J.P.Morgan

TREASURY SERVICES

Payment's New Land of Opportunity

How Companies Are Reaping Benefits with New Tools to Improve Liquidity, Gain Control and Streamline Processing

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New Territory to Explore

In their quest to dramatically improve the payment process, forward-thinking financial executives are finding and exploring new territory. Having had success in tightly managing certain sectors of spend, they know that widening their scope will yield important results, and they have turned to providers such as J.P. Morgan to give them the right combination and calibration of payment tools that can reap immediate rewards.

The motivation for change is clear. Treasury is under pressure, and transforming the payment process has moved from a long-range goal to a short-term priority. Clearly, the time is right. New advances in payables technology enable organizations to migrate higher-value, paper-based transactions to electronic payment – with complete confidence.

Until recently, the prime focus for Treasury has been at two ends of the payment spectrum. Plastic has traditionally been used for Travel & Entertainment (T&E) and some low-dollar expenses, while ACH has been reserved for the high-ticket, direct suppliers. Check processing (renowned for its high cost and no revenue benefit) has filled in all the gaps.

Now, companies see a new land of opportunity: the fertile "middle ground" of payment, encompassing a wide field of transactions that have, until this point, been handled by paper.

New Strategies for Success

By targeting this broad landscape, companies gain all around: They leverage working capital, increase float and raise their revenue from rebates. And by adopting automated channels, they slash indirect processing costs, a one-time investment that produces perpetual results.

This white paper highlights real-life success stories from J.P. Morgan clients who are following two key strategies to capture the middle ground:

- **Implementing Single-Use Accounts** to hold on to cash longer, pay suppliers sooner, increase rebates and reduce accounts payable (AP) manpower costs
- **Extending Purchasing Card** to cover new spend categories to drive compliance, greater rebates and deeper integration with e-procurement systems

Equipped with these new tools, and supported by J.P. Morgan's advisors, companies find that it does not take long to transform payment's middle ground… and reap some rich rewards.

Focusing on the Unmanaged Middle

The vast middle represents the greatest value-add in AP transformation because it offers a four-fold benefit:

- Greater working capital as companies gain float while paying vendors faster
- Increased rebates directly benefit the bottom line
- Tighter controls to respond to regulatory compliance, to reduce fraud/misuse and to gain spend transparency
- Process efficiencies that cut costs and allow resource reallocation

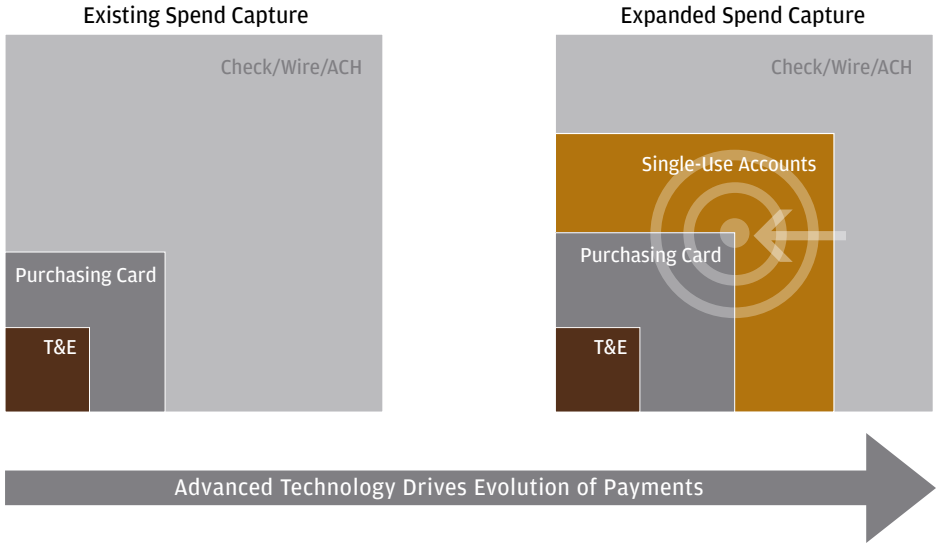
Payment Is Changing Fast

In the mid 1990s, companies took a targeted approach to commercial cards, fine-tuning their successful T&E card programs and introducing the new Purchasing Card for certain sectors of indirect spend. Since then, there's been continued expansion and sophistication of payment options, which has allowed companies to manage more spend, with greater finesse. Although the Purchasing Card is moving above and beyond its original remit, companies have sought more sophisticated automated payment options that offer higher levels of control.

