

# **Procurement Card Comparative Analysis**

**Prepared for American Express by Accenture**

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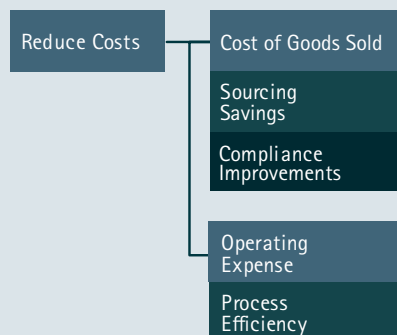
# Executive Summary

Procurement Cards have been traditionally viewed as a simple solution to deliver process efficiencies in the buying process. However, with increasing product sophistication they are also delivering bottom-line savings to organizations through driving spend consolidation and compliance improvements.

The value levers impacted by Procurement Cards are shown in Figure 1.

**Figure 1**

## Procurement Card Value Levers



The key savings delivered by Procurement Cards are:

### Process Efficiency

- Procurement Cards and eProcurement in combination with Procurement Cards are the least expensive processes applicable to indirect expenditure today, reducing the per transaction cost from an average of \$97 for a manual paper process to an average of \$19 for Procurement Cards.
- A large proportion of the process savings are distributed within the business; however, on average companies realized “hard dollar” savings of \$11 per transaction through their Procurement Card implementation.
- American Express programs were 35% larger than the average study participant's program.
- An organization with \$50m spend and 100,000 transactions using American Express would on average realize savings of \$1.1m versus \$0.9m for competing cards.

### Compliance Improvements

- With average contract discounts of 11.4% negotiated by organizations, driving compliance to contract is a key area of saving.
- Procurement Cards had a marked impact on compliance with an average improvement of 12% in compliance levels.
- Procurement Card Preferred Supplier Lists improved compliance levels by an additional 9%, giving an overall improvement of 21%.
- An organization with \$50m spend using American Express would on average realize

savings of \$1.2m with Preferred Supplier Lists versus \$0.5m for competing cards.

### Sourcing Savings

- On average, organizations realize a 5% savings through spend consolidation.
- American Express customers stated that the program made a 30% contribution to spend consolidation savings, compared with the competing card program average of 8%.
- Contrary to popular perception, participants indicated they received slight price reductions when purchasing with Procurement Cards.
- An organization with \$50m spend would on average realize sourcing savings of \$0.9m with American Express versus \$0.3m with competing cards.

This comparative analysis paper discusses the results from the *Procurement to Payment Processes and the Role of Procurement Cards* study and describes the core Procurement Card Value Proposition. This includes:

- Process Efficiency
- Sourcing Savings
- Compliance Improvements
- Administration Effort

A typical American Express Program of \$50m in spend would deliver savings of \$3.2m, over 90% greater savings than a typical competing program.

For additional information, please contact your American Express Representative or send an e-mail to [CPS@aexp.com](mailto:CPS@aexp.com)

# Study Overview

## Objectives

With organizations facing increasing complexity in their businesses, Accenture conducted a study on *Procurement to Payment Processes and the Role of Procurement Cards* to determine how these processes are being handled today and how they are likely to change.

In particular, Accenture looked at leading companies in the U.S. and Europe to further understand end-to-end procurement effectiveness, process costs and efficiencies. The study focused on indirect expenditure but excluded Travel & Entertainment expenses and associated processes.

## Methodology

Within the U.S. and Europe, Accenture conducted:

- Primary research surveys with over 50 leading organizations across multiple industries.
- Primary research interviews with 10 of the organizations across multiple industries.
- Primary research interviews with suppliers across multiple industries.

Secondary sources included annual reports, subject matter experts and Accenture research.

## Demographics

The survey covered a range of industries and company sizes:

- Organizations from 12 different industries participated in this study.
- 63% of the participants had annual revenues over \$5 billion.
- 67% of the participants were located in the U.S. and 33% in Europe.
- 56% of the organizations had over 10,000 employees.
- Those with fewer than 1,000 employees (36%) included a number of organizations who responded for their business units.
- 78% of the participants had Procurement Card programs, 64% provided by American Express and 36% by other providers.

Figure 2

Study Participants by Industry

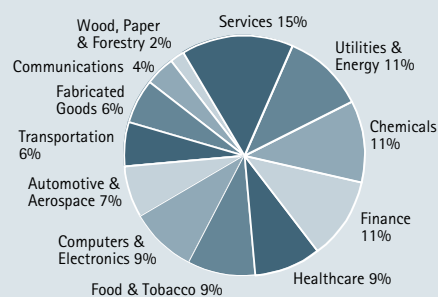


Figure 3

Study Participants by Company Size

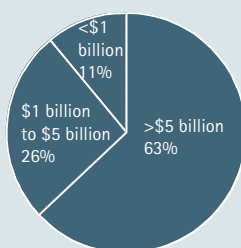


Figure 4

Study Participants by Employees

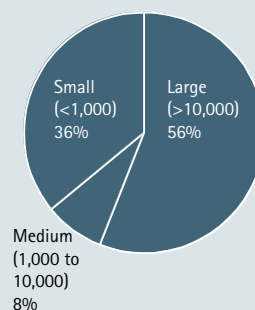
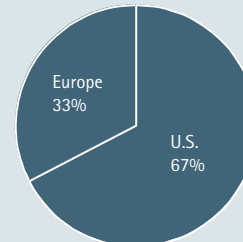


Figure 5

Study Participants by Region



# Introduction

Business trends of the late 1990's have led to numerous challenges for procurement departments. These challenges include the impact of globalization, increased outsourcing, merger and acquisition activity and an explosion in the number of available procurement technologies and solutions.

In recent months these trends have been accompanied by an economic environment that has heightened the focus on procurement activity and increased the desire of organizations to gain control of expenditures from large ticket items all the way down to office products.

Indirect commodities, on average, accounted for 40% of the participant expenditure and 70% of their transactions, although this naturally varies by industry and position within the overall value chain. With this profile, process efficiency remains the focus of many organizations. It is therefore surprising that manual processes still account for the majority of indirect expenditure and transactions.

