

Developing a **winning** procurement card program

Procurement cards (Pcards) and other card technologies are becoming more common within public sector organizations that are continually pressed to find innovative solutions to the ever present pressure of reducing costs but doing more. To build a successful Pcard program you must have an ongoing assessment of needs and keep your eye on the end goals.

by Wendy Hall

Procurement officers in public sector organizations are under increasing pressure to cut costs out of the goods and services they purchase for their organizations. This is especially true during economic downturns, when tax revenues are in decline, budgets are stretched, and taxpayers are unwilling to accept even a perception of unwise use of public funds.

Governments at all levels have begun to recognize there is value in running their own operations more like private businesses. They are turning to some of the most innovative spend management service providers in North America for creative and tailored solutions to meet their budgets, workforce and cash flow challenges.

Not surprisingly, many of the top providers are full-service banks, given that finance and supply work hand in hand to effect optimum process efficiencies. As card issuers, banks in Canada offer the obvious advantage of decades of expertise and a time-tested, robust infrastructure to support state-of-the-art data capture, transaction processing and superior analytics capabilities. But Canada's banks also stand out

for their strong focus on customer service. Their business succeeds and grows on the strength of their customer relationships. Driven by this core tenet, banks listen closely to the needs of their customers. Because they understand their client organization's business and budgetary pressures, they have become particularly adept at making the buying and selling procedure simpler, more efficient and, above all else, economical.

When the bank and its customers invest the time to understand each other's business, they can go well beyond the traditional bank-client relationship. It's a chance to discover innovation in procurement and help an organization's bottom line, which is critically important in the public sector because cost savings filter down to the taxpayers.

The Province of Ontario

BMO recently partnered with the Province of Ontario to help the organization find new ways to drive efficiencies in their procurement program through the use of purchasing cards. The Province is no stranger to purchasing cards,

having had a successful program in place for a number of years.

Ontario Shared Services (OSS) is the area of the Ontario Government charged with government procurement, supplier relations and supplier invoice processing, as well as with Ontario's enterprise-wide integrated financial information system (IFIS). In OSS, Enterprise Financial Services Division has been carrying out a thorough review of the procure-to-pay cycle, with a view to identifying efficiencies and improving controls. Increasing the use of purchasing cards is a big part of this, and with increased use comes the need to reinforce controls.

Roman Zydownyk is the assistant deputy minister of Enterprise Financial Services Division (EFSD). "The government has realized the efficiencies of a single purchasing card

provider since 1996," he says. "More extensive use of purchasing cards can help us drive savings as part of our overall plan to reduce the number of low-dollar transactions we process."

Brad Nameth, director of the Expenditure Management Branch in Roman's division, fills in the details. "Low-dollar transactions are expensive because of the amount of processing involved. A large part of our transactions is made up of low-dollar invoices, and that's where purchasing cards come in. A paper invoice costs several dollars to process, while processing cost for the same transaction paid for by a purchasing card is merely pennies. For this reason, we work with ministries to handle procurements under \$5,000 on a purchasing card, where possible."

Of course, control and management of procurement is central. Managers approve monthly Pcard statements, which are then

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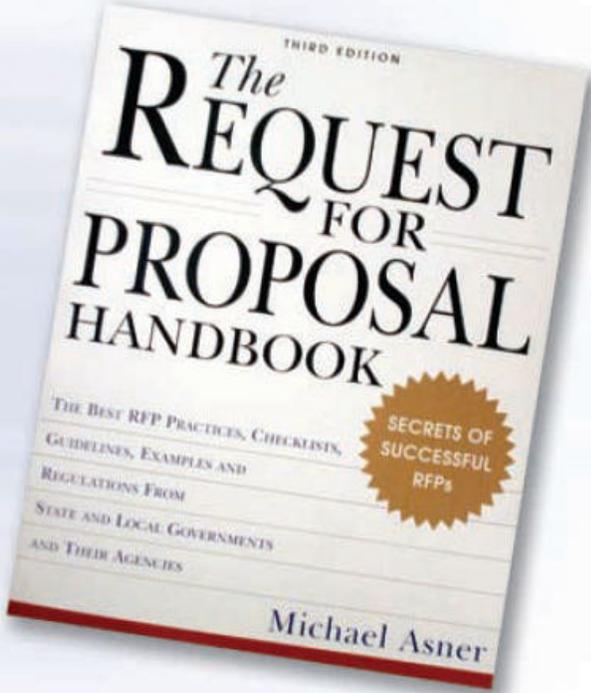
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uploaded to the government's enterprise financial system, IFIS. IFIS holds a permanent record, so that managers can track their costs and view reports by supplier or cardholder, organized by cost centre, account code and period.

