The Future of Commercial Cards

Rationalize costs and increase reporting and compliance effectiveness with commercial cards
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In the slow economic growth period that followed the recent financial crisis, organizations have been focused on rationalizing their costs to improve profitability, and suppliers and merchants have been engaged in finding new ways to increase revenues.

Financial institutions, due to the prevailing low interest rate environment in many regions across the globe, have been focusing on increasing their revenues through fee-based income.

These economic factors coupled with changes in the operating models of all stakeholders financial institutions, suppliers/merchants, and organizations are driving the increasing adoption of commercial cards.¹

This paper explores the growth of commercial cards and their benefits, along with the challenges stakeholders face in their adoption. It also highlights the ways organizations can improve the effectiveness of their commercial cards and how other stakeholders can play a part in the overall success of any commercial card program.

¹ This paper defines commercial cards as Purchase cards (both Plastic and Virtual), Travel & Entertainment (T&E) cards, and Fleet cards.
The Growing Importance of Commercial Cards

Over the last decade organizations have been adopting commercial cards for different reasons. However, after the financial crisis there has been a significant pressure on their profit margins and in their efforts to deal with this there has been an acceleration in the trend towards migrating from traditional payment modes to commercial cards.

The global commercial cards purchase volume is expected to have increased from $1.4 trillion in 2013, to $1.8 trillion in 2015, at a compound annual growth rate (CAGR) of 13.0%. The growth is expected to be fuelled by increasing demand from both small and large businesses across the globe. From a regional perspective, Asia-Pacific is expected to lead the way with the growth of UnionPay, which became the largest credit and debit card network in 2013.

Exhibit 1. Global Commercial Cards Purchase Volume, 2013-15

While there has been an increase in the use of commercial cards, they still form a very small percentage of the overall global commercial consumption expenditure (CCE). According to Visa, in 2011 the global commercial consumption expenditure stood at $109.1 trillion. Out of this more than one-third (35%) is contributed by the Asia-Pacific region followed by Europe (29%) and North America (21%).


As global economies recover, global commercial consumption is expected to gather pace in the near-term. In the case of the U.S., which has witnessed a steady recovery, commercial consumption expenditure grew 10.7% in 2011 to reach $20.7 trillion.

Given this growth, commercial cards offer significant opportunities for stakeholders to leverage and increase their return on investments.

Commercial Cards
Requirements, Benefits, and Challenges

All the players involved in launching a commercial cards program (organizations, financial institutions, and merchants) need to understand their roles in order to reap the benefits from the implementation process. Also, the scale and scope of operations differ considerably among organizations, so there is a need to understand these differences in order to develop an optimal plan for commercial cards.

3.1. Commercial Card Requirements
The requirements of an organization can differ based on the product they wish to use: purchase card, T&E card, and fleet card.

Exhibit 3. Sample Feature Set Requirement for a Commercial Card Program

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Large</th>
<th>Medium</th>
<th>Small</th>
<th>Govt. / Not-for-Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Must Have</strong></td>
<td>1, 2, 3, 4, 5, 6, 7, 8, 9, 10</td>
<td>1, 2, 3, 4, 5, 6, 7, 8, 9, 10</td>
<td>1, 2, 3, 4, 5, 6, 7, 8, 9, 10</td>
<td>1, 2, 3, 4, 5, 6, 7, 8, 9, 10</td>
</tr>
<tr>
<td><strong>Should Have</strong></td>
<td>11, 12, 13, 14, 15, 16, 17, 18, 19, 20</td>
<td>11, 12, 13, 14, 15, 16, 17, 18, 19, 20</td>
<td>11, 12, 13, 14, 15, 16, 17, 18, 19, 20</td>
<td>11, 12, 13, 14, 15, 16, 17, 18, 19, 20</td>
</tr>
<tr>
<td><strong>Good to Have</strong></td>
<td>21, 22, 23, 24, 25, 26, 27, 28, 29, 30</td>
<td>21, 22, 23, 24, 25, 26, 27, 28, 29, 30</td>
<td>21, 22, 23, 24, 25, 26, 27, 28, 29, 30</td>
<td>21, 22, 23, 24, 25, 26, 27, 28, 29, 30</td>
</tr>
</tbody>
</table>

