

MasterCard Corporate Purchasing Card

Best Practices Guide



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.: Introduction

Although purchasing cards have been in use for more than a decade, the world in which we use them has changed dramatically. The Internet revolution has made payment cards the method of choice for online buying, and yet checks are still a mainstay in our payment toolbox. Most companies now have a different general ledger system than they did 10 years ago, but it is called an Enterprise Resource Planning (ERP) system. “Cost containment” has replaced “financial reengineering” as the watchwords. And we continue to find better ways to communicate with our suppliers electronically, whether we use an e-procurement system or an electronic invoice presentment and payment (EIPP) solution.

While the use of purchasing cards is now standard practice, our focus on their significant contribution to payment efficiency may have become blurred. MasterCard Worldwide developed this guide to help companies jumpstart a stalled program or rejuvenate one that is just coasting along. It describes a number of industry best practices used by best-in-class organizations—those companies that have made purchasing cards a core component of their payment strategy.

This guide tackles several factors that companies using MasterCard Corporate Purchasing Cards® have branded as barriers to success. By addressing such issues as sales tax and 1099 reporting in a straightforward manner, organizations will no longer see limits to their program, but endless opportunities.

The identified best practices for MasterCard Corporate Purchasing Card programs are described in four key areas in this guide:

1. Planning and Implementation
2. Program Management
3. Compliance, Audit, and Reporting
4. Program Expansion

The roles of each within a typical Corporate Purchasing Card program are described below.

Best Practice Segment	Concepts Explored
Planning and Implementation	Highlights the importance of analyzing the organization’s “as is” situation first and including the right people in its expansion plans, while setting goals up front
Program Management	Underscores the need to manage a program using the tools and data that define purchasing cards
Compliance, Audit and Reporting	Illustrates the use of reporting tools to ensure compliance without process overload
Program Expansion	Describes tested approaches and recent innovations that keep the organization focused on program growth

Planning and Implementation



.: Planning and Implementation

Best Practice #1

Perform a Purchase Transaction Analysis

A thorough analysis of an organization's purchase transactions will define its program enhancement opportunity. By gathering and assessing a representative sample of historical transaction data, a company can develop a business case, set goals, and target areas for process change. It will also help prioritize deployment of resources for purchasing cards and any related initiatives.

A purchase transaction analysis can be conducted in one of three ways:

1. Internally with IT support, financial system queries, and database management and spreadsheet programs
2. Using pre-existing data warehouses and executive information systems
3. Using an outsourced service bureau specialized in this discipline

The outsourced service bureau approach has a number of advantages. It is the fastest, especially if internal resources are constrained or unavailable. Outside services also have the ability to augment payables system data with information from external directories, such as North American Industrial Classification System (NAICS) codes, the successor to Standard Industrial Classification (SIC) codes. Payee names can also be matched to directories of card-accepting suppliers with enhanced data indicators.

A purchase transaction analysis is the first, key step in launching a program expansion initiative. It provides the data needed to identify areas of opportunity, prioritize implementation steps, and quantify potential benefits in a formal business case. Communicating the opportunities throughout an organization is easiest when the facts are evident.

Key Success Factors	Methods of Achievement
Expense types targeted	Analyze all payments to identify expense types that qualify for purchasing card usage
Key suppliers, locations, and end users identified	Highlight vendors, offices, plants, and potential buyers that warrant focused purchasing card usage
Costs and benefits measured	Quantify discounts lost, purchase orders (POs) processed, checks requested, and order methods
Implementation phases defined	Cost savings ranked vs. ease of implementation for target expense types, suppliers, locations, and end users

Benefits Realized

- Hard data to develop a compelling business case
- Baseline statistics for making rational projections
- Detailed metrics to prioritize opportunities for implementation planning
- Comprehensive information to set program scope

Best Practice #2

Quantify Purchasing Card Expansion ROI

Quantifying return on investment for a company's program expansion efforts will solidify the underlying business case. The data produced by a purchase transaction analysis becomes the foundation for the ROI calculations. It is also important to review the current procure-to-pay process and map out the costs associated with how things are done today. The comparative costs of paper management vs. purchasing card usage will result in quantifiable savings.

The various combinations of procurement and payment methods in an organization will be identified during the purchase transaction analysis. These should now be reviewed individually to determine people time, system costs, and third-party processing expenses associated with each procure-to-pay combination. When the cost for each has been quantified, the "as is" volumes can be used to establish the current cost structure. Process change opportunities identified during the purchase transaction analysis can then be quantified as well, producing bottom line savings from expanded Purchasing Card deployment.

Senior management looks favorably upon realizable savings presented in a compelling business case. Taking the time to map out a corporation's procure-to-pay cost structure, and quantifying the ROI from instituting process improvements, will ensure commitment from the very top of the organization.

Key Success Factors	Methods of Achievement
Process costs mapped	<ul style="list-style-type: none">- Identify procure-to-pay method combinations- Review process implications in terms of people time, system usage, and third-party providers- Quantify the cost of each process step and the resulting combinations
Justifiable ROI	<ul style="list-style-type: none">- Use volumes identified in purchase transaction analysis to determine current cost structure- Calculate savings opportunity from process changes highlighted by purchase transaction analysis
Solid business case	<ul style="list-style-type: none">- Substantiate process savings with other benefits such as employee empowerment and focus on strategic vendor contracts

Benefits Realized

- Management commitment and project sponsorship
- Cross-functional buy-in
- Clear program expansion objectives

.: Planning and Implementation

Best Practice #3

Form a Cross-Functional Program Enhancement Team

A cross-functional team is the driving force behind a successful program enhancement initiative. It should be comprised of representative stakeholders who are committed to achieving program growth and process efficiencies. These individuals provide expertise in functional, financial, regulatory, and control-related disciplines to guide the project early in its lifecycle and avoid barriers to success.

