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The Unified Commercial Card Portfolio: A New Revenue Opportunity for Banks

As the economy recovers, businesses are looking for better ways to track and manage spending. One area they are likely to consider is commercial cards. A robust commercial card program is an opportunity for financial institutions to deliver cost saving to their customers and to contribute to their own growth. But is your financial institution poised to take full advantage of this opportunity?

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Introduction

There is no doubt that the recent recession and financial crisis forever changed the relationship between businesses and their financial institutions. Whether due to lack of liquidity, regulatory mandates or other pressures, the crisis forced banks and other lenders to tighten underwriting standards so much that credit virtually disappeared. Banks have permanently altered their risk management practices and how they evaluate customers' ability to pay.

Meanwhile, the banks' commercial customers also are reconsidering what comprises a successful banking relationship. A recent report from Aite Group, a Boston-based research firm, found that small-business owners in the United States are increasingly dissatisfied with their financial institutions—so dissatisfied, in fact, that a substantial number may switch banks in the next two years.[1] This decline in satisfaction is especially severe among small-business owners who are customers of large banks.

Fortunately, there is still hope to repair these damaged relationships. As the U.S. economy emerges from the recession, businesses are seeking tools to help them in the recovery. They need to manage cash flow more effectively, reduce costs, increase control, improve transparency and maximize productivity.
Financial institutions offer a solution in the form of commercial card programs that can help fulfill these needs.

Once a relatively simple product comprised of corporate T&E cards and fuel cards, the commercial payment card spectrum is now much broader and includes a variety of products. Issuers are increasingly offering procurement or purchasing cards (P-cards) designed to streamline corporate purchases such as computers, services and supplies; one-cards/multicards that facilitate procurement, T&E and fleet purchases on a single card; prepaid cards for one-time purchases or incentive programs; debit cards; and other specialty cards such as payroll cards and MICE (meeting, incentives, conventions and events) cards. In addition, program management solutions are often offered to clients to better manage their card programs.

With commercial cards, businesses can implement long-term process changes in how they track spending, manage cash flow, segregate expenses and streamline the procure-to-pay cycle. A robust card program can help businesses:

→ Closely monitor, analyze and control spending for better risk management and transparency

→ Assess and amend compliance with spending rules and limits

→ Track spending to negotiate discounts and contracts with vendors

→ Automate the accounts payable process

→ Integrate payment data with ERP applications and other systems

For banks, corporate cards are a way to deliver cost saving to customers and to contribute to their own growth. Unfortunately, many financial institutions are not maximizing their corporate card product capabilities because of the way they segment commercial card offerings by functionality or business size or both.

For example, some institutions service large corporations via their treasury function with a focus on corporate and purchasing cards, while separate teams concentrate on selling credit and debit cards into small businesses. Meanwhile, prepaid solutions may not even be offered to commercial clients, small or large.

Taking a continued siloed approach to commercial cards ignores customers' post-recession needs and priorities, and prevents banks from garnering greater "share of wallet" from all commercial customers. The result is lost commercial card revenue opportunities.

First Data suggests considering a different approach to commercial card programs that may maximize post-recession revenue opportunities: a single, cohesive strategy and focus for all commercial cards under one true commercial card management group.

Commercial Cards: An Untapped Opportunity for Recession Recovery

According to Commercial Payments International, the global commercial payments industry was over $80 trillion in 2008.[2] While commercial cards accounted for less than 1 percent of that volume, they accounted for a much greater percentage of total transactions: roughly 8 percent.[3]

Despite the low penetration of commercial cards relative to all business-to-business payments, the use of commercial cards has been growing for the past decade, and until recently issuers were experiencing double-digit annual growth rates in portfolio spend volumes. Just a few years ago, the travel and purchasing sectors were the main drivers for this growth, providing convenience and reducing processing costs for small-ticket purchases such as office supplies.[4] However, the pressures of the economic downturn forced corporations to look for savings wherever they could find them.

