Evolving features and new applications elevate commercial card programs to meet today's complex payment environment.
Optimizing Cash Flow and Payments with a Commercial Card Program

In the B2B space, checks have long been the preferred method of payment—but the rise of electronic options is changing the payables landscape. While checks still account for the majority of B2B payments, hovering at 51 percent, check usage has fallen by 30 points since 2004¹ and is projected to be overtaken by electronic methods by 2020.² Given the ever increasing pace of business operations, faster payments are becoming progressively more important to a company’s bottom line.

There are several reasons to consider a shift to electronic payment methods, such as ACH or commercial card. In this article, we’ll explore the benefits of implementing a commercial card program, which can service a variety of business spending needs.

BEYOND TRAVEL AND ENTERTAINMENT: POWERFUL NEW APPLICATIONS FOR COMMERCIAL CARDS

Traditionally, commercial card programs have revolved around travel and entertainment (T&E) expenses. T&E cards are certainly useful, as they eliminate the need for companies to issue advance payments or carry out the administrative procedure of reimbursing employees for out-of-pocket costs. However, commercial card programs are expanding to facilitate other business expenditures, including commodities and services from suppliers. Commercial purchasing cards are designed to suit this purpose and offer new capabilities that businesses can leverage to evolve their payment strategy.
LEVERAGING PURCHASING CARD FEATURES FOR BETTER CASH FLOW

Purchasing card volume has climbed steadily in recent years, reaching $248 billion in 2016—a historic high and an 8 percent increase from the previous year. While there are a number of reasons for the increasing popularity of purchasing cards, increased cash flow is a primary driver of card use. The most direct cash flow benefit of paying by card stems from the extended float time built into the payment structure.

Consider a company that has received a bill from a supplier that must be paid in 30 days. If the company chooses to pay that bill by check, it must mail the check a few days prior to day 30, or risk late payment due to mailing and processing time. Between the time that the check is mailed and the time it has been processed by the supplier’s bank, the company must retain the full invoice amount in cash, which ties up that sum of money even before the bill is due.

If the company chooses instead to electronically send the money through an ACH payment, it can wait until day 30 to make the payment, which will then be immediately withdrawn. But while ACH gives the company a few additional days to make the payment, the full payment amount still must be available at the time the ACH is sent. However, should the company choose to pay the supplier by card, it does not need to have the cash on hand on day 30. Although—as far as the supplier is concerned—the bill has been paid, the company has extended the float time between the bill’s due date and the date on which it must pay its card balance.

This float time allows the company to hold and use that sum of money for a longer period of time, thus freeing up resources that would otherwise be unavailable through other payment methods.

In addition to extended float time on payments, commercial cards offer other cash flow related benefits that traditional paper checks don’t.

From a risk management perspective, cards also carry a lower risk of fraud than paper checks.
First, the digital systems supporting card programs allow for significantly better data analysis. Real-time spending data can be used to identify expense patterns on a monthly, quarterly, or annual basis, which can then be used to schedule payments in advance to ensure on-time payments and to optimize cash flow throughout the year.

Beyond preemptively scheduling payments, companies can track expenditures with specific suppliers or in specific spending categories, opening the possibility of using trend information to negotiate better terms with frequent suppliers. In addition to sophisticated data analysis capabilities, commercial cards also offer reward programs that aren’t available with other payment methods.

An AFP Payments Cost Benchmarking survey reported that 55 percent of organizations receive cash back on their annual card spend—a benefit foregone by businesses that continue to pay by check.4

Finally, commercial card programs also lower administrative costs by allowing companies to streamline payments and reconcile employee purchases automatically, eliminating the need for time-consuming processes like invoicing and cash advances.

**SMARTER, SAFER, FASTER**

Beyond the cash flow implications, commercial cards have other features that can be used to the advantage of businesses that implement a card program. In addition to rebates and reduced staffing-related expenses, cards also provide cost savings in transaction fees. At $3.00 each, the median cost of processing a paper check is double that of a purchasing card transaction.5 From a risk management perspective, cards also carry a lower risk of fraud than paper checks. In 2017, 74 percent of organizations reported attempted fraud on check payments, compared to a 30 percent incidence rate on card payments.6 Built-in protections, like EMV chips and payment controls that allow administrators to closely monitor and regulate card spending, constitute a fraud risk management system that contributes to the higher security offered by commercial cards.

Finally, card programs streamline the payment process to improve both supplier and employee experience. Because payments can be set up in advance and tracked in real time, card programs help to avoid payment-related
IMPLEMENTING THE RIGHT CARD PROGRAM FOR YOUR BUSINESS

The efficiency, security, and improved cash flow opportunities offered by commercial cards make them a powerful treasury management tool and an increasingly popular payment option. If your company hasn’t yet considered implementing a commercial card program, speaking with your banker is a good place to start—they can guide you through your options and assist you in establishing a program that’s right for your company. While implementing a commercial card program can be complex, depending on the number of cardholders and the extent of the controls which must be placed on each card, a good banking partner will provide end to end implementation support and will remain a resource as business needs evolve.

Learn more about UMB Commercial Card programs at UMB.com/CommercialCard
For more business insights, visit UMB.com/InDepth

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* 2015 AFP Payments Cost Benchmark Survey.  
* 2015 AFP Payments Cost Benchmark Survey.  
* 2017 AFP Payments Fraud and Control Survey.  
* 2017 AFP Payments Fraud and Control Survey.