Commercial Card Program Features

1. Banking Benefits (like Check Cashing)
2. Benefits of Working Capital
3. Collaboration with Distribution Systems
4. Convenience of Reconciliation
5. Discount Programs and Incentives
6. Ease of Loading/ Re-loading
7. Electronic Management of Expense Processing
8. Extended Folio Data
9. Global Data Reporting
10. Integration of Spending Data into AR Systems
11. International Acceptance
12. Linking with Sourcing Channels
13. Membership Benefits and Reward Programs
14. Monitor Compliance with Spending Policies
15. Nationwide Acceptance
16. Non-Personalization of Cards
17. Overdraft Facility
18. Program Implementation Support
19. Program Analysis and Review Support
20. Purchase Assurance - Extended Warranty
21. Redirection & Sweeping Facility
22. Reporting Tools
23. Round the Clock Support
24. Speed and Ease of Assistance
25. Spend Controls and Restrictions
26. Spend Controls and Restrictions (Card Usage Specific to Purpose)
27. Supplier Agreements
28. Tax and Compliance Assistance
29. Travel Security and Convenience
30. Waive Foreign Transaction Fees
31. Waive Membership Fee

Source: Capgemini Financial Services Analysis, 2015
For example, in the graphic above, Benefits of Working Capital is not a high priority requirement for large and medium-sized organizations. However, for small organizations this can act as an additional line of credit and help in reducing their overall cost of funds. In the case of Government/Not-for-Profit organizations, this feature may not be of much significance at all.

Given the significant variations in the feature set requirements of different organizations, it will be critical for financial institutions to have a clear and deep understanding of their customers’ needs to offer superior products and services. It will be essential for organizations to accurately assess their needs in order to select and implement an appropriate commercial cards program.

3.2. Benefits from Commercial Cards

In spite of differing requirements, all the key stakeholders—financial institutions, suppliers/merchants, and organizations—can accrue considerable benefits from the use of commercial cards.

Financial Institutions

Commercial cards can help financial institutions to boost their card-holder base and volume-based sales, and these can work as major profit boosters for card issuing financial institutions. Cards will also enhance their ability to build stronger relationships with their corporate customers by catering to their needs through increased scope of service offerings. Having a better view of the customer’s spending patterns can help institutions analyze the financial value chain to generate new up-selling/cross-selling opportunities and sales leads.

Suppliers/Merchants

Suppliers/Merchants can also derive considerable benefits from accepting commercial cards, including:

- Receiving payment for sales quickly leading to a decrease in the day’s sales outstanding metric
- Increase in available working capital
- Building better relationships with clients leading to a preferred vendor status which can help in augmenting up-selling/cross-selling abilities
- Decreasing processing costs associated with transactions by automating systems and processes
Organizations
As organizations are arguably the most important stakeholder (given their role in initiation and execution of commercial card programs) in the adoption of commercial cards, they can benefit significantly on several fronts:

- **Employee Convenience**: The use of purchase cards increases convenience for employees—the employee will not have to go through the conventional process of paperwork and cash-handling. Similarly, in case of T&E and fleet cards, the process of creating expense reports is simplified. Also, automated expense reimbursement processes will reduce the need for storing paper receipts and cut down the manual processes.

- **Increased Float**: With cards, buyers get additional time for payment of dues (Days Payable Outstanding – DPO). An organization can leverage this time to manage their float in a better manner. Specifically, in the case of small businesses, if this additional time is leveraged properly it can help in reducing their working capital requirements.

![Benefits of and Challenges to Commercial Cards Adoption](image)

- **Enhanced Compliance Efficiency**: Most commercial card programs integrate data with internal ERP systems. This greatly enhances compliance and reporting related activities. Also, for organizations operating across regions, cost saving can be achieved from streamlining global reporting and consolidation activities.

- **Incentives and Rebates**: With cards instead of cash, organizations can reap the benefits of incentives, discounts, and rebates based on the type of expenses and

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2 Level 3 data consists of item details, freight amount, duty applicable, destination details, and other information along with Level 2 data consisting of merchant name, date and transaction amount, tax amount, customer code, tax identification, and merchant postal code
While commercial cards offer several benefits for all the stakeholders involved, the adoption still faces significant challenges.

- **Controlled Spending:** By putting in place proper organizational policies along with restrictions of merchant codes and amounts, organizations can more easily address some of the problems associated with uncontrolled spending.
- **Higher Bargaining Power:** Organizations can leverage Level 3 data to draw insights into their spending patterns, which will help them in negotiating better prices with vendors. In large organizations, the high volume of transactions means the cost saving achieved through better negotiation can be substantial.
- **Reduced Processing Cost:** The paperwork associated cost of processing the transaction is reduced.
- **Reduced Cycle Time (Procure-to-Pay):** When using commercial cards, suppliers are paid much earlier compared to a conventional invoice process. This can help reduce the lead time from the date of requisition to the delivery of goods/services (Days Sales Outstanding – DSO).

