The Benefits of Using Purchasing Cards

William K. Thorpe, Partner, CFO Edge, LLC

The procure-to-pay process followed by many middle-market companies today is anything but efficient. Typically, the process starts with a requisition and then proceeds to a purchase order, invoice and eventually a payment, either by check or electronically using the Automated Clearing House (ACH).

This process may be justified for the purchase of big-ticket items like new equipment and machinery or raw materials and inventory. However, it's extremely cumbersome and expensive when used for the purchase of low-value, inexpensive items like office supplies or travel and entertainment expenses. In fact, the payment processing costs can far exceed the cost of the items themselves.

According to the National Association of Purchasing Card Professionals (NAPCP), the commercial card and payment industry's trade association, it typically costs between $50 and $200 to process a payment via the traditional procure-to-pay process.[1] Obviously this doesn't make much sense if you're buying $25 worth of office supplies.

A Better Way: P-cards
Using a purchasing card, or P-card as they're usually called, is a much better way to pay for low-value items than traditional procure-to-pay. A P-card is a corporate card that employees can use to pay for designated products and services without having to go through the unwieldy and expensive procure-to-pay process. According to the NAPCP, companies can enjoy efficiency savings ranging from 55 percent to 80 percent by switching from a procure-to-pay process to using P-cards. The average savings resulting from this switch are $63 per transaction.[1]

P-cards aren't necessarily new. Companies have been using corporate credit cards to pay for low-value items and travel and entertainment expenses for years. However, a growing number of businesses today are using P-cards to pay for big-ticket items such as equipment, machinery and raw materials. In addition, some companies are also using P-cards to pay for recurring monthly expenses like mortgage or rent payments, utilities and telecommunications and Internet service.

Using a P-card to pay for these and other items and services can result in a number of benefits, including:

- Greater accounts payable and accounting efficiencies.
- Lower payment processing costs.
- Optimized working capital and improved cash flow management, resulting in extended Days Payable Outstanding (DPO).
- Improved management reporting for better analysis of spend data.
- Better employee expense control.
- Higher levels of payment security.
- Easier ability to take advantage of prompt-pay discounts from suppliers.
- Seamless integration of expense reporting into the accounting platform.

In addition, your company may be able to obtain cash-back rebates on purchases made with a P-card. Depending on your volume of P-card purchases, these rebates could add up to thousands of dollars each year — money that will drop straight to your company's bottom line. P-cards also make it easy to track and monitor employee spending using the detailed and itemized monthly statements you'll receive from the P-card issuer.

Suppliers May Benefit, Too
Your suppliers can also reap benefits when you pay them using P-cards. For example, they will save money by eliminating the need to create and mail invoices, collect accounts receivable and deposit checks. They will receive their money faster, which will boost their cash flow. In addition, they could increase their sales volume and improve customer satisfaction levels by allowing customers to pay them in this way.

An outsourced CFO services provider can help you implement a purchasing card program at your company. This provider will first analyze how much it's currently costing you to make payments via the procure-to-pay process and how much you could save by switching to P-cards. Next, an outsourced CFO will help you develop a project plan to move a portion of your accounts payable to P-cards. The outsourced CFO will also assist with vendor communication to facilitate a smooth implementation of your P-card program.

Concluding Thoughts
The procure-to-pay process followed by many companies today is anything but efficient. In fact, the payment processing costs can far exceed the cost of low-value items themselves. Using a purchasing card is a much better way to pay for low-value items than traditional procure-to-pay. Companies can enjoy efficiency savings ranging from 55 percent to 80 percent by switching to a P-card program. An outsourced CFO services provider can help you implement an effective purchasing card program at your company.

1 Why Use P-Cards?; National Association of Purchasing Card Professionals; www.napcp.org/?WhyUsePCards

About CFO Edge
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