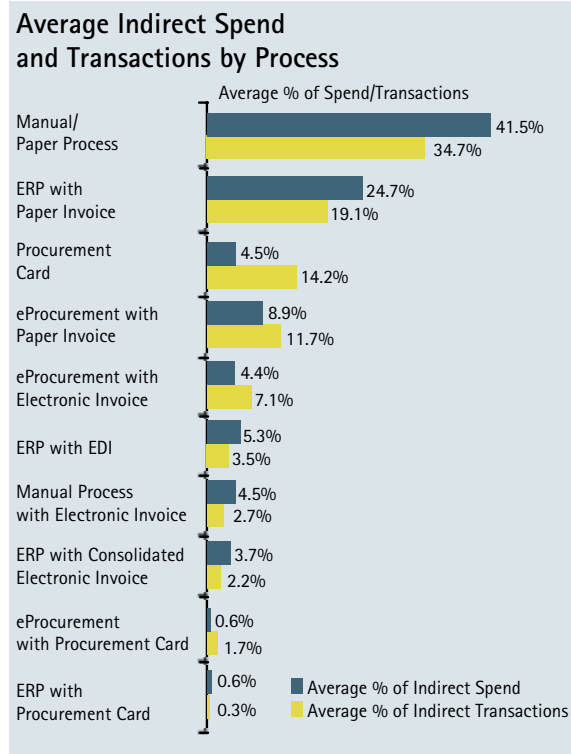
In today's organizations there are numerous Procurement to Payment processes representing various degrees of automation. The study looks at the most popular processes utilized for indirect purchases. These are:

- Manual / Paper Process
- ERP with Paper Invoice
- eProcurement with Paper Invoice
- Procurement Card Process

The manual paper process is still the most commonly used process for indirect spend, accounting for an average of 42% of spend and 35% of transactions.

ERPs continue to play an important role, particularly in manufacturing organizations, but the majority of transactions still result in the receipt of paper-based invoices. Although many organizations have experimented with electronic invoicing, it has not yet established itself as a viable alternative to EDI, which still remains prohibitively expensive for indirect expenditure.

**Figure 6**

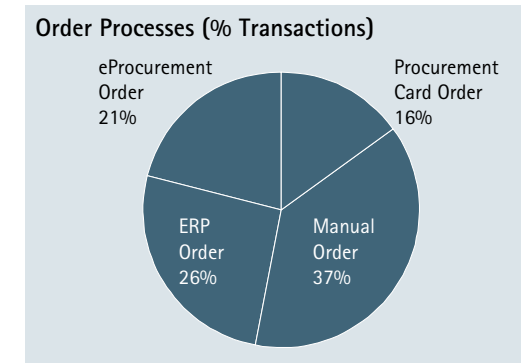


Survey participants were asked to state the percent of indirect spend and transactions that fall into each of the processes listed in the chart above.

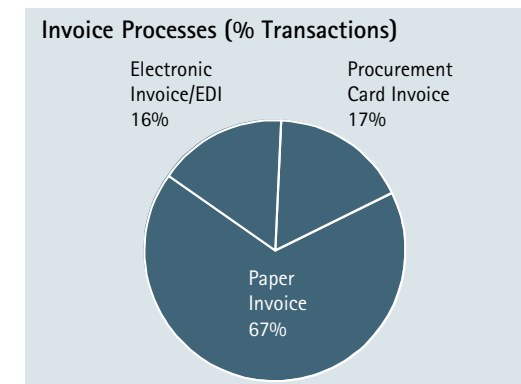
The use of eProcurement solutions is continuing to grow; however, they have not yet achieved the growth projected during the "Dotcom" hype and still only account for approximately 14% of a company's indirect expenditure and 21% of its transactions.

While Procurement Cards, on average, only account for 5% of spend, they are employed in high transaction volume areas and account for approximately 16% of transactions (see Figures 7 & 8).

**Figure 7**



**Figure 8**



# Process Efficiencies

With companies operating many different Procurement to Payment processes, accurately measuring the cost of each process is complex. To understand the true costs associated with each of the processes, the study focused on the cost drivers, including: the creation of requisitions, approvals, purchase order creation, receipting, invoice processing, reconciliation, payment and tax processing. The study looked at the distributed costs within the business and the Procurement to Payment costs incurred within procurement and finance.

The typical end-to-end processes and their associated costs are shown in Figure 9.

The average cost of a transaction following a manual paper process was \$97. A large proportion of this cost is distributed within the business and significant support from procurement resources is required in the order process.

Procurement Cards and eProcurement in combination with Procurement Cards are the least expensive processes applicable to indirect expenditure today, reducing the per transaction cost from \$97 for a manual paper process to \$19 for a procurement card transaction, a reduction of 79%.

The order costs account for more than 60% of the total. Many organizations have addressed some of these issues by eliminating Purchase Orders. Over 30% of the participants using manual processes stated that they did not require a requisition or purchase order to accompany the purchase.

The use of ERPs has enabled some organizations to make some process efficiencies for indirect purchases, although with a paper invoice the average process costs are still around \$81 per transaction. Again, the majority of this cost lies within the order process.

eProcurement systems have answered the need for an efficient order process that is user-friendly and allows users to quickly select the items they wish to purchase. The costs, however, remain around \$53 per transaction with the majority of eProcurement transactions leading to paper invoices.

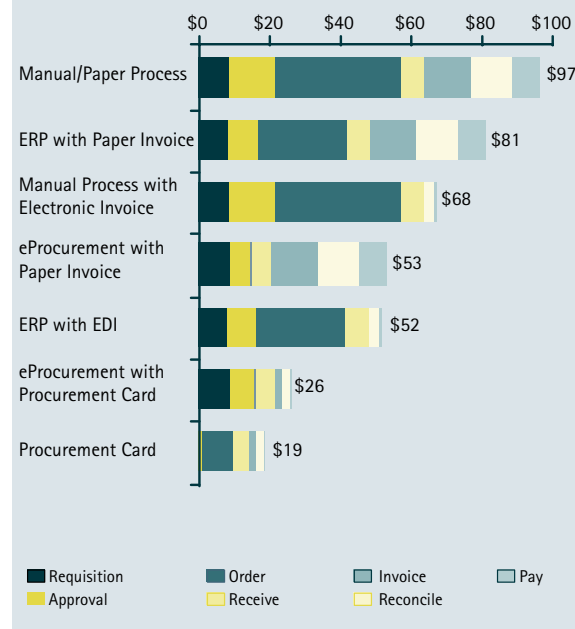
Many organizations envision that electronic invoicing will be the way to deliver invoice process savings; however, volumes are currently very small and the majority of organizations are still in the trial phase.

