



GSA SmartPay Conference

Credit Card Basics

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Success is in the Cards

11th Annual GSA SmartPay Conference

Phoenix, Arizona
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VISA

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Credit Card Basics

House Rules

To ensure the best possible learning experience for participants, please adhere to the following house rules:

- Turn cell phones and pagers to vibrate
- Hold questions to end of session
- Must be scanned to receive CLP credits
 - For each course
- Unanswered Questions
 - Q-Cards & Ballot Boxes
 - Answer to be emailed after the conference - within 45 days



Credit Card Basics

Goals & Objectives

This session is designed to assist you in achieving the following goals:

- Review the card industry structure
- Understand the commercial card value propositions
- Identify industry overviews and trends
- Review best practices



Agenda

1. Industry Structure
2. Commercial Card Value Proposition
3. Industry Overview & Historic Trends
4. Best Practices



1. Industry Structure



Industry Structure

What is Visa?

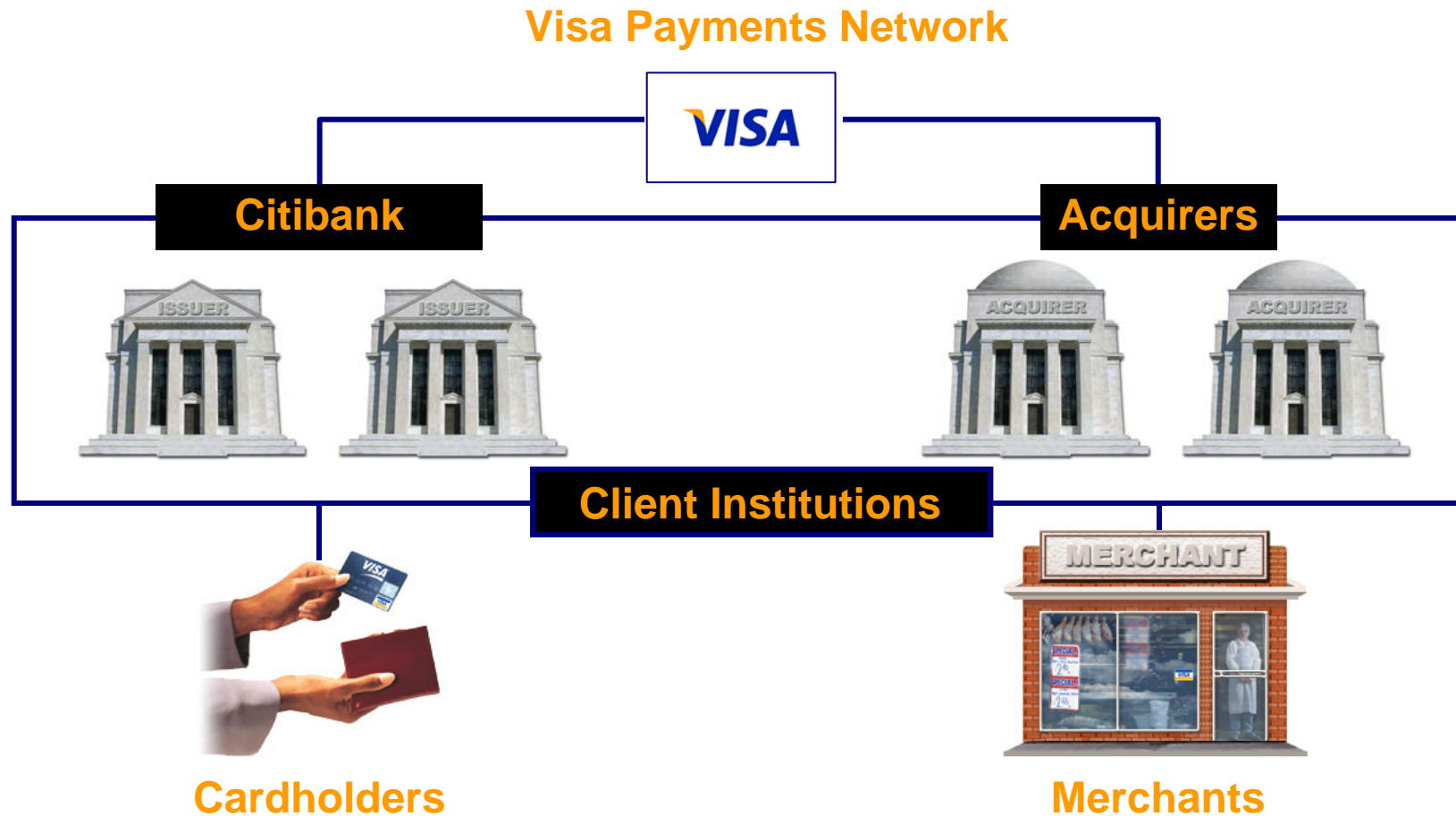
Visa is a global payments system supporting financial institutions with:

- An information network with a common platform for authorization, clearing and settlement.
- A brand that is universally recognizable and valued.
- A set of operating policies and procedures that must be consistently followed by all members.



