

Best Practices in Building Efficient Procurement Card Programs

Audience: 2007 Receiver General For Canada
Banking Colloquium

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Title: Director North American Public
Sector

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As North America's leading commercial card issuer, BMO Financial Group and its BMO ePurchasing Solutions (BMO) division, successfully manage card programs and procurement technology for over 100,000 businesses across North America –

exceeding expectations - every payment, every time.

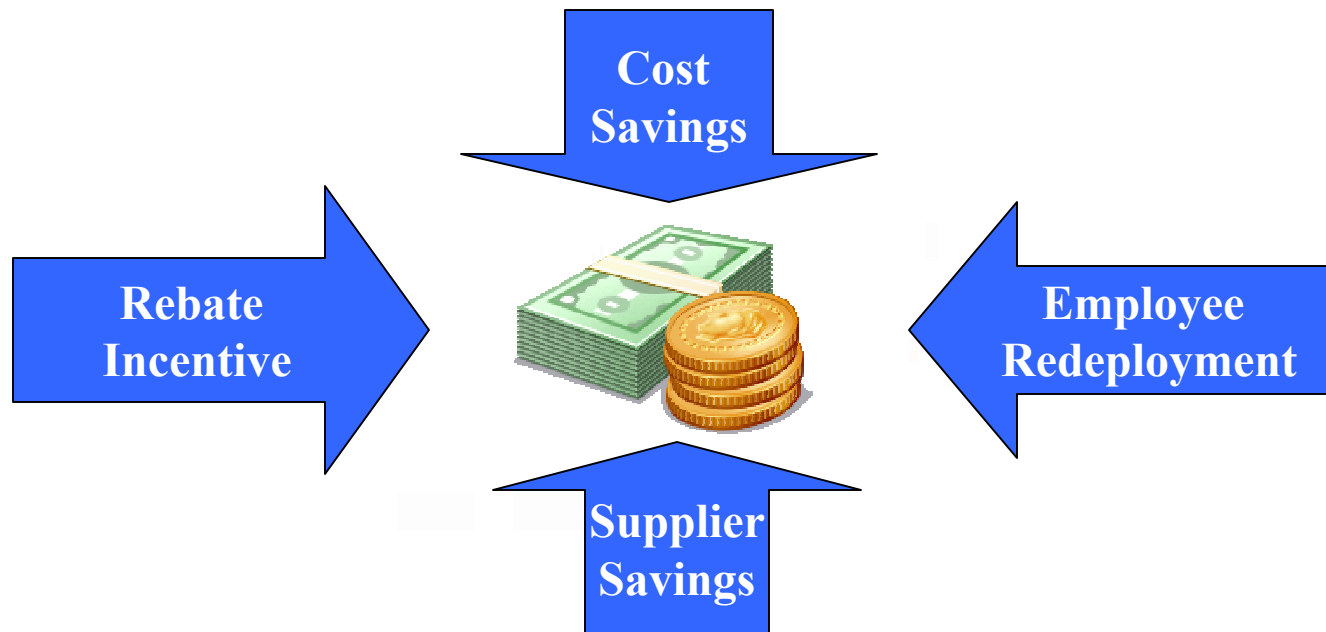


A Penny Doubled a Day for 30 Days vs. \$100,000 Today



The Pencil Purchase Dilemma

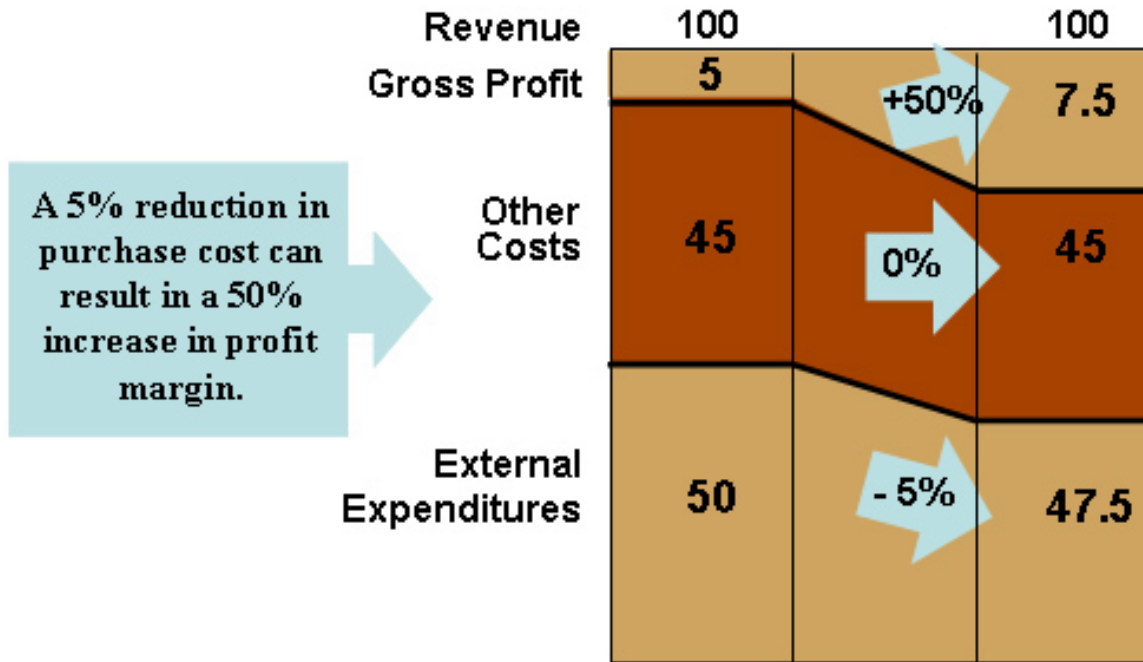
“The cost to purchase the pencil is often greater than the cost of the pencil itself.”