With an end-to-end process cost of \$19 per transaction, Procurement Cards remain a key solution for organizations to improve process efficiency.

ERP with Procurement Card has not been included in end-to-end process costs as an insufficient number of companies operated this process to allow accurate measurement.

**Figure 9**

## Average Cost Per Transaction by Process

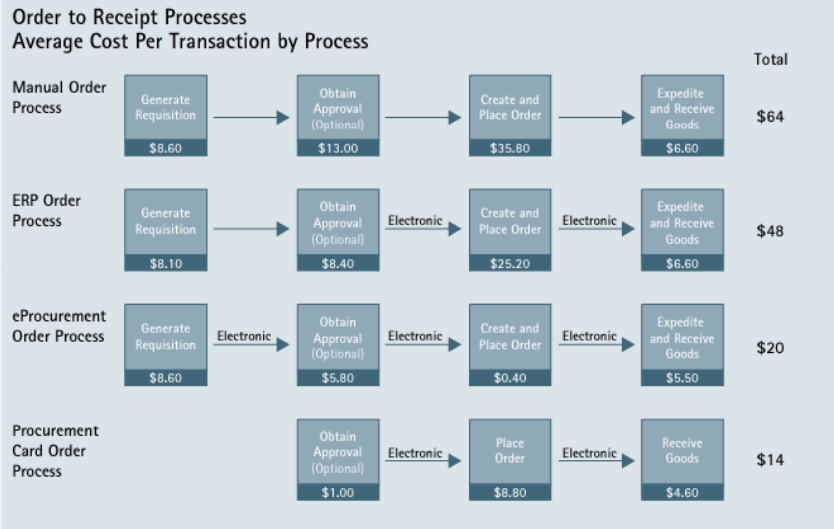


The process cost metric provides an indicative cost per transaction for the given process type. These have been calculated by analyzing the total costs associated with the Procurement to Payment process. This includes costs of Procurement Professionals and Administrators, Finance Administrators and the distributed time within the business associated with the cost drivers, for example, creation of a requisition. For further information please refer to the Procurement to Payment study.

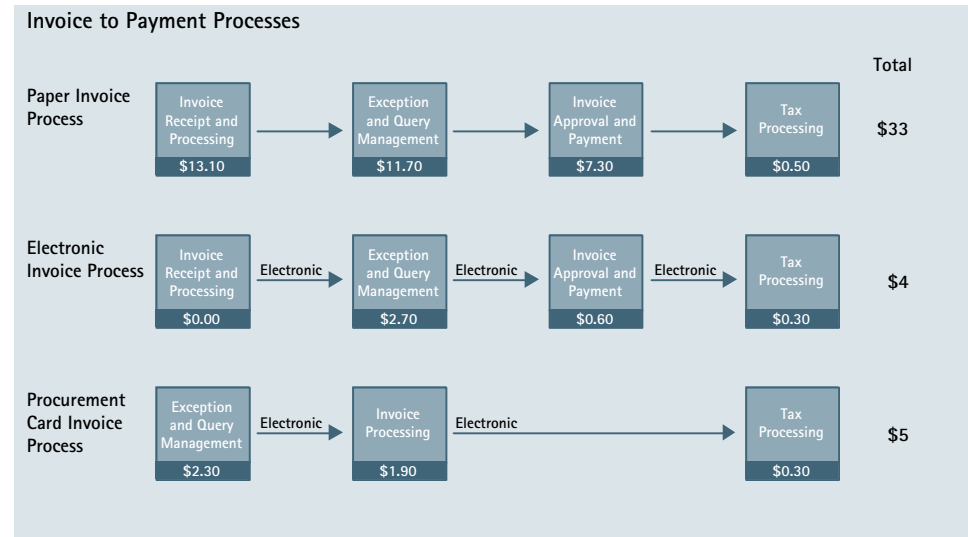
# Process Efficiencies

Figures 10 and 11 show the costs associated with each step of the most common Procurement to Payment processes.

**Figure 10**



**Figure 11**



**Note:**

- Manual order process and paper invoice process are based on the end-to-end manual process.
- ERP order process is based on the end-to-end ERP with paper invoice process.
- eProcurement order process is based on the end-to-end eProcurement with paper invoice process.
- Procurement card order and invoice process is based on the end-to-end Procurement Card process.

# Process Efficiencies

The majority of process savings through the introduction of Procurement Cards are made within the business (e.g., reduced approval costs with pre-approved spend limits). As a result, organizations find it difficult to quantify the full impact of their program. This study, therefore, focuses on the “hard” process savings. These have been defined and measured as the number of resources released or re-deployed through the implementation of their Procurement Card program.

The metric defined to calculate the “hard” process savings was Full-Time Equivalent (FTE) reduction per 100,000 transactions. Analysis of the survey results indicates that the average “hard dollar” savings were \$11 per transaction.

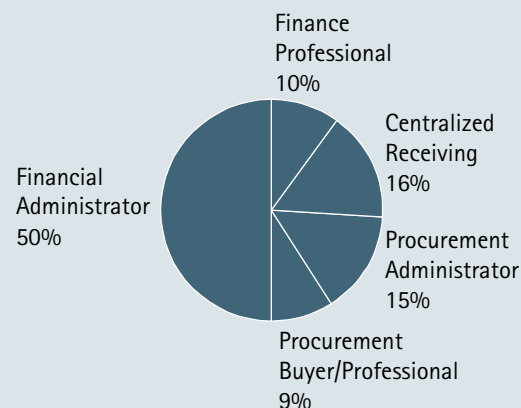
A large proportion of the process benefits are distributed within the business; however on average companies realized hard savings of \$11 per transaction through their Procurement Card implementation.

“With the Corporate Purchasing Card we’re getting away from invoice processing. It used to cost us about \$35 to process an invoice with an average of more than 20,000 invoices a month. The process savings are substantial.”

