

The Purchasing Card Benchmark

Paper or Plastic?

August 2007

~ Underwritten, in Part, by ~



Executive Summary

Purchasing Cards, commonly called “P-cards,” were designed to streamline both ends of the procure-to-pay process while introducing greater levels of control and visibility to the management of low-dollar, high-volume categories. More than a decade later, enterprises, on average, place **8%** of their indirect spend on P-cards, while Best in Class programs significantly outpace their peers and place, on average **22%** of their indirect spend on P-cards.

Best in Class Performance

Aberdeen evaluated 297 enterprises between March and July 2007 and distinguished Best in Class enterprises by two key measures: (1) percentage of indirect spend placed on P-cards and (2) percentage of suppliers who accept P-cards. Best in Class enterprises in this study are notable for their superior performance and their following advantages:

- Attribute a **64% greater savings** benefit from their P-card program
- Use P-cards to settle **2.8 times** higher percentage of transactions
- **22% greater category coverage**

Competitive Maturity Assessment

Survey results show that the firms enjoying Best in Class performance shared several common characteristics including

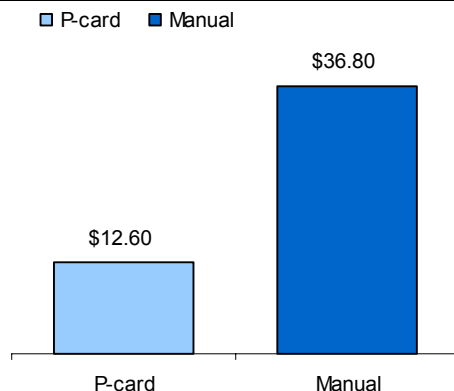
- Superior invoice visibility (i.e. Level 3 data) (**68%**); formal program expansion initiatives (**51%**); higher levels of automation to improve P-card management and administration (**84%** more likely use of a fully automated solution and **93%** more likely to integrate their cards with their eProcurement system); and higher average program limits (**above \$7,000**)

Required Actions

To achieve Best in Class performance, enterprises must:

- Seek to energize their programs with clearly defined policies, newly empowered administrators, and an aggressive plan to grow the program by targeting new categories and/or suppliers
- Improve P-card data and workflow integration with e-procurement and other systems of record to align the card program with procurement and finance

Figure 1: Transaction Processing Costs



Source: Aberdeen Group, August 2007

“Paying via P-card versus on invoice saves us approximately \$18 for every transaction that is processed.”

- Purchasing Card
Manager, Fortune 100
company

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Chapter One: Benchmarking the Best in Class

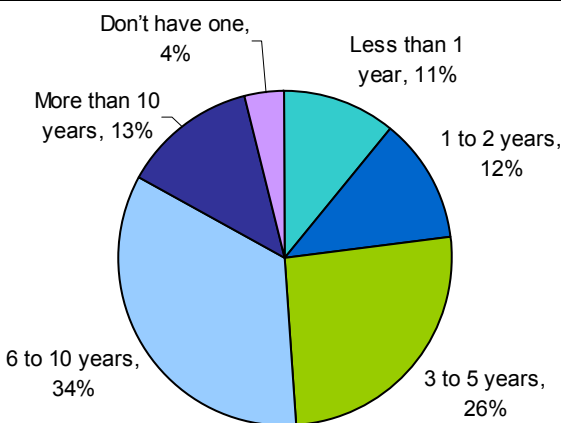
In an era where alternative payment methods can help enterprises cut through the cloudy haze of low visibility and increase process efficiency, purchasing cards (P-cards) have emerged as an effective method to revamp the processing of transactions and realize the silver lining of significant cost savings. Aberdeen research has found that enterprises are at varying levels of maturity with their P-card programs. Only 4% of the 297 respondents reported not currently having a program in place.