The following areas should be represented:

- Accounts Payable
- Procurement
- Finance/Accounting
- Internal Audit
- Tax
- Information Technology
- Human Resources
- Corporate Marketing and Communications
- Legal

Other key members include:

- Senior Management sponsor
- Project Manager
- User representatives
- Issuing Bank representatives
- Third-Party Providers

Not all representatives will be active participants in every meeting; some will be solicited for input on an as-needed basis. However, engaging and informing these stakeholders at the onset of the project will demonstrate a spirit of cooperation and respect for their areas of expertise. Effective implementation is all but assured with a multi-discipline team.

Key Success Factors

Methods of Achievement

Diverse representation

- Gain executive sponsorship for the project and cross-functional representation
- Identify key representatives of stakeholder disciplines
- Develop a compelling business case and communicate it to prospective team members
- Engage current buyers and new cardholders to provide feedback on changing processes

Project management experience

- Identify a team leader with experience leading projects, as well as a vested interest in program expansion

Benefits Realized

- Optimal process redesign
- Financial integrity and appropriate controls
- Effective communications and user training
- Avoidance of last minute crises

Best Practice #4

Set Performance Goals

Performance goals establish the benchmarks against which program expansion can be measured. The underlying business case includes expectations for financial benefit, while performance goals allow the project team to demonstrate the cumulative value of the initiative.

Goals should be quantified consistent with the objectives of the organization and reflect the principles of the supporting business case. There should be a goal for each:

- Category of cost and benefit
- Affected function and location
- Measurable dimension of the process
- Time frame going forward

For example, a goal might be set for the percentage of employees with cards, or for the number of purchase orders eliminated in the first year of implementation.

Goals help define the program expansion opportunity and make it tangible across an organization. Used in conjunction with performance tracking, they demonstrate progress or highlight barriers to success. Broadly communicate the organization's program expansion goals to achieve the highest level of cooperation.

Key Success Factors

Defined program goals

Methods of Achievement

- Establish overall business objectives
- Identify cost and benefit categories
- Highlight affected functions and locations
- Determine measurable dimensions of the process
- Define measurement time frames
- Develop realistic projections for the expanded program

Accountability for achieving goals

- Identify specific functional areas responsible for implementing process changes
- Develop job objectives consistent with program goal achievement

Benefits Realized

- Clearly defined program objectives
- Motivated employees
- Measurable results
- Accountability for process change

.: Planning and Implementation

Best Practice #5

Track Performance

Performance tracking helps the organization to effectively manage program expansion and sustain long-term commitment to its Purchasing Card program. Program performance can be measured along several parameters, and reported to both line and senior management, to demonstrate progress or justify the need for resources and cross-functional cooperation.

Once program goals have been quantified, the project team will need to establish baseline metrics for reporting, such as cardholders as percentage of total employees. They will also need to identify the source for each data point such as Accounts Payable, specialized service bureau, and card management system. To communicate progress, standard reporting formats and schedules should be developed which are consistent with the receiving audience.

Keeping expansion progress in front of management will ensure ongoing support, as well as assistance when barriers are encountered. Proving the value of the underlying business case will demonstrate that Purchasing Cards can be effectively deployed throughout the organization.

Key Success Factors	Methods of Achievement
Detailed reports to line	<ul style="list-style-type: none">- Collect and compile quantifiable data management monthly- Prepare progress reports comparing actual results against performance goals
Implementation barriers removed	<ul style="list-style-type: none">- Use reports to identify and highlight issues- Recommend resolutions or seek input from line management
Summary reports to senior management quarterly or annually	<ul style="list-style-type: none">- Present highlights of performance progress against goals- Recognize performance leaders- Acknowledge broad-reaching concerns that require management cooperation

Benefits Realized

- Visible progress against performance goals
- Validation of the underlying business case
- Early detection of potential barriers
- Identification of additional growth opportunities



.: Program Management

Best Practice #6

Rationalize Expense Policies & Procedures

Establishing or expanding a MasterCard Corporate Purchasing Card program provides an ideal opportunity to review an organization's current expense policies and procedures. This review may uncover old policies that need to be updated or identify new policies that coincide with using Purchasing Cards. Some procedures will need to be modified or replaced when cards are introduced as a payment option. Corporate Purchasing Cards should be viewed as a catalyst for reengineering, rather than just a payment tool.

The cross-functional project team should incorporate a policy and procedures review into the project plan. One approach is to assign one or two individuals to study current expense policies, while another small group documents current procedures for procurement, approval, and payment of goods and services targeted for Purchasing Card use.

The stated policies should be compared to actual procedures, noting where there are differences in practice. Existing policies should also be rationalized going forward with regard to traditional payment methods and Purchasing Cards. For example, purchasing authority levels may need to be adjusted with more employees having procurement capability using the card. These policies will then drive the guidelines for card limits and use privileges. They should also address procedures such as transaction reconciliation and management sign-off.

Policy and procedure rationalization will send a clear message to management and the rest of the company that the organization is willing to make changes that lead to operational efficiency without sacrificing controls. It will also help the project team communicate the new or enhanced program to employees, as it will have a simpler message to share at an opportune time.