Now, the transformation in payment is accelerating, aided by new products, reinforced by user/supplier acceptance, supported by new Web-based technology, and spurred by Finance's obligation to leverage every step of the purchasing and payment process. Having made progress in this direction and realized some benefit, finance executives are now asking, "Where do we focus next?"

The answer for many companies: **Target the large, untapped middle ground.** This is the spend landscape that falls somewhere in between low- and high-ticket transactions, with suppliers that invoice regularly but may not be high-volume vendors. To address this opportunity, companies are using two payment solutions, working in tandem: Purchasing Card and Single-Use Accounts.

Payment choices have evolved, giving companies targeted solutions that deliver revenue and automation benefits, capturing an increasing range of corporate spend.



What's Been Missing?

Clearly, the will to transform is stronger than ever, but companies may have felt uncertain about launching new solutions, waiting for products and technology to catch up to the marketplace need.

Automation, after all, has been the X factor in AP transformation – and for good reason. Companies have embraced automated payment through the use of ACH and wire transfers, and procure-to-pay represents the future. The efficiencies are tremendous. Yet these channels do little to help companies leverage their working capital, and unlike card programs, they produce no rebate revenue.

On the other end of the automation continuum, checks are notorious for being the most costly and inefficient way to pay. The average cost to process a check is $89, according to RPMG Research Corporation.[1] Fraud is an issue with the paper process, which also offers no rebates and does not leverage float. Reducing the volume of checks has been a long battle for AP professionals, but they've been hampered by the lack of advanced payment alternatives.

Purchasing Card usage has emerged as the best tool for indirect spend, yet companies have been conservative in deploying the cards, and suppliers have needed time to recognize the benefits that they gain from card acceptance.

Technology, Tailor-Made

Now, companies are spotting new opportunities through a portfolio of sophisticated products and technology tools. Payment can, in fact, be highly customized, as well as automated, with finely calibrated controls at each step of the transaction. According to a recent survey by the Association of Finance Professionals,[2] more than 70% of organizations surveyed experienced attempted or actual payments fraud in 2008, and more than 80% of companies see increasing the use of electronic B2B payment as a key strategy to minimize risk.

Reporting tools, such as J.P. Morgan's PaymentNet®, also leverage the power of data with analytics to understand spend volume, track contract compliance, conduct audits and forecast. And new reconciliation tools improve data collection, reporting and information sharing.

Facing this landscape, companies realize that they can take a broader view in managing payment to command a larger percentage of their transactions. The will is there and now there's a way – through adopting Single-Use Accounts and expanding Purchasing Card penetration.

According to a recent survey by the Association of Finance Professionals, more than 70% of organizations surveyed experienced attempted or actual payments fraud in 2008.

[1] RPMG Research Corporation, "2007 Purchasing Card Benchmark Survey"
[2] Association of Finance Professionals, "2009 AFP Payments and Fraud Control Survey"

Single-Use Accounts Gains Traction

SINGLE-USE ACCOUNTS

- A "single," 16-digit virtual card account number per payment
- Payment-specific authorization controls like credit limit and dates
- Electronic payment processing and reporting system
- Automated matching of merchant transactions to G/L

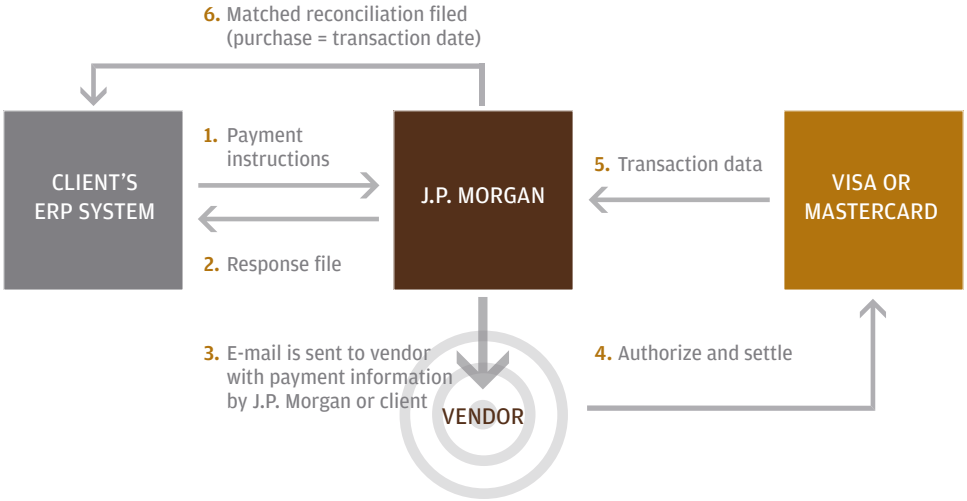
Single-Use Accounts has become a simple, effective alternative to check payment for medium-sized transactions. Although it has the flexibility of a commercial card, Single-Use Accounts is an electronic AP tool with special security, antifraud and reconciliation features. It operates with the ease of a ghost (virtual) account, which is an account number assigned to a specific vendor for high-volume purchases with larger spending limits. However, Single-Use Accounts has the advantage of being transaction-specific, and, therefore, can deliver strict controls at the point of purchase and automatic reconciliation on the back end.