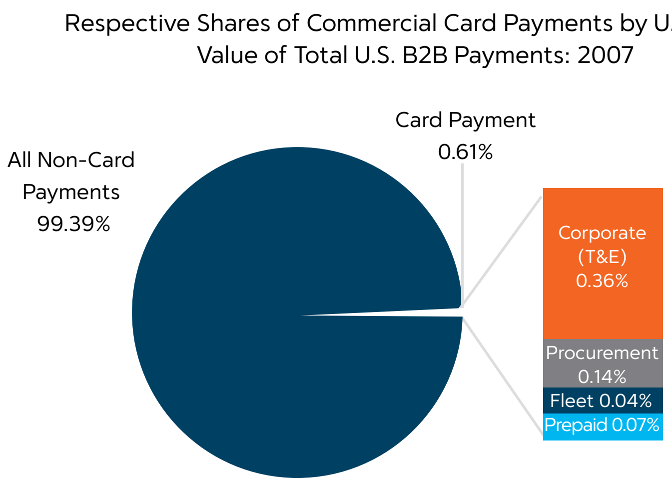

Figure 1: Commercial card represents a small a percentage of total U.S. dollar consumption

Source: Visa Commercial Consumption Index, 2007; Aite Group analysis of Nilson Report data 2007

In 2009, the commercial card industry saw its first annual decline in spending volume.[5] Businesses put the squeeze on T&E spending and drastically cut budgets in all areas. But now that the crisis has passed and the recovery is beginning, these same companies are realizing that commercial cards are one of the best ways to reduce administrative costs and to better analyze spending in order to identify inefficiency and waste.

For instance, with purchasing cards, corporations can easily track and analyze spending data because it is consolidated, rather than emerging from a disconnected paper-based payment process system. Purchasing cards also help companies discover if employees are making redundant or unauthorized purchases. Prepaid cards can be used to fund one-time employee expenses instead of maintaining the cumbersome and expensive process of issuing reimbursement checks.

Clearly, commercial cards are under-represented in the U.S. business-to-business payments landscape. The post-recession environment is the perfect opportunity for financial institutions to change those circumstances by capitalizing on the cards' inherent benefits to rebuild existing relationships, win new business and generate incremental sources of revenue.

However, in order to succeed in their efforts, financial institutions need to rethink their traditional siloed approach to commercial card programs. Businesses no longer will be satisfied with partial solutions to their needs, and they are willing to go elsewhere to get the right services.

The status quo ignores customers' changing needs and priorities, and it prevents them from taking full advantage of the benefits a comprehensive commercial card program offers.

Why Offer a Unified Commercial Card Portfolio?

The new drive toward corporate cost control and efficiency is setting the stage for the rapid recovery of commercial card spending. But are financial institutions poised to deliver the comprehensive service and product offerings that customers will demand?

When comparing top financial institutions, the type of card products offered to large corporations and the type offered to small businesses is relatively consistent. However, when it comes to product offerings across credit, debit and prepaid platforms, most banks have a fragmented approach. For larger corporations, banks typically offer corporate cards to manage T&E expenses and purchasing cards to manage indirect expenses. On the small-business side, they offer only credit cards and debit cards. As a relatively new product, prepaid cards often get lost in the shuffle. Under these circumstances, financial institutions may be selling themselves, and their customers, short.

Let's take a look at couple of scenarios.

→ A large corporation wants to make sure that no one in the organization who travels has to apply business expenses to a personal credit card. However, because some people travel only one or two times a year, it does not make sense to issue a corporate card that is inactive most of the year and requires bank reserves for credit limits. A prepaid card would provide those employees with funds for expenses only when they need it, as well as provide an audit trail to track where they spent the money.

→ A small business is growing rapidly and over the next several months will need to purchase computer equipment, office furniture and other supplies. The business owner is hesitant to relinquish his own card or provide a small-business card to employees. A procurement card or one-card/multicard would be a great solution to his situation because it would authorize other employees to purchase these items, provide upfront controls and enable the owner to better track and analyze spending related to his growth.

