicated that the average cost of a transaction following a manual paper process was $97 from requisition to payment (end-to-end). The majority of these costs were contained within the approval, order and invoice steps. In contrast, the 2007 results indicated that the average cost of a transaction following a manual process is $59 (see Figure 4). We attributed this decrease to the reduction in headcount as organizations streamline their Source-to-Settle processes. Interestingly, the majority (67%) of the cost is captured in requisition, approval, reconciliation, and payment process steps.

EDI continues to be a high cost solution that is expensive to implement and time consuming to use. This is evidenced by comparing per transaction processing costs of ERP with electronic invoice ($9) to ERP with EDI ($35). ERP with EDI has requisition costs that are 1.5 times higher than that of ERP with electronic invoicing and approval costs that are 10 times higher (see Figure 4).

eProcurement systems continue to gain popularity because of their convenience and ability to reduce cost. Efficiencies in the order-to-receive (front-end) process keep overall eProcurement process costs down, regardless of the payment type. Even though eProcurement drives down overall process

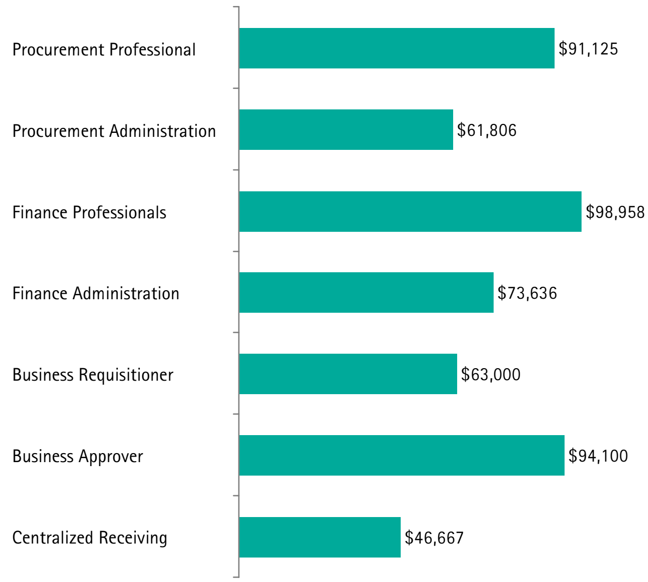
Figure 4: Average Cost Per Transaction by Process



The process costs metrics provided an indicative cost per transaction for each process type- Participants responded to a series of questions that captured their procurement process steps, responsible roles, and the amount of time to complete a task. The numbers were averaged per process, per minute costs were applied, and results summed to arrive at the overall process costs.

Figure 7 and 8 costs are calculated by combining multiple Source-to-Settle processes and averaging those costs. Therefore the total process cost in Figure 7 and 8 will not match the individual process costs stated in Figure 4.

Figure 5: Average Loaded Costs for Positions in Business, Procurement, and Finance



Participants were asked to provide fully loaded costs for each of the roles shown.

costs, there is still a significant cost differential when paired with an electronic payment method($16), with a Procurement Card ($15) or with a paper check payment ($57) (see Figure 4).

Procurement Cards allowed organizations to reduce process costs even further, down to an average of $9 per transaction (see Figure 4). Procurement Cards had the lowest average order-to-receipt process costs and the second lowest invoice-to-payment process costs. Regardless of company size or region, it is important to note that in the 2003 study the average process cost per transaction for a Procurement Card totaled $19. The low transaction costs are achieved by removal of administrative process steps, allowing end-users to deal directly with suppliers, using preset spend limits and consolidating invoices.

Control mechanisms provided by Procurement Card issuers provide a benefit by establishing approval thresholds upfront instead of repeating expensive approval process steps for each transaction. Although Procurement Cards have gained efficiencies by approval time elimination and purchase order reduction, we noticed an increase in process costs related to reconciliation. This increase in reconciliation costs is offset by the elimination of 2- and 3- way matching requirements.

Organization

As we address procurement process costs, it is important to understand the effect of both an organization's structure and division of procurement responsibilities on transaction costs.

In the 2007 study, we found the majority of participants operated centralized procurement organizations. This is a shift from the 2003 study where the majority of participants said they operated hybrid procurement organizations.

Finance organizations continue to mainly be centralized at 51.7% while only 6.9% indicated that they used shared services. Only 38% of organizations had both centralized finance and procurement organizations. 28% of companies had hybrid finance and procurement organizations.

Companies with decentralized procurement organizations had, on average, procurement transaction costs that were twice that of companies with centralized procurement organization.

Companies that rely on highly paid individuals (see Figure 5) for timely procurement processing steps experienced higher overall process costs than the participant average. The highest paid employees, Finance Professionals, Procurement Professionals, and Business Approvers accounted for nearly half (46%) of the time spent on procurement activities (see Figure 6).

