TCG Consulting

The Great Spend Shift: Optimizing Your Card Program During Turbulent Times

With business travel sharply lower due to COVID-19, companies need to target other B2B areas to close the spend gap and protect their card program, writes Paul Horn, Head of Client Engagement, Citi Commercial Cards, Rich Iseman, North America Sales Head, Citi Commercial Cards, Graham Ruskin, Advisory Services, TCG Consulting and Jim Coufal, Payment, Expense & Invoice, TCG Consulting.

COVID-19, and the lockdowns and restrictions put in place by governments to stem its spread, has caused business travel to come to a halt. With working patterns and international travel unlikely to return to normal until a vaccine is fully deployed, among other company return-to-travel factors, employees are no longer purchasing travel-related items on their corporate cards, leading to an overall decline in corporate card spend. Many companies rely on the rebate from their card program to fund program staff and other investments. How can the gap be filled?

The readily available and most impactful solution is to grow B2B spend. As well as being suitable as a replacement for T&E spend, B2B spend can help with working capital extension strategies or enable firms to support their suppliers by paying them sooner (without having a detrimental effect on the buyers' working capital).

Virtual card accounts (VCA) are an important tool to grow B2B spend. They are frequently leveraged as a complement to supply chain finance programs and can be integrated into cash management and payment solutions as a payment type using industry-standard file formats like XML, making implementation quick and straightforward. In addition to the financial benefits, VCA offers working capital buyers a working capital benefit by leveraging the card statement cycle. APIs can enable payments to be made directly from ERP or other business-level platform, facilitating instant payments where required. VCA creates ease of reconciliation as payments are "pre-reconciled" in the ERP Environment before they are originated.

How to expand cardable spend

With the current environment, companies can transform beyond turbulent times utilizing all sources of B2B and broader commercial cardable spend. There are a growing number of areas that are becoming cardable, as companies adapt internal processes and suppliers are increasingly enabled to accept cards. Cardable spend expansion should proceed in five steps:

1) Identify cardable spend targets and goals.
2) Match spend to card product applications.
3) Engage company stakeholders and suppliers.
4) Convert company-initiated spend to card.
5) Scale results and continue to transform.

The challenges facing companies seeking to close the T&E spend gap is significant: 62% of companies have no plan to manage T&E in a post-COVID-19 environment, according to analysis by TCG Consulting. However, the opportunity to grow non-T&E spend is potentially vast: there is a total addressable card spend opportunity of at least 4.5 times the current total reimbursed

T&E costs. At the same time, 77% of CFOs and other senior finance leaders believe that digital transformation will be a key part of their company's future – virtual cards therefore have an important role.

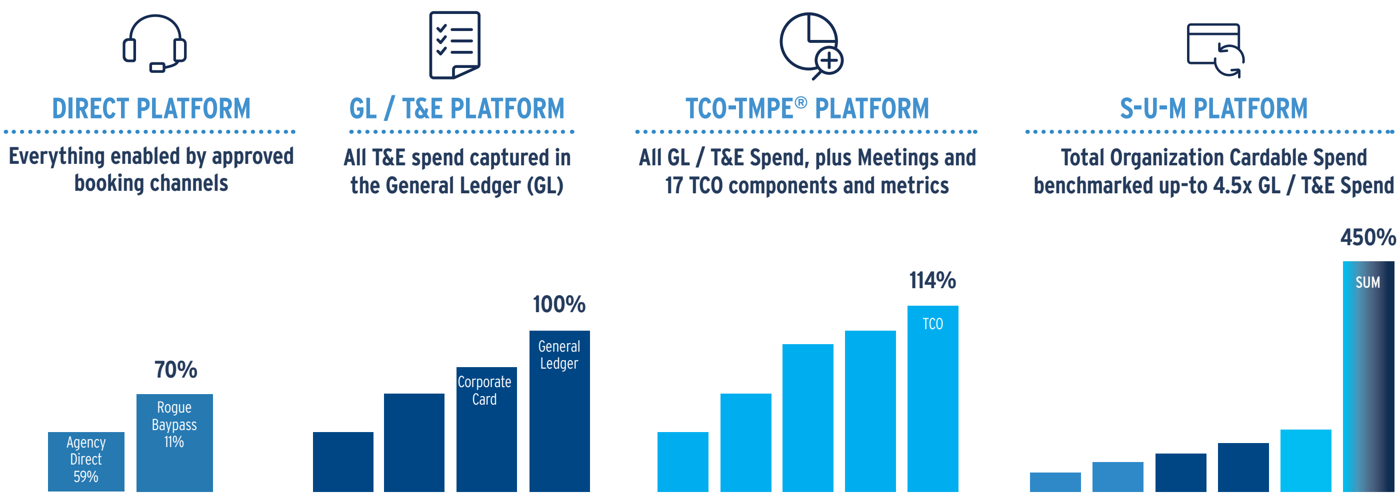
Corporates should recognize that growing non-T&E spend can be more challenging than growing T&E spend. Whereas T&E spend may traditionally involve a limited range of stakeholders within the company (such as travel, procurement, finance and potentially human resources), TCG research indicates that more than a dozen stakeholder groups (including marketing and communications, indirect procurement, IT, shared services and risk and compliance) are typically involved in broader card expansion. Cardable expansion can therefore act as a catalyst to drive closer stakeholder relationships across the organization, focused on growing card spend while improving risk management, spend visibility, and building supplier relationships.

Where are the opportunities?

In order to manage and capture spend, it needs to be identified. Figure 1 illustrates the different platforms where is captured. At the General Ledger (GL)/ T&E Platform, ideally we would see 100% of all T&E captured.