Key Success Factors	Methods of Achievement
Updated expense policies	<ul style="list-style-type: none">- Review current policies in detail- Identify dated policies and make them current- Develop new policies where needed in support of Purchasing Cards as a payment tool
Efficient procurement and payment procedure	<ul style="list-style-type: none">- Document current procurement and payment procedures- Compare procedures to policies and make modifications where appropriate- Establish new or modify current procedures to address the use of Purchasing Cards as a payment tool with pre-authorized limits

Benefits Realized

- Efficient and effective procedures for procurement and payment
- Clear and unambiguous expense policies
- Established guidelines for card limits and usage

Best Practice #7

Provide Comprehensive Training & Communications

Effective training and focused communications are critical to the success of any new initiative. Purchasing Card program expansion is no exception! The rationale for the initiative must be understood by almost everyone; appropriate groups need to be trained on using the card, or its impact on current procedures. In addition, various levels of management need to be aware of program performance and personal accomplishments.

The first step is to define what messages need to go to which audiences, both during the project and after implementation is complete. The method and frequency of communication will be dependent upon the audience. A company-wide e-mail or inbox letter from the CEO or CFO can kick off the program, but project team members may need a dedicated intranet site to reference, and line management will need monthly reports of program performance. All employees should be apprised of program milestones and new usage opportunities to maintain momentum. A company newsletter or intranet site can facilitate this type of broad communication.

Training will also need to be developed and conducted consistent with the audience and the level of detail required. Card user training will be very different from training for the Accounts Payable (A/P) department, the Purchasing Department, or Information Technology (IT) team.

Communication not only generates buy-in, but avoids surprises and misunderstandings. A well-planned communications strategy on the front-end keeps everyone well informed and onboard. Similarly, a formal training program helps the program ramp-up more quickly as card users and program participants are confident in their ability to adopt the new procedures.

Key Success Factors

Methods of Achievement

Project Manager not overrun with questions (by phone or e-mail)

- Keep senior management informed of project progress
- Keep project team up-to-date on implementation activities
- Identify department/region contact points early on

Program Administrator/
Accounts Payable Manager/
Purchasing Manager not overrun with questions (by phone or e-mail)

- Establish regular program performance reporting to management
- Develop targeted training for card users and function areas

Issuing bank's customer service not overrun with questions

- Develop targeted training for card users
- Establish feedback mechanism (satisfaction survey) for cardholders

Broad-reaching, regular communications

- Identify a communications method that reaches the whole company (newsletter, e-mail, intranet site update)
- Follow any pre-established schedule for publication or develop one that keeps the message fresh with unique success stories

Benefits Realized

- Supportive management
- Commitment to regular communications
- Increased cooperation between departments
- Empowered employees
- Faster program expansion

.: Program Management

Best Practice #8

Optimize Purchasing Card Deployment

Corporate Purchasing Cards should be deployed where the organization has concentrations of end users, commodities purchased, and spending that fit the Purchasing Card profile such as low-value, high-volume, indirect goods and services. A purchase transaction analysis will yield valuable data for determining where these pockets of opportunity lie.

The first cut should look at transactions that fall below the organization's "low-value" threshold. This value may be the cutoff for capitalizing expenses, or it might be \$1,000 for office supplies and \$5,000 for computer hardware. While the 80/20 rule is often applied here (80% of the transactions amount to only 20% of the dollars spent), many organizations see 90% of their purchase transactions totaling only 5% of their non-payroll dollars. Higher thresholds, such as \$2,500 or \$5,000, have become a best practice as the industry has seen risk-averse organizations severely limit their program potential.

Once the value threshold is established, look at concentrations of commodities/suppliers and employee locations where these low-value purchases are being made. The organization can then begin to prioritize commodities and specific suppliers to target for card usage (or acceptance, if there is sufficient leverage) and offices where there are many end users who would benefit from having a card.

By analyzing a corporation's own data, it can determine where to target its Purchasing Card spend, and which suppliers and locations to implement first, to reach the low hanging fruit, and plan for the more difficult opportunities.

Key Success Factors	Methods of Achievement
Purchasing card transaction threshold	<ul style="list-style-type: none">- Apply 80/20 rule to purchase transactions- Review capitalization threshold- Consider expense authorization policies
Target commodities	<ul style="list-style-type: none">- Identify commodities (including services) that typically fall below the purchasing card threshold- Review purchasing and payment methods for those commodities
Key suppliers	<ul style="list-style-type: none">- Identify suppliers used for target commodities- Highlight national suppliers that could be used more to the company's advantage- Determine which key suppliers already accept cards and what level of transaction data they provide
Geographic concentrations	<ul style="list-style-type: none">- Identify departments, offices, or regions where the number of end users justifies on-site vs. remote program implementation

Benefits Realized

- Quicker volume ramp-up
- Stronger vendor relationships
- Logical prioritization of opportunities (easy/large vs. hard/small)
- Cost-effective implementation

Best Practice #9

Identify Ghost Account Opportunities

A ghost account, or virtual card used to facilitate purchases from a supplier, can be very effective when numerous employees order from the same supplier, and many of those individuals don't order other goods or services often enough to justify having their own Purchasing Cards. Department cards and project cards may have actual plastics, but various employees are authorized to use them with the proper controls in place. Reconciliation of all these accounts must be handled centrally, by the vendor manager in the case of ghost accounts, and the department or project manager in the case of department cards and project cards.

To properly manage a ghost account, the supplier should be able to at least capture Level II merchant information. If ordering is done over the phone, employees should be asked for a cost center or employee number that is captured in the customer number field (POS code). This allows purchases to be automatically posted to the correct department. If purchases are made online, the purchase order (PO) number can be captured in the customer number field to reconcile payment by Purchasing Card. There should also be language in the vendor agreement stating that the supplier is required to ask for the cost center or employee information, and is liable for unauthorized activity. The card issuer can help an organization restrict use of a ghost account to the supplier's merchant category code (MCC), and possibly to that supplier alone, further reducing the chance for unauthorized use.