Industry Structure

Key Stakeholders



Industry Structure

Key Stakeholders



Citibank

- Issue cards
- Assume buyer's credit risk
- Generate reports
- Provide customer service
- Differentiate service with custom products and enhancements



Visa

- Sets standards and rules
- Provides systems/operations
- Move money and data
- Provides risk management
- Simultaneously balance the needs of Issuers, Acquirers, Merchants, Cardholders and Businesses
- Provide expert service/support to SmartPay members and clients
 - Legislative, Regulatory Guidance/Support
 - New Products



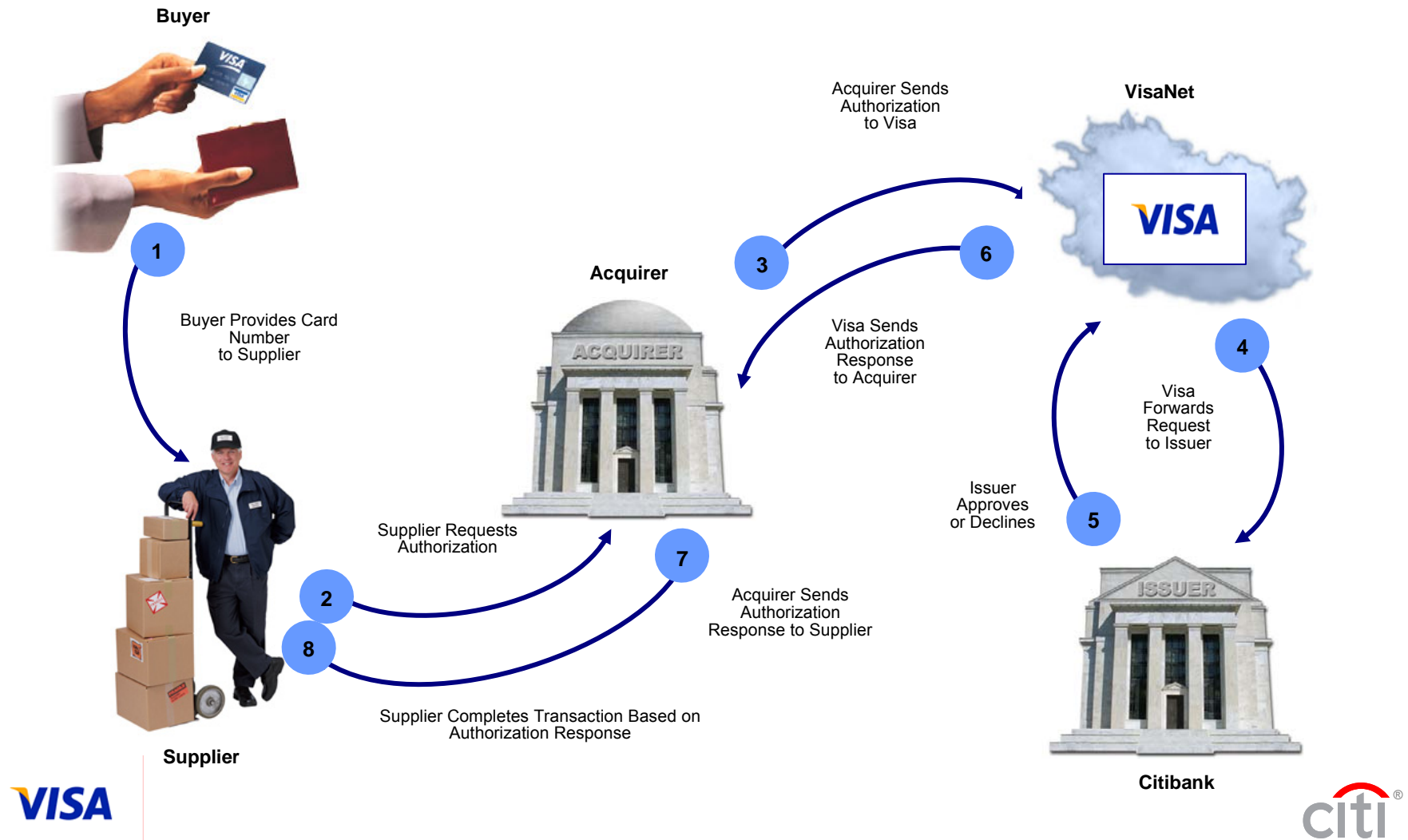
Acquirers

- Sign up suppliers
- Assess processing fees to suppliers
- Underwrite supplier risk
- Provide processing
- Generate reports
- Provide customer service
- Differentiate service with custom products and enhancements