Based on these scenarios, within a traditional banking organization, it could be quite difficult to provide the services that both of these companies require. Even if the institution offers procurement cards or prepaid cards, it is unlikely that the structure of the treasury group or small-business division allows for "transferring" a product from one group to another.

First Data believes there is an easy way for banks to resolve this disconnect and begin to strengthen customer relationships, capture more purchase volume and gain a market advantage:

Combine commercial offerings under a single group and create one true commercial manager for strategy and development.

One Commercial Manager, Many Benefits

Under this type of organization, a commercial customer of any size would have access to a full range of debit, credit and prepaid products to create a customized program that meets their business needs. Simply by combining all components of the commercial card portfolio into one strategic offering and taking a holistic approach to commercial cards, financial institutions can position themselves to strengthen customer relationships and their own bottom line.

The benefits of one true commercial manager include:

- → **Ability to address customers' changing needs.** By opening up commercial card programs to a full suite of credit, debit and prepaid products, banks provide additional credit availability and/or options to businesses that may have seen their credit constrained during the downturn. Commercial cards also help businesses see who in the company is spending or making purchases, resulting in greater control and transparency as well as reduced fraud.

- → **Flexibility for a greater range of customer payment needs.** As illustrated in the previous scenarios, a business's size does not limit the types of payments they want to make. Going forward, small businesses will want more options for cost-control tools, and larger businesses will want better options for managing company spend.

- → **A competitive advantage.** Even if your customers are satisfied with your financial institution, they are always looking for ways to become more efficient. That can mean consolidating banking relationships. Under one true commercial card management group, you can offer products and services that may not be available from another provider, delivering greater value to clients. You can also offer the following benefits:

  - → Introduce comprehensive rewards/rebate programs based upon all products

  - → Provide one system for reporting and managing commercial cards

  - → Give access to consolidated data for maximizing buying power/ pricing negotiations

- → Capture more purchase volume. If you are just selling commercial credit products like P-cards, corporate cards and small-business cards, you are missing favorable revenue opportunities for prepaid and debit as well. There could be an instance where companies want both credit and debit products. Or a small business may use its credit card as a P-card, but handles T&E differently by putting those expenses on a personal card. Based upon published rates by Visa and MasterCard, you could be forgoing up to 1 percent of interchange. By offering all companies a way to manage and enforce purchasing policies, you can have a positive effect on purchase volume.

- → Expand your markets. A siloed approach to commercial cards can limit the appeal of your program to certain audiences. By bringing all commercial card products together under a single strategy, you can expand your reach to better address small-business needs or work with companies that have multinational needs. You also can scale offerings as companies grow and change, and win new busines with your competitive advantage.

Conclusion: A Unified Commercial Card Portfolio Means Better Relationships, More Revenue

Given businesses' focus on improving the bottom line and reducing costs, banks that rapidly respond to customers' needs will be able to successfully navigate through the credit crisis, and once again become the strategic financial partners customers turn to for solutions.

A comprehensive strategy for all commercial products is a simple and attainable approach to providing the solutions businesses require to control costs, create efficiencies and improve transparency in spending. By responding to the varied needs of customers with a full suite of credit, debit and prepaid commercial cards under one commercial manager, you can provide a balanced mix of products and a cohesive value proposition that strengthens customer relationships and enhances revenue opportunities.

Sources

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About the Author

William Reid is vice president of First Data's Product – Financial Services division. Reid manages the commercial card product group, overseeing strategy, execution and development of commercial products. He began his career with First Data in 2007.

Previously, Reid held various positions at Alcatel International, IBM, American Express and Visa International. He has two patents issued and seven others pending for financial products involving settlement risk management, data aggregation and commercial payments. In addition, Reid was a speaker at the United Nations International Conference on Financing for Development, where he discussed infrastructures and payments in emerging countries.

He holds a bachelor's degree in economics and master's degree in international business. He is also a Certified Treasury Professional. Reid received his education at Niagara University and George Washington University.

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