Ghost accounts and department/project accounts can be used in situations where individual Purchasing Cards don't add value, such as e-procurement systems that impose limits and accountability on the buyer. They can add substantially to program spend, generating both cost efficiencies and financial rewards.

Key Success Factors

Effective ghost account

Methods of Achievement

- Identify suppliers used by many employees, several of which can't justify arrangements having their own Purchasing Card
- Ensure Level II merchant data can be captured for phone or online orders
- Require supplier to collect purchase ID from employees on all phone orders and to be responsible for unauthorized use of the account number
- Limit the account to only that supplier, or at least their MCC
- Make one individual accountable for reconciling the ghost account

Efficient department project cards

- Establish card usage controls, such as a sign-out log or transaction or documentation
- Make one individual accountable for reconciling the department or project card

Benefits Realized

- Supplier efficiencies
- Key supplier leverage
- Department or project expense control
- Incremental program volume
- Faster program ramp-up

.: Program Management

Best Practice #10

Manage Supplier Relationships

Activity with all suppliers should be tracked and monitored to efficiently manage and potentially reduce the overall number of supplier relationships. This allows management to understand the importance of each relationship while choosing the most effective payment mechanism for each supplier.

Vendor Management is typically the responsibility of the Purchasing or Accounts Payable departments, where new suppliers are authorized and vendor contracts are negotiated. One goal of a Purchasing Card program is to use reporting data to leverage strategic supplier relationships, while minimizing the number of suppliers set up on the Accounts Payable system. Card reporting data from the card issuer, the MasterCard Supplier Directory and the MasterCard® Enhanced Merchant Reporting System, in conjunction with output from the organization's Accounts Payable system, can be used to accomplish this two-fold objective.

Spend data organized by supplier can help an organization negotiate better volume-based pricing with strategic suppliers, identify and curb maverick spending, and use Purchasing Cards to handle suppliers used on an ad hoc basis, thereby freeing up the Accounts Payable system and staff time.

Key Success Factors	Methods of Achievement
Broader strategic relationships	<ul style="list-style-type: none">- Use purchasing card spend data to identify national and even global spend with key suppliers, in addition to other payment methods- Leverage overall spend data in vendor negotiations
New preferred vendors	<ul style="list-style-type: none">- Identify suppliers that are used enterprise-wide to focus spending and negotiate volume-based pricing
Smaller vendor database	<ul style="list-style-type: none">- Delete vendors from the Accounts Payable database paid only by card- Change policy to always pay ad hoc vendors by card if accepted

Benefits Realized

- Better data for supplier negotiations
- More manageable vendor database
- Ability to direct spending to preferred suppliers

Best Practice #11

Leverage Data Integration Opportunities

A Purchasing Card program offers a storehouse of data that can be effectively integrated with various company systems. Data integration supports using a card for all types of expenses and suppliers, including those requiring special 1099 or minority-owned and women-owned businesses (MWBE) reporting. Uploading data files eliminates re-keying and the potential for error. The effort to create any interface process is typically a one-time event and justified by the ongoing availability of useful data, thus making that process more streamlined.

It is important to first identify all of the potential touch points for data available from a card program. This data includes information about specific purchases, suppliers, card users, and other program participants. Integration opportunities follow the procure-to-pay process and related reporting requirements. Examples of touch point systems include:

- Enterprise Resource Planning ■ Accounts Payable ■ e-Procurement ■ Human Resources
- General Ledger ■ 1099 Reporting ■ Fixed Assets

MasterCard offers a number of standard interface files for commonly used enterprise resource planning systems and expense management providers. Organizations should contact their issuer to learn which solutions support the company's data integration needs.

Data integration not only saves time but improves accuracy. Automating as many processes as possible further enhances the value of a Purchasing Card program and supports expansion into new purchase applications.

Key Success Factors

Card transaction data feeding key systems

Methods of Achievement

- Identify overlapping data fields between systems
- Define formatting requirements of receiving system
- Establish frequency of data feeds
- Map out export and import process for each system involved
- Use sample data to conduct end-to-end testing

Key systems feeding card management system

- Identify overlapping data fields between systems
- Define formatting requirements of receiving system
- Establish frequency of data feeds
- Map out export and import process for each system involved
- Use sample data to conduct end-to-end testing

Benefits Realized

- Speed of posting
- Data accuracy
- Greater capacity for growth
- Support for new expense categories, including services

.: Program Management

Best Practice #12

Utilize a Best Practice Scorecard

Objectively measuring a Corporate Purchasing Card program against the best practices in the industry can be very eye-opening. While every best practice mentioned in this guide may not be possible in one organization's corporate culture or operating environment, taking an initial assessment and periodically keeping score can help not only get a program back on track, but kick it into high gear. Benchmarking is now standard practice, so use this tool to prove what the organization is doing right and what needs to change.

A simple scorecard might list the 20 best practices in this guide with weighting assigned that adds up to 100. Each best practice can be assigned a score of 0 to 10, then multiplied by the weight to get a point value. Total the score and compare it to 1,000. That's the organization's grade.