How It Works

Single-Use Accounts, in fact, performs like a check but works like a card. Each transaction is given a unique 16-digit account number, which is assigned to a specific invoice and vendor. This account number is active for only a defined time frame and is electronically matched to prepurchase information. The number can be used at any point in the purchasing process: at time of order, invoice or receipt of goods. Merchants work through the Visa® or MasterCard® network to accept and settle the Single-Use Accounts transactions. Consequently, instead of having a general ghost account number for all of a corporate customer's charges, the supplier receives an account number for each single payment with purchasing parameters embedded in the system.

Single-Use Accounts allows companies to lock down purchasing controls as they see fit. They can establish unique spending restrictions, including limits on transaction amounts, dates and merchants, thereby reducing or entirely eliminating fraud and misuse. On the back end, automatic electronic remittance allows suppliers to get paid faster and companies hold on to cash longer, gaining greater power over their cash flow.

How Single-Use Accounts Work



How Companies Are Benefiting from Single-Use Accounts

Companies have adopted Single-Use Accounts to solve various issues. Outlined below are some strategies that have worked well:

Streamlining the Claims Process

National Auto Care Corp. (NAC), a vehicle service agreement provider, has improved its claims processing significantly via Single-Use Accounts technology. This technology manages one-time electronic payments for automotive repair orders and helps process more than 4,000 monthly claims valued at approximately $2 million.

Single-Use Accounts automatically assigns a unique credit card number when a car dealer or repair facility requests approval for repairs covered under NAC's vehicle service agreements. Usage parameters based on the service order are automatically assigned to each credit card number — the name of the payment recipient, the exact dollar amount available and the approved type of repair. Once repairs are completed and the credit card number is used, the claim is automatically paid if the service center's name, dollar amount and repair type match those in the system. If these parameters are not met, NAC is alerted and the payment is held.

RESULT: Automated payment with precise controls

Tighter Control of Subcontractors

ServiceMaster is the parent company of Terminix, the country's largest pest control provider, as well as many other market-leading brands. In the past, ServiceMaster paid its Terminix subcontractors by giving them a credit card number and expiration date. ServiceMaster had no control over how often the subcontractor could charge the card or how much he charged.

In 2006, Terminix began using Single-Use Accounts technology to manage larger one-time payments to its subcontractors and bring greater spend control and efficiency to its payment processes. Once a Terminix subcontractor's work is completed and the associated claim has been approved by ServiceMaster, a Single-Use Accounts number is issued to securely pay the subcontractor's approved claim.

RESULT: Better prevention of fraud/misuse

Eliminate Fraud/Increase Float

Expedia and Hotwire, leading online travel companies, have found that Single-Use Accounts helps them eliminate credit card fraud and increase working capital. For these transaction processors, the security features of Single-Use Accounts protect the traveler, reduce risk for the online travel company and minimize the possibility of a supplier (e.g., hotel employee) using a card number to make personal purchases.

With Single-Use Accounts, the process is as follows: When a traveler goes online to make a hotel reservation for $200, for example, Expedia or Hotwire captures the guest's name, the $200 amount, the name of the hotel and the length of stay. Within seconds, this data is sent to J.P. Morgan, where a Single-Use Account number is created with matching criteria. The travel company uses the account number to book the hotel reservation. If the criteria accompanying the account number do not match, then the charge will be declined or processed as an exception. If the number is used at a different hotel for a larger amount or a longer period of time, then the account will fail, decline or report as an exception. As an added working-capital benefit, the online travel company has streamlined its payment process and earns a rebate based on dollars spent on the booking of reservations.

