

COMMERCIAL BANKING

# Purchasing Card Spend Benchmarks

Metrics that spotlight program performance and best practices



## Benchmarking Metrics Chart Program Success ... and Possibilities

Since they were introduced about 20 years ago, purchasing cards have become a highly effective channel to streamline payment and reduce costs. Now, facing a challenging economic environment, corporations and public sector organizations are eager to accelerate the card's proven benefits, namely better cash management, lower processing costs, higher rebates and data to drive supplier discounts. It's an ideal time, therefore, to take a closer look at how organizations are using the card and applying best practices to leverage its capabilities.

Chase is pleased to present key findings produced by RPMG Research Corporation's *2010 Purchasing Card Benchmark Survey Results*. Written by Richard Palmer, Chair of the Accounting and MIS Department of Southeast Missouri State University, and Mahendra Gupta, Professor of Accounting and Management at the Olin School of Business at Washington University, acknowledged experts in commercial payment, the authors have published this research study every year since 2003.

The survey compiles responses from 1,915 purchasing card program administrators at organizations that were either customers of major card issuers or members of the National Association of Purchasing Card Professionals or the National Institute of Government Purchasing.

We hope you find these analyses useful as you chart the course for improving the purchasing card program at your organization.

**SURVEY HIGHLIGHTS**

The current survey includes responses from more than 1,900 organizations, encompassing companies of all sizes, Federal and State government agencies and universities.

Highlighted metrics include:

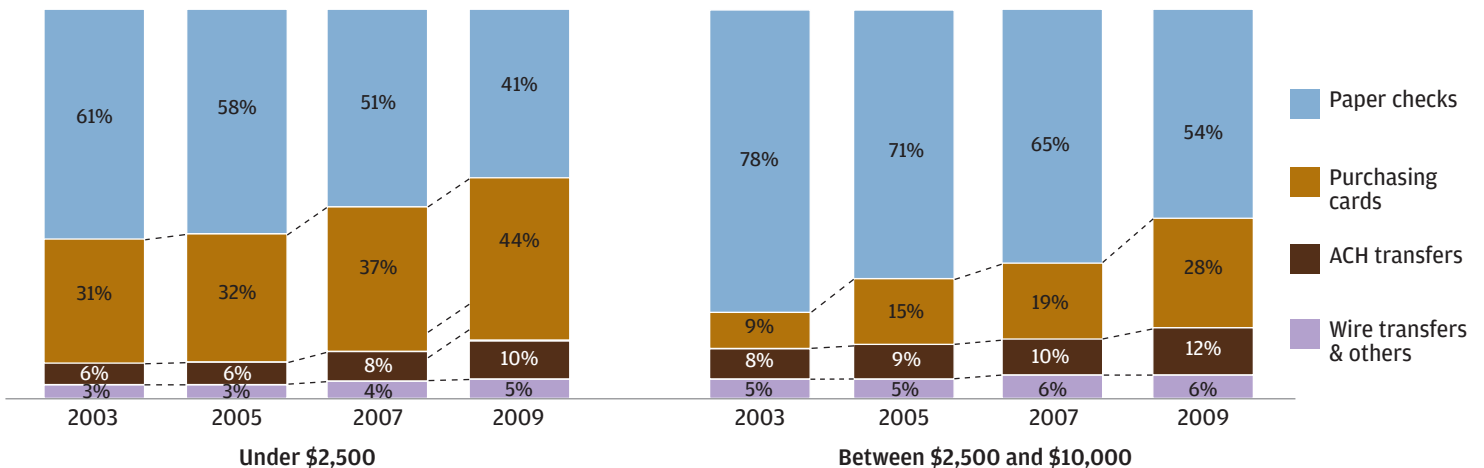
- Trends in card usage
- Savings benefits
- Program goals
- Program performance
- Best practices
- Cardholder behavior
- Case study summaries

## Dramatic Growth in Spend Capture

From 2003 to 2009, the purchasing card made significant strides. For low-dollar expenditures (<\$2,500), respondents reported purchasing cards now handle 44% of transactions (up from 31%) and overtook paper checks as the principal form of payment for small-dollar purchases. For larger ticket items, the change was even more dramatic. The purchasing card is used for 28% of purchases between \$2,500 and \$10,000, having captured only 9% of these expenditures only six years ago.