*Sharon Means  
Finance Manager, Owens Corning*

**Figure 12**

## FTEs Released by Function Upon Implementing Procurement Card

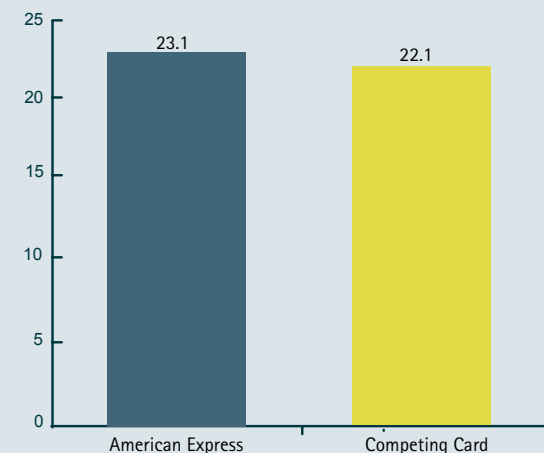


The FTEs were released in both finance and procurement, although they were dominated by finance administrators who accounted for 50% of the total FTE reduction (see Figure 12).

Interviews conducted with Procurement Card users revealed that implementations which focused on high transaction volume commodities and had a clear measurement strategy achieved increased FTE savings.

**Figure 13**

## Average FTE Reduction per 100k Transactions



Survey participants were asked what reduction in FTEs they realized as a result of implementing their Procurement Card program (including re-deployed FTEs). The metric was then calculated using the realized FTE savings and the stated number of transactions for each account.

Both American Express and competing card programs delivered approximately the same level of FTEs savings per 100,000 transactions.



# Process Efficiencies

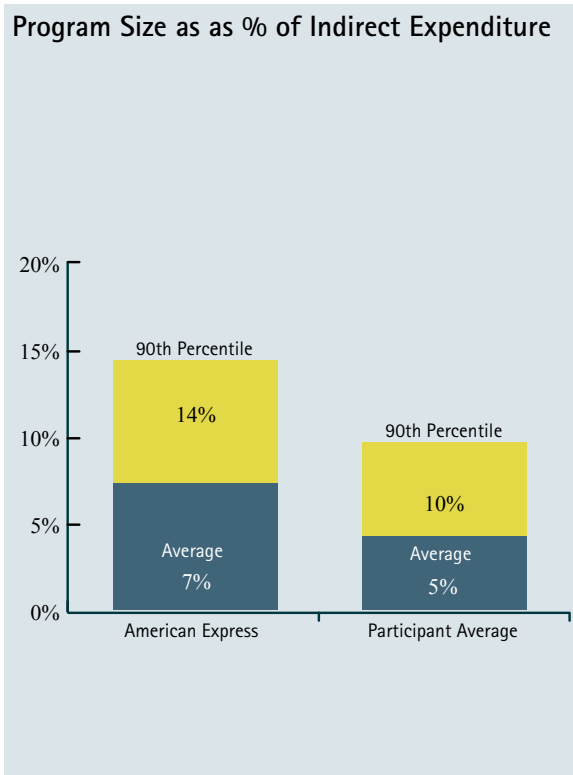
American Express programs were 35% larger than the participant average, accounting for 7% of indirect spend versus the participant average of 5% (see Figure 14).

The program maturity must also be compared when considering program sizes. The average program had been operating for 3.5 years in the U.S. and 2.4 years in Europe. American Express programs were comparable to the participant average in both regions.

American Express programs were 35% larger than the average study participant program.

**Figure 14**

## Program Size as % of Indirect Expenditure



Survey participants were asked what their total Procurement Card spend was for the last complete year. The metric was then derived as the percentage of indirect spend. The graph shows the average program size and the 90th percentiles for American Express customers versus the participant average.

A sample \$50m Procurement Card customer with 100,000 transactions has the potential to save 23 FTEs using the American Express product. This translates to a hard saving of \$1.1m.

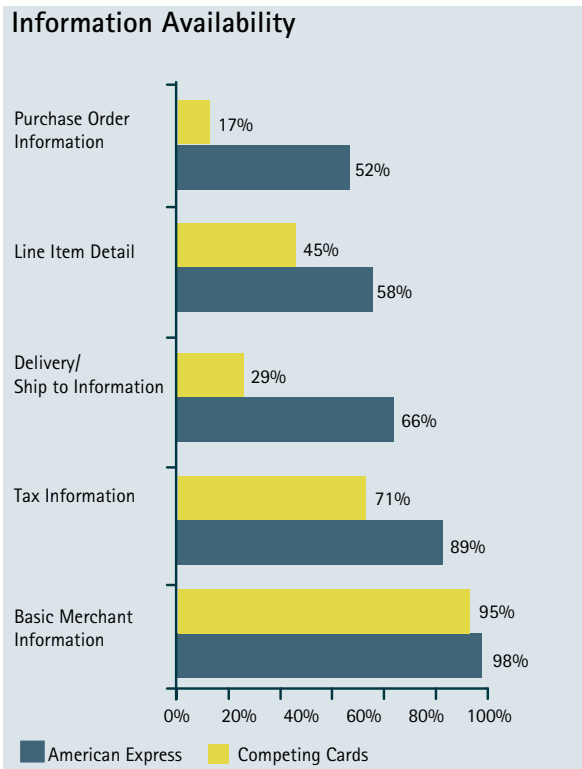
A competing program would typically achieve \$35m in spend volume and 85,000 transactions. The resultant saving would be 19 FTEs, which translates into a hard saving of \$0.9m.

# Sourcing Savings

Meaningful information is a critical component of effective sourcing. The ability of organizations to obtain relevant sourcing information is greatly improved through the use of ERP, eProcurement and Procurement Card solutions (see Figure 15).

Analysis shows that Procurement Card solutions are providing increasing levels of information with European networks leading the way in provision of Line Item Detail.

**Figure 15**



Participants were asked what information their Procurement Card offered and approximately what percentage of transactions for which the information was provided in the categories shown above.