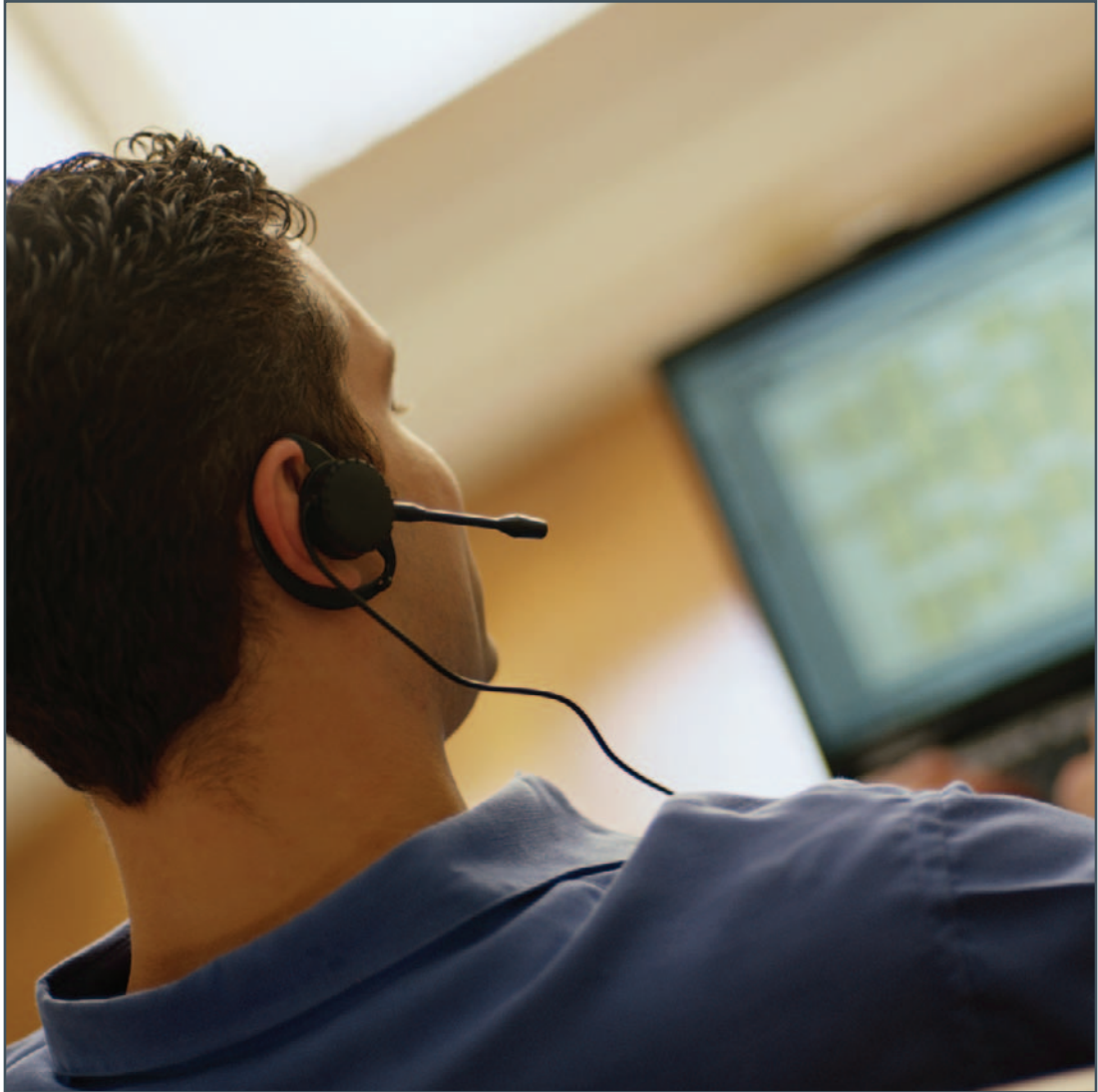
Taking a hard look at how business is conducted is never easy, but a best practice scorecard can help management look more objectively at how its Purchasing Card program is managed today and provide keen insight to the changes necessary to make it "a perfect ten".

To stay current on industry best practices, organization's can ask their issuer for benchmarking research and even participate in benchmarking studies.

Key Success Factors	Methods of Achievement
Best practices weighted	<ul style="list-style-type: none">- Review each best practice and determine its level of importance to overall program success- Assign weights adding up to 100
Best practice scores	<ul style="list-style-type: none">- Take an initial assessment of the program by comparing current practices against the best practices identified- Use the scorecard after implementation is complete and then every year or two to keep the program in top form

Benefits Realized

- Objective review of program prior to expansion initiative
- Ability to prioritize improvement efforts using scores and relative weightings
- Ongoing method for checking progress



.: Compliance, Audit, and Reporting

Best Practice #13

Establish a Sales Tax Strategy

A strategy for sales tax that matches an organization’s company culture and manages risk will help maximize its purchasing card program. There are several methods for sales and use tax handling; each organization can choose one or more to address its corporate reporting and risk objectives.

The options range from filing paper receipts to electronically identifying out-of-state transactions and self-assessing use tax, with several other solutions in between. Engaging the tax department in the decision process (see Best Practice #3 – Form a Cross-Functional Program Enhancement Team) will lead to greater buy-in and help determine the best solution, not just the simplest. For more information on possible solutions, see “Sales Tax Issues for Purchasing Card Transactions: A Report on the Practices at Leading Companies” prepared by Gunn Partners for MasterCard International (see attached Gunn Partners pdf).

There is no need to limit where Purchasing Cards can be used due to tax compliance concerns. With a defined sales tax strategy, the organization can comfortably use cards to pay for purchases locally and out-of-state, even abroad, without fear of underpaying use taxes or overpaying foreign taxes.

Key Success Factors	Methods of Achievement
Defined sales and use tax strategy	<ul style="list-style-type: none">- Review current sales and use tax reporting procedures company-wide- Analyze card activity through sampling- Compare established strategy options to compliance requirements and select one or more methods
Established cardholder	<ul style="list-style-type: none">- Cardholder procedures that correspond to selected or reporting procedures method(s)- Define sampling methodology, identify reporting sources or file for direct pay permits as appropriate

Benefits Realized

- Compliant procedures
- Expanded usage opportunities
- No more state audit fears

Best Practice #14

Use and Report on 1099 and MWBE Suppliers

With the necessary data on suppliers that require 1099 reporting or that qualify as minority- or women-owned business enterprises, an organization can promote usage of these vendors in its Purchasing Card program to achieve greater program growth and support its corporate spending objectives.