BMO can help **ERASE** the “Pencil Purchase Dilemma” and exceed your payments expectations – every payment, every time.

Program Benefit

Bottom-line Impact of Spend Reductions - Example



In order to obtain an equivalent impact, a company would have to...

- Increase sales by 50%
- Reduce overheads by up to 20%
- Significantly reduce staff numbers

“Successful procurement involves addressing organization, process, and technology hurdles.”

Best Practices for High Performance - Organization

- Have a higher level of top management support.
- Have an ongoing method of communicating purchasing card information to cardholders and managers.
- Centralize some activities:
 - Spend analysis – to identify enterprise-wide savings
 - EIPP – to streamline process of invoice capture, reconciliation and payment and reduce DSOs
 - Contract management – to facilitate compliance and optimize contract value
- Both Centralize and decentralize others:
 - **Sourcing – tools and best practices centrally; sourcing events decentralized to category experts**
 - **Purchasing card and eProcurement – choose single vendors for enterprise, deploy by unit and geography**
 - **Services procurement -- deploy department by department, using global platform**

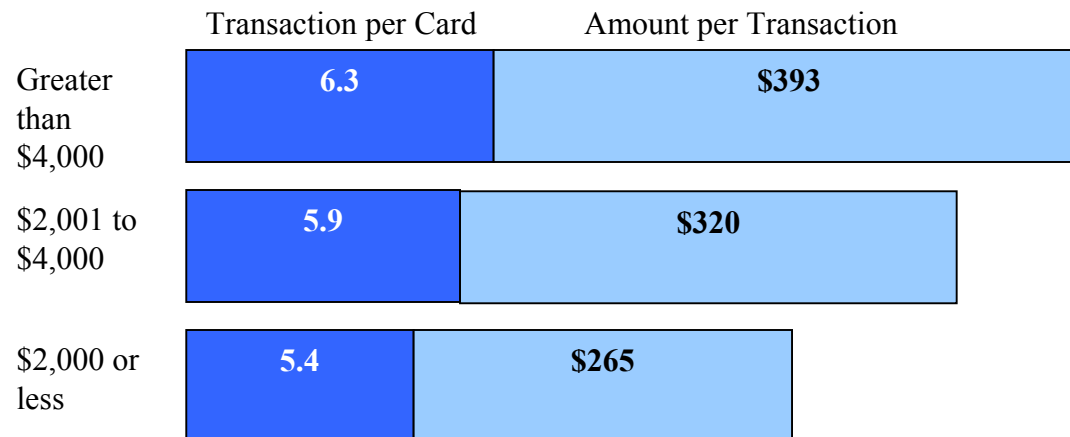
Best Practices for High Performance - Process

- Analyze AP check payments to identify merchants who are to be encouraged to accept purchasing cards and compare supplier list against the BMO's list of card-accepting merchants.
- Leverage purchasing card spending data as a basis to request higher discounts from vendors.
- Restrict some or all of their purchasing card activity to “preferred vendors” and reduce the number of suppliers in the Accounts Payable master.
- “World Class Companies rely on 46% fewer suppliers than typical companies” – The Hackett Group

Source: 2005 Purchasing Card Benchmark Survey Results, R. Palmer & M. Gupta

Best Practices for High Performance - Process

- Review purchase requisition traffic to identify employees who need cards (organizations distribute, on average, twice as many cards and provide an average of 12.2% of employees with purchasing cards).
- Customize monthly card spending limits depending upon individual spending responsibility or position.
- Increasing the transaction spending limit has a “multiplier effect”.



