

## Modernize payables with commercial cards

We recognize how important your insights are to driving your business forward and that you are always looking for opportunities to add value through the initiatives and activities you lead. As you reflect on how your organization operates, we recommend that you take a fresh look at new opportunities to modernize electronic payments and the Accounts Payable (A/P) department with commercial cards.

### CARD PAYMENTS IMPROVE PROCESS EFFICIENCY

Reduced budgets have forced companies to do more with less, while the volume of payments continues to rise as suppliers seek to be paid more frequently. Despite a corporate culture shift toward electronic payments, 47% of payables are still paper-based<sup>1</sup> and each check costs, on average, \$39 per item to process and handle.<sup>2</sup>

The move toward electronic payments is an important goal for most senior managers, but with constrained IT resources, operational areas like A/P may not receive needed support for development and maintenance needs. A/P teams need to be creative by leveraging banks and the latest technology to streamline the payments process. This is why company leaders are looking to commercial card programs.

The commercial card is no longer viewed as just an efficient payment method for travel and entertainment (T&E) expenses. In fact, card payments are made for low-dollar purchases as well as for inventory and capital expenditures. Card programs provide significant benefits—from efficiency and control over payment timing to spend visibility and extended payment terms. These benefits not only provide better cash forecasting and the opportunity to help make investment decisions, but also allow A/P to evolve from being an administrative-heavy overhead department to an efficient, progressive operating area with revenue capabilities.

*(continued)*



### LEARN MORE

Please contact your treasury relationship manager.

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## A/P CAN TRANSFORM FROM A COST CENTER TO A PROFIT CENTER

Card is universally recognized as a tool that provides greater internal spending control through visibility into spending and cash positions across enterprise resource planning (ERP) systems and A/P departments.

T&E has been consistently identified as one of the largest controllable expenses in any organization. By gathering card data, companies can negotiate discounted rates with key travel providers. For example, if employees consistently travel to a client location throughout the year, the company can show spending data to hotels, airlines, and rental car companies to negotiate discounts for that destination. When a company's travel spend is extensive, this data can be used to negotiate overall travel discounts.

Another important card benefit is the up to 30 days of float gained from consolidated billing of card payments. Payments can be made to vendors on the due date; however, payments to the bank are made monthly with typically an additional 15 days to pay. The float provides increased liquidity and improves the ability to optimize company funds. When paired with a rebate program on card purchases, A/P departments can move from being cost centers to self-funded operations with the potential to even become profit centers.

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*While mobile and digital wallets have dominated the press coverage of payments in recent years, commercial card has actually transformed how companies view Accounts Payable.*

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## BEYOND T&E AND PURCHASING: ePAYABLES

ePayables have substantially expanded card use by enabling control over large-dollar payments.

Transactions are generated through a payment file from the ERP or A/P system, similar to ACH and wire payments. Because card transactions are initiated after final approvals for payments, controls remain in place and payments simply change from check to card payments. The ePayables program creates virtual card numbers that can be single-use—specific to a single payment—or multi-use where the ability to use the card number is turned on or off each time a payment is made.

## FORWARD-THINKING LEADERS LOOK TO ePAYABLES CARD PROGRAMS TO SUPPORT SUPPLY CHAIN RELATIONSHIPS

Progressive leaders looking to take greater advantage of card opportunities are implementing ePayables programs that benefit both buyers and suppliers.

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*Card payments have historically benefited buyers, so buyers must give suppliers a compelling reason to accept cards.*

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Buyers increasingly view card acceptance by suppliers as a strategic decision factor when choosing between suppliers.

Suppliers are paid much faster and eliminate the credit risk of the buyer when paid with card. The lower Days Sales Outstanding (DSO) improves supplier working capital by reducing the need to borrow funds and enables faster reinvestment of funds for increased return on investment (ROI).