RESULT: Increased rebate and reduced risk

Automating... at Lightning Speed

A U.S.-based distributor of healthcare products and services sought quick automation of its payments process due to the cost, time and effort required to process its large volume of invoices. The company determined that Single-Use Accounts technology was the solution that best addressed its needs. While Single-Use Accounts was being implemented, interim ghost card accounts were established to capture spend. At the same time, efforts were made to enroll and onboard additional suppliers. In a little more than a year, the company was able to grow its Single-Use Accounts volume from $0 to $220 million. Once its Single-Use Accounts solution was up and running, ghost accounts were retired.

RESULT: More efficient AP processing

FAST FACTS:

- Single-Use Account rebates can be significant; consider earning 100 bps on your larger, indirect purchases.
- Participating suppliers can be paid 15 to 20 days earlier through Single-Use Accounts, improving the company's DPO.
- Unlike ACH, Single-Use Accounts utilizes a standard file format, making it easier to manage supplier changes as needed.
- Single-Use Accounts can be deployed as a batch or real-time solution.

Purchasing Cards Expand in Many Directions

FAST FACTS:

- One-third of all invoices are below $100, and in most large companies, as many as 80% of all invoices are below $1,000.[5]
- 72% of companies with more than 10,000 employees have implemented a Purchasing Card program.[5]
- 91% of organizations surveyed in 2007 expected their company to increase Purchasing Card spend by 2012.[3]
- By using Purchasing Cards instead of checks, companies reported process savings of $69 per transaction (compared to the traditional purchase order process) and a 68% reduction in procurement cycle time.[3]

As Purchasing Cards have evolved, they have become a standard payment tool for corporations and public sector organizations. Initially, the focus had been to use the Purchasing Card for low-dollar invoices, but its usage has been on the rise. By 2012, Purchasing Card spend in North America is predicted to reach $218 billion (nearly double its $110 billion volume in 2005)[3]. Now that companies have seen what the Purchasing Card can deliver, they are ready to extend its reach.

New Categories/New Countries

The Purchasing Card has expanded on many fronts, as companies have added new categories of spend, enrolled more suppliers, broadened distribution of the card within the organization, raised transaction amounts and taken the first steps toward globalizing the program. For example, having originally designated the Purchasing Card for MRO areas such as office supplies, electronic equipment and maintenance, companies are now focusing on services, moving expenditures with consulting companies, advertising agencies and temporary labor agencies onto the card.

Globalization represents another new frontier for savings through Purchasing Card. According to MasterCard, although only 27% of companies have multinational programs, corporations that have reaped the benefits of greater Purchasing Card spend in the United States are expanding usage internationally.[4] As more finance organizations adopt the shared services model, many of the nagging issues around globalization (e.g., multiple currencies, VAT tax reclaim, technology integration and regulation) are being successfully addressed.

Leveraging the Benefits

Companies that have expanded Purchasing Card usage are seeing an increase in the benefits that have always followed transitioning from checks to the card, including:

- Improved compliance
- Rebates
- Increased float and/or early-pay discounts
- Process savings
- Robust, detailed reporting, which fuel more favorable supplier discounts
- Payment that is integrated with e-procurement systems
- Support in the corporate effort to reduce the number of suppliers and tighten relationships with a group of preferred vendors

In effect, the Purchasing Card has proven that it has broad shoulders, and with supplier acceptance growing, it has become a lucrative tool for companies committed to reducing their paper processing.

3 RPMG Research Corporation, "2007 Purchasing Card Benchmark Survey"
4 *Purchasing Magazine*, December 2009
5 Accounts Payable Network, "Key Accounts Payable Benchmarks, 2009"

How Companies Are Unshackling the Purchasing Card

Companies that have removed the tight constraints around Purchasing Card usage are seeing positive results. A few J.P. Morgan clients who have broadened their Purchasing Card programs are outlined below:

New Spend Categories on the Card

With the wider acceptance of the Purchasing Card, a major media company, which has worked with J.P. Morgan for a number of years, expanded its use of the card to capture new categories, including temporary employment services, on-premises security, utilities, employee drug screening and background checks, and E-Z Pass toll payment subscriptions.

RESULT: The company broadened its data capture and gained new controls.