Order-to-Receipt Process

In the 2007 study, we found that organizations primarily used four types of processes for managing the order-to-receipt process for indirect expenditures:

- Manual Order
- ERP Order
- eProcurement Order
- Procurement Card

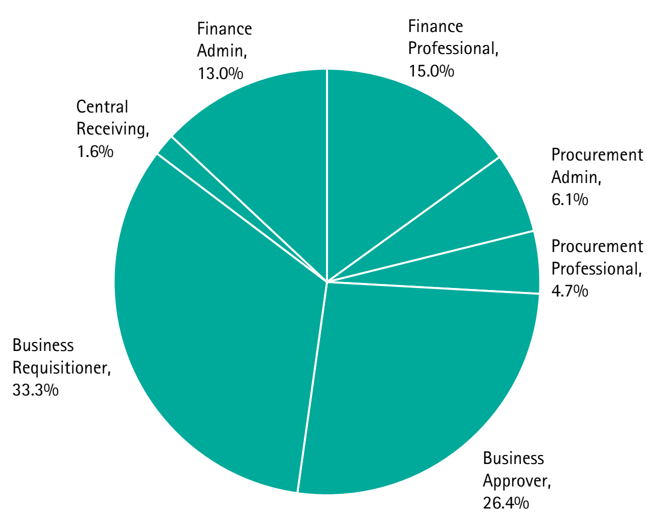
In a shift from the 2003 study, manual order-to-receipt costs have decreased on an overall basis and account for less than 50% of overall process costs, down from over 65%. This decrease is most likely evidence of a shift from diseconomies of scale to economies of scale after moving some processes to electronic systems and reducing overall headcount. That said, approval costs are among the highest cost driver category, nearly 30% of manual order-to-receipt process costs. Overall requisition costs have remained approximately the same in absolute terms but have risen to consume a larger percentage of order-to-receipt costs at almost 40%. Due to proportional increases such as these, in the process chain, businesses are driven to adopt more efficient ways to procure indirect goods. ERP systems, eProcurement, and Procurement Cards are three solutions companies have leveraged to reduce transaction processing costs (see Figure 7).

As use of ERP systems have grown , the majority of the costs have been driven away from the order-to-receipt processes ($15.00 in 2007 vs. $48.00 in 2003). The creation and placement of orders have seen the most dramatic decrease in associated costs from $25.00 in 2003 compared with $1.85 in 2007. Based on our results, the largest proportion of costs are contained in the approval and receipt process steps, together nearly 70% of ERP order-to-receipt costs (see Figure 7).

With the continued evolution of eProcurement systems, orders-to-receipt costs have significantly decreased. Order costs now represent over 30% of order-to-receipt process costs compared to 7% in 2003. Overall cost reduction for eProcurement systems was driven by requisition costs, almost half of costs in 2003.

Approval costs for manual, ERP, and eProcurement order-to-receipt processes account for an average of 25% of processes costs. Regulatory and compliance pressures have had a distinct impact on the approval process. When asked what percent of transactions require approval, companies surveyed responded that 73% of requisitions require approval with average thresholds set at $650. Around 63% of approval processing was handled through electronic means.

Figure 6: Procurement Responsibility by Position



Participants responded to a series of questions describing the individual responsible for each step in their procurement process.

Procurement Cards resulted in the lowest overall order-to-receipt costs due to:

- Elimination of requisitions and approvals (optional)
- Pre-set controls which reduce the costs associated with approval (e.g., spend, transaction levels, etc) (see Figure 10)

In addition to understanding the steps contained within the order-to-receipt process, it is also important to look at the change in associated cycle times. The average cycle time (or lead time) for the order-to-receipt process, across all processes, was 3 days, this is 25% of the 2003 time of 12.5 days. The average order error rate was 7%, down from 10% in 2003. This significant drop in average cycle time and error rate is further evidence of the benefits of eProcurement and Procurement Card solutions. While the overall percentage of errors has decreased due to increased use of electronic systems and Procurement Cards, the time to correct errors when they occur has gone up (see Figure 3).

Invoice and Payment Process

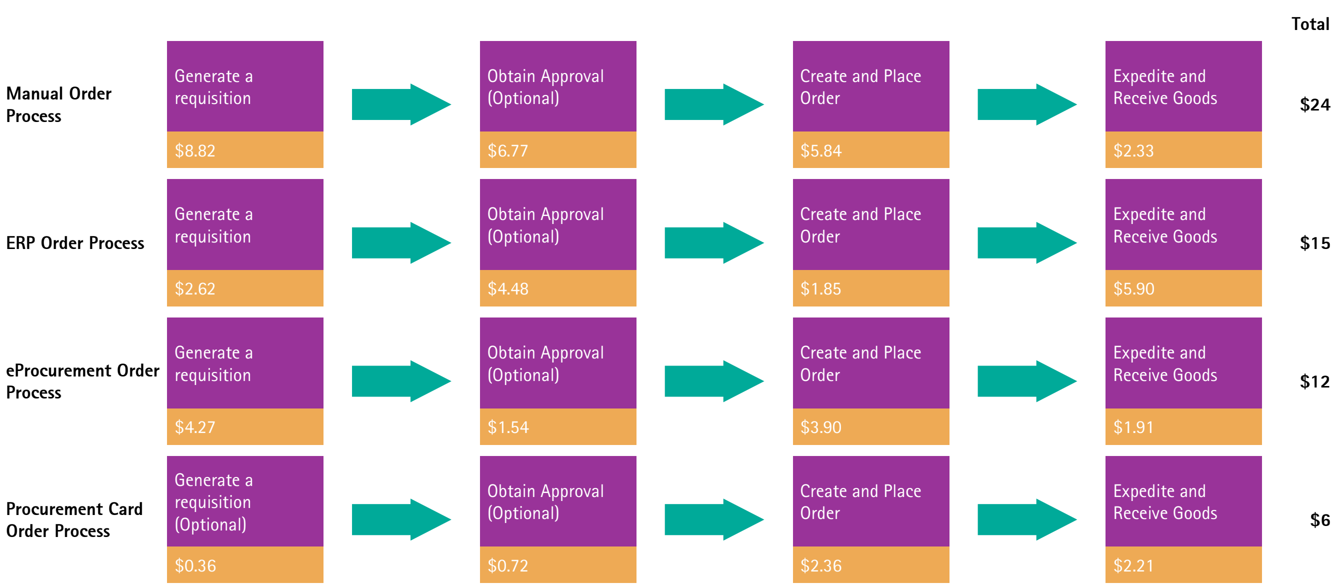
In the 2007 study, the invoice-to-payment process was grouped into three categories:

- Paper Invoice Process
- Electronic Invoice Process
- Procurement Card Invoice Process

It is here, within the invoice-to-payment processes , that our data showed a significant trend towards increased automation as companies look to back-end processes to drive savings.