MasterCard developed the MasterCard Enhanced Merchant Reporting system to supplement the data provided by acquirers and suppliers with each purchasing card transaction. When a merchant accepts a MasterCard Purchasing Card the first time, that location is tagged as a purchasing card merchant and automatically loaded into the Enhanced Merchant Reporting database. The database is then cross-referenced monthly (using Tax IDs) with additional merchant data. An independent third party validates business information such as incorporation status and socioeconomic qualifiers. This enhanced data is then appended to the merchant's record in Enhanced Merchant Reporting for more comprehensive supplier reporting.

Enhanced Merchant Reporting offers formatted reports and structured data files that can be accessed using a secure user ID from the MasterCard Web site. This information can be used to prepare card-only or card-inclusive 1099s at tax time, as well as socioeconomic reports for management.

This comprehensive reporting capability can assist companies with meeting IRS tax reporting requirements for unincorporated service providers, while supporting organizational or contractual goals for doing business with disadvantaged suppliers

Key Success Factors	Methods of Achievement
1099s prepared accurately	<ul style="list-style-type: none">- Extract 1099 data from Enhanced Merchant Reporting system- Load data into existing 1099 reporting system- Prepare 1099s for all qualifying card merchants (card-only data) or integrate with Accounts Payable data
MWBE reports available	<ul style="list-style-type: none">- Extract MWBE data from Enhanced Merchant Reporting system- Load data into MWBE reporting system or report on card suppliers separately

Benefits Realized

- Assistance with IRS reporting
- Assistance with MWBE contract reporting
- Expanded opportunities for meeting corporate MWBE objectives
- Incremental program volume

.: Compliance, Audit, and Reporting

Best Practice #15

Manage by Exception

Online card reporting tools such as MasterCard Smart Data OnLine™ make it possible for program administrators and other managers to oversee and manage Purchasing Card programs by exception, rather than spending time studying the details of individual transactions. Cardholder managers, Accounts Payable, Purchasing, Audit, and Human Resources can all benefit from having user privileges on the online card reporting tool.

First identify the potential users and establish what type of data would be useful to them. Managers can typically have access to the whole program or just part of the company's reporting hierarchy. The program administrator generally has the broadest privileges and will need access to all of the cardholders and transactions.

Next, with assistance from the card issuing bank, determine the pre-formatted reports or queries that will help each manager provide the necessary oversight in terms of the Purchasing Card program. Some examples might be:

- New cardholder report to check that the appropriate limits have been set up
- Possible split transaction report that identifies multiple transactions with the same supplier on the same day
- Transaction summary by hierarchy unit to identify which units are using their cards regularly and which units need more training or promotion
- Spend by MCC to determine potential new usage applications
- Capital threshold to identify purchases over the company's capital expenditure limit that may need unique accounting treatment (Issuer should assist in setup)

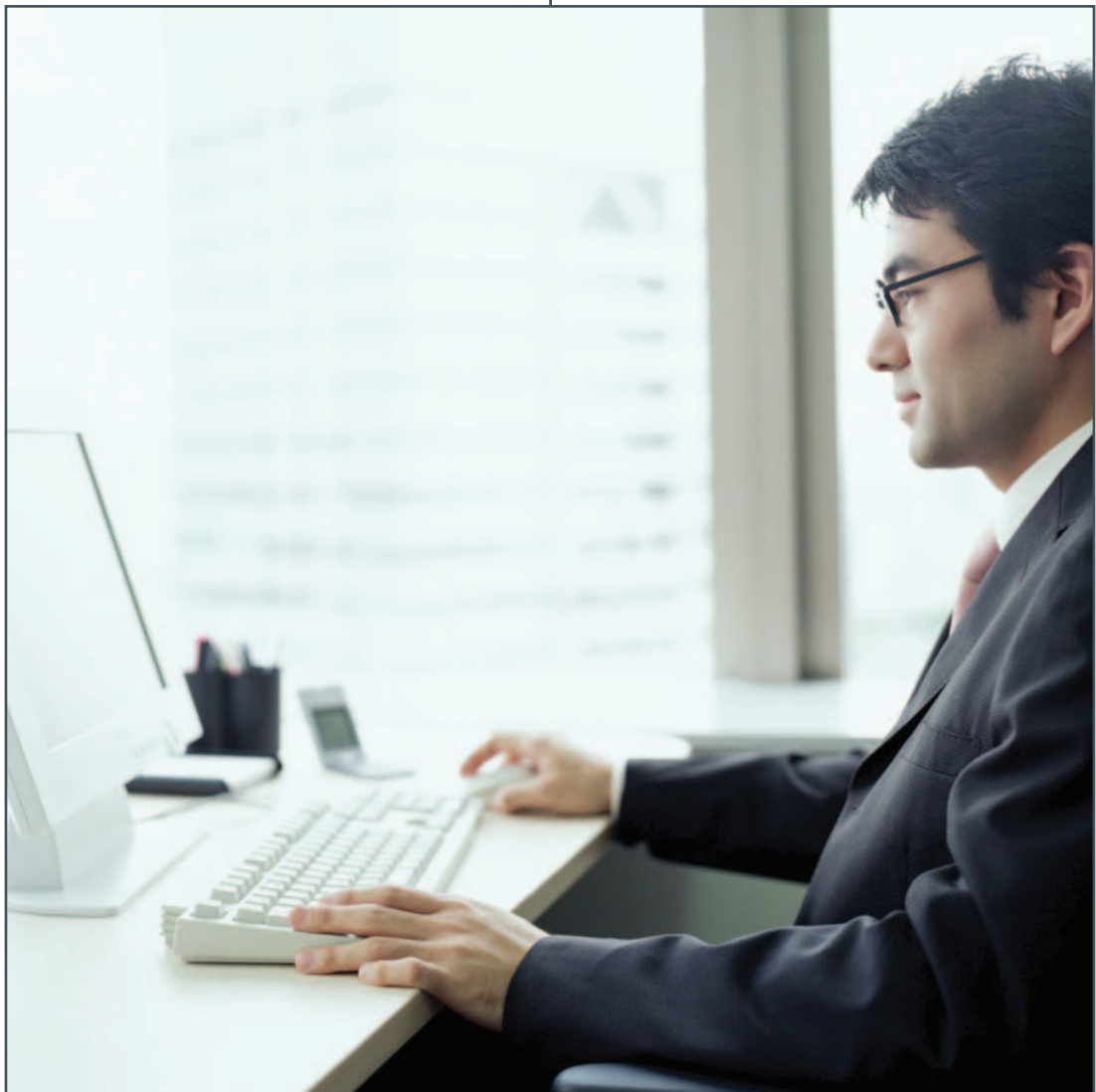
As the program expands, there will be more data than one person can address. To keep the program administrator optimally deployed, and let management have oversight without being overloaded, leverage the reporting and query features of the online reporting system to identify just those situations that need attention.