As shown in Figure 2, the majority of enterprises (70%) have had a P-card program in place for more than three years, ample time to not only solidify their grip on process bearings but also realize the many benefits that come from using this type of alternative payment methods. Interestingly, 61% of the Best in Class enterprises have had P-card programs for more than 6 years, compared to 44% of others.

Reasons for Implementing P-card Programs and Challenges Currently Faced

Survey respondents revealed a range of reasons for initially implementing their P-card programs. Figure 3 shows the importance of various factors in driving the decision to implement a P-card program.

Figure 2: Length of Time P-card Program Has Been in Place

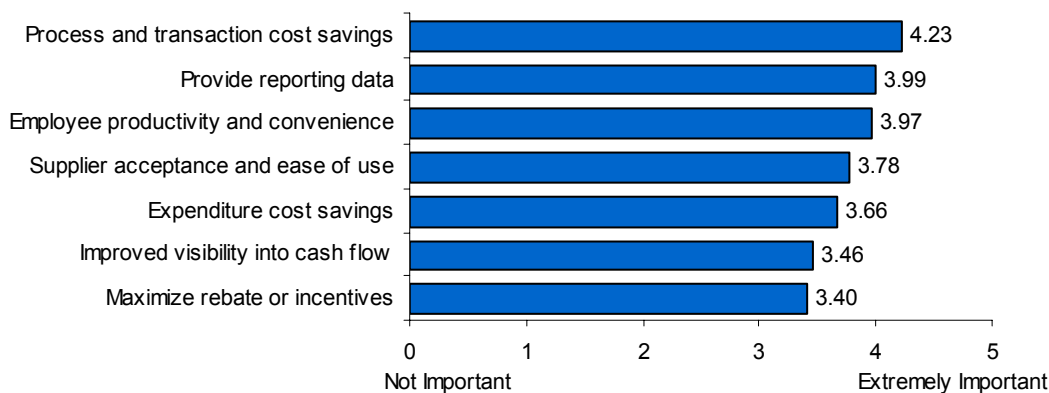


Source: AberdeenGroup, August 2007

Fast Facts

- √ Key actions Best In Class enterprises reported:
 - Increase amount of spend through P-card (**51%**)
 - Improve data and process integration (**43%**)
 - Encourage greater usage of ghost P-card accounts with preferred suppliers, key buyers/spend categories (**41%**)

Figure 3: Importance Rankings for Implementing a P-card Program



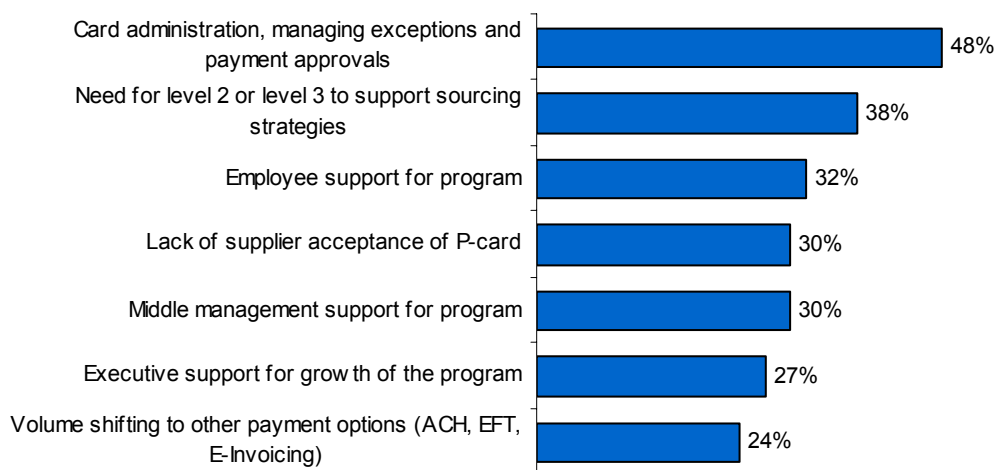
Source: AberdeenGroup, August 2007

The enterprises represented in our survey indicated that **process and transaction cost savings** (4.23 score) were the main driver for implementing a P-card program

within their organization. By using manual and paper-based methods of payment, enterprises are stuck in a process that is overburdened with labor-intensive activity and high transaction costs. Chapter 2 details how P-card programs offer the relief of lowering these costs.