Finance professionals were responsible for 39% of all invoice approvals, the remainder were handled by Procurement professionals. All transactions for commodities requiring invoice approval by Finance professionals were reviewed regardless of spend threshold. Commodities requiring invoice approval by Procurement professionals had an average threshold of $1,250; this is down from $5,250 in 2003. Together, Finance and Procurement Professionals reviewed 73% of all invoices.

Figure 7: Order-to-Receipt Process



Note: The Order-to-Receipt process costs displayed in this chart are averages of the requisition, approval, order and receiving processes costs summarized from the following:

- The Manual order process is based on the end-to-end Manual/Paper Process with Check Payment, Manual/Paper Process with Procurement Card and Manual/Paper Process with Electronic Payment process
- The ERP order process is based on the end-to-end ERP with EDI ERP with Electronic Payment process
- The eProcurement order process is based on the end-to-end eProcurement with Procurement Card, eProcurement with Electronic Invoice and Electronic Payment Check Payment Electronic Invoice and Check Payment processes
- The Procurement Card order Process is based on the end-to-end procurement Card Process

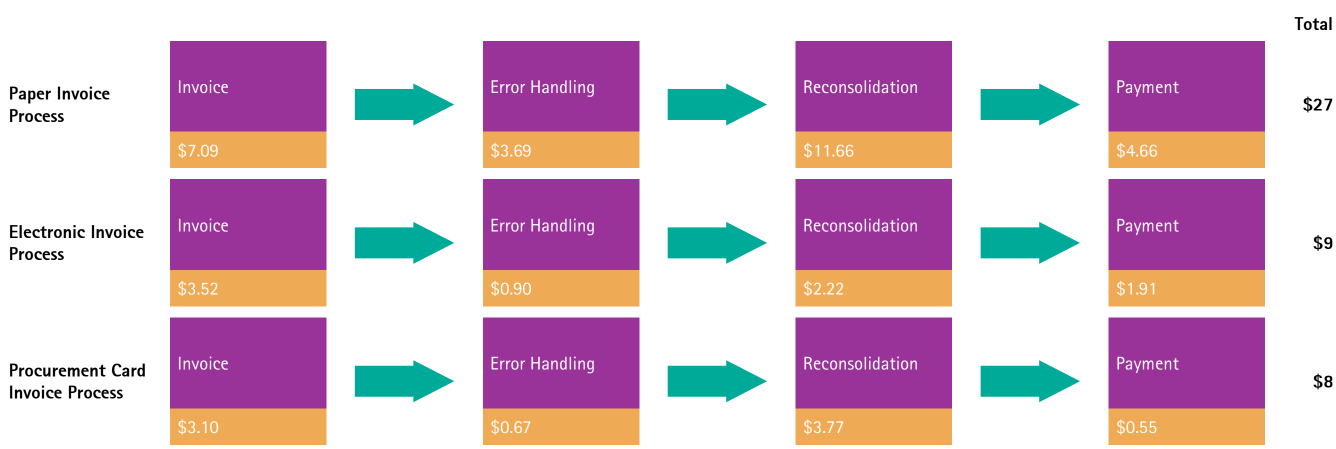
Figure 7 and 8 costs are calculated by combining multiple Source-to-Settle processes and averaging those costs. Therefore the total process cost in Figure 7 and 8 will not match the individual process costs stated in Figure 4.

Increased approval requirements were anticipated as organizations are becoming more and more conservative in the new age of regulatory compliance. Additionally, the fear of maverick spend persists, driving firms to not only look at what is being bought, but who has the authority to buy.

Over 80% of companies perform a 2-way (reconciliation of purchase orders with invoices) or 3-way match (reconciliation of purchase orders with invoices and recipients) up 20 percentage points from 2003. 65% of all matches were 3-way matches. 50% of all matches were processed electronically. We again attributed this to the new age of regulatory and internal compliance issues which organizations must deal with.

In addition to understanding the steps contained within the invoice-to-payment process, it is also important to clarify the cycle time associated with this process. The overall average company payment period was 30 days. 10% of transactions were classified as late payments. Participants indicated the average cycle time decreased by 12 days after implementing the Procurement Card.

Figure 8: Invoice to Payment Process



Note: The Invoice to Payment process costs displayed in this chart are averages of the invoice, error handling, reconciliation, order, and receiving processes costs summarized from the following:

- The Paper invoice process is based on the end-to-end Manual/Paper Process with Check Payment and Manual/Paper Process Electronic Payment processes
- The Electronic Invoice process is based on ERP with Electronic Invoice, ERP with EDI, Electronic Invoice with Check payment, eProcurement with Check Payment processes.
- The Procurement Card Invoice process is based on eProcurement with Procurement Card, Manual/Paper Process with Procurement Card and Procurement Card processes

Figure 7 and 8 costs are calculated by combining multiple Source-to-Settle processes and averaging those costs. Therefore the total process cost in Figure 7 and 8 will not match the individual process costs stated in Figure 4.