Not surprisingly, paper checks are in a steady decline as the purchasing card grabs an increasingly large share of transactions. Organizations have also expanded their use of ACH and wire transfers in an effort to further automate payments. There is still enormous opportunity, however, for organizations to reduce check issuance even further and reap the benefits of a streamlined payment process.

**PAYMENT FOR TRANSACTIONS BY PAYMENT METHOD AND DOLLAR VALUE, 2003-2009\***



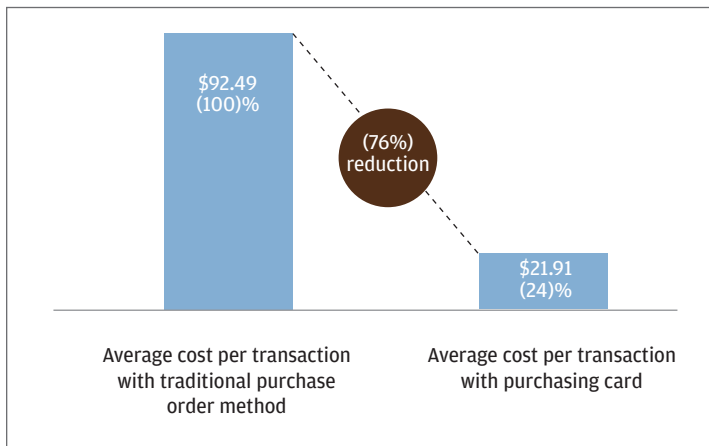
\*In 2003, the capture categories included "under \$2,000" and "between \$2,000 and \$10,000"

## Program Efficiency: Cost Reduction and Reduced Cycle Time

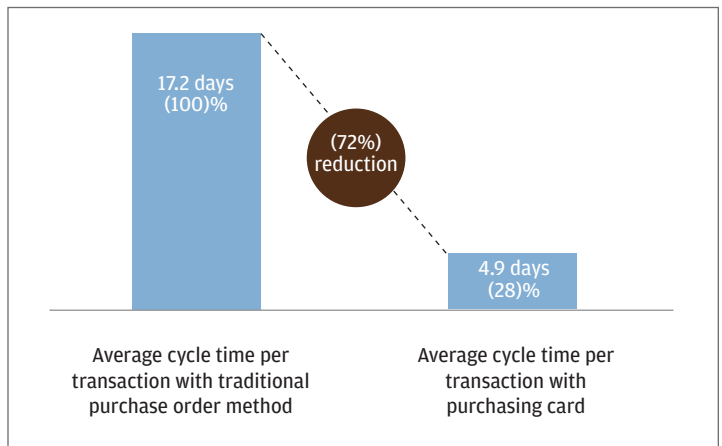
Purchasing cards have demonstrated their value in improving efficiency by cutting processing costs—often to a dramatic extent—and speeding up the payment cycle time. The average cost per transaction with a traditional purchase order process is \$92.49, while the commensurate cost with a purchasing card is \$21.91. This equates to 76% in savings related to requisitions, sourcing, approvals, purchase orders, invoices and checks.

Procurement cycle time is another important benefit of the purchasing card. Survey respondents reported that cycle time was reduced by 72%, from 17.2 days with a purchase order method to 4.9 days with the card, cutting the wait time on purchases for employees. The authors of the study note that larger corporations garner an even bigger benefit in reduced cycle time, presumably because they are likely to have more steps in the traditional purchasing process.

