

# Play your cards

by Richard Bray

## P-cards and e-procurement: a winning pair

**P**URCHASING CARD PROGRAMS are moving to a new level of value. The first wave of change, which began about twenty years ago, put buying authority in the hands of front-line employees throughout their organizations. The benefits were clear: first, purchasing necessary goods and services became fast and convenient; taking even a part of the procurement process out of the paper-based world generated considerable savings in time and money; and, suppliers received payment almost instantly. Today, a second wave of purchasing card functionality is putting strategic information on the desks of senior managers. The difference is in the data.

At the most basic level of purchasing card use, managers receive monthly statements with "level one" data: date, supplier, dollar value and, of course, the name associated with the card, whether it is assigned to an individual employee or a work unit.

"Level four" data, on the other hand, is enhanced to the customers' specifications. Wendy Hall, Public Sector Relations director at BMO ePurchasing Solutions said, "We may be the only provider that can pass level four data, custom data based on unique specifications of a client. An example would be time-sheets from a temp help agency, so we would work with the supplier and the government of Canada to deliver that custom data," she said.

Across levels one to four, there is a world of useful data, including order number, item product code, description, quantity, unit of measure and price. Managers can see where products are coming from and where they are going. If the organization is using temporary services, they can look up spending by individual contractor or the types of work performed. If materials are being sent out for analysis and testing, purchasing information could include tracking numbers. In fact, any information about a purchasing card transaction that can be described in alphanumeric terms can be delivered electronically.

Five years ago, when Ken Babich joined the purchasing services department at the

University of Victoria, there were only about 70 purchasing cards in use on campus, with very restricted use, manual reconciliation and a monthly spend of only about \$15,000.

Shortly after he arrived, he wrote a visionary article called "Bridging The Gap" that looked at the challenge of creating a seamless merger of purchasing card programs with enterprise resource planning (ERP) software to create an all-electronic process. At that time he wrote, "... purchasing cards should seriously be considered as the preferred method of purchase and payment." Since then, he has pursued that goal.

Today, there are 770 purchasing cardholders at the university and a total spend of nearly \$4 million a year. And, best of all, "The entire process is electronic, from the actual commitment right to encumbering it in our budget."

Within the University of Victoria e-procurement website, an e-merchant site hosts the purchasing card solution. Employees use their purchasing cards to buy from approved vendors and each morning all the transactions for the prior period, including the day before, are reported.

"We take that information in spreadsheet format and we apply the tax tables to it, the PST and the GST, based on where the goods initiated from and so we have that all embedded in code through a product from a company called Millennium Computer Systems which is here in Victoria," Babich said. When data enters the financial software system, money immediately leaves the appropriate budgets.

As Babich said, "The end user can buy something today and within 24 hours, they can go to their financial statement, click on the transaction and see that it is a p-card transaction, what the value is and what it is for, all electronically. That was 'bridging the gap'."

Looking back, Babich said there is more to a solution than just technology. "One is the management of the program itself and the degree to which there is an entrepre-

neurial spirit attached to it. In other words, how willing is an organization to go ahead and engage technology, particularly p-card technology and some of the inherent risks that they think might come with it?"

Once the gap is bridged, and data is flowing into an organization, the next step is to turn it into useful information. Brent Needham, the commercial solutions senior manager at Visa Canada said organizations really capture value with a fully automated procure-to-pay process.

"If you use an ERP system integrated with your electronic procurement system, and it automatically goes on a p-card, then it is much easier to take that enhanced data electronically and, if you're a compliance-driven organization, make sure people are in compliance," he said. "If you're an organization that really values strategic sourcing, you use that to figure out how much you're buying from suppliers and then try to negotiate better deals because you understand how much you're spending with each supplier over each twelve-month period."

Useful data streams begin with suppliers. They bear the expense of upgrading their hardware, software and processes to provide enhanced data, but the most obvious advantage is quicker payment. Less apparent is the opportunity to cut their overhead costs and reduce processing errors by installing state-of-the-art systems that can provide customized information. And once they can provide enhanced data, they can offer it to all their customers.

Card providers have no problem with enhanced data. From their perspective, it is just as costly to move a lot of data as it is to move a little. BMO's Wendy Hall said, "We do have a supplier enablement team that will work with key strategic suppliers to have them pass 'level three' data today. If governments want that, we would work with them to make that data available."

Hall is also encouraging customers to consider using purchasing cards for central payments of large utilities. "An example would be communications expenses," she said, "where they could be centraliz-



ing their payments for those types of larger commodities and using different techniques like diversion accounting where all communications expenses get charged to an account.” A reporting system would set the merchant category code for cell phones, for example, so it diverted all charges to a central bill. “That takes away the individual pay element of it and you manage the account centrally and then you really are setting up an e-commerce environment. Departments are starting to think that way,” Hall said.

Brent Needham said a key goal of a purchasing card program should be, “Data aggregation and reporting to support senior management decision making, so if you don’t know what you’re buying, from whom and how much, it is hard to support the program. Integration of card functionality into the procure-to-pay process shouldn’t be an outlier. It shouldn’t be an afterthought. It should be integrated to follow your IT [information technology] strategy.”

A true end-to-end purchasing card solution allows managers to go online anytime, anywhere and look at spending from dozens of different angles, all the way from one individual’s total spending on a given day to an entire workgroup’s quarterly purchases from one supplier. Managers can quickly identify seasonal trends, spikes in usage and anomalies that might suggest fraud. The reports can be delivered automatically daily or weekly, called up from a ‘library’ of standard reports or customized instantly from lists of variables.

How hard is it to install an end-to-end purchasing card solution? According to Ken Babich, “The toughest things are scepticism by folks who are afraid to use a p-card for purchases, and a second is scepticism on the part of the audit people and the accounting people on financial controls. That is a myth. We have better financial controls than we ever had before. We actually know now within 24 hours what the commitments are, whereas before it would take months and months and sometimes you would never know. We can control pur-

chases because we can block things people aren’t allowed to buy.”

In fact, a purchasing card can be ‘fine-tuned’ to a high degree of detail, blocking suppliers, categories of purchase or even after-hours and weekend buying. Even where the purchase isn’t blocked at the point of sale, card vendors can send data directly to control and oversight offices in government departments, using merchant category codes to detect purchases that may not be authorized. BMO’s Hall said, “That is available to the federal government today, and it is used in some departments and not all. From a control point of view, that type of tool is available and it provides them with the level of data that is provided by the supplier.”

In addition to that ‘negative’ control, organizations can use purchasing card data to encourage environmentally friendly ‘green’ program spending, or give credit to departments that use suppliers targeted by geography or minority status. ‘Stored value’ cards limited by time or dollar value can be issued to employees or contractors assigned to specific jobs. Eventually, one purchasing card will be used for a variety

of functions – travel, entertainment, vehicle fleets and purchasing.

Governments at every level have made big investments in purchasing card programs, but until the data they generate is turned into actionable information, they fall short of giving full value. ‘Putting it on the plastic’ is one thing. Going electronic end-to-end is a bigger challenge. And using the data to make better management decisions is the next level. Suppliers have demonstrated their willingness to provide data and card vendors will pass it on. Most up-to-date ERP systems can easily manage the data flow and turn it into useful information. The real challenge is creating the kind of organization that can take the information and turn it into better management decisions. ~~~

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