Sourcing Effectiveness

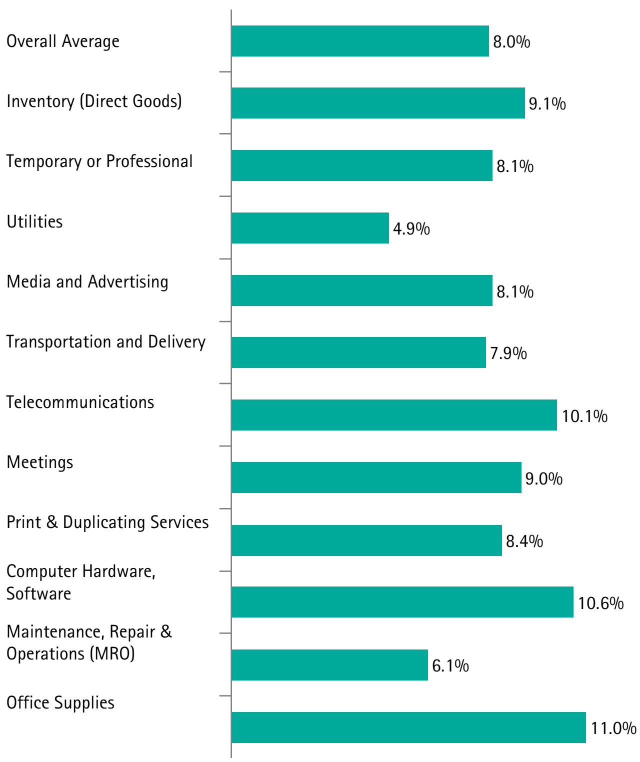
eRP, eProcurement, and Procurement Card solutions can all contribute to an organization's sourcing effectiveness. The utility of information gathered from these systems can vary greatly depending on the marketplace and the organization's sourcing skill. 2007 survey participants received average contract savings of 8%, down 3 percentage points from the 2003 average discount level.

Discounts varied widely by category of spend. The overall participant average discount per commodity ranged from 11% on office supplies to 4.9% for utilities (see Figure 9).

Participants stated that they gained the greatest sourcing benefits from spend consolidation at 3.4% of indirect spend, 24% of which is attributable to the Procurement Card (see Figures 14 and 15).

Regardless of company size, the largest increase in Procurement Card contribution to procurement benefits was regulatory tax compliance. In 2003, the regulatory tax compliance benefit was at 1.4% while in 2007 it is at 9% (see Figures 14 and 15). Since the U.S. market is the most mature in terms of sourcing effectiveness, it was not a surprise that results showed U.S. participants received more pronounced benefits in spend consolidation and contract / supplier compliance than the overall participant average.

Figure 9: Average Contract discount for Indirect Categories (%)



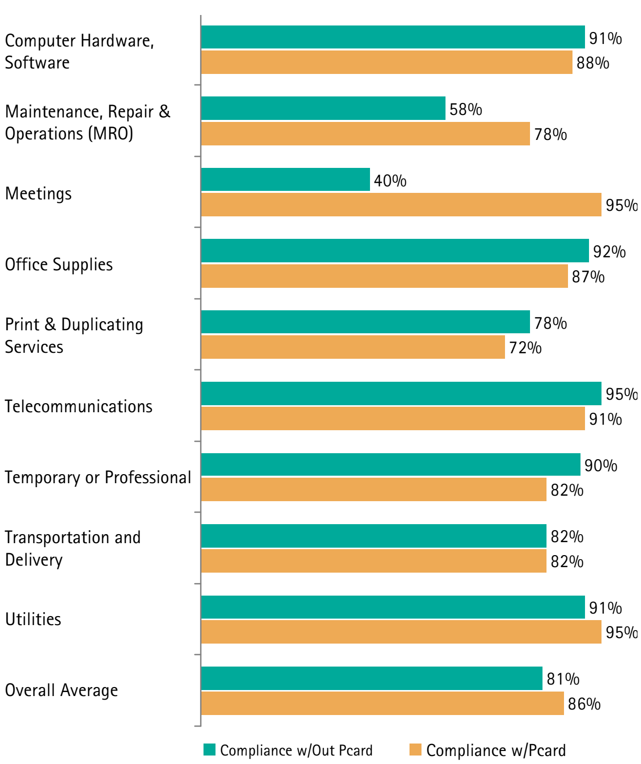
Participants were asked the average contract discount they achieve by using preferred suppliers (as a % of total category spend).

Compliance

Companies without Procurement Card experienced approximately 81% compliance, while companies that utilized Procurement Cards for indirect spend had a higher compliance rate at 86% (see Figure 10). Because Procurement Card controls are established prior to a transaction taking place (i.e. spend limit controls, supplier restrictions), they are an effective way to "force" compliance in the organization. This finding was validated through our in-depth interviews with selected participants. All interview participants, regardless of their view towards mandating policy compliance, experienced an increase in compliance after implementing their Procurement Card programs.

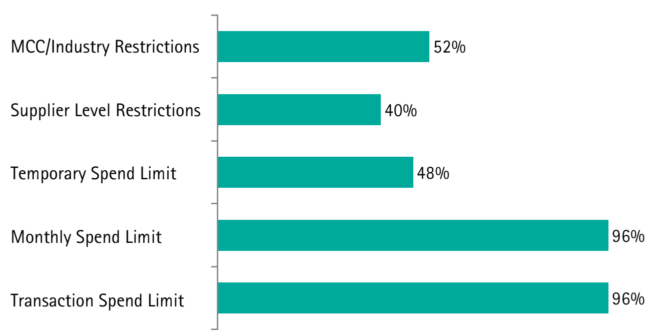
Upon implementing a procurement card program, participants soon realized improvements. 94% of the companies indicated that compliance increased by 33% after implementing the Procurement Card. This directly correlates to the numerous controls provided by Procurement Card issuers (see Figure 11). Benefits achieved can differ per commodity, the greatest benefit gains are seen in MRO and Meeting spend (see Figure 10).