The second major driver is having access to **data for reporting** purposes around purchasing (3.99 score). Visibility into spend is all-too-often crucial to an enterprise looking to reap cost savings and gain intelligence at a higher level. Data collected from the use of P-cards can vary from Level 1 (i.e., date of the transaction, the supplier name, and the amount of the purchase) to Level 3, which is the richest data set (i.e., product code, sales tax, freight/duty amount, and product service/description).

Figure 4: Challenges Faced with P-card Programs



Source: Aberdeen Group, August 2007

It is fairly clear from the chart above that even though enterprises are largely mature in their usage of P-card programs, 48% of them still face challenges with **card administration, management of exceptions and approval processes**. Traditionally, enterprises have not used automated solutions to help manage processes and administration aspects for P-card programs (similar concept to expense management solutions that help to manage corporate cards).

Thirty eight percent of respondents face challenges in receiving **Level 2 or Level 3 data** from suppliers to support their sourcing strategies. The data that P-card can collect is valuable in helping understand where there may be opportunities for extracting savings.

Maturity Class Framework

Top-performing (Best in Class) enterprises have generated significant cost savings and increased visibility into their spend as a direct result of utilizing a P-card payment program. Aberdeen used two metrics to determine Best in Class: the **percentage of spend processed through P-cards** and the **percentage of suppliers paid via P-card**. Table 1 summarizes the findings and defines Best in Class performance for our *Purchasing Cards* benchmark study.

“Our major challenge is around receiving Level 2 and Level 3 data; very few suppliers offer it.”

- Large manufacturing company

Table 1: Companies With Top Performance Earn Best in Class Status:

Definition of Maturity Class	Mean Class Performance
Best in Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> • 22% of total spend through P-card • 29% of suppliers paid via P-card
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> • 11% of total spend through P-card • 19% of suppliers paid via P-card
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> • 6% of total spend through P-card • 11% of suppliers paid via P-card

Source: AberdeenGroup, August 2007

In Chapter Two, our research will show both the immediate and long-term results of the Best in Class methods associated with purchasing card programs, including lower transaction-processing costs and increased visibility into enterprise spend.

Case Study – University of California at San Diego

UC San Diego has had a purchasing card program for about 12 years and has experienced significant growth over the last couple of years (25% per year). The spend for last year was approximately \$24 million, with 1300 card users some of which have more than one card. It is anticipated that this year's spend will be \$33 million. **Susan Maciel, the P-card Program Manager** said she spends 75% of her time managing the program with a full time auditor and a card administrator.

In order to promote usage of P-cards, UCSD raised the single transaction limit from \$2,500 to \$4,999, with a monthly spend of \$10,000. This includes some items that previously needed pre-approvals. Additionally, according to Susan, "In order to promote usage we use a quarterly newsletter to update cardholders about program changes as well as an information portal which allow us to display card usage tips and best practices, etc."

"Last year, the program had 77,000 transactions, this is likely to grow by at least 30%. In addition spend will increase another \$2 million due to the implementation of an e-Procurement system at the end of this year", said Susan. "P-card spend with certain vendors will grow tremendously via the e-Procurement system."

