COMMERCIAL CARD

Optimize Your Virtual Card Program through Supplier Outreach
Introduction

The commercial card industry is an integral and growing portion of the broader business-to-business (B2B) payments landscape. The overall value transfer between U.S. businesses within the B2B payments ecosystem is estimated to be in the range of $20 trillion annually, involving products such as ACH, checks, and wire transfers in addition to cards. A key ingredient for corporate buyers to gain optimal benefits is increased awareness of the end-to-end value provided to both them and their suppliers by the use of virtual card products. Virtual cards are commercial cards that do not require the issuance of a physical plastic. They are typically issued digitally as single-use accounts used for paying supplier invoices. Virtual card usage is expected to grow at an annual rate of about 20% through 2019, primarily displacing the use of paper checks in the B2B payments space.1

Program Value

Broad card acceptance by suppliers is the cornerstone as well as key challenge for a buying company to successfully optimize their virtual card program. While core benefits of card acceptance for buyers have been well publicized, there is still opportunity to strengthen the value story for suppliers by reinforcing important benefits—process efficiencies, improved working capital management through reduced days sales outstanding (DSO), strengthened customer relationships, to name a few.

Even as awareness of these benefits grows, suppliers continue to be reluctant to accept cards for business-to-business payments, most commonly because of a perception that acceptance costs outweigh the benefits. This is an unfortunate misperception stemming partly from a lack of knowledge of how to maximize the efficiencies of card acceptance and thereby reduce both hard and soft costs. Suppliers need to recognize that a card acceptance decision goes beyond a simple “yes” followed by selecting an appropriate acquirer/processor provider. The supplier also needs to conduct a full scenario review of the available assessment fee options.

While core benefits of card acceptance for buyers have been well publicized, there is still opportunity to strengthen the value story for suppliers by reinforcing important benefits—process efficiencies, improved working capital management through reduced days sales outstanding (DSO), strengthened customer relationships, to name a few.

Once a supplier has the opportunity to focus on specifics, the intrinsic value and inherent advantages of virtual card acceptance are relatively easy to explain. Following is a summary of the benefits that contribute to the overall value add:

**Interchange Assessment Cost.** The merchant discount fee associated with card acceptance varies widely (approximately 1-4% of the transaction amount, including acquirer fees). The most substantial portion of this merchant discount rate is the interchange fee assessment, with rates varying according to such factors as transaction size and level of data included. This complex set of interchange rules established and managed by the branded networks can be daunting for any supplier. However, it is critically important for suppliers to understand these rates, and the hard cost advantages posed by accepting virtual card solutions. Virtual cards generate higher average payment value than traditional plastic purchasing cards because of reduced risk. For example, the virtual card system can digitally generate a single-use account number that specifies payment amount, date range, and merchant type, with multiple approval layers and an audit trail. This contrasts with physical plastics distributed to employees that have open credit lines and can be subject to misuse. The virtual account number can also be set up to settle into a supplier bank account with no manual processing, eliminating delays, potential merchant mishandling, and possible payment manipulation. These factors appeal to buyers’ confidence that large-ticket (> $7,500) payments are more secure with virtual cards.

As such, supplier awareness of interchange assessment nuances is a key selling point for acceptance. Large-ticket interchange rates vary by size, but as an example, a $100,000 payment transaction would produce supplier interchange fees of less than 1%, substantially lower than the standard rate of 2.65%. Another important supplier cost saving factor in setting up virtual card process flows is the higher potential for incorporation of Level III data in the supplier transaction record, currently allowing for a possible 100 basis point interchange assessment reduction. Table 1 provides common examples of these variations with the marginal supplier assessment cost differences.