**COST REDUCTION PER TRANSACTION BY PURCHASING CARD USE**



**PROCUREMENT CYCLE TIME REDUCTION BY PURCHASING CARD USE**



## Vendor Discounts

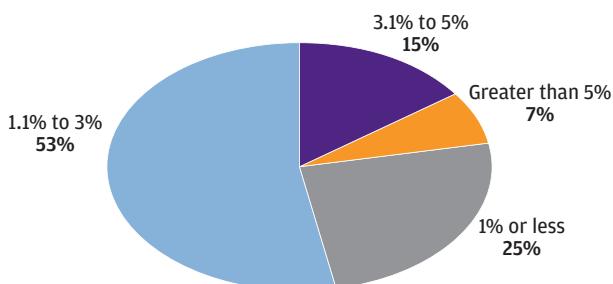
A widespread practice of purchasing card customers is to use purchasing card spending data during supplier negotiations. Sixty percent of organizations report they've been able to obtain higher discounts by leveraging information this way. The pie chart (below) shows the improvement in vendor discounts, with the majority (53%) saying that they receive 1.1%-3% in additional discounts by demonstrating purchasing power. A total of 22% of organizations say they generate even higher discounts (above 3%).

**HOW SUPPLIERS BENEFIT**

Survey respondents report that card acceptance has grown, largely because suppliers now recognize the card's benefits, which include:

- Status as a preferred vendor
- Faster payment
- Reduced credit risk
- Lower processing costs
- Potential of increased sales

**IMPROVEMENT IN VENDOR DISCOUNT DUE TO USE OF PURCHASING CARD DATA (BY ORGANIZATIONS REPORTING A DISCOUNT)**



**49% of buyers say that by accepting the purchasing card, suppliers have increased their share of business from their organizations.**

## Current Goals: Corporate and Public Sector

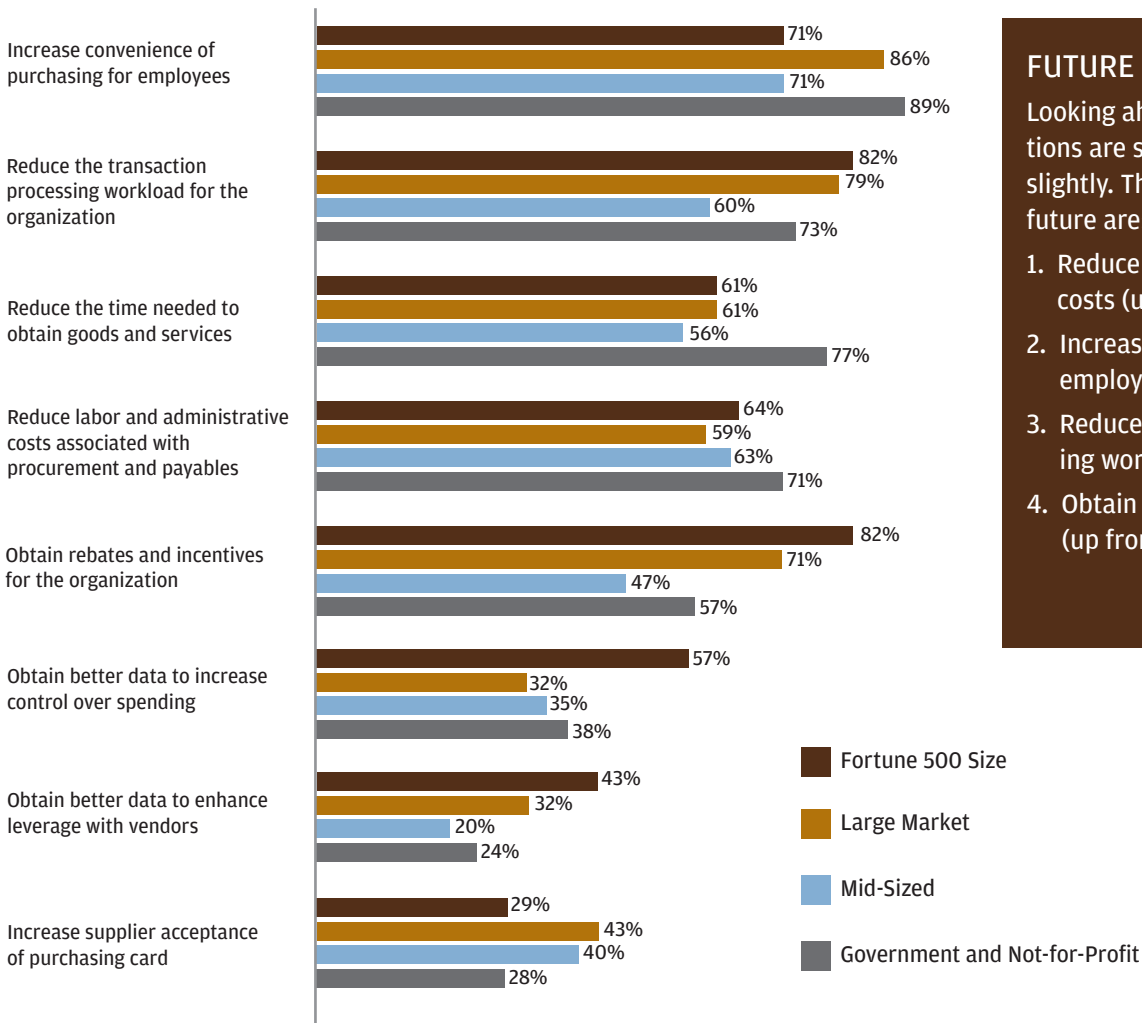
The goals cited by organizations that use the purchasing card are largely in sync across the various segments, although there is some variation in priorities among different-sized organizations and between corporate and public sector entities.