However, the supplier benefits of accepting card payments must be weighed against the discount fees associated with card acceptance. If the supplier has strong working capital, and the buyer poses little credit risk, the benefits of card acceptance may not justify the discount rate.

## COMMERCIAL CARDS AND THE SUPPLIER PARTNERSHIP

Establish partnerships to support your card payment strategy:

- Evaluate the benefits versus the costs paid by the supplier for accepting card payments
- Influence discount rates paid by suppliers through effective interchange management
- Reduce supplier DSO with reduced payment terms on card that are offset by the extended billing by the bank
- Take advantage of turnkey supplier enrollment to leverage ePayables-specific merchant rates

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## CASE STUDY

### MULTIPLE OPPORTUNITIES TO STREAMLINE OPERATIONS WITH COMMERCIAL CARD

#### Pay Strategic Suppliers Faster and Reduce Processing Time

A manufacturing company wants to pay high-dollar invoices from strategic suppliers faster, but struggles to manage a long procurement-to-payment cycle that uses purchase orders. Purchase orders are required by the contractual agreement with these suppliers and used to control inventory items through the company's ERP system.

The company implements the Buyer-Initiated Payment (BIP) program to keep the purchase order process in place, including the two- and three-way match controls used for processing approvals and payments. With BIP, the suppliers agree to accept card payments because they have lower discount fees in place for card payments.

The suppliers do not need point-of-sale equipment or card numbers for the payments to be automatically processed. Funds are deposited directly into supplier bank accounts and remittance advices are sent to suppliers when the funds are available. The company gains float on large-dollar purchases, while earning rebates. Suppliers are paid faster, creating a win-win for both the company and its suppliers.

#### Improve Efficiency with the Supplier-Initiated Payment (SIP) Card

The company recognizes there are other ways to use commercial card to streamline processes. A large portion of the company workforce wears uniforms, so there is a high volume of invoices and payments to process for a single uniform supplier. Instead of paying invoices for each order, the company defers all uniform costs to one accounting code rather than charging each plant location. The Supplier Initiated Payment card is embedded with the accounting code and the supplier charges the card for all uniform purchases, eliminating the need to produce invoices.

#### Eliminate a Time-Intensive Processing Step

The company turns to commercial card again for freight invoices. Because the company ships its goods, freight invoices account for a large percentage of payments. The A/P department receives four mail tubs of invoices per day that need to be processed immediately because freight is required to be paid within seven to 10 days. Now the company provides a card to each receiving location. As each freight carrier delivers its shipments, payment is made by the receiving location instead of using purchase orders, eliminating a costly and time-intensive processing task.

## About MUFG

The global MUFG network encompasses 1,100 offices in more than 40 countries, and provides access to commercial banking, trust banking, securities trading services, credit cards, consumer banking and finance, asset management, and leasing.

Our commercial card program helps improve process efficiency, cash visibility, and forecasting by integrating multiple payables solutions with the latest technology, including a powerful, award-winning data capture and reporting tool.

For more information, please contact your treasury relationship manager.

*The foregoing white paper is intended to provide general information about commercial cards and is not considered advice from MUFG and MUFG Union Bank, N.A. Certain products and services described in this document are provided by MUFG Union Bank, N.A., a member of Mitsubishi UFJ Financial Group (MUFG), and are marketed under the MUFG and Union Bank® brands. Online applications supporting these products are branded Union Bank. Other products and services mentioned may be offered and marketed by other MUFG entities.*

<sup>1</sup> Mercator Advisory Group, "Commercial Credit Cards North America, 2017 – 2023: Growth and Change Continue", Steve Murphy, 2019.

<sup>2</sup> RPMG Research Corporation ([www.rpmgresearch.net](http://www.rpmgresearch.net)) has been conducting an Electronic Accounts Payable Benchmark Survey every three years. Partial results of the most recent survey, conducted in 2018, are publicly available at: [https://rpmgresearch.net/Products-View/product\\_id=89](https://rpmgresearch.net/Products-View/product_id=89).