Figure 10: Average Compliance



Participants were asked the average contract discount they achieve by using preferred suppliers (as a % of total category spend).

Figure 11: Companies by Procurement Card Control



Participants were asked to select the statement that best described the card controls that are applied in their organizations. The percentages above represented the percent of participants that use these control features in their organization.

The Role of Procurement Cards

Procurement Card Overview

Procurement Cards have moved from a status of best practice to common practice, and are now widely used for almost all indirect categories of spend. The remainder of this report looks at the value of Procurement Cards as a low transaction cost, best practice, sourcing tool.

Procurement Cards function much like a credit card with three distinctions, the data captured is of a much higher quality than with credit card transactions, many more controls are available and card balance must be paid in full. Procurement Cards, like credit cards, can be used to place an order over the phone, in person, or via the internet.

Procurement Cards are one of the many tools being used in today's organizations to drive process efficiency, compliance and sourcing benefits. Some organizations use this tool as just a payment vehicle while others have leveraged the controls and data provided by Procurement Cards and integrated it into their procurement processes.

The Procurement Card programs of study participants have been in place an average of 6 years. The most mature program we looked at had been in place for 11 years.

When used effectively, Procurement Cards increased compliance, drove cost savings per card transaction down by 35-40%, and provided high quality data capture.

Process Efficiency

Procurement Cards allow organizations to achieve the lowest process costs amongst all Source-to-Settle processes in use today whether used on their own or with eProcurement solutions by:

- Reducing approval costs with pre-approval of spend and transaction limits
- Largely eliminating purchase orders
- Consolidating invoices from multiple suppliers into one electronic invoice
- Capturing enhanced information that helps with faster reconciliation, dispute resolution and tax processing

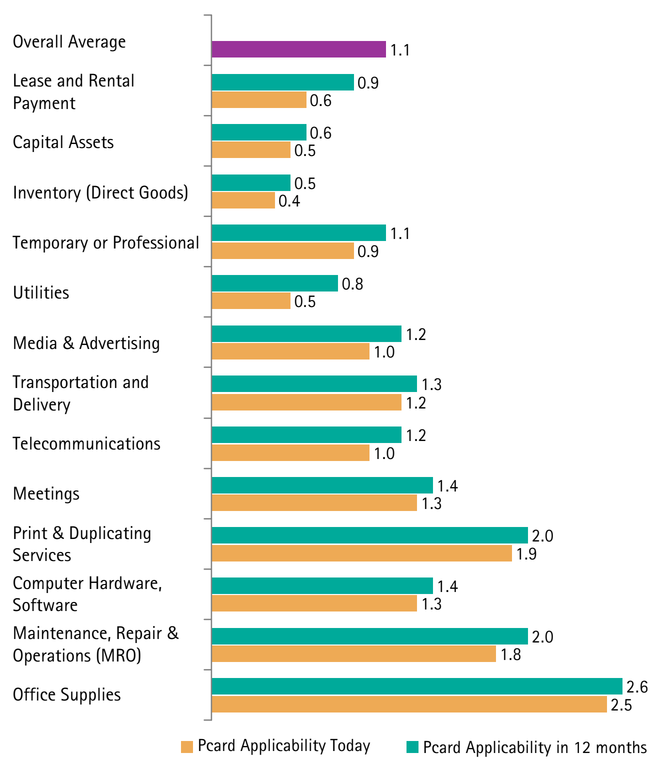
Sourcing Effectiveness

Procurement Card programs offer benefits in spend consolidation by helping organizations to rationalize their supplier base. Contrary to popular perception, participants indicated that they received slight price reductions when purchasing with Procurement Cards.

Also, as Procurement Card use increases, categories that once were considered non-traditional commodities for Procurement Cards are now being managed via Procurement Card programs and discounts are being realized.

Procurement Cards also enabled users to produce reports more easily, which in turn, allowed them to analyze spend and identify further opportunities for better sourcing. This benefit is directly related to the quality of information provided by the Procurement Card provider.

Figure 12: Applicability of Procurement Cards



Participants were asked to assess the category applicability of Procurement Card for each of the categories shown here

Compliance

In the area of compliance, Procurement Cards enabled companies to improve contract compliance by establishing clear buying processes and allowing for control mechanisms prior to a transaction taking place. For example, preferred supplier controls allow organizations to further improve compliance by forcing end-users to buy only from a pre-selected list of suppliers

Card features such as transaction and monthly spend limits, as well as, increased spend visibility through reporting help control the spending habits of the end-users and maintain budget compliance. Finally, the ability to capture line item detail and tax information enables companies to manage tax compliance and automate their tax processing

Applicability of Procurement Cards

As Procurement Cards continue to gain acceptance, we have seen mature commodities, such as office supplies, start to stabilize. In these commodities, survey participants did not anticipate additional growth in the use of Procurement Cards. More importantly, we are seeing a growth in commodities that were not previously widely managed via Procurement Card programs:

- Direct Goods
- Utilities
- Lease and Rental Payments
- Capital Assets

Due to the high dollar volume that flows through these categories and the traditionally tight controls placed on them, these commodities have traditionally been handled by paper processes. Enablement through ERP systems and the use of Procurement Card as a payment tool within these systems has allowed greater use of Procurement Card for these commodities.

As Figure 12 illustrates, we expect positive growth across all categories over the next 12 months.