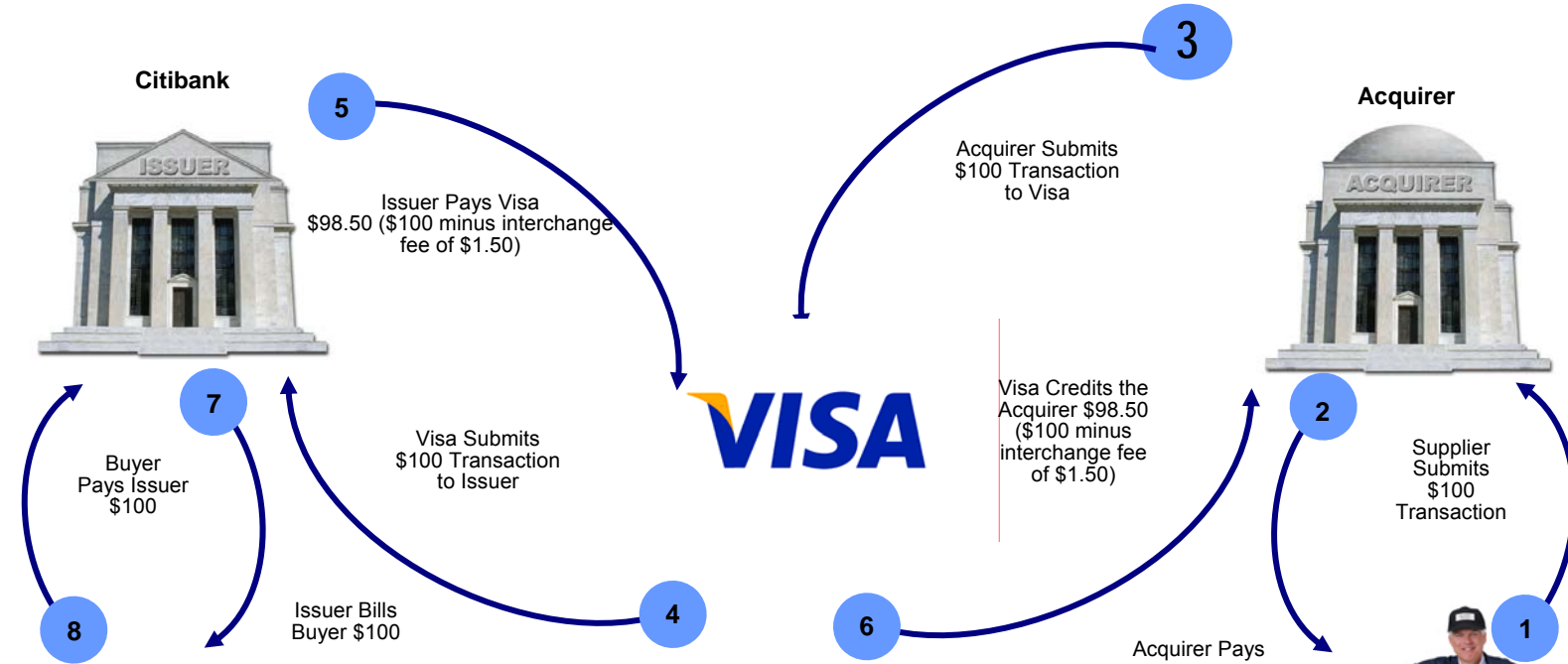
Industry Structure

The Visa System: Transaction Authorization



Industry Structure

The Visa System: Clearing & Settlement



VISA Buyer

Transaction Amount	\$100.00
Interchange Fee	\$ 1.50
Visa Pays Acquirer	\$ 98.50
Acquirer Pays Merchant	\$ 98.00
Net Fee to Acquirer	\$ 0.50
1.50% Interchange Rate*	
2.00% Merchant Discount*	
<i>(Merchant Discount is set by Acquirer and may vary)</i>	
<i>*Rates are for illustrative purposes only</i>	

Acquirer Pays Supplier \$98.00 (\$100 minus \$2.00 Acquirer Discount Fee)



Supplier



2. Commercial Card Value Proposition



Commercial Card Value Proposition

Quantifying the Value Proposition: Goals that Lead Industry to Adopt Card Programs

Purchase Card	%	Travel Card	%	Fleet Card	%
Reduced PO/Check Processing	66%	Employee Convenience	75%	Employee Convenience	67%
Spend Visibility	47%	Spend Visibility	50%	Minimize Manual Logs	48%
Streamlined Procurement	46%	Reduced Expense Reporting Costs	41%	Spend Visibility	43%
Employee Convenience	42%	Financial Incentives	25%	Reduced PO/check processing costs	33%



AberdeenGroup research study report, Corporate Payment Cards: More Value, Higher Savings Benchmark Report, *Purchasing, Travel, and Fleet Card Programs*, August 2006



Commercial Card Value Proposition

Quantifying the Value Proposition (Purchase): Procurement Card Council Study Savings – September 1994

The results of the cost benefit analysis show that the average cost (arithmetic mean) among the participating agencies for processing a purchase order and a purchase card buy, from identification of the requirement through closure of the sale, and payment are as follows:

Cost of Purchase Order = \$94.20

Cost of Purchase Card = \$40.43

▪ Potential Savings = \$53.77



September 1994

Commercial Card Value Proposition

Quantifying the Value Proposition (Purchase): Army Audit Agency Study Savings – AA97-58 January 7, 1997

Activity	Purchase Order*	Purchase Card	Savings
Customer	\$35.98	\$11.98	\$24.00
Cardholder	\$0.00	\$13.49	(\$13.49)
Resource Mgt	\$24.42	\$6.41	\$18.01
Logistics/Supply	\$28.25	\$7.15	\$21.10
Contracting	\$42.98	\$0.00	\$42.98
Sub Total	\$131.63	\$39.03	\$92.60
Accounting	\$23.46	\$23.46**	\$0.00
Army-wide Average	\$155.09	\$62.49	\$92.60

*Army chose specific procurement method (purchase order) for this study

**Paper based



Commercial Card Value Proposition

Quantifying the Value Proposition (Purchase): Regardless of the Study or Timeframe – Savings are Significant

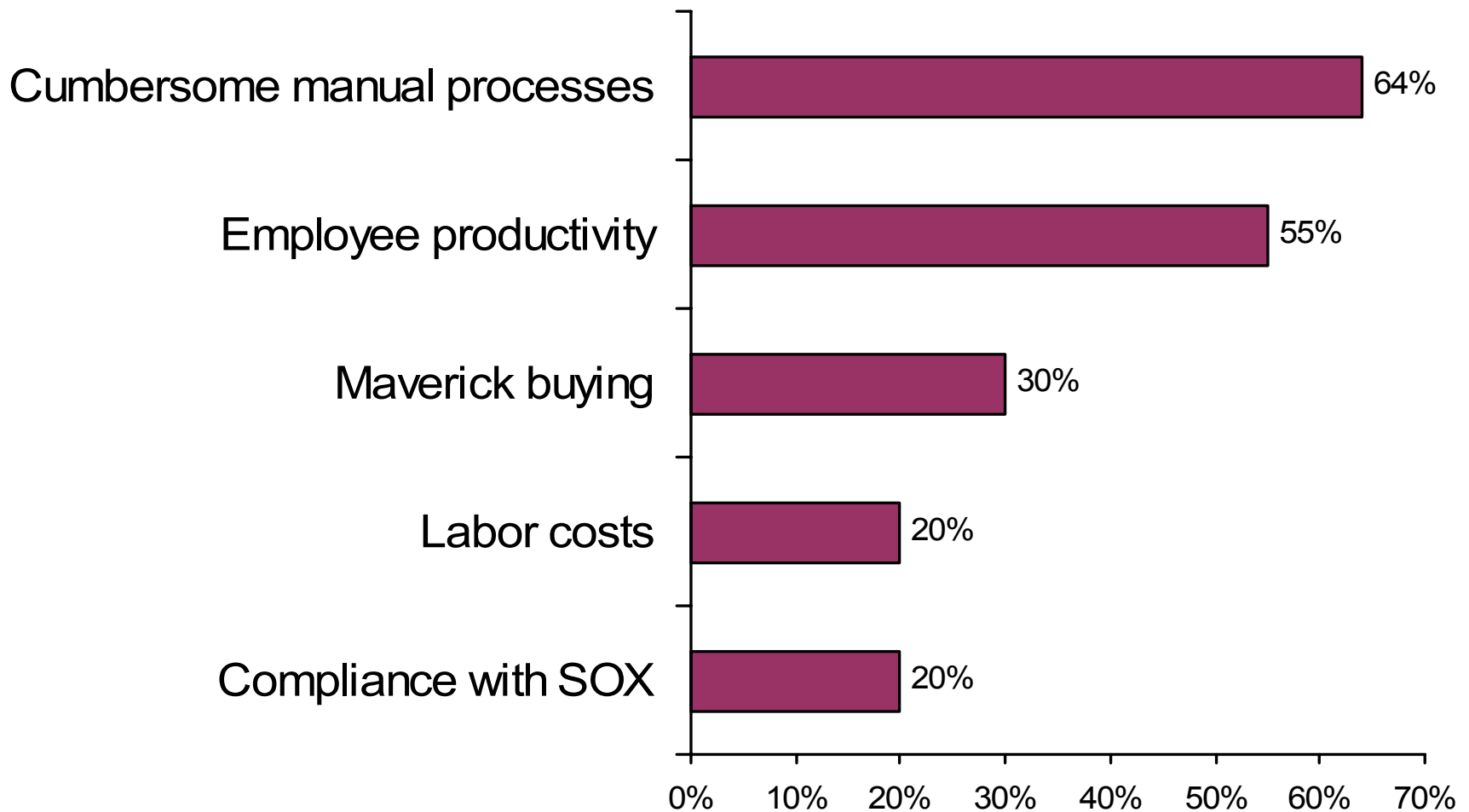
“Currently, it is estimated that the Federal government saves about \$70 of administrative cost savings for each of its 25.9 million transactions on the purchasing card, or \$1.8 billion.” Purchasing Card Use by the U.S. Federal Government: A Status Report, Mahendra Gupta and Richard J. Palmer, January 7, 2006