Best in Class PACE Model

Using an effective P-card program to garner cost savings and produce higher visibility into spend requires a combination of strategic actions, organizational capabilities and enabling technology that can be summarized as follows:

Table 2: PACE Framework

Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> • Pressure to reduce processing and transaction costs 	<ul style="list-style-type: none"> • Increase amount of spend through P-card • Improve P-card data integration with GL or ERP system • Greater use of ghost P-card accounts with preferred suppliers, key buyers/spend categories • Eliminate the paper in submission, approval and audit processing • Improve P-card data integration with e-procurement 	<ul style="list-style-type: none"> • Ability to create customized reports • Access to current and archived statements • Line item detail from transactions • Integration with G/L and other transaction systems 	<ul style="list-style-type: none"> • Automated payment methods • Central system to manage and approve transactions • Access to Level 3 data • Reporting and analysis tools • Approval workflow

Source: AberdeenGroup, August 2007

Aberdeen Insights – Category Strategy

Aberdeen research identifies the top categories purchased on P-cards today include:

- Office supplies and equipment
- MRO supplies
- Computer equipment and peripherals
- Printing services
- Education supplies

Best in Class enterprises are rethinking the traditional paradigm a majority have invested in expanding their programs, they report broader coverage in terms of the categories of spend that are part of their P-card programs. Categories which include:

- IT - Software
- IT- Hardware
- Package/parcel shipping
- Raw materials

A smaller percentage of the Best in Class are capturing services categories like: employee benefits, temporary labor and consulting services, as well as IT services and their successes in these areas make a strong case for others.

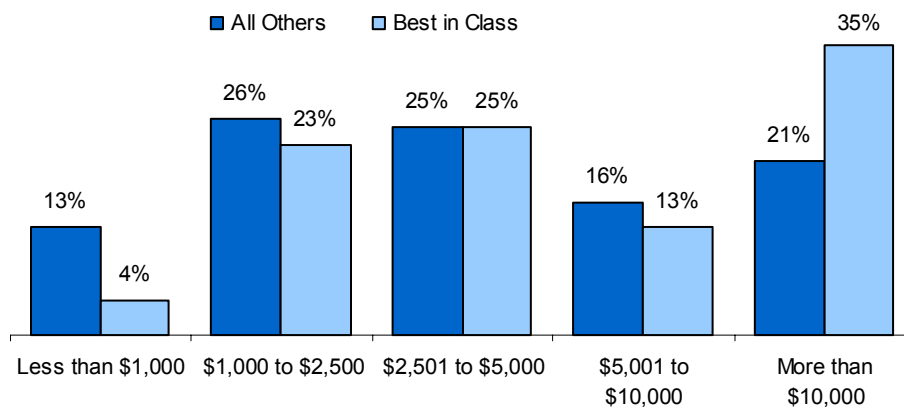
Chapter Two: Benchmarking Requirements for Success

Purchasing cards as a whole still do not represent the major portion of payment methods. Traditionally, P-cards have been used for good/services under \$1,000, however, as shown below in Figure 5, this maximum limit is moving towards a higher range so as to include larger ticket items. A higher percentage (35%) of Best in Class companies have a maximum limit on their P-card of over \$10,000 (approximately half of these enterprises reported a maximum limit of \$40,000 to \$50,000).

Fast Facts

- ✓ Card-able spend for the Best in Class is **22%**
- ✓ Best in Class have higher average program limits (**31%**)
- ✓ Best in Class use P-cards for **28%** of their payments

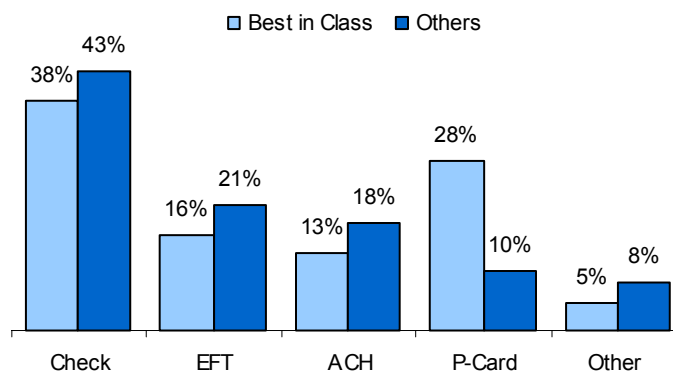
Figure 5: Maximum Limit Ranges



Source: Aberdeen Group, August 2007

How do enterprises make their payments? According to our research, a large portion of payments are still made by check, which is also the most expensive method. However, other methods utilized include Electronic Fund Transfers (EFT) and Automated Clearing House (ACH). Our research shows that Best in Class enterprises use P-cards for almost 30% of all payments, compared to 10% of all other enterprises.