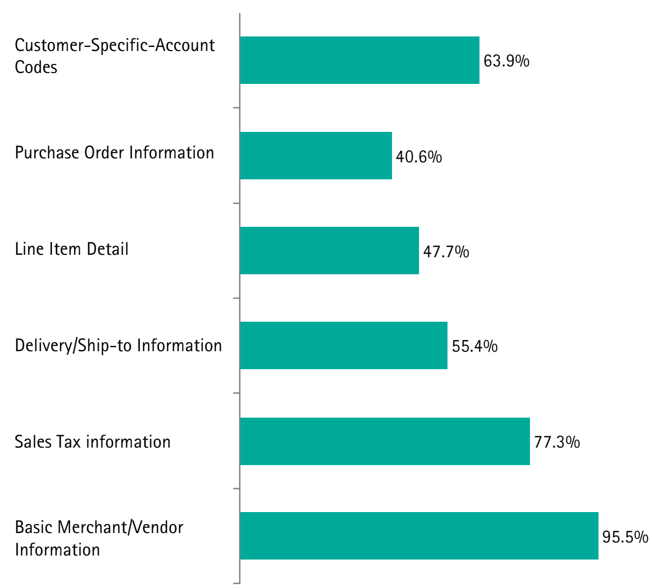
Procurement Card Benefits

Companies using Procurement Cards attained among the lowest transaction processing costs identified in our study. When a company incorporates the Procurement Card with a manual requisition process, companies experienced a significant decrease in process costs. These costs, however, are only part of the Procurement Card's value story; organizations have also reaped the following benefits:

Organization Benefits

- Reduces paperwork, less labor intensive
- Promotes cost savings through consolidated payment
- Supply base consolidation & increased compliance
- Improves supplier relations due to faster payment (i.e. within 3 days)
- Provides consolidated data & flexible reporting
- Flexible authorization controls to manage spend per cardholder
- Improves cash flow

Figure 13: Procurement Card Information Capture



Survey Participants were asked what information their procurement card offers and for approximately what percent of time

Cardholder Benefits

- Convenience and ease of buying
- Improves accuracy of orders
- Requires no manual approval/requisitions
- Speeds delivery of goods

Supplier Benefits

- Payment, on average, within 2-3 days (improved cash-flow)
- Reduces billing and payment processing costs
- Improve relationships with their customers potentially leading to increased sales from new & existing customers.

Information Capture

Approximately 96% of Procurement Card transactions captured basic merchant / vendor information. But perhaps the largest benefit for the Procurement Card is the line item detail that is captured through this payment method. Over 77% of transactions captured sales tax information useful in tax audits or for reclaiming VAT.

Additionally, over 55% of transactions captured delivery/ship-to information and 64% captured customer-specific account codes (see Figure 13).

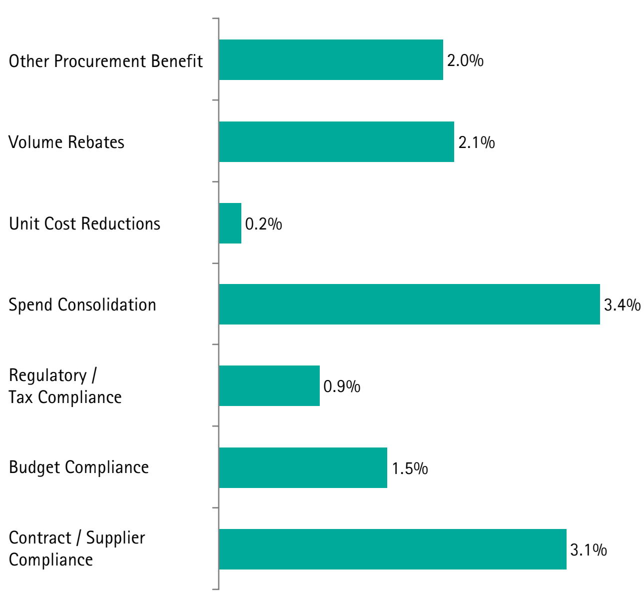
Program Administration

The survey asked several questions regarding organizations' Procurement Card program administration. Findings from this section are focused on Procurement Card Controls.

The study analyzed data from a large sample of Procurement Card programs. The smallest program had just three Procurement Cards; the largest had just below 3,500. This population was right skewed, indicating that a great number of participants had larger Procurement Card programs in terms of number of cards issued. On average 92% of the Procurement Cards used were individual cards, 4% were group or department cards and 4% were supplier cards. In addition, participants also responded that they used non-plastic cards (17%) and plastic cards (83%).

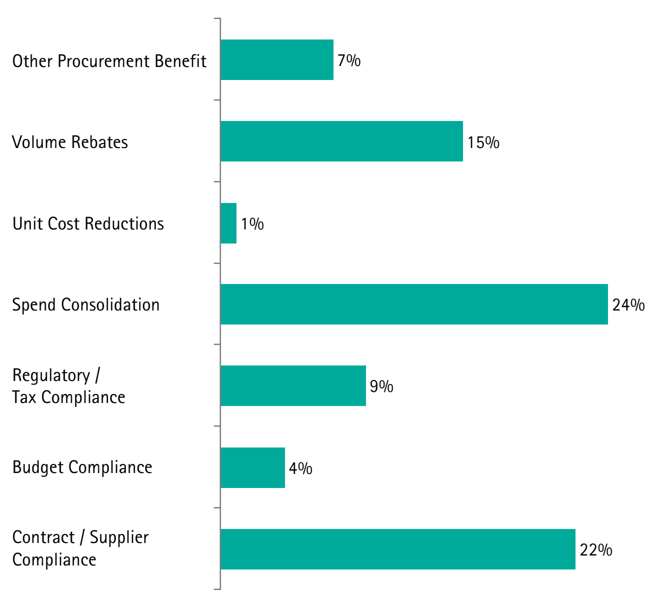
52% of those surveyed indicated they mandated Procurement Card use for certain categories and over 96% indicated that they do not require a purchase order to be issued when a Procurement Card is used for purchases (up 5 percentage points since 2003).