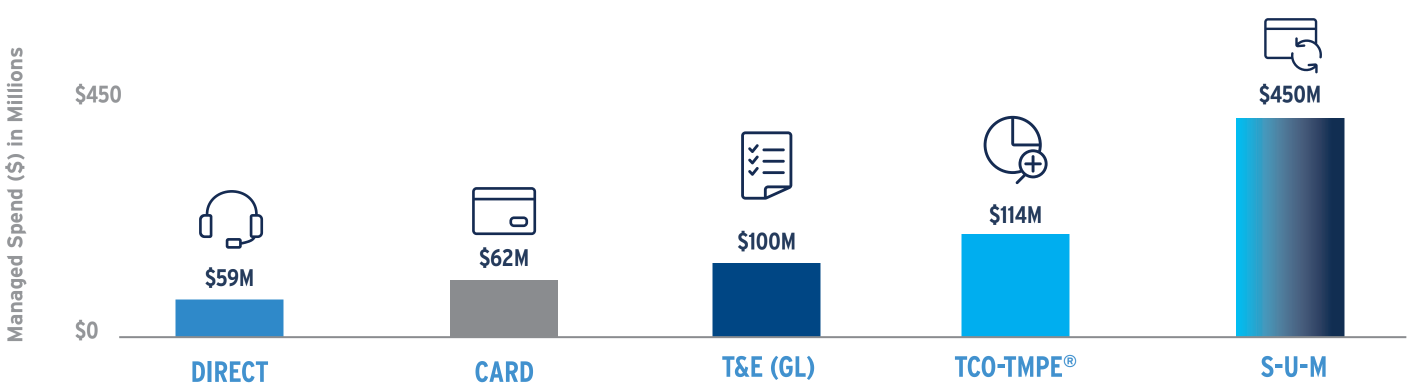
As illustrated in Figure 2, much of the spend ($59 million) is direct travel, with bookings through travel agencies and other approved channels; most companies have some additional

Figure 1. Spend Captured at Four Platforms



1. TCO average cost range between 8%-23% above GL (14% initial projection applied)
2. TCG benchmarks indicate 4.5X (2019) T&E Spend represents an organizations cardable spend opportunity

Figure 2. Total Cost of Ownership (TCO-TMPE®) and Spend Under Management (S-U-M) Transformation



travel spend ($11 million) booked outside of approved channels. The next spend column is corporate card, part of which is T&E related; this can be used as a source of holistic travel information and fed into an expense management system. The next pillar is general ledger, which rolls up all T&E card spend. The total cost of ownership (TCO) column shows the additional costs (such as technology or treasury) associated with managing a program that is not captured within the functional areas. These costs range from 8% to 23% (averaging 14%) above the general ledger total for reimbursed T&E– hence the illustrative total of

$114 million on the chart. Finally, the spend-under-management total at the bottom of the chart shows the total possible cardable spend, giving a commercial card opportunity of 4.5 times total T&E spend, represented by $450 million in Figure 2.

This model can be used to identify opportunities, such as any indirect or related T&E costs still being reimbursed, non-employee people costs (such as professional services or shared services), meetings and events, office services (such as maintenance), IT support, office supplies purchases and marketing and communications. At a higher level, the opportunities include bringing down costs by measuring program performance and developing a plan with all stakeholders to

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standardize cardable expansion beyond T&E. The goal is for card spend to encompass all opportunities where incremental, repeatable and scalable spend exists.

Information sources that can be used to identify opportunities to increase spend include a general ledger extract or accounts payable vendor list, as well as a list of purchase orders currently running through procurement.

Necessarily, different suppliers pose different levels of challenge in terms of moving to a new payment vehicle; some will already have similar arrangements with peer companies and be willing to switch to card payments; others may require negotiations that deliver a win-win for both parties (with corporates gaining the opportunity to increase their rebates while suppliers benefit from faster payment and a working capital improvement); still others may require a more strategic approach involving multiple stakeholders across the organization and possible contractual renegotiations.

Today's challenges present an opportunity for card optimization

Historically, when a supplier or a spend category was evaluated to convert to card payment, the first wave of adoption inevitably focused on easy wins, where there were limited changes to processes, reporting, reconciliation and the fulfilment of the stakeholder need within the organization. At the other end of the spectrum, various options were simply not considered because they were too challenging due to internal company requirements or supplier relationships – there was no business case to move from a direct invoice to a card payment, for instance. In the middle of these two extremes, the feasibility of moving to card payments was based on a number of considerations, including the impact on supplier relationships, spend visibility, or the availability of actionable and timely reporting.

Today, opportunities are growing for a number of reasons. First, many companies are re-evaluating spend based on current industry data and the increase in appetite across most organizations to grow card spend (especially given the decline in T&E spend as a result of the pandemic) – identifying and acting on easy wins is a must. Second, there is a greater willingness to explore spend within various categories while suppliers have become more open to payment via card. Indeed, contrary to popular belief, card payment can strengthen supplier relationships. In effect, these changes mean that when it comes to card programs all spend is now potentially up for grabs.

Transformation derives from an appetite for change. Companies are looking to address the challenges presented by COVID-19 but are also looking beyond it. There has never been a better opportunity to bring together disparate internal stakeholders to look for new use cases and cardable opportunities. Companies need to work with their partners to develop a card roadmap that delivers a range of benefits across the organization – both traditional benefits such as the opportunity to earn program rebates and enhanced process efficiency, as well as goals such as improved working capital and greater data visibility and actionable spend reporting, which have traditionally been less of a priority for many card programs – while also supporting suppliers and strengthening relationships.


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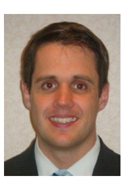
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