- Procurement Card Council Study Savings \$54
- Army Study \$92
- Palmer/Gupta \$70



Commercial Card Value Proposition

Top Business Pressures Driving Change in Procure-to-Pay Activities

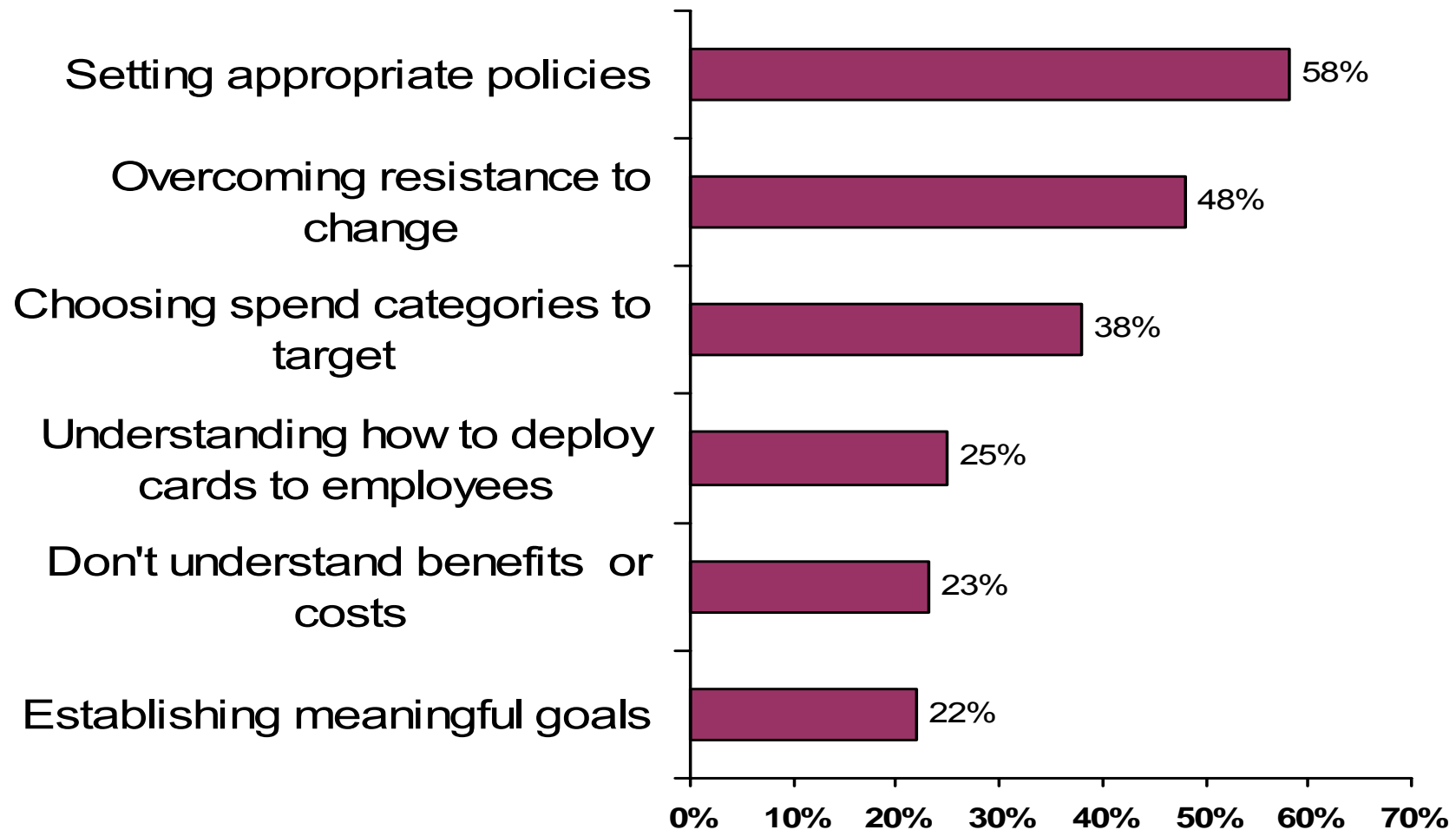


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Commercial Card Value Proposition

Key Challenges to Implementing a Corporate Payment Card Program



Commercial Card Value Proposition

Card Use Policy

Setting appropriate card use policies is the top implementation challenge for Average and Lagging companies.