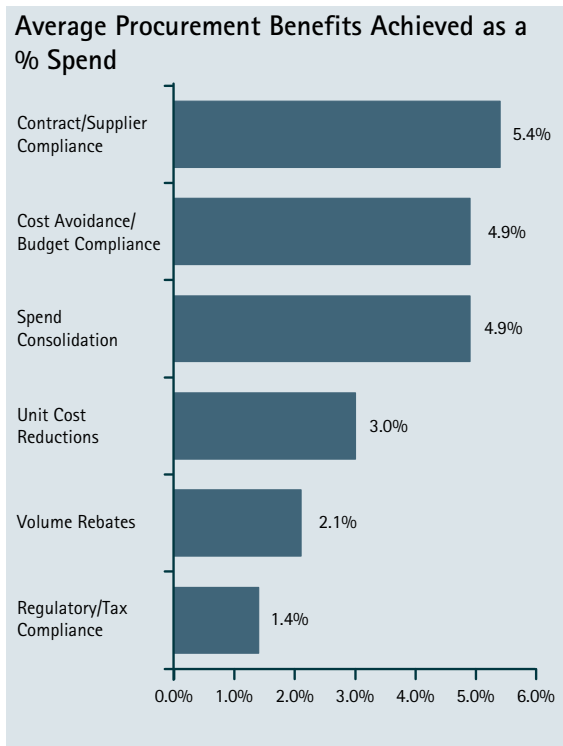


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Of course how this information is translated into sourcing savings is dependent on the organization's sourcing skills.

Participants stated that they gained the greatest savings from improving contract compliance, enforcing budget compliance and consolidating spend. While volume rebates and unit cost reductions were targeted, control of indirect purchases appeared to be the key driver of savings.

**Figure 16**



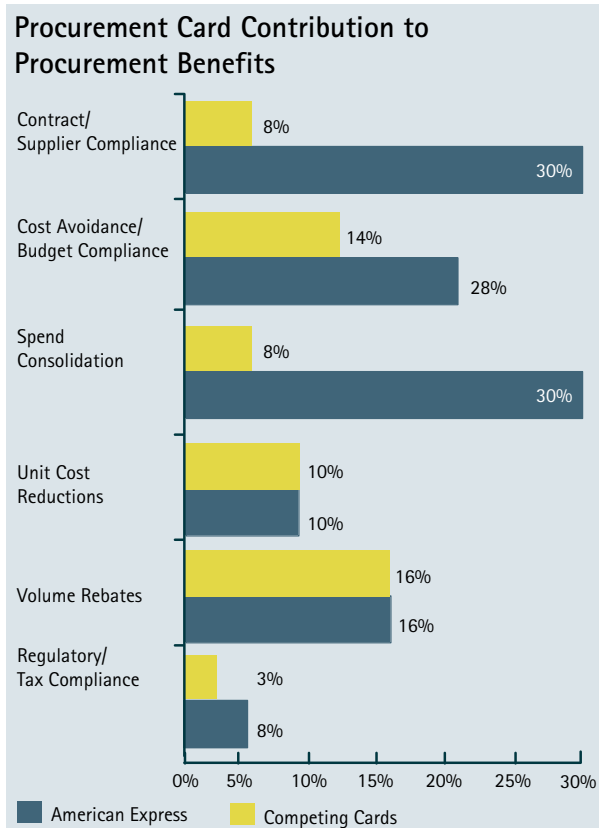
Survey participants were asked to indicate the typical procurement benefits achieved in each of the areas (as a % total expenditure)

Participants felt the key areas of savings enabled by Procurement Cards were:

- **Contract / Supplier Compliance**; defined as the savings achieved through ensuring goods and services are purchased from preferred suppliers (at contracted rates).
- **Cost Avoidance / Budget Compliance**; defined as cost savings achieved through ensuring compliance to the budget (usually due to increased visibility of spend and therefore avoiding 'unnecessary costs').
- **Spend Consolidation**; defined as cost savings achieved through leveraging the total spend across a commodity or with a supplier, usually resulting in lower contract rates.

# Sourcing Savings

Figure 17



Survey participants were asked what percentage contribution their Procurement Card made towards the savings areas identified in the commodities where Procurement Cards were used.

The study deals with Contract Compliance savings (separated out in the next section), Spend Consolidation and Unit Cost reductions (measured as price changes from moving to Procurement Cards).

The study does not focus on Cost Avoidance / Budget compliance as organizations have difficulty measuring these savings with many other factors impacting the total commodity spend levels.

The study did not quantify Volume Rebates and Regulatory Tax Compliance savings, as few organizations recognize the link between their Procurement Card programs and the savings delivered in these areas.

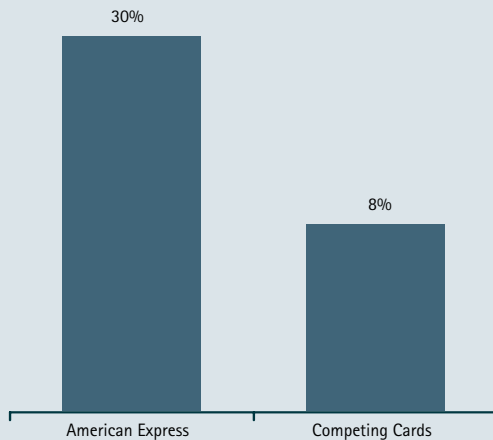
# Sourcing Savings

## Spend Consolidation

American Express clients found a much stronger link between spend consolidation savings and their Procurement Card programs, crediting the program with a contribution of 30% toward spend consolidation savings versus 8% with competing cards (see Figure 18).

Figure 18

Contribution to Spend Consolidation (%)



Survey participants were asked what percentage contribution their Procurement Cards made towards the spend consolidation savings in the commodities where Procurement Cards were used.

Organizations on average realize a 5% benefit through driving spend consolidation. American Express customers stated that the program made a 30% contribution to the spend consolidation benefits compared with the competing card program average of 8%

## Unit Cost Reductions

In responding to this in the survey, participants indicated that they did not experience price increases, and on average they in fact achieved small price decreases when using Procurement Cards. Interview participants indicated that there was obviously a point in the average transaction value where costs incurred would be passed back to the buying organization; however, most organizations responded to this by stating the acceptance of cards was a condition of business.

### Spend Consolidation

An American Express customer with \$50m spend volume would expect to achieve spend consolidation benefits of 1.5% from their Procurement Card program (5% x 30%) – an annual savings of \$750k.

A competing program with \$35m in spend volume would expect to achieve spend consolidation benefits of 0.4% from their Procurement Card program (5% x 8%) – an annual savings of \$140k.