### Table 1: Illustrative Example: Interchange Summary

<table>
<thead>
<tr>
<th>Assessment Category</th>
<th>Mastercard</th>
<th>Visa</th>
<th>Supplier Assessed Cost (per payment dollar)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mastercard</td>
<td>Visa</td>
<td></td>
</tr>
<tr>
<td>Not Large Ticket; no enhanced data</td>
<td>Data Rate I 2.65% + $0.10</td>
<td>Commercial Card Not Present, 2.65% + $0.10</td>
<td>2.65 cents</td>
</tr>
<tr>
<td>Inclusion of Level III data</td>
<td>Data Rate III 1.80% + $0.10</td>
<td>Commercial Level III 1.85% + $0.10</td>
<td>1.80 cents</td>
</tr>
<tr>
<td>Large Ticket</td>
<td>Varies by transaction amount, but Large Ticket I is 1.25% + $40</td>
<td>Visa Purchasing Large Ticket is 1.45% + $35 (separate from this is the Visa Large Purchase Advantage Fee Program)</td>
<td>Transaction size = $7,256 1.2 cents</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Transaction size = $100,000 0.9 cents</td>
</tr>
<tr>
<td>Proprietary straight-through payments option</td>
<td>Mastercard Payment Gateway™ (MPG) varies by transaction amount; transactions between $7,255.01 and $25,000 have a rate of 1.20%</td>
<td>Visa Straight Through Processing (STP) Fee Program varies by transaction amount; transactions between $7,000 and $14,999.99 have a rate of 1.30% + $35.00</td>
<td>1.2 cents</td>
</tr>
</tbody>
</table>

Note: This table is for illustrative purposes only since rates vary by business class and can also be negotiable between network participants.

Source: Mercator Advisory Group estimates; Mastercard U.S. Interchange Program and Rates (April 2016); Visa USA Interchange Reimbursement Fees (April 2015)
Working Capital Management. In a virtual card usage scenario, once the buyer approves an invoice the supplier will process the payment, and settlement between the issuer and merchant acquirer typically requires no more than two days. This reduces suppliers’ DSO and improves cash flow. For a typical supplier, card acceptance for a $500 transaction can confer a net financial benefit of $12.29 compared to other payment methods.

Virtual cards can also be superior to other popular forms of working capital management tools used by suppliers to reduce DSO. As a contrasting example, one can compare accepting virtual card payments to the increased usage of “factoring” (a form of supply-chain finance) as a method of receivables financing. Factoring involves the supplier selling receivables at a discount to a third-party funding entity in order to receive faster payment from the third party, thereby improving cash flow. Not only is this method expensive, with discount rates that can easily exceed 5%, but the supplier also typically receives only 80% of the discounted payment up-front compared to the full payment received from a virtual commercial card.

Reduced Processing Cost. Manual processes such as keying-in card payment information, handling check-based payments, and reconciliation, increase suppliers’ end-to-end handling costs. Moving to virtual card acceptance pushes suppliers further toward efficient digital processes. Most suppliers do not realize the potential for reducing expenses by reducing manual steps or know their specific line-item processing costs. In one broad study of end-to-end processing of receivables, indications are that 40–60% average savings are available through digital change. Increasing awareness of these costs and efficiencies to suppliers builds the business case for accepting virtual cards.

Fewer Disputes and Chargebacks. Given their systemic controls, which can greatly reduce fraud, virtual card solutions are appealing to suppliers because they reduce the frequency of disputes and chargebacks and facilitate straight-through processing (STP). Conversely, payment with traditional commercial cards can cause other problems, as outlined in Table 2.

<table>
<thead>
<tr>
<th></th>
<th>Traditional Purchase Card</th>
<th>Traditional Ghost Card</th>
<th>Virtual Cards / Single-Use Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incorrect Amount</td>
<td>Yes</td>
<td>Yes</td>
<td>Pull Payments</td>
</tr>
<tr>
<td>Duplicate Charge</td>
<td>Yes</td>
<td>Yes</td>
<td>Push Payments</td>
</tr>
<tr>
<td>Premature/Unapproved Charge</td>
<td>Yes</td>
<td>Yes</td>
<td>N/A. Since this is STP, suppliers do not process charge transactions for this type of electronic accounts payable (EAP) solution.</td>
</tr>
<tr>
<td>Processing Delay</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Transaction Decline</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Table 2: Potential Charge Problems Related to Commercial Card Products

Source: Mercator Advisory Group, Driving Up the Value of Commercial Card Acceptance for Suppliers, December 2015

2 Federal Reserve Bank of Philadelphia, Clearing and Settlement of Interbank Card Transactions, October 2013
3 MasterCard Worldwide, Acceptance Matters, and Now We Know by How Much, 2012
How We Can Make a Difference to Buyers and Suppliers

Customers choose Chase and J.P. Morgan as their commercial card provider for many different reasons, not the least of which is our extensive understanding of the corporate payments ecosystem. Our Supplier Enablement team offers specialized analysis and insights that can help buying organizations to optimize their card program as well as implement strategies to engage suppliers.