### 3.3. Challenges to Commercial Card Adoption

While commercial cards offer several benefits for all the stakeholders involved, the adoption still faces significant challenges.

- **Cultural Factors:** Employee preferences for personal cards can be an obstacle to the adoption of commercial cards, especially T&E cards. For purchase cards, the unwillingness or inertia to change current practices employees are used to can also hamper adoption. Historically, some regions such as Asia and Latin America have low adoption of cards, which can be a barrier for organizations in these regions.
- **Supplier Acceptance:** Since the use of cards entails additional costs for suppliers/merchants, some of them have been averse to accepting commercial cards, particularly purchase cards. A smaller acceptance network curtails an organization’s ability to derive optimal benefits from adopting commercial cards.
- **Card Misuse:** Apprehensions about misuse of commercial cards is also another challenge to rolling out a successful program.
- **Organizational Policies:** Failure on the part of the organization to draft appropriate and relevant organizational policies can hinder their efforts to increase card adoption. For example, placing restrictions on employees when using commercial cards may help in addressing uncontrolled spending or card misuse, but excessive restrictions can have a negative effect on employee card use.
- **Non-Availability of Level 3 Data:** Data can be a powerful tool for large organizations to negotiate with vendors, identify spending patterns, and mitigate card misuse. However, non-availability of Level 3 data can hamper an organization’s plan for developing an end-to-end system, which lowers the value of a commercial cards program.
- **Availability of Low Cost Substitutes:** The availability of low cost alternatives such as electronic payments can act as a hindrance to the adoption of commercial cards in an organization, particularly purchase cards.
Given both the potential benefits and potential challenges for the organization, all stakeholders should perform a clear assessment of their requirements, follow a structured approach, and make concerted efforts to streamline the implementation process.

4.1. Roadmap

Organizations need to develop a clear roadmap with appropriate goals and assessment and monitoring mechanisms to successfully implement a commercial cards program. We recommend the following four-step implementation process, keeping in mind that modifications may be necessary from one organization to another.

Exhibit 5. Organizational Roadmap for Implementing a Commercial Cards Program

Step 1: Prepare
- Build a business case for the implementation of a commercial cards program with clearly-articulated benefits and savings
- Articulate specific and measurable targets and goals to assess the program performance
• Obtain executive buy-in and commitment for the program during the early stages of the planning process to ensure proper support of the program
• Assess the current and desired state of systems and processes to clearly identify gaps and focus areas
• Develop appropriate organizational-level policies which are easily understandable and unambiguous for rolling out a commercial cards program

Step 2: Engage

• Create an implementation team (program management office) and assign roles and responsibilities along with a detailed plan and timelines
• Work with different departments to develop a solid support infrastructure and initiate process re-engineering
• Based on the gap analysis performed in step 1, assess the data requirements to monitor and measure program progress
• Educate employees about the benefits of using commercial cards, and what their responsibilities will be
• Engage with vendors to increase the card acceptance base
• Engage with card issuers for gathering required information and learn about best practices in implementing a commercial cards program

Step 3: Implement

• Implement the program on a pilot basis
• Measure and monitor the progress of the program against defined targets, goals, and timelines
• Closely follow spending patterns to identify outliers and to ensure policy adherence
• Gather feedback from employees on program effectiveness and conduct process refinement exercises if need be
• Collaborate with vendors to streamline any issues
• Re-calibrate your approach and take corrective steps based on employee feedback
• Communicate your success with a broader audience in the company to increase traction for commercial cards within the organization

Step 4: Expand

• Perform a detailed review of the program, analyze the program performance metrics, and develop recommendations for enhancing/expanding the program features in areas with potential to provide maximum benefits
• Expand the scope of the commercial cards program within the organization
• Create forums for gathering feedback on the progress made and ideas to improve the effectiveness of the program on an ongoing basis
4.2. Practical Considerations

As firms develop an appropriate roadmap for a commercial cards program, there are some practical considerations to keep in mind:

- **Resource Requirement:** Since implementing an organization-wide commercial cards program requires considerable resources both in terms of manpower and time, organizations should make a realistic assessment of the resources required during the planning phase to ensure that the program can be implemented seamlessly.

- **IT Requirement:** IT infrastructure is critical for having end-to-end integration. The organization should chart out the system requirements during the planning stage in order to streamline the implementation and develop the required systems.

- **Process Change Requirements:** Given the scale of operations, process change requirements should be clearly documented and approach plans should be developed prior to the launch of the program to ensure compliance and streamline transition.

- **Roles and Responsibilities:** Organizations should create a project management office and assign clear roles and responsibilities to ensure there is accountability throughout the implementation phase.