Purchasing cards are only part of the story. There are also Tcards, or travel cards. Ontario employees who are required to travel for their jobs use a Tcard for such expenses as meals, accommodation and vehicle rentals. Tcards differ from Pcards primarily in the type of cardholder liability, and have been helpful in tracking travel costs and supporting uniform reporting requirements.

Roman Zydownyk's Enterprise Financial Services Division manages both cards through its Corporate Cards Management Unit – about 14,000 Pcards and 18,000 Tcards, at last count. As of 2008, BMO is the province's single provider of both cards.

Currently, managers still review and approve Pcard statements on paper, but the government is working to further develop its controls. "We're currently looking at a plan to integrate the approval Pcard and Tcard statements into IFIS," Roman concludes. "If we go ahead with this project, we will be able to further reduce paper and enhance controllership."

By listening to our public sector partner and implementing solutions that work best for them, the bank developed a fully integrated corporate travel and purchasing card program that enhances the government's ability to track, analyze and manage purchasing and employee travel related expenses.

The program also has room to grow, if needed, to streamline the organization's overall

procurement spend management functions – beyond the card.

Helping you track and control

The fact is that managing this lifecycle is more often what is needed by today's organizations, both public and private. Partnering with a bank can help them manage all critical elements of their spending cycle – from sourcing suppliers and contract management to procurement and invoice presentment and payment – with detailed analysis to help them track and control their capital. The commercial card industry is evolving in order to meet these needs with real solutions.

How to choose a banking partner

No matter which banking partner you have, here are some key points to keep in mind to develop a winning program:

- **Recognize that for all but the most basic of purchasing card programs, one size does not fit all.** Successful programs require a customized approach and a partner that will come in, get to know your business and recommend solutions that are unique to your environment. This should be an ongoing process to achieve program success.
- **Be able to see past the RFP.** What might your needs be in the future? Look beyond price or rebates. In fact, procurement officers should consider service and capabilities before price. Can your partner grow with you and is it willing to do so to help you achieve success and meet productivity goals?
- **Reverse engineer:** Your bank should ask what you want the program, product or technology implementation to look like at the end of the line. That's how you

develop a program that works. It has to meet your end goals.

And always consider these key, traditional purchasing card program benefits, which can readily be applied to multi-use “procurement” cards:

- **Cost control.** RPMG Research reported in 2005 that, “expanding p-card programs can save organizations up to 75 percent in process costs. While saving money in corporations is critical, efficiencies gained in the public sector are doubly important.
- **Better oversight of project costs, in real-time.** The notion of government projects sneaking – or soaring – over budget is not new. But you’ll have a much better chance of forecasting these overruns if purchases are mandated or encouraged through a purchasing card program.
- **Electronic record keeping better manages expenditures.** The paper model, with its slower pace, can mask or cloud what is being spent on a project or within a budget; keeping a clear picture of all appropriate, and inappropriate, expenditures is critical.
- **Quicker cycle time.** Purchasing-card use generates a 68 percent reduction in procurement cycle time and a 32 percent

decrease in the number of suppliers in the account payable files of organizations.

- **Greater detail.** Purchasing card programs provide extensive data on each purchase, compared to receipt- and paper-based systems that do not capture many details beyond cost, time and place of transaction.
- **Improved supplier relationships.** More data and greater analysis brings buyers and suppliers closer together, while giving the purchasing card user greater leverage in negotiations.

There is no better time than now for public sector organizations to look inward, examine their needs for better procurement strategies, and engage financial institutions toward innovating what should be routine procurement processes. Better use of existing and new technologies in procurement can help save organizations significant money annually through the normal course of daily business.

It starts with a true partnership where the public sector and financial institution has open lines of communication and invest time to learn each other’s business. As technology continues to improve and evolve, this type of innovation can be realized for numerous government programs, helping the public sector run just as well – or in some cases better – than top corporations. 

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