We understand the importance to work across our clients’ existing supplier relationships to increase card acceptance. Leveraging our extensive database of suppliers who currently accept either commercial cards or some form of virtual card payment enables us to gain an optimal initial set of suppliers to target.

A key next step is to assign a dedicated campaign manager. During recruitment, we then make sure suppliers understand the incremental and broader benefits of accepting single-use accounts such as speed to pay, greater security, interchange differentials, and the potential for being added to the buying organization’s preferred list of suppliers. Many suppliers recognize that buyers have leverage over the choice of payment methods used and will react to various types of incentives, both positive and negative. For suppliers who do not accept cards, we have the advantage of utilizing our in-house merchant acquirer subsidiary, Merchant Services, to engage in a parallel acceptance effort. When this effort results in a successful new merchant client, there is an ongoing feedback loop that provides us with an opportunity to then engage for Single-Use Accounts™ (SUA™) enablement. As a result of our overall supplier recruitment campaign efforts, more than 120,000 suppliers currently accept virtual card payments.

Our success in supplier enablement campaigns is strongly related to a belief in active collaboration with our commercial card clients. This is reinforced by a recent RPMG Research Corporation benchmark report on Electronic Accounts Payables (EAP), where research indicates that best practices of buying organizations (those achieving the greatest amount of EAP spend and benefit) have the following characteristics in common:

- They are more likely to engage in efforts to enlist suppliers for acceptance of electronic accounts payable (EAP).
- Senior leadership reaches out to suppliers.
- Members of the buying organization take the lead in implementation steps rather than relying on the banks.

We understand the importance to work across our clients’ existing supplier relationships to increase card acceptance.

It is often the case that buyers simply do not have the time or resources to conduct an effective supplier enrollment campaign. We take the initiative in facilitating the flow of detailed information from buyers to suppliers. Our dedicated campaign manager produces a weekly recruitment report for combined review with our clients. Among other shared information are things like acceptance success rates, identifying which of the suppliers need more information from buyers (or require direct outreach), and reasons that suppliers decline to accept Single-Use Accounts (SUA™). This helps to provide buyers with a greater understanding of supplier pain points and an appreciation for the value of direct communication. In addition we provide clients with an enrollment toolkit/guide highlighting best practices for clients to continue to recruit suppliers on their own. Figure 1 is a synopsis of our approach to gaining momentum for your program and establishing a foundation for optimization.

Figure 1. Comprehensive Support for Your Supplier Campaign

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Conduct spend analysis/segmentation and identify targeted suppliers</td>
</tr>
<tr>
<td>2</td>
<td>Define project team, timeline and goals, develop rollout plan and update policies</td>
</tr>
<tr>
<td>3</td>
<td>Draft campaign announcements and enrollment messaging</td>
</tr>
<tr>
<td>4</td>
<td>Send internal/supplier communications and launch campaign</td>
</tr>
<tr>
<td>5</td>
<td>Begin outbound calling, onboard suppliers and track enrollment</td>
</tr>
</tbody>
</table>

Richard Palmer and Mahendra Gupta, RPMG Research Corporation, 2015 Electronic Accounts Payable Benchmark Survey Results, August 2015
Optimizing Value through Ongoing Client and Supplier Support

Our program support extends beyond gaining the largest initial base of suppliers to accept virtual cards. We also provide our clients’ suppliers with additional support as needed. After virtual card recruitment campaigns are completed, some suppliers have shown a need for additional support and education as they transition to a new payment process. Catering to those needs, the Supplier Support team offers dedicated resources who can respond effectively to questions regarding payment processing and related procedures. Inquiries that our virtual card clients may not be able to readily answer can be handled efficiently by the knowledgeable resources on the Supplier Support team.

Additionally, once the initial program has launched, we establish an ongoing client consulting process for optimizing program results. Client Consulting from Chase and J.P. Morgan offers specialized analysis and insight that can help you identify opportunities to optimize your card program and implement strategies that deliver results. Our consultants bring an in-depth perspective to the process with years of experience in payables, procurement, finance, and commercial card management. Our comprehensive approach to program optimization comprises both qualitative and quantitative components including:

- Meetings and interviews to gain a complete understanding of an organization’s practices, policies and processes.
- A thorough review of transaction-level accounts payable data plus detailed tracking information on active vendors and spending patterns.