Figure 14: Average Procurement Benefits Achieved as a % of Spend



Participants were asked to indicate the typical procurement benefit achieved in each of the areas (as a % of total spend)

Figure 15: Procurement Cards to Procurements Benefits



Survey Participants were asked to indicate the Procurement Card's contribution to typical procurement benefits achieved in each area

Almost all (96%) of the participants indicated using transaction spend limits and monthly spend limit control (see Figure 10). The typical levels for these controls were $500 per transactions and $75,000 per month. It is not uncommon for participants to leverage the Procurement Card's flexibility to temporarily adjust these limits for one time purchases.

Other typical controls, such as MCC/ Industrial Restrictions, Supplier Level Restrictions, and Monthly Spend Limits were utilized at roughly 40%-50% of the companies surveyed.

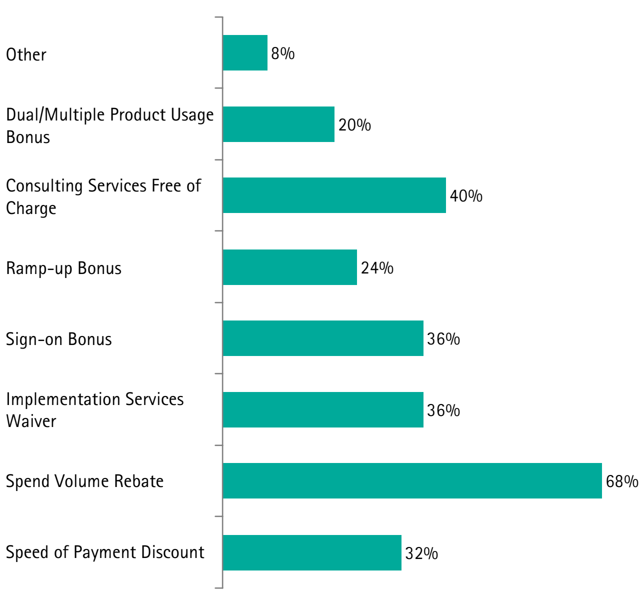
Procurement Card incentives have increased dramatically from 2003. Spend Volume discounts more than doubled, Implementation Service Waivers rose from 12% in 2003 to 35% in 2007. Transaction volume discounts (previously 7%) is no longer a common Procurement Card Incentive (see Figure 16).

Solution and Implementation Costs

Compared with other solutions, Procurement Cards offer a cost effective way to process indirect purchases. Implementation costs are approximately $92,000 down significantly from $150,000 in 2003 and significantly below the several million dollars needed for other solutions. Implementation costs for Procurement Card programs range from $25,000 on the low end to $250,000 for the most complicated programs.

Installation time for Procurement Cards averages 81 days versus 8-24 months for other solutions. 80% of surveyed organizations reached their transaction goal in the first year, 90% of surveyed organizations reached their spend goal within the first year. On average companies reached 50% of their current spend level in 23 months and 100% of their current spend level in 46 months.

Figure 16: Companies by Procurement Card Incentives



Participants were asked to specify the type of incentives they received from their procurement card providers

Procurement Card Challenges and Imperatives

While the use of Procurement Cards is projected to increase over the next 12-24 months and organizations will continue to realize increased benefits and process cost reduction, it is important to note the key challenges and imperatives related to their expansion.

Challenges

Management's reluctance to trust in the Procurement Cards controls and distribute Procurement Cards to large number of appropriate employees impacts the success of a program. Often, these concerns are based on perceived and not real challenges as most Procurement Card providers offer solutions to address each of these issues. Management's top concerns are:

- Employees buying from non-preferred suppliers
- Employees making unapproved purchases requiring management action
- Maintaining departmental control of spending in accordance with the budget
- Employees paying too much for goods/services when using the card
- Dealing with suppliers not accepting the card due to transaction costs

Procurement Card providers have responded to these challenges by offering supplier level controls, providing timely reports to provide visibility into employee abuse, providing the ability to set budgetary controls, routing Procurement Card users to preferred suppliers and offering support with merchant / supplier relationship.

Further, adoption of the program is slowed by cardholder dissatisfaction when Procurement Card programs are not properly designed. The most common cardholder complaints are dissatisfaction due to:

- Not having a high enough transaction limits, monthly limits, etc
- Too much post purchase work after Procurement Card purchases

Both of these adoption issues are easily avoided by the right implementation plan and use of automated reconciliation tools.

Imperatives

There are several imperatives in adopting / managing a Procurement Card program which can drive transaction cost down and increase program success:

- Design of effective Merchant Enrollment Programs to ensure acceptance by company's specific/targeted suppliers
- Increased focus on merchant provided line item detail data capability
- Improved data capabilities (i.e. Integrating Procurement Card & eProcurement so Procurement Card data can be passed into eProcurement tools)

Conclusion

As the Source-to-Settle process becomes more and more automated and efficient over the next few years, it is our conclusion that Procurement Cards will continue to play a critical role as organizations strive to achieve their procurement goals and minimize cost.