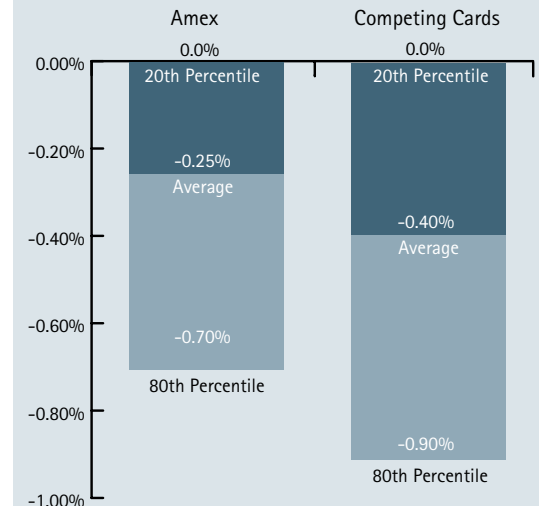
### Unit Cost Reduction

An American Express customer with \$50m spend volume would expect to achieve a price reduction benefit of 0.25% from their Procurement Card program – an annual savings of \$125k.

A competing program with \$35m in spend volume would expect to achieve a price reduction benefit of 0.4% from their Procurement Card program – an annual savings of \$140k.

Figure 19

Procurement Card Price Changes



Survey participants were asked on average what price changes they experience with Procurement Card suppliers (as % of overall spend).

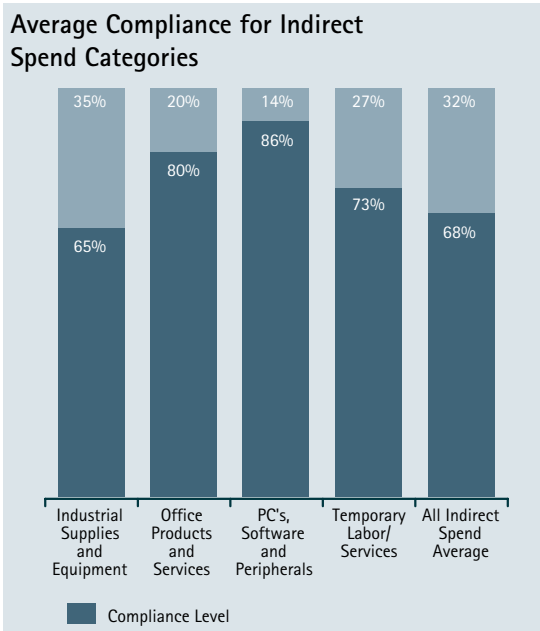
The price changes are shown in Figure 19, and illustrate that although American Express customers experienced smaller price reductions, the overall value of these reductions is not significant when compared to the compliance or spend consolidation savings.

Contrary to popular perception, participants indicated that they received slight price reductions when purchasing with Procurement Cards.

# Compliance Improvements

Compliance for indirect expenditure averaged 68% and with organizations achieving average contract discounts of 11.4%, improving compliance is a key opportunity to deliver savings. Unsurprisingly, compliance control is now viewed as a key requirement of any end-to-end process (see Figure 20).

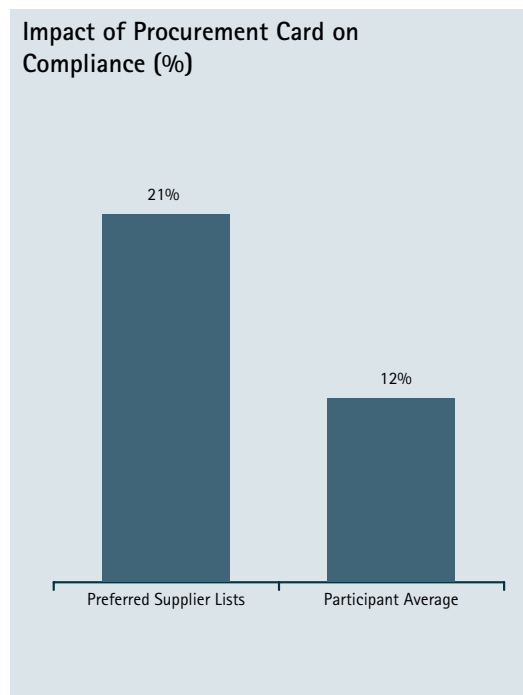
**Figure 20**



Participants were asked for the current level of compliance and the average contract discounts achieved through using preferred suppliers (as % total category spend) for the set of commodities listed and for their total indirect expenditure

On average, organizations indicated that compliance improved by approximately 12% through the implementation of a Procurement Card Program, with those using preferred supplier list functionality achieving an additional 9% improvement in contract compliance.

**Figure 21**



Participants were asked to approximate the change in compliance as a result of implementing their procurement card program (as a % total procurement card spend).

"There are a number of compliance success stories associated with the implementation of the Procurement Card. For example, stationary, where compliance increased from 50-60% in the UK and 40% in the US to the high 90%'s with a contract discount of approximately 20%."

– Study Participant,  
American Express Customer

**Figure 22**



Participants were asked for the average contract discounts they achieve through using preferred suppliers (as % total category spend). The graph shows the results broken down across key indirect commodity areas.

In addition to contract compliance, many cited tax information as a key driver for moving spend towards Procurement Card programs. Although most organizations stated that they reclaimed the majority of recoverable tax, the reduced administration effort was seen as a key savings in Europe.

An American Express customer with \$50m spend volume would expect to achieve a 21% increase in compliance if using Preferred Supplier Lists. With an average discount of 11.4%, this translates into a savings of \$1.2m.

A competing program with \$35m in spend volume would expect to achieve a 12% increase in compliance. This translates into a savings of \$0.5m.

# Administration Effort

The management of a Procurement Card program on average required 1.9 FTE's across the sample. If this is viewed in proportion to the program size, we see that on average an FTE supports 75,000 transactions.

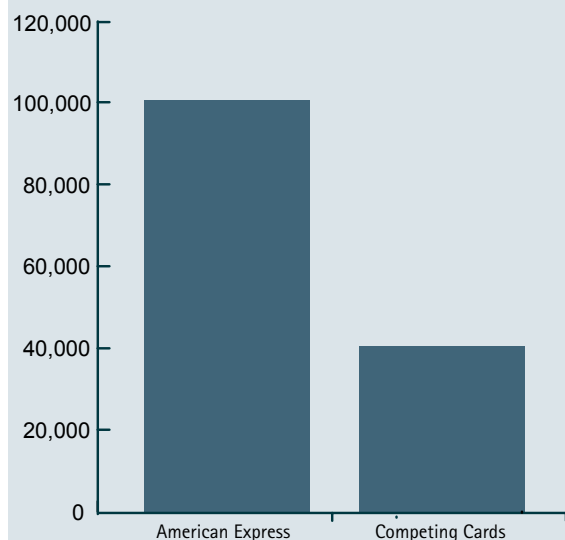
This metric also reveals that American Express customers required fewer FTE's to support a program of equivalent size to the competing cards. This is partially due to a fixed number of FTEs being required to support an average program and with the American Express programs being larger than the competing cards, program efficiencies appear to be delivered.