Analyzing the three corporate sectors, it's clear that the larger the company, the greater the focus on value—reducing the labor costs associated with transaction processing and earning rebates and incentives.

Government entities and universities, on the other hand, put a higher priority on employee convenience, cutting costs associated with procurement and payables and reducing the amount of time it takes to obtain the goods and services they need.



### CURRENT PRIMARY PURCHASING CARD GOALS, BY CORPORATE SEGMENTS AND GOVERNMENT AND NOT-FOR-PROFIT ORGANIZATIONS



### FUTURE FOCUS

Looking ahead to 2012, organizations are shifting their priorities slightly. Their top four goals for the future are:

1. Reduce labor and administrative costs (up from #4)
2. Increase convenience for employees (down from #1)
3. Reduce the transaction processing workload (down from #2)
4. Obtain rebates and incentives (up from #5)

## Card Performance: Corporate and Public Sector

After six consecutive years of strong growth, the past two years have triggered a few trend reversals and produced some interesting standouts in purchasing card program performance.

**Large market companies: Spending slowed, but cardholders used the card more than ever – just for smaller amounts.** Large companies reported using the card for 28% of transactions in the \$2,500-\$10,000 range—a 47% increase from 2007. Although transaction size decreased by 12%, median monthly spending on the purchasing card rose 45% over the past two years, indicating wider use of the card.

**Mid-sized companies: Enthusiastic adopters.** Reporting broad distribution of cards (nearly 18%) and the highest level of charge activity per employee (9.7 transactions per month), mid-sized companies produced the most purchasing card spending per employee (\$444) of the all corporate segments. As with the large companies, mid-sized companies put significantly more spending for transactions between \$2,500-\$10,000 on the card.

**Cities and counties (Fewer than 1,000 employees): Double-digit growth in card spending continues.** Median monthly purchasing card spending per employee was up 15% for municipalities (a more modest increase compared to the corporate sector) and the number of cards per employee increased from 132 to 149, up 13%. Cities and counties report the broadest distribution of the card, reporting a relatively high 31% “card-to-employee” ratio. Their use of the card for transactions under \$10,000 tracks closely with the practices of large and mid-sized companies.