Key Success Factors	Methods of Achievement
Daily and monthly exception routine	<ul style="list-style-type: none"> - Review reporting and query capabilities of the issuer's online reporting system - Develop a standard set of reports or queries that highlight potential problem areas - Review the exception data daily, if time sensitive; or monthly, if patterns need to be established
Management that is not overworked or uninvolved	<ul style="list-style-type: none"> - Identify key data for functional areas and cardholder managers - Distribute reports or give user access to the online system with key reports identified - Create a warning or escalation process between managers and the program administrator

Benefits Realized

- Program Administrator freed up to focus on program expansion
- Functional and cardholder managers focused on their primary responsibilities

Program Expansion



.: Program Expansion

Best Practice #16

Mandate the Use of Purchasing Cards

A purchasing card mandate for defined spend categories establishes efficiencies for all parties involved in procurement by eliminating dual processes. From the end user to accounts payable, each step can be clearly communicated and questions minimized. Buyers know the policies and have direct accountability. Purchasing and accounts payable have the ability to focus on non-card expenses, which have a greater impact on the bottom line.

The mandate is best communicated as a directive from senior management. This signals the importance of the initiative and helps to ensure full cooperation and support. There should also be consequences from non-compliance. Best practice companies applaud compliance with publicized testimonials or even bonuses. Such practices support the program, the importance of compliance, and send a message that senior management is watching.

By establishing a straightforward card use policy, employees will be clear on what they are empowered to buy, Purchasing can focus on strategic suppliers and negotiating contracts, and Accounts Payable can process payments that are meaningful to the company.

Key Success Factors	Methods of Achievement
Mandated card program	<ul style="list-style-type: none">- Demonstrate senior management endorsement of the Purchasing Card program by mandating use for defined expenditures- Effectively communicate card program rationale and benefits- Develop a temporary warning process for card-qualified invoices received in Accounts Payable- Monitor and enforce compliance
Defined usage rules	<ul style="list-style-type: none">- Determine thresholds in terms of size of purchase and types of commodity/service by which the card can be used- Empower employees based on job responsibilities

Benefits Realized

- Improved efficiency in goods/services procurement
- Simplified administration and greater control over budget line items
- Increased job satisfaction through buyer empowerment
- Expanded negotiating power with suppliers
- Maximized program size with associated financial benefits

Best Practice #17

Expand Supplier Acceptance

The data from a purchase transaction analysis (Best Practice #1–Perform a Purchase Transaction Analysis) can be used to prioritize existing suppliers for payment using a Purchasing Card. A number of supplier criteria will need to be considered and then weighted, based on importance to the organization. The result will be a targeted supplier campaign to make the organization’s Purchasing Card program even more successful.

Whether or not a supplier accepts cards today and that supplier’s current data capture capabilities will immediately determine the level of effort for each supplier. The organization will also want to rank suppliers by volume of invoices and average invoice size. Slow pay terms, or discounts offered but unearned, mean cards offer a big advantage for the supplier. Quantifying the value proposition for the supplier, or using the organization’s leverage as a major buyer, will convey expectations, even making a mandate easier to communicate. If suppliers need to be enrolled to accept cards, work with the card issuer to develop a strong letter that lays out the benefits clearly, along with the penalty for non-acceptance (losing the business).

Identifying the suppliers that fit the organization’s Purchasing Card commodity profile will result in rapid expansion of the program and opportunities to build relationship. Those suppliers that really want to do business with an organization will accommodate their customer’s wishes while improving their own receipt-processing efficiency.