Targeting Nontraditional Suppliers

A global soft drink distributor engaged J.P. Morgan's Expansion Services consulting team to help identify ways to increase card usage in commodity spend categories that in the past had not been seen as applicable for card transactions. More merchants were enrolled, resulting in $17 million in card volume, and new commodities, such as legal service providers, equipment manufacturers and utilities, were added, generating an additional $45 million in spend on the Purchasing Card program. Within one year, the company's spend volume on the Purchasing Card program grew nearly 26%.

RESULT: After three years, Purchasing Card volume increased nearly 100%.

Indirect Costs in Focus

A world-famous cosmetics brand grew its Purchasing Card program to $50 million within a year of its launch. In addition to traditional spend categories, the business uses the Purchasing Card to pay for indirect costs such as modeling agencies, in-store security services and retail employee uniforms.

RESULT: More than 1,500 of the company's top vendors now accept the Purchasing Card as payment.

Globalizing the Program

A multinational hotel company is rolling out the Purchasing Card program one country at a time. The organization linked its Purchasing Card expansion plan to its shared services growth and the adoption of a global finance platform. To ensure buy-in, the company provides one-on-one training to hotel general managers when introducing the program. The card has proven its value through significant rebates that are posted to individual hotel properties, reinforcing its financial benefit.

RESULT: Eighty hotels in the United Kingdom are using the program, with Germany and the Caribbean ready for implementation.

Drexel University shifted an estimated 95% of its total procurement spend to the Purchasing Card and reduced purchase order requisitions by 80% within three years.

Capturing the Middle Ground – Best Practices

Ask your J.P. Morgan representative to provide:

- Comprehensive spending analyses
- Benchmarks comparing your program to industry standards
- Fraud protection strategies
- Guidance on technology integration with existing internal systems
- Advice on ways to better leverage your payment programs

Companies at the forefront of payment transformation have this advice to offer:

1. Gain top management support for payment process transformation and partner with key players in the organization to ensure buy-in.
2. Implement strategies to reduce reliance on checks.
3. Demonstrate the benefits that preferred suppliers will receive from commercial card acceptance. (They can expect faster pay and efficiency savings while you will gain control and revenue.)
4. Incorporate commercial card acceptance language into preferred supplier contracts.
5. Institute a set of upfront spend controls (e.g., customized limits based on cardholder, supplier or transaction size) and back-end audits.
6. Enforce programs through tactics such as chargebacks (for out-of-policy activity).
7. Link Procure-to-Pay: Make sure your Purchasing Card and Single-Use Accounts programs interface with your e-procurement solution.
8. Incorporate flash audits into the traditional auditing process.

J.P. Morgan – Understanding the Full Picture of Payment

Let us work for you. At J.P. Morgan, we are ready to help you reach ambitious goals. Across the full breadth of products and programs, we offer clients:

TRUSTED LEADERSHIP IN TREASURY SERVICES

We understand the challenges finance professionals face as they work to free up working capital and increase control.

PAYMENT EXPERTISE

We support the correlating AP goal to drive down direct and indirect costs by offering the full spectrum of solutions that integrate into a single purchasing platform.

COMMITMENT TO SUPPLIER ENABLEMENT

Vendor acceptance is critical to any successful payment program. That's why we work hand-in-hand with MasterCard and Visa to enroll suppliers and demonstrate the benefits they receive from card acceptance and electronic processing.

TECHNOLOGY INNOVATION

We continually drive improvement in technology aimed at improving the quality/depth/ease of data reporting, process efficiencies and internal integration.

CONFIDENCE

With our strong balance sheet (11.1% Tier I Capital ratio), J.P. Morgan can invest heavily in commercial card technology, account management resources and product enhancements.

Our Full Suite of J.P. Morgan Payment Solutions Includes:

- Purchasing Cards
- T&E Cards
- Prepaid Cards
- Special Purpose Cards (Fleet Card, Ghost Accounts, Declining Balance)
- The One Card – Combined T&E and Purchasing Card capabilities
- Single-Use Accounts
- Order-to-Pay Solutions
- Treasury Services, including ACH, checks and wire transfers
- J.P. Morgan Expansion Services – Consulting on payment solutions and systems

J.P. Morgan would welcome the opportunity to meet with you and explore this new territory.

Together, we can develop strategies that yield more revenue, strengthen controls and increase efficiencies.

For more information, please contact your J.P. Morgan Treasury Services representative or visit jpmorgan.com/ts

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