**Universities (Fewer than 5,000 employees): Learning how to leverage the card.** Universities, which typically have a high volume of low-dollar purchases, have long recognized the value of card payment. The report shows that 47% of transactions under \$2,500 are placed on the card—a number that has held steady over the past two years. The median monthly spending (\$350,000) of universities is greater than what mid-sized companies spend. The card-to-employee ratio (22%) for universities is larger than what’s reported by the corporate sector—another indication that universities have become comfortable with the purchasing card concept.

### PURCHASING CARD PROGRAM PERFORMANCE STATISTICS

	Large Market (Annual Sales between \$500M to \$2B)		Mid-Sized (Annual Sales between \$25M to \$500M)		City and County (Fewer than 1,000 employees)		University (Fewer than 5,000 employees)	
<b>Company Statistics</b>								
Number of employees	3,772	11%	858	-16%	476	17%	1,920	18%
<b>Program Performance Measures</b>								
Number of purchasing cards (p-cards)	449	7%	153	9%	149	13%	423	20%
Card-to-employee ratio	11.9%	-2%	17.9%	38%	31.3%	-3%	22.1%	2%
Average monthly p-card spending	\$1,028,001	6%	\$381,080	4%	\$151,583	11%	\$637,585	28%
Median monthly p-card spending	\$725,000	45%	\$207,373	38%	\$100,000	15%	\$350,000	16%
Monthly p-card spending per employee	\$272	-5%	\$444	23%	\$318	-5%	\$332	9%
Transactions under \$2,500 placed on p-card	41%	14%	39%	26%	43%	0%	47%	0%
Transactions between \$2,500 and \$10,000 placed on p-card	28%	47%	26%	44%	25%	14%	20%	0%
<b>Cardholder Activity Measures</b>								
Monthly transactions per card	8.6	10%	9.7	-10%	4.2	0%	6.4	14%
Spending per transaction	\$267	-12%	\$257	-1%	\$242	-1%	\$234	-7%
Monthly spending per card	\$2,290	-4%	\$2,489	-11%	\$1,016	-2%	\$1,506	6%
Active cards in a typical month	84%	-1%	87%	-2%	80%	4%	82%	-1%

2009

2007-2009 % difference

## Purchasing Card's Use within Spend Categories

As purchasing card programs mature, organizations are using their cards to purchase a wider range of goods and services.

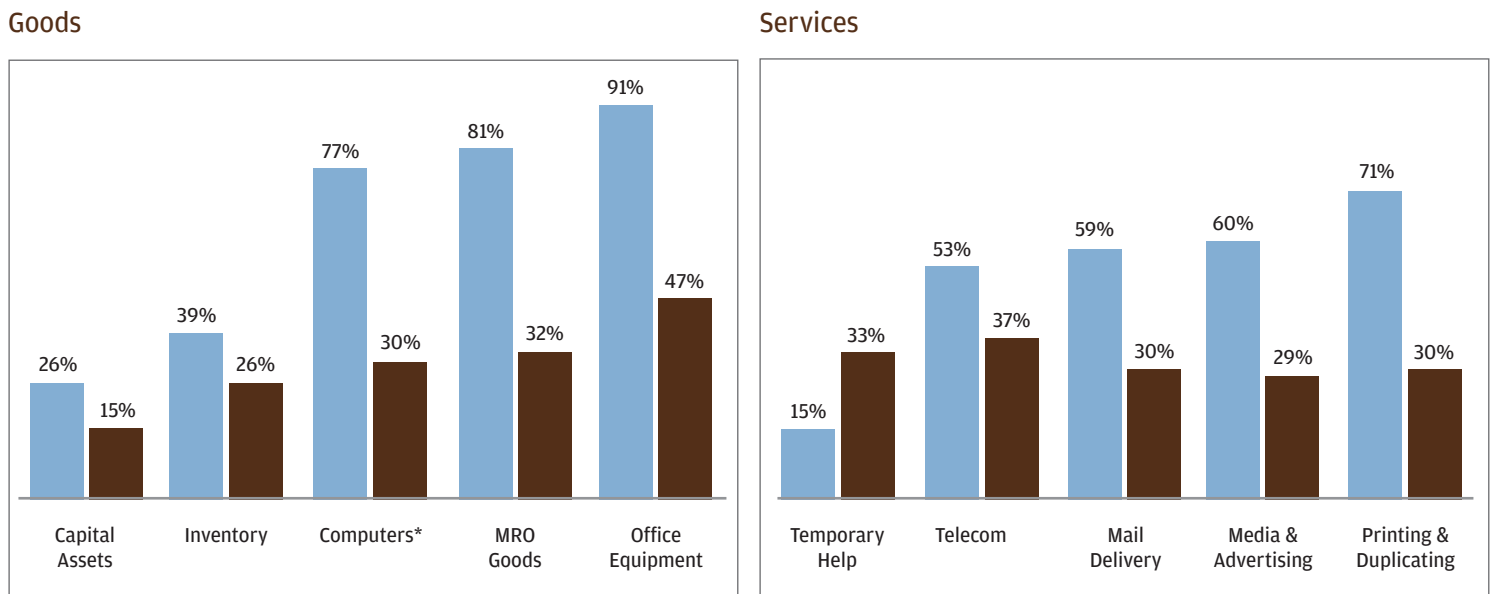
Traditionally, the bulk of purchasing card transactions has been for goods, and the survey reports that 91% of respondents now use the card to pay for office equipment and supplies. What's more, nearly half (47%) of office equipment buys are transacted with a purchasing card. Inventory and capital assets, traditionally handled by checks, are now being migrated to the card.