Appendix A: Glossary

General Definitions

Electronic Invoice Process	Invoice process in which receipt, reconciliation and match are all electronic.
eProcurement Order Process	Order process wherein an eProcurement system is used to place the order.
ERP Order Process	Order process wherein an ERP system is used to place the order.
Paper Invoice Process	Invoice process in which all processing is manual.
Manual Order Process	Order process wherein all steps are conducted manually.
Procurement Card Invoice Process	Invoice process in which a consolidated electronic invoice is used and receipt, reconciliation and match are all electronic.
Procurement Card Order Process	Order process wherein a Procurement Card is used for payment and the order is place by phone or fax or online.
Contract Compliance Benefit	The cost savings achieved as a results of buying goods and services with preferred suppliers (at contracted rates) versus dealing with non-preferred suppliers.
Cost Avoidance/Budget Compliance Benefit	The cost savings achieved through ensuring compliance to the budget (usually due to increased visibility of external spend and therefore avoiding 'unnecessary costs'). This is often seen as a reduction in spend for commodities where visibility is increased.
Electronic Data Interchange (EDI)	EDI is the electronic exchange of routine business transactions. These transactions include such documents as purchase orders, invoices, inquiries, inventory, planning, acknowledgements, pricing, order status, scheduling, test results, shipping and receiving, payments, and financial reporting. EDI messages can be transmitted and received directly into sales and accounting systems without any manual intervention. EDI relies on trading partners agreeing a standard format for electronic documents. Unfortunately only limited progress has been made in agreeing universal formats and consequently EDI enablement requires changes to supplier and buyer systems to allow common message formats to be read. Value Added Networks (VANs) are used to perform mailboxing functions. VAN's store and forward data/messages and guarantee delivery for a fee based on monthly minimums, transaction size & frequency.
Electronic Funds Transfer	Electronic transfer of funds which in this case is taken to be from the purchaser to the supplier for invoice settlement.
Electronic Invoice	An electronic form of a traditional invoice which may take various forms, for example EIPP.

Electronic Invoice Presentment and Payment (EIPP)

EIPP is a web-enabled solution for exchanging invoices and arranging payment. The process can be broken down into three parts: The Supplier presents an electronic invoice through the EIPP platform. This can be done by either keying the invoice into a web form (for low volume) or by uploading an invoice file through an interface (for high volume). The Buyer views and approves the invoice, either on the EIPP platform/website or by downloading it for auto matching in the Finance System. Payment can be arranged either through the EIPP platform interfaces with banking systems or through the buyer's own Finance system (checks, BACS etc).

Enterprise Resource Planning (ERP)

An Enterprise Resource Planning solution often forms the backbone to a business' IT architecture. These solutions consist of multiple modules that support all the major business processes: sales, purchasing, production planning, finance and accounting, HR etc. Invoicing ERP purchases will usually take place via standard invoice, EDI, EIPP, or XML. ERP systems make use of a common data structure that can be accessed by all the modules to provide visibility and real-time collaboration. ERP systems are functionally very rich but expensive to implement and maintain as a result. Even the most basic ERP systems will include modules to manage the creation of purchase orders (both manually and through stock re-order triggers), the matching of PO's with GRN's and invoices, payment generation and automatic posting of accounting information to the GL. ERP systems provide the platform for many eBusiness applications that extend and enhance ERP capabilities e.g. Siebel/Broadvision for CRM, i2 etc for supply chain planning, eProcurement applications.

eProcurement

eProcurement applications push transactional procurement effort from a central admin unit to the point of need on business user desktops ensuring compliance to preferred supplier deals through on-line catalogues which users browse to find the items they need. Key features include: electronic catalogues, easy to use web interfaces, configurable requisition approval workflow based on individual authority limits, electronic PO's dispatched over an internet network to suppliers, adaptors for integration with accounting systems, and line item reporting capabilities. In order to close the requisition to payment cycle solutions include integration of Procurement Card solutions or integration with A/P solutions for invoice matching.

Full-Time Equivalents (FTE)

FTEs are a unit of measure that reflects the amount of time needed for a particular task or activity.

Fully Loaded Costs

The term "fully loaded costs" is used to designate an employee's total cost to a business and typically includes both direct and indirect costs. Fully loaded costs could include wages, cost of benefits, business overhead costs allocated by employee.

Procurement Card

Special-purpose cards supported by sophisticated networks that capture point-of-sale and end-user information (such as tax amount, ship-to-zip code and departmental cost center) required to manage operating expense purchases. The Procurement Card provider acts as an invoice consolidator and performs the matching process for the purchaser. The purchaser generally sends payment on monthly basis to the Procurement Card provider.

Regulatory / Tax Compliance Benefit	Costs savings through compliance to regulations, for example, reduction in tax paid.
Spend Consolidation Benefit	Cost savings achieved through leveraging the total cost across a commodity or with a supplier. This usually results in lower contract prices. This can apply at a local, regional, and global.
Transaction Volume Incentive	Benefits provided to business by Procurement Card provider based on the number of times it is used.
Unit Cost Reduction Benefit	Cost savings achieved through ensuring items are purchased at the optimum price. This is applicable within contracts where suppliers may have not applied the contract price, or across similar items purchased within multiple suppliers.
Volume Rebates Benefit	Cost savings achieved by maximizing the volume rebates agreed with suppliers.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Committed to delivering innovation, Accenture collaborates with its clients to help them become high-performance businesses and governments. With deep industry and business process expertise, broad global resources and a proven track record, Accenture can mobilize the right people, skills, and technologies to help clients improve their performance. With approximately 152,000 people in 49 countries, the company generated net revenues of US$16.65 billion for the fiscal year ended Aug. 31, 2006. Its home page is www.accenture.com