- Purchasing Cards:
 - Best-in-Class companies most often have a defined Purchasing card use policy that mandates Pcard use for targeted categories
- Travel Cards:
 - Fifty five percent (55%) of Best-in-Class companies mandate Travel card usage for all regular travelers
- Fleet Cards:
 - Approximately half of Fleet card holders use: gas card for fuel only, vehicle card for fuel and maintenance

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3. Industry Overview & Historic Trends



Industry Overview & Historic Trends

Industry Average Steps to Success

- Move more spend under the card. Increasing the amount of spend under the card will enable incremental savings and increased category spend visibility
- Strictly enforce the use of P-cards for targeted categories. For Travel cards, move away from reimbursing personal card expenses and mandate the use of corporate card for all regular travelers

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Industry Overview & Historic Trends

Industry Average Steps to Success (continued)

- P-card: give more decision-making power in managing the P-card program to the Purchasing director who is closer to the program and is able to make sound decisions about its use.
- Travel card: give the Purchasing director more decision making power for the program decisions, relegate program management to the Travel director.
- Fleet card: coordinate card policy decisions more closely with the Fleet director.
- Move to the electronic program reporting and online statement delivery, as well as automatic card transactions reconciliation.

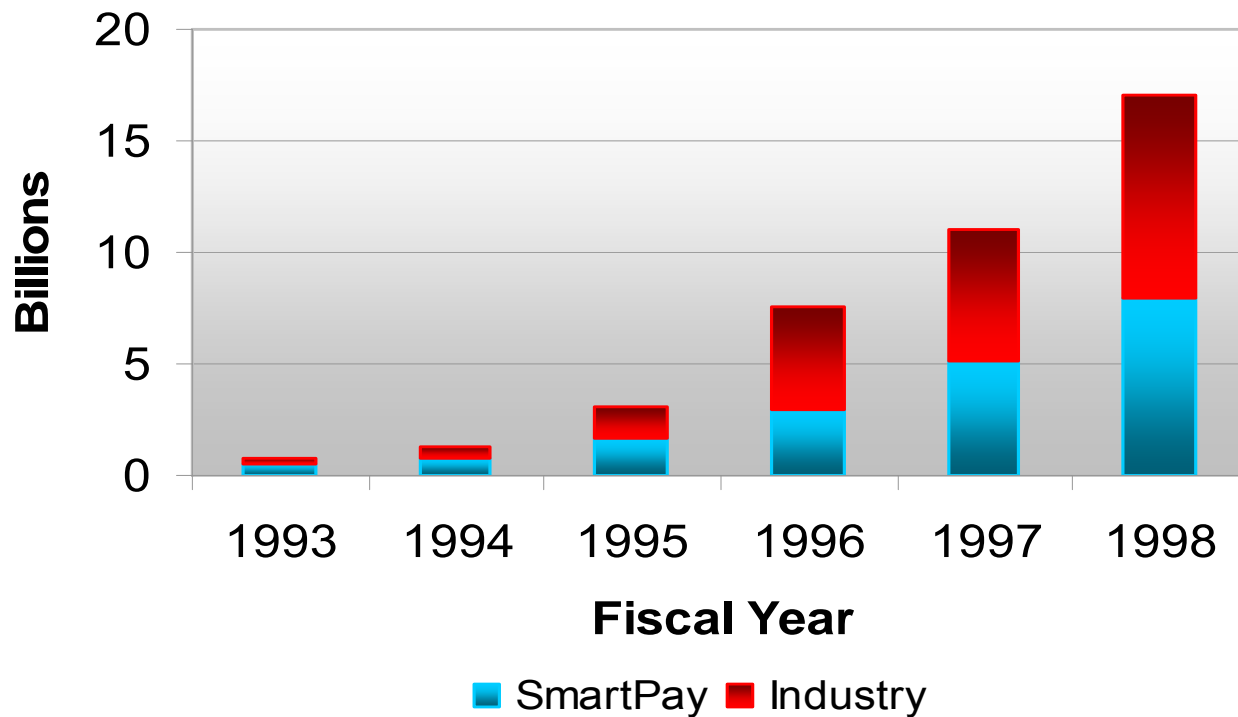
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Industry Overview & Historic Trends