Organizations have also expanded use of the purchasing card to handle a broader range of services. Printing expenses top the list of services, with 71% of organizations using the purchasing card to pay for print and duplicating expenditures. Telecommunications, which is an escalating cost for organizations, is getting more purchasing card penetration: 37% of these costs are now paid with the card among organizations that use the card for this service. Close behind is temporary labor. Although only 15% of organizations are using the purchasing card to pay for temp help, for the companies that do leverage the card, it handles a surprising 33% of expenses in that category.



The survey shows increased card use for services.

### AVERAGE CARD USAGE FOR COMMONLY PURCHASED GOODS AND SERVICES



\*Includes computer hardware, software, and peripherals

■ Percent of organizations using p-card to pay for category  
■ Percent of p-card spending as a percent of total spend within category

# How “Best Practice” and “Needs Improvement” Organizations Compare

A comparison of “best practice” organizations (those that report the highest level of card usage and benefit) versus the “needs improvement” sector shows that high performers are taking advantage of policies that permit higher spending limits and broader use across a range of goods and services.

While the purchasing card is well established as the preferred payment for hard goods, such as office equipment, MRO expenses and computers, the main conclusion is that it is used often (more than 70% of the time) for services, such as media and advertising, catering and printing.

The “needs improvement” respondents are not too far behind in their use of the card for a number of goods (food, computers, MRO and office equipment). But they are definitely lagging in their adoption of the card for services, such as telecommunications, transportation, media, and advertising expenses. If they follow their best practice colleagues, however, expect them to become more aggressive in leveraging the card program across emerging categories.

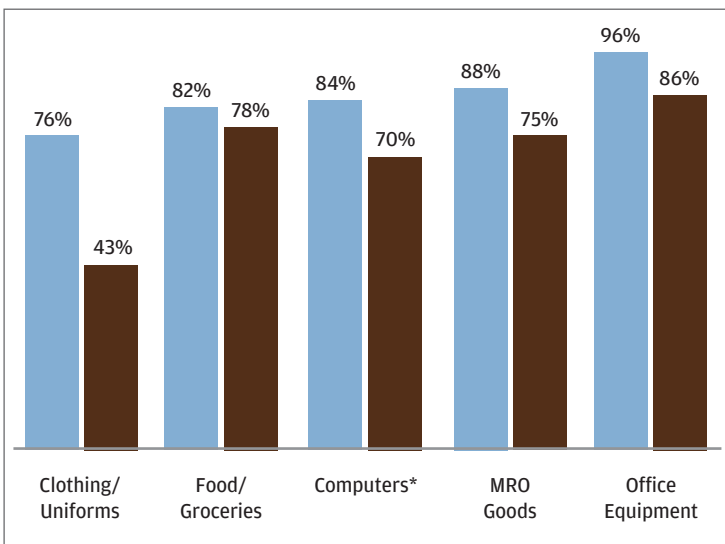
## TOP THREE BEST PRACTICES TO PROMOTE USE