On average, an American Express customer had one FTE per 100,000 transactions versus the competing card programs where one FTE was required for every 40,000 transactions (see Figure 23).

European participants required additional resources to manage their programs. In many cases the interview participants cited the non-availability of on-line tools as a reason for this difference. The relative immaturity of the Procurement Card products in Europe seems to be behind this, although this is likely to change over the coming months with the roll-out of on-line tools

**Figure 23**

**Procurement Card Transactions per Admin FTE**



Participants were asked how many FTEs were used for Procurement Card reporting, exception and dispute management, tax processing and administration. The metric was then calculated using the stated number of administrative FTEs and number of transactions for each organization.

## Implementation

Implementation timescales for Procurement Cards underlined that many programs are following an organic growth pattern. The first transaction was typically achieved in 3 months, with 50% of spend level reached in 14 months and 100% of spend in 22 months.

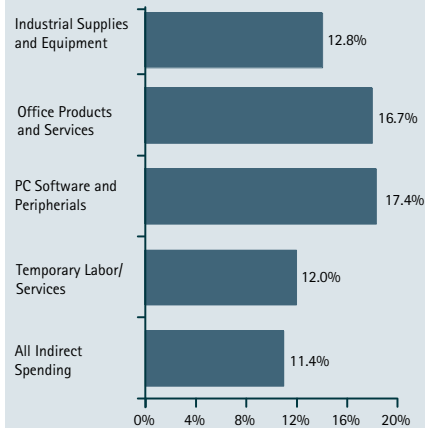
Interviews showed overwhelmingly that the single biggest reason for the successful ramp-up of a program was the availability of implementation resources and an account representative.

American Express and competing programs had very similar implementation timescales, although American Express programs implemented more spend in the time period (0.3% of indirect spend per month versus the participant average of 0.2% per month).

# Appendices

Figure 22

## Average Contract Discount for Indirect Categories (%)



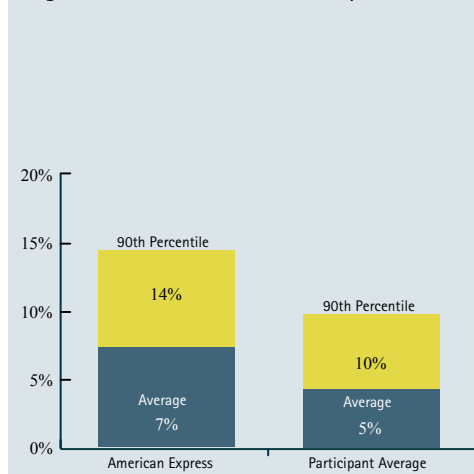
Participants were asked for the average contract discounts they achieve through using preferred suppliers (as % total category spend). The graph shows the results broken down across key indirect commodity areas.

A sample \$50m American Express Corporate Purchasing Solutions customer with 100,000 transactions would be on average 35% larger than a comparable competing card account. A competing program would typically achieve \$35m in annual spend volume and 85,000 transactions. This is based on the average program size as a % of indirect expenditure.

With this number of transactions, the average American Express customer has the potential to save 23 FTEs. This translates to a hard saving of \$1.1m with an average loaded resource cost of \$48,000 (blended rate across all impacted roles – refer to Figure 12).

Figure 14

## Program Size as % of Indirect Expenditure



Survey participants were asked what their total Procurement Card spend was for the last complete year. The metric was then derived as the percentage of indirect spend. The graph shows the average program size and the 90th percentiles for American Express customers versus the participant average.

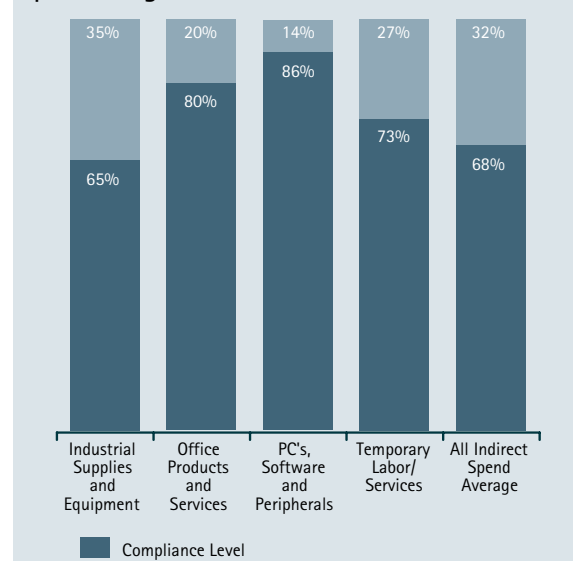
A typical competing program with 85,000 transactions has the potential to save 19 FTEs, translating into a hard savings of \$0.9m annually.

In addition to Process Efficiencies, a customer using preferred supplier restrictions would expect to achieve a 21% increase in compliance. With an average contract discount of 11.4%, this translates into a savings of \$1.2m per year.

A competing program without preferred supplier restrictions in place would expect to achieve a 12% increase in compliance. With lower spend volume, this translates into a saving of \$0.5m per year.

Figure 20

## Average Compliance for Indirect Spend Categories



Participants were asked for the current level of compliance and the average contract discounts achieved through using preferred suppliers (as % total category spend) for the set of commodities listed and for their total indirect expenditure.

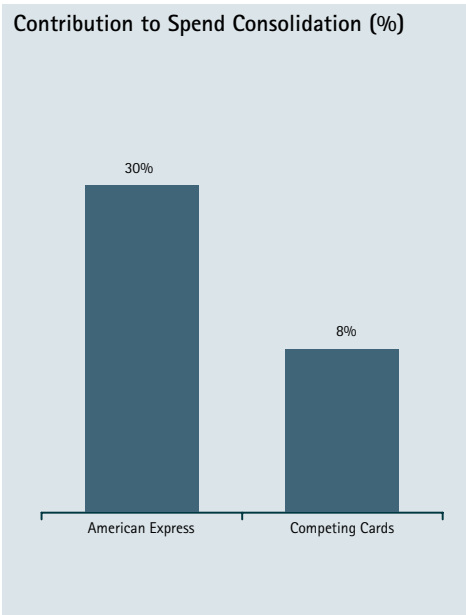
With Spend Consolidation savings of 5% available, American Express customers credited their program with a 30% contribution to this saving. Participants with competing programs credited their Procurement Card with a contribution of 8%.