Source: 2005 Purchasing Card Benchmark Survey Results, R. Palmer & M. Gupta

- **Fraud:** Charges applied to a card by an unauthorized user, or charges made deliberately by an authorized user for a non-business purposes.
- **Misuse:** Charges made by an authorized user for a business related expense, outside of the user's purchasing authority, or outside of the Acquisition Card's Policy and Procedures.
 - Total (all organizations) purchasing card misuse accounts for 0.034% of purchasing card spending (\$340 of misuse for every \$1 million of purchasing card spending).
 - Government agency purchasing card misuse accounts for 0.006% of purchasing card spending (\$60 of misuse for every \$1 million of purchasing card spending).

Source: 2005 Purchasing Card Benchmark Survey Results, R. Palmer & M. Gupta

- **Directive controls** are designed to cause a desirable event to occur
Policies & Procedures
 - ‘New Cardholder’ Information Packages
 - Training

- **Mitigating or Compensating controls** are controls used to offset a missing control (e.g.. supervisory review in absence of segregation of duties, **variance reports** in place of transaction processing controls, etc.)
 - Each according to their situation

Preventative controls are controls that are built into, and not onto the system (e.g.. passwords, **authorization requirements**, etc.)

- Card Credit Limits (Monthly, Daily, Per Transaction)
- Card Blocking (MCC, Supplier, Country, etc)

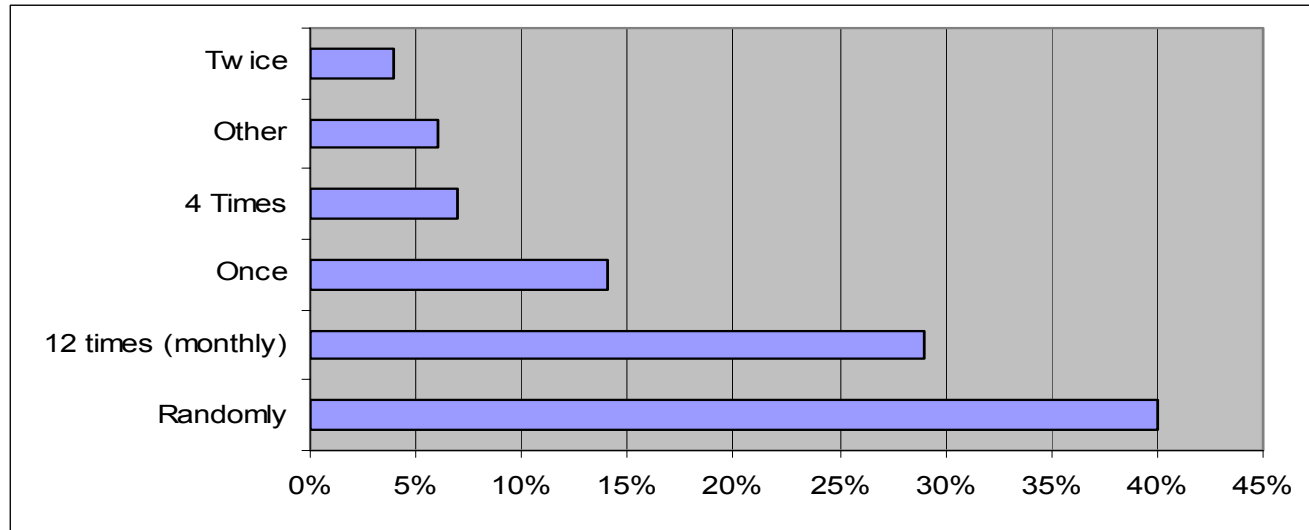
Detective controls are controls that are deferred to the end of the process.

- Exception Reports
- Account Statements
 - Internal Audits

Best Practices for High Performance – Internal Audits

- As with any purchasing methodology, regular internal audits and random sample audits are necessary to identify and contain incidents of misuse
 - 49% of identified misuse is revealed by internal audits