Key Success Factors

Prioritized list of suppliers that accept cards

Prioritized list of target suppliers that don’t accept cards

Defined supplier communication strategy

Methods of Achievement

- Review purchase transaction analysis data to identify suppliers that accept cards and rank using commodities, volumes, payment terms, and strength of relationship

- Review purchase transaction analysis data to identify suppliers that do not accept cards and rank using commodities, volumes, payment terms, and strength of relationship

- Document supplier benefits from accepting cards
 - Develop a compelling letter for non-accepting suppliers
 - Add card acceptance to contract negotiations

Benefits Realized

- Broader card usage
- Fewer, focused supplier relationships
- Greater bargaining power
- More efficient purchase and payment procedures

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Best Practice #18

Extend Purchasing Card Usage within the Procure-to-Pay Environment

Purchasing Cards have generally been used to replace purchase order (PO) transactions, targeting low-value purchases that were burdened by a paper trail, as well as a tool to facilitate Internet buying. As companies take advantage of Electronic Invoicing Presentment and Payment (EIPP) systems to eliminate paper in the higher-value PO universe, Purchasing Cards can also be leveraged as a payment method of choice.

MasterCard has developed a solution that integrates MasterCard settlement options into electronic invoice presentment and payment platforms. MasterCard® e-P3™, a buyer-centric Web solution, allows organizations to preserve the integrity of the PO requisition, approval, and matching process while receiving the benefits of Purchasing Card settlement. This payment solution makes line-item detail (Level III data) available without requiring suppliers to capture and send the data through the card network. It also minimizes implementation requirements for both buyers and suppliers by leveraging existing systems and introducing adapters that translate transaction data into appropriate formats. Finally, MasterCard e-P3 allows suppliers and buyers to negotiate payment terms with a MasterCard Purchasing Card as the settlement tool.

Using Purchasing Cards in a streamlined electronic invoicing environment creates vast new spend opportunities for the cards themselves and simplified reconciliation along the financial supply chain.

Key Success Factors	Methods of Achievement
Integration of EIPP solution	<ul style="list-style-type: none">- Evaluate MasterCard e-P3 partners for buyer-centric EIPP processing- Choose a MasterCard e-P3 solution partner- Promote solution simplicity to current supplier base
Invoice payment via purchasing cards	<ul style="list-style-type: none">- Integrate purchasing card program with MasterCard e-P3

Benefits Realized

- Streamlined procurement and accounts payable processes
- Incremental program volume
- Stronger supplier relationships
- Automated invoice/payment reconciliation

Best Practice #19

Use a Single Card for Multiple Expense Categories

Combining all commercial spending on a single card can replace the use of multiple cards, such as Purchasing Cards, Travel Cards, and Fleet Cards. This offers simplicity for the cardholders, a single program for administrators to manage, and most importantly, collects data into a single database using a single reporting tool.

The advantages of the one card approach will vary in degree from organization to organization and, in great measure, depend on the overlap between those employees requiring Purchasing Cards, Travel Cards, or Fleet Cards. Other issues include the handling of liability, billing/payment options, and rewards.

In the case of a single card for multiple expense categories, Merchant Category Codes (MCCs) can be used to segregate authorization privileges; to divert transactions for central vs. individual bill charges, corporate vs. individual liability, or rewards qualification; and to integrate travel expense charges into expense reporting software.

Research has proven that there is no loss of control with a “one-card” program, the level of data is equivalent to separate card programs, and employees like it.

By combining card programs (Purchasing, Travel, and Fleet), the organization can save on administrative efforts. With fewer cards to manage, a consistent reporting platform across all programs, and one accounting process, all concerned parties will have reliable data, in the same time frame, and be able to make better management decisions. The ease of use for the cardholder is also a benefit. Instead of having multiple cards and potentially using the wrong card for the wrong purpose, the cardholder has one card and one process to follow for all transactions he or she needs to make to fulfill his or her job responsibilities.

Key Success Factors

Support from management

A single card program

Methods of Achievement

- Develop a “one-card” business case that quantifies the administrative savings and demonstrates the benefits for cardholders and managers
- Consider current card needs for Purchasing, Travel, and Fleet, and degree of cardholder overlap
- Use expense categories by employee from purchase transaction analysis to establish card use overlap
- Review billing and liability options with card issuer, considering best practice recommendations
- Develop typical cardholder profiles for assigning authorization controls
- Review transaction reconciliation and travel expense reporting options with card issuer

Benefits Realized

- Reduced administrative costs
- Simplified cardholder procedures
- One provider and program to manage
- One data source for management reporting
- Optimum financial arrangement with issuer

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Best Practice #20

Continuously Review for Program Opportunities

To sustain program growth, it is important to continuously monitor program performance and explore new opportunities for Purchasing Card use. It is also critical to maintain communication with project sponsors and senior management to highlight successes and preserve momentum.

Performance tracking (Best Practice #5 – Track Performance) can provide unique insight as to which approaches are working and which present challenges. Periodic purchase transaction analyses (Best Practice #1 – Perform a Purchase Transaction Analysis) not only validate program performance indicators, but can uncover new expense categories or suppliers or locations to target. Cardholders and managers can be incented to identify creative uses, and publicizing success stories or unique ideas may stimulate further innovation.

A continuous review ensures that the program never stagnates. As technology and the business world around us constantly change, so should a Purchasing Card program to take advantage of new areas of opportunity.

Key Success Factors	Methods of Achievement
Rigorous performance reviews	- Thoughtfully review performance data to identify positive and negative trends, as well as locations that are uniquely successful
Periodic transaction analyses	- Perform a comprehensive analysis on all payments to see changes in procurement methods, payment terms, commodity concentrations, and supplier changes - Identify not only performance indicators but new areas of opportunity
Established incentive program	- Develop tangible company-wide and job-specific incentives that encourage creativity and process improvement
Broad-reaching, regular communications	- Identify a communications method that reaches the whole company (newsletter, e-mail, intranet site update) - Follow any pre-established schedule for publication or develop one that keeps the message fresh with unique success stories

Benefits Realized

- Sustained program growth
- Ongoing management support
- Commitment to regular communications
- Empowered employees

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