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**Figure 18**

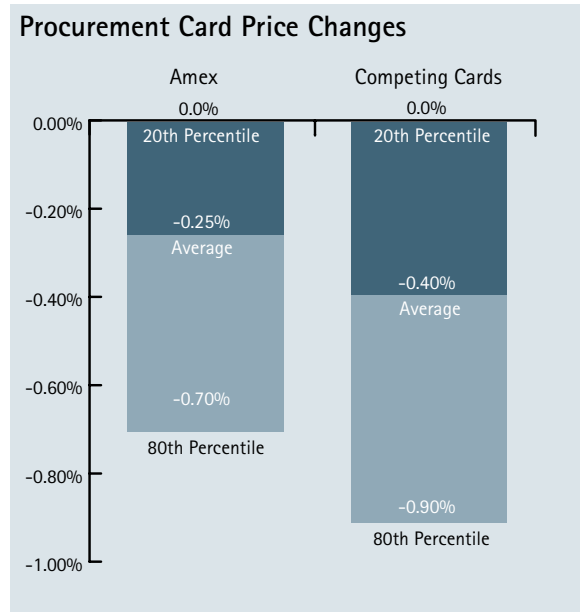


Survey participants were asked what percentage contribution their pCards made towards the spend consolidation savings in the commodities where pCards were used.

The resulting Spend Consolidation savings would be \$750k for American Express customers and \$140k for competing cards.

Despite the common perception, participants experienced price decreases through the implementation of their Procurement Card programs. An American Express customer would expect to achieve a price reduction of 0.25% from their Procurement Card suppliers, resulting in a savings of \$125k.

**Figure 19**



Survey participants were asked on average what price changes they experience with Procurement Card suppliers (as % of overall spend).

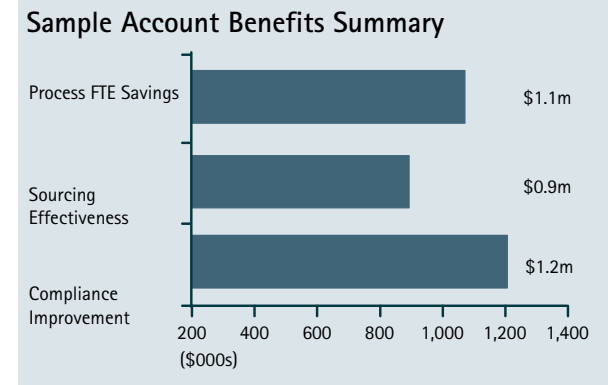
A competing program would expect to achieve a price reduction of 0.4% resulting in a savings of \$140k.

To administer their programs, one administrative FTE would be required to support the 100,000 transactions for an American Express customer. The average loaded cost of a procurement administrator translates into a cost of \$43k.

A competing program would require 2.1 FTEs to support the 85,000 transactions. The average loaded cost of a procurement administrator translates into a cost of \$90k.

In summary, the American Express customer would achieve \$3.2m in savings per year versus \$1.7m in savings per year for a typical competing program.

**Figure 24**



**Assumptions:**

All client transactions replaced by Procurement Card program currently require a purchase order.

### American Express Advantage

#### Process Efficiency

- Program spend as a proportion of indirect expenditure is 7% versus 5% for participant average
- FTE savings for an average American Express implementation are 7.3 versus 6.3 for competing cards

#### Compliance

- Compliance improvements of 21% with preferred supplier lists versus 12% without
- Contract compliance average saving contribution of 30% versus 8%
- Cost Avoidance / Budget Compliance average saving contribution of 28% versus 14%
- Tax and Regulatory Compliance average saving contribution of 8% versus 3%

#### Sourcing Effectiveness

- Spend Consolidation average saving contribution of 30% versus 8%
- Tax information for 89% versus 71% of transactions\*
- Delivery / Ship To information for 66% versus 29% of transactions\*
- Line item detail for 58% versus 45% of transactions\*
- Purchase order information for 52% versus 17% of transactions\*

#### Program Administration

- Implementation spend growth per month 0.3% of indirect expenditure versus 0.2% for participant average
- Transactions supported by Procurement Card Administrator 100,000 versus 40,000

### Program Parity

#### Process Efficiency

- 23 FTE savings per 100,000 transactions

#### Sourcing Effectiveness

- Unit Cost Reduction average saving contribution of 10%
- Volume Rebate average saving contribution of 16%
- Basic Merchant / Vendor Information for 98% of transactions\*
- Customer Specific Account Codes for 71% of transactions\*

#### Program Administration

- First transaction achieved in 3 months
- Implementation of 50% of the spend in 14 months
- Implementation of 100% of the spend in 22 months

### Disadvantage

#### Sourcing Effectiveness

- Supplier price changes -0.25% versus -0.40% for competing cards

\* Procurement card information provision percentages were calculated by averaging the highest value in range selected by the participant when answering the survey (for example if the range selected was 50 to 75%, 75% was assumed and used to calculate the average)

## Participants

Air Products and Chemicals, Inc.	ICI Paints	Smith & Nephew Inc.
American Electric Power (AEP)	J.D. Edwards & Co.	Smurfit-Stone Container
BASF Corporation	Miller Brewing Company	Symbol Technologies, Inc.
Bombardier Transportation	Nestlé UK Ltd.	The Boots Company PLC
BP Chemicals Ltd. (Europe)	New York City Department of Education	Vodafone UK
British American Tobacco	Owens Corning	Vought Aircraft Industries, Inc.
Cornerstone Family Services	Pharmacia Corporation	Wachovia
EMC Corporation	PricewaterhouseCoopers LLP	Wake County Public Schools
Endesa	Renault	Willis
Forest Laboratories	Royal Mail Group	
Iberdrola		

Note: 54 companies participated in this survey, companies not listed wished to remain anonymous