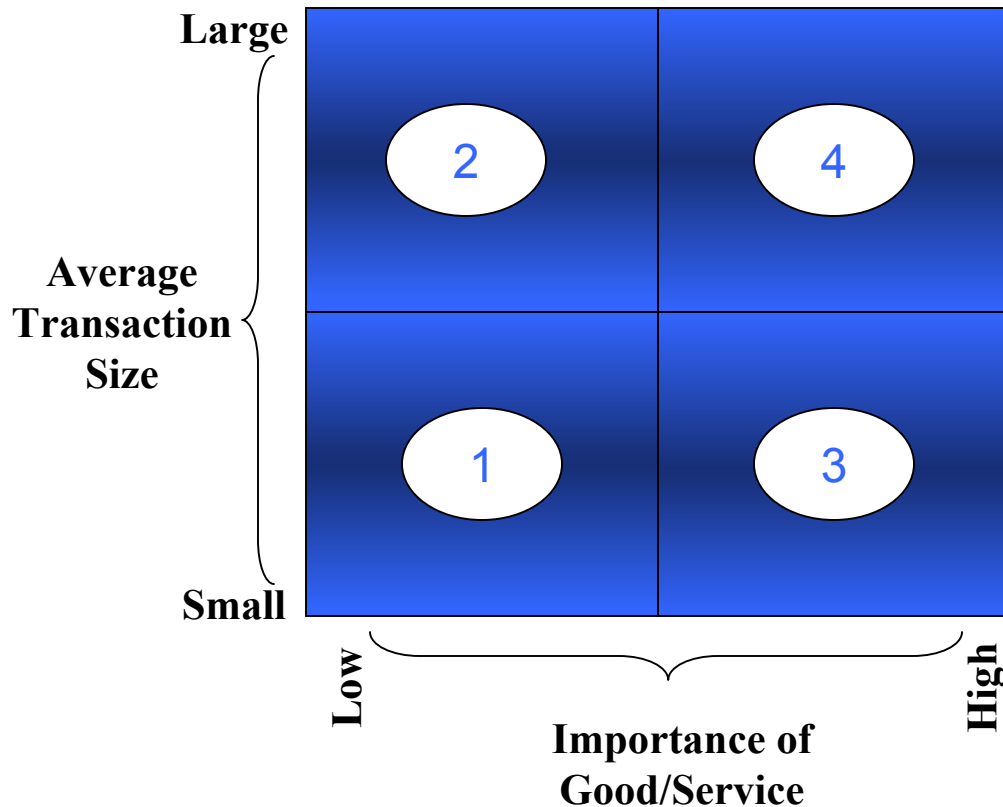
Annual frequency of audit of cardholder spending by internal audit or accounting



Source: 2005 Purchasing Card Benchmark Survey Results, R. Palmer & M. Gupta

Best Practices for High Performance - Technology

A mix of solutions often apply differently based upon the nature of procurement and sourcing.

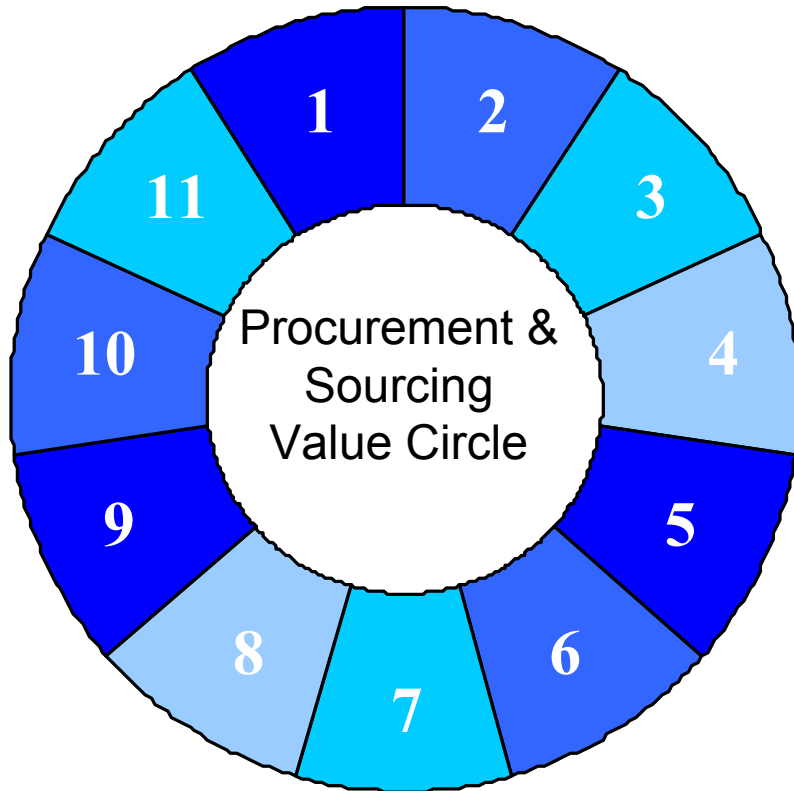


1. eProcurement w/PCard
2. eProcurement w/ EIPP
3. ERP w/ PCard
4. ERP w/ EIPP

Other considerations include:

- supplier count
- volume per supplier
- suppliers' margins
- data requirements

An integrated technology solution will support the Value Circle.



1. Needs Analysis
2. Commodity Strategy
3. RFX
4. Supplier Selecting & Contracting
5. Requisition
6. Approvals & Controls
7. Order Processing
8. Receiving & Routing
9. Invoice & Payment
10. Cost Allocation
11. Supplier & Cardholder Account Management

Where to start?

- Begin by understanding exactly where you are now.
- Consider what's best, and target where you plan to go.
- Explain, and quantify, the benefits to the key sponsors.
- Determine the guidance and support that you need.
- Partner with Best in Class Providers.



Thanks for your valuable time!

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