Industry Trends: North American Purchase Card Industry

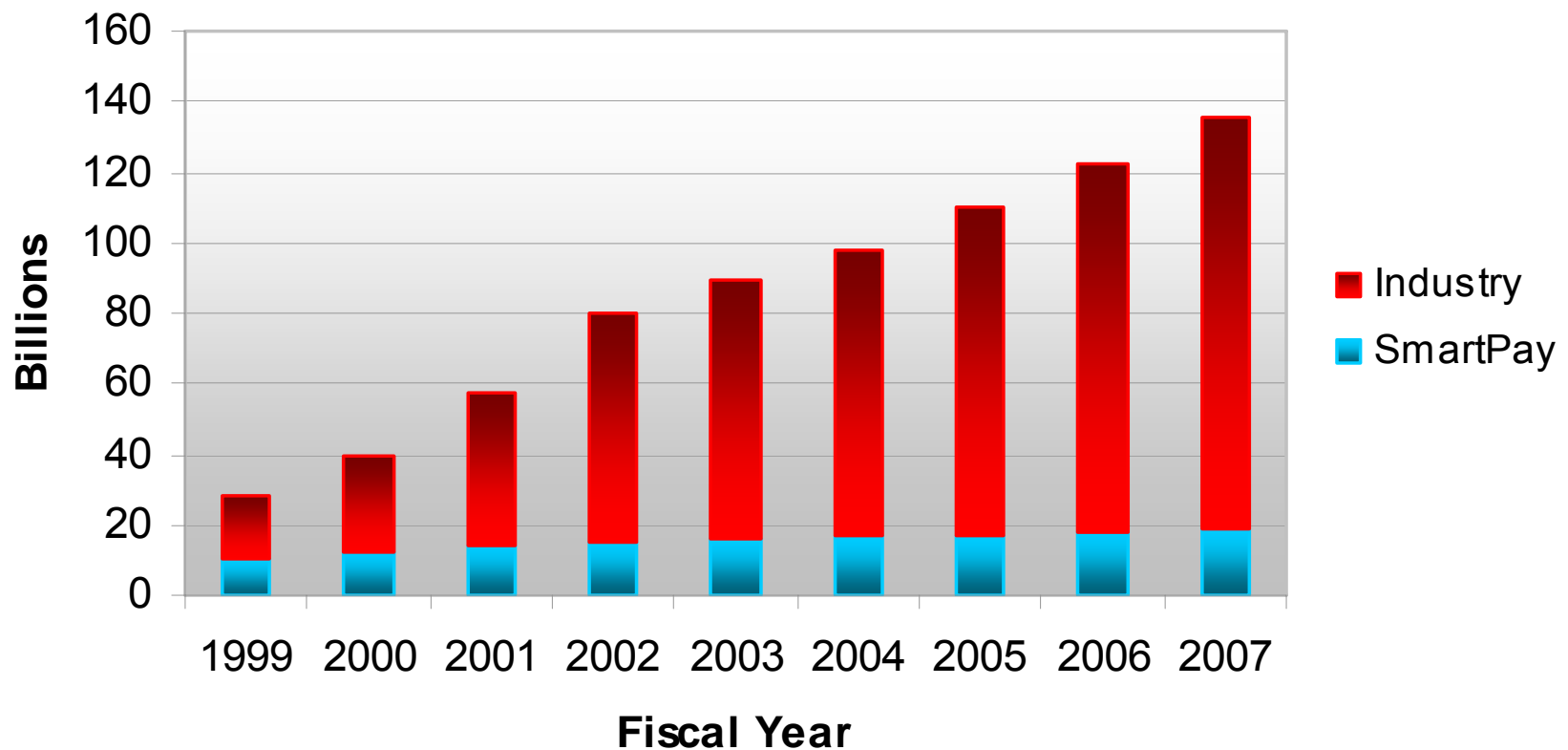
1993-1997 SmartPay Leads in Early Years



Industry Overview & Historic Trends

Industry Trends: North American Purchase Card Industry

1998 – Industry Overtakes / Passes Federal Sector



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Industry Overview & Historic Trends

Industry Trends: North American Purchase Card Industry

Program Averages

	1998	2001	2003	2005	2007(SP)
Average Monthly Spend	\$632,936.00	\$800,540.00	\$10,623.29	\$1,297,453.00	\$1,557,731,925
Average Monthly Spend per Card	\$777.00	\$1,053.00	\$1,026.00	\$1,831.00	\$5487.66
Average Transaction Size	\$201.00	\$227.00	\$195.00	\$263.00	\$756
Average Monthly Transactions per Card	3.8	4.6	5.3	7	7.3