- **Performance Metrics:** Measuring the performance of the program is important to assess the overall effectiveness and take appropriate course correction measures. Organizations need to decide on performance metrics which are Specific, Measurable, Attainable, Realistic and Timely (S.M.A.R.T).

4.3. Best Practices

A successful rollout of a commercial card program involves a considerable amount of resources in planning, implementing, and monitoring. The following best practices can help an organization be prepared:

- **Drive Cultural Change and Obtain Executive Buy-In:** Creating a strong business case for the use of commercial cards along with involving executives from the early stages of development will help in creating a sense of importance and acceptance of the program across the organization. Also, organizations should try to make the use of commercial cards a part of their routine by replacing the use of traditional methods.

- **Program Objectives:** The scope and objectives of the program along with timelines and deliverables should be clearly defined and should be communicated to all the internal stakeholders to create a sense of ownership and team spirit.

- **Policies and Administration:** Organizational policies should be employee-friendly yet strive to meet the organization’s needs. From the administration point of view, the Do’s and Don’t’s should be clearly communicated along with the consequences of non-compliance.

- **Leveraging data and Refining Processes:** Data is a critical part of reaping optimal benefits from the use of commercial cards. Organizations need to focus on redefining their existing processes to accommodate a larger role for data and end-to-end integration with existing systems. This would require extensive planning to ensure the data is leveraged to the fullest extent.
• **Employee Engagement:** Employees are the end users of the commercial cards. Organizations need to focus on increasing engagement through trainings, campaigns, and incentives.

• **Stakeholder Management and Program Evaluation:** Organizations need to maintain continuous dialogue with the various external stakeholders such as suppliers/merchants and financial institutions to build better relations and obtain technical support. While organizations strive to deepen relations with external stakeholders, they also need to set up systems and processes to continuously monitor the progress of the program to ensure it is on track.

### 4.3. Role of Financial Institutions

The relationship between the organizations and financial institutions is symbiotic in nature. Financial institutions have a critical role to play in the overall success of any commercial cards program. Apart from offering support in implementing a commercial cards program, financial institutions should focus on enhancing the overall value proposition of leveraging commercial cards. To start with, financial institutions can focus on the following value-added services to increase the overall effectiveness of the programs and build stronger relations with the organization.

• **Training and Support:** Financial institutions can leverage their experience with other organizations to assist in providing program management support and trainings for their clients. Financial institutions can also help organizations in implementing best practices to increase the overall effectiveness of the program.

• **Supplier Management:** A lower supplier acceptance base can be a challenge for organizations to adopt commercial cards. Financial institutions can assist organizations in identifying the right suppliers who accept commercial cards based on the client’s requirements. Financial institutions can also help organizations in categorizing suppliers based on pre-defined criteria leading to enhanced negotiating abilities and mitigation of supplier concentration risk.

• **Tax and Compliance:** Leveraging Level 3 data, financial institutions can help organizations streamline their tax reconciliation efforts to meet statutory requirements and also assist in integrating their accounts payable (A/P) processes. This can be a critical value-added service for organizations operating in areas with different tax regimes.

• **Insurance Service:** Given the different purposes for which commercial cards are utilized, financial institutions can provide insurance services so that the whole process can be streamlined. While majority of issuers already provide complimentary insurance cover for card holders, there are significant variations in the scope of insurance provided.

• **Benchmarking Tools:** Financial institutions can help develop performance analysis tools along with providing the relevant information which can help in benchmarking program performance.

• **Program Management Tools:** Financial institutions can provide program management tools to help manage various aspects of a commercial cards program such as reporting, workflow management, dashboards, reconciliation, and account management. This can help reduce the overall cost of program administration for the organization, leading to higher adoption rates and superior client experience.
Conclusion

As organizations focus their efforts on rationalizing costs and increasing reporting and compliance effectiveness, commercial cards are gaining more traction in the corporate world. Commercial cards are expected to grow at a healthy pace in the near future, with purchase cards gaining ground along with the more traditionally used T&E cards.

While commercial cards offer significant benefits to all the stakeholders, they still face significant challenges hindering their higher adoption. This means organizations must take a more structured approach towards launching a commercial cards program with holistic planning for support from all the internal and external stakeholders.

Given the complex nature of executing a successful commercial cards program, financial institutions should play an active role in supporting and advising organizations in their endeavors. This helps establish an environment which is conducive for commercial card adoption and creates a more efficient and effective financial system.
References


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The authors would like to thank Prasanth Perumparambil, David Wilson, Ram Pirabhu Ramaraj, Anshu Dubey, and Mahesh Bhattad for their contributions to this publication.
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