Organizations are using a variety of tactics to optimize their purchasing card program’s potential. The top three “optimization” steps cited by best practice organizations are:

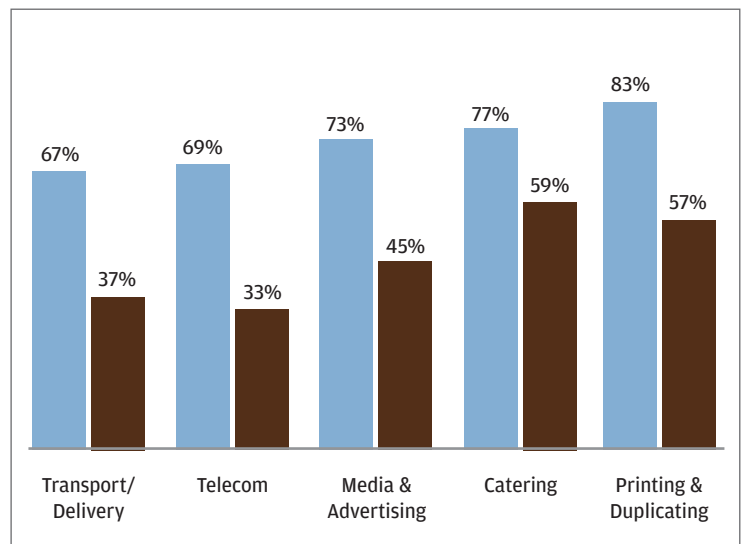
1. Target specific additional commodities or services that can be paid for via a purchasing card
2. Identify merchants who accept the card and channel business to them
3. Increase the number of employees who are issued purchasing cards

## COMPARISON OF “BEST PRACTICE” AND “NEEDS IMPROVEMENT” ORGANIZATIONS IN PURCHASING CARD USAGE

Paying for Specific Goods (Top 5 Categories)



Paying for Specific Services (Top 5 Categories)



\*Includes computer hardware, software, and peripherals

## Purchasing Card Programs in Action

Leveraging a purchasing card program isn't simply a matter of getting more cards in employee hands. Best-in-class programs also expand vendor acceptance, remind cardholders to use the card within policy and perform regular data analysis to spot opportunities.

Survey respondents highlight some interesting ways they are encouraging purchasing card use and enhancing the value of the program:

- **Reducing Purchase Orders:** A manufacturing company conducts a weekly review of check runs to identify potential purchases that could be paid more effectively with the purchasing card.
- **Identifying Accepting Merchants:** A manufacturing company uses its card provider's technology tool to determine whether a vendor accepts the card whenever a new vendor request is received. No card acceptance means no business.
- **Vendor Discipline:** A real estate management company with multiple locations restricts paying any vendor by check if that vendor has accepted a purchasing card payment at another company operation.
- **Merchant Spend Threshold:** A manufacturing company has instituted a clever incentive to persuade vendors to accept the procurement card: It doesn't process any check request for less than \$250. If the vendor doesn't accept the card, it has to wait until purchases with this customer reach the \$250 threshold before it gets paid.
- **Targeting Commodities:** A service company puts utility payments on the card, noting that these invoices rarely need to be questioned.



Is your organization getting the most out of its purchasing card program? Contact Chase to find out how your program compares to your peers, and to set up an action plan to ensure program optimization.

The Chase team wants to thank the authors for their permission to use these key findings—and for their ongoing leadership in the commercial card industry.

For more information, please contact your Chase Commercial Banking representative or visit [jpmorgan.com/commercialcard](http://jpmorgan.com/commercialcard)