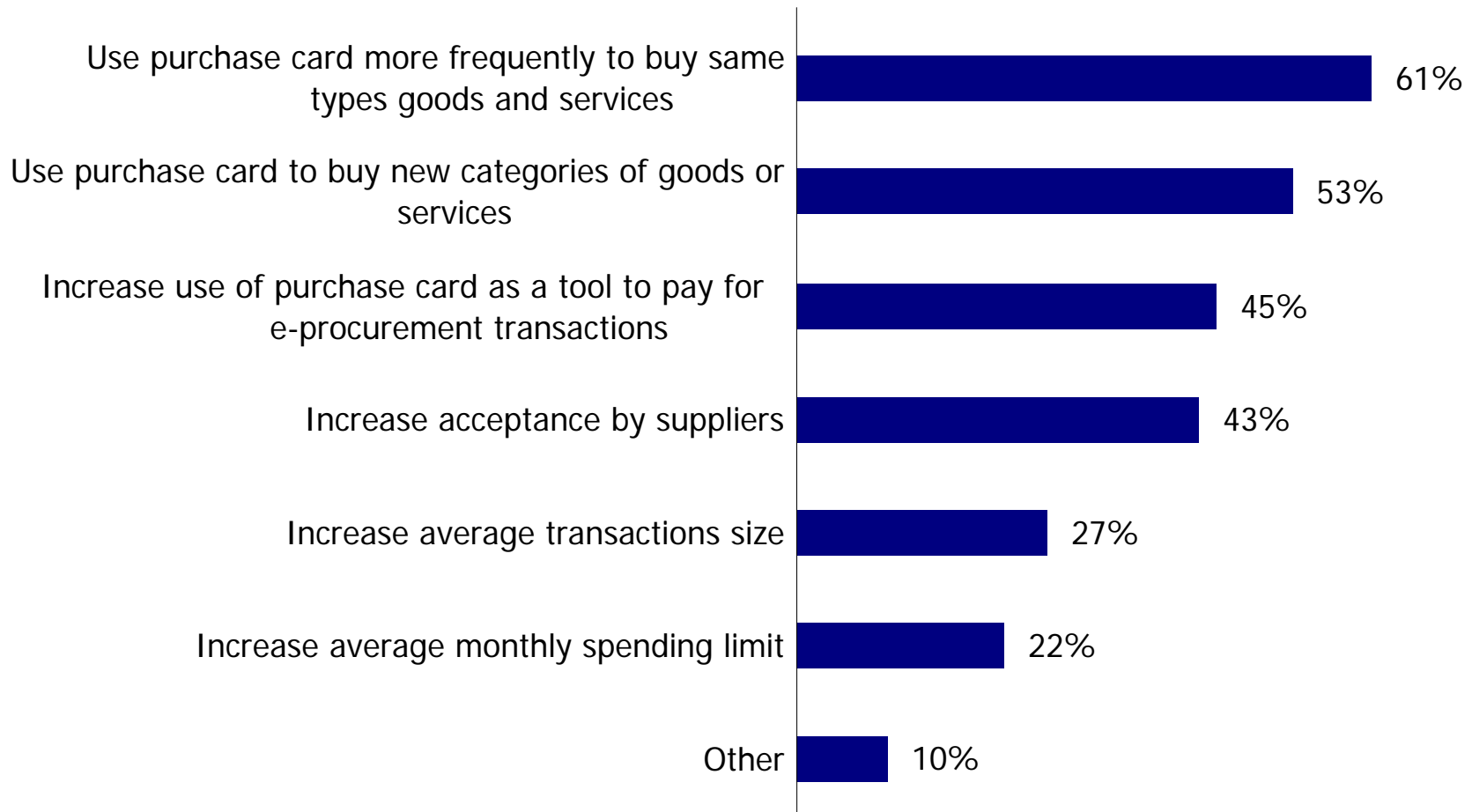


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Industry Overview & Historic Trends

Industry Reasons for Expected Spending Increases



Industry Overview & Historic Trends

Best in Class Strategies: Purchase

	Laggards	Industry Average	Best-in-Class
Process	Purchase cards used mostly for incidentals	Incidental and some targeted categories	Well-defined purchase card use policy: Mandated for selected categories
Organization	Program Managed by CFO/Comptroller; CFO holds decision power for most card policy issues	Program managed by purchasing director who shares responsibility for main card policy decisions with CFO	Program managed by purchasing director who is also main card policy decision maker
Knowledge	Limited/delayed visibility into purchase card spend	Some visibility into purchase card spend	Real-time visibility into purchase card spend
Technology	Statement delivery and activity monitoring and reconciliation only partially automated; hard copy statements/reports still widely used	Hard copy statements still used although less often than laggards but manual reconciliation still required	Two-thirds of companies reconcile card transactions on-line; accounting entries automatically fed into finance systems



Industry Overview & Historic Trends

Best in Class Strategies: Travel

	Laggards	Industry Average	Best in Class
Process	Personal cards still regularly reimbursed even though a corporate travel card program is in place	Personal cards still reimbursed, but an effort is made for more strict mandate of the corporate travel card use	Travel card usage mandated for all regular travelers
Organization	Program Managed by CFO/Comptroller or other executive management; CFO holds decision power for most card policy issues	Program managed by purchasing director; CFO holds decision making power for most policy issues	Program managed by AP or travel director. Purchasing director is main card policy decision maker
Knowledge	Limited/delayed visibility into Travel card spend	Some visibility into Travel Card spend	Real-time visibility into Travel Card spend
Technology	Statement delivery and activity monitoring mostly automated; reconciliation is done with Excel-based expense reports	Statement delivery and activity monitoring mostly automated; reconciliation of card transactions performed electronically	Highest degree of card program reporting automation; reconciliation of card transactions and accounting entries done electronically

4. Best Practices



Best Practices

Program Best Practices

- Strong executive endorsement
- Cross-functional collaboration (Acquisition, Finance, Logistics, Internal Control, etc.)
- Integration with technology investments (E Purchasing)
- Broadest distribution of cards
- Broadest utilization of cards (payment and purchase)
- Mix of payment applications (interchange and non-interchange based)
- Connection to broader cost management agenda (strategic sourcing)



Best Practices

Program Best Practices (continued)

- Concentration on streamlining business processes
- Goals and metrics
- Higher spending limits, driving more active card use
- Expanded span of acceptable purchases
- Perform a process mapping / cost analysis
- Quantify purchase card ROI
- Set & track performance goals
- Provide comprehensive training and communications



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Summary

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