We then apply these analytic findings, leveraging the data for further effective actions such as:

- Policy and usage alignment to examine card activity relative to current program guidelines and spend thresholds, which helps identify policies that subvert qualified spending.
- Finding “lost opportunities” by uncovering areas of leakage that can add spend to a card program, thereby finding additional rebate opportunities.
- Program reach analysis, often leading to insightful recommendations geared toward helping clients extend program penetration and broaden the categories of spend.

Our end-to-end approach utilizes the full team of seasoned experts to optimize the value of our corporate clients’ commercial card programs. This approach includes all B2B card products, incorporating logical and successful steps for client follow-through. It is important to note that this support is continuous, which means that at any stage of the virtual card program we will directly re-engage on a specific support requirement. For example, if clients onboard new suppliers, we can assist them on another campaign to recruit net new suppliers. Figure 2 is an illustration of the cycle of ongoing support that Chase and J.P. Morgan delivers to our corporate clients, thereby helping to improve longer-term commercial card spending, including virtual cards.

Figure 2: A Holistic Approach to Program Optimization
Corporate Clients Help to Drive Their Own Success

The Chase and J.P. Morgan Supplier Enablement team truly believes in the partnership model. The success of our corporate clients in growing their program has shared benefits for their suppliers. This shared success helps to forge greater stability in our clients' supply chain and helps us to grow as well, enabling continuous improvements to our products and program support. In one study, we determined that clients who engaged with our team to improve internal practices had an average year-over-year program spending improvement of 27%.

There are some relatively straightforward things that any corporation can do to improve their card spending programs. These range from clear policies to making sure department managers know the goal of the program. Figure 3 summarizes these steps.

Figure 3: Best Practices in Client Consulting

Best Practices to Help Drive Card Usage and Program Success

Before performing an extensive card program analysis, consider the following simple best practices:

- Make sure program policies are brief, clear and concise
- Facilitate distribution of cards to all employees requiring a card
- Communicate and educate department managers on allowable purchases
- Conduct effective outreach to increase supplier adoption of card payments

** Participating clients’ growth rates reflect a twelve month review during the period of 2013-2016. Measurement of program growth starts after implementation of recommendations with JPMorgan Client Consulting. The projections are for illustrative purposes only and are not guaranteed results for all clients. A client’s actual percentage of program growth rate will vary based on individual client participation.

---

** Participating clients’ growth rates reflect a twelve month review during the period of 2013-2016. Measurement of program growth starts after implementation of recommendations with JPMorgan Client Consulting. The projections are for illustrative purposes only and are not guaranteed results for all clients. A client’s actual percentage of program growth rate will vary based on individual client participation.
Conclusion

Commercial card programs are becoming an integral part of the corporate payments system in the United States. One of the more recent developments in the industry is the rapidly growing use of virtual cards products in the B2B payables space. As the industry’s largest U.S. commercial card bank issuer, one of our many advantages in providing virtual card solutions is that we understand buyer and supplier perspectives across multiple vertical industry segments and sizes. We also understand the importance of helping our corporate clients to increase suppliers’ card acceptance across their buying spectrum by engaging and educating suppliers on the core value of accepting virtual cards. Our client support model is designed for both initial success and ongoing improvement for optimal program performance.

Buyer and supplier awareness of the benefits of virtual card to both sides has grown perceptibly over the past several years, in part as a result of intense efforts on the part of card issuers to better educate their client base. Chase and J.P. Morgan fully embrace these efforts and continue to be a market leader in finding the best approach to gain both supplier acceptance of virtual cards and optimal program value for our corporate clients.

As the industry’s largest U.S. commercial card bank issuer, one of our many advantages in providing virtual card solutions is that we understand buyer and supplier perspectives across multiple vertical industry segments and sizes.

9 The Nilson Report Issue 1089, July 2016
Chase and J.P. Morgan: Commercial Card

Multiple payment solutions to help meet the needs of your organization and employees.

Single-Use Accounts – Protect and automate your supplier payments with a virtual payment solution.

Purchasing Card – Streamline your organization’s payment process and set controls for everyday purchases.

One Card – Consolidate your organization’s spend with a single card program for all expenses.

Corporate Card – Empower business travelers with the card that makes it easy to track and manage expenses.

For more information, please contact your Chase or J.P. Morgan representative, or visit www.jpmorgan.com/commercialcard