Figure 6: Methods of Payments (by total value)



Source: Aberdeen Group, August 2007

Competitive Assessment

The aggregated performance of surveyed companies determined whether they ranked as Best-in-Class, Industry Average or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) process (methods of payment used, approvals, etc); (2) organization (responsibility and oversight of program (3) knowledge (access to spend data and level of detail); (4) technology (selection or appropriate tools and intelligent deployment of those tools); and (5) performance management (ability of the organization to measure the benefits of a program and use the results to improve key processes further).

“By enabling ghost cards to be used on our new e-procurement system, we foresee the program growing by at least 10%.”

**- Procurement Director,
Educational Institution**

Table 3: Competitive Framework

	Laggards	Average	Best in Class
Process	Percentage of payments made via P-card		
	8%	14%	28%
Organizational Structure	Dedicated program administrator		
	10%	22%	41%
Knowledge and Data	Receive Level 3 data		
	41%	54%	68%
	Importance of easy access to current and archived statements		
	53%	63%	76%
Performance Metrics	Fully automated process for managing P-card transactions		
	8%	17%	23%
	Percent of spend through P-card		
	6%	11%	22%
Performance Metrics	Percent of payments made via P-card on an e-procurement system		
	9%	18%	26%

Source: AberdeenGroup, August 2007

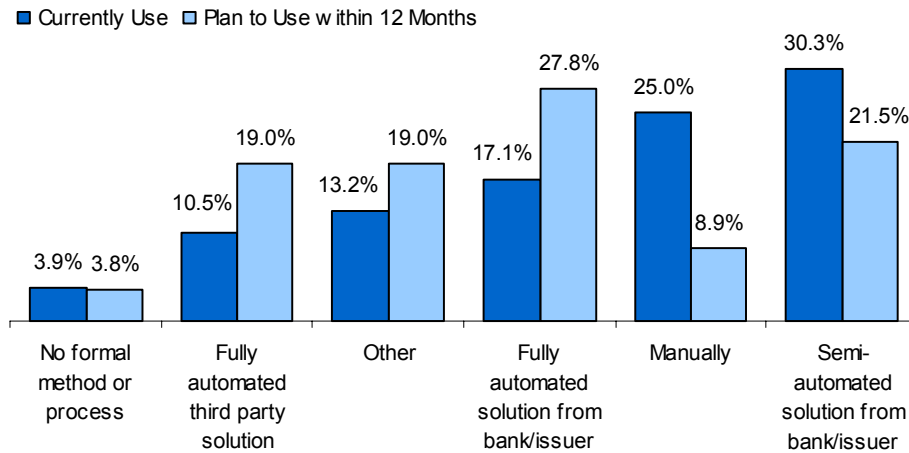
“Ghost cards” are P-cards typically designated for use by a single department or with a single supplier, and usually have large spending limits and allow purchasing card program managers to track and reconcile activity on the account without putting plastic in the hands of every buyer in the organization.

Usage of Technology to Enable Efficiency of P-card Program

As noted previously, one of the major challenges faced by enterprises is the overall administration and management of the P-card program. In our effort to better understand the ways in which enterprises are accomplishing this currently, we uncovered a high percentage of manual and/or semi-automated processes. Figure 7 below shows the methods currently used by enterprises, as well as their plans over the next 12 months. Approximately a quarter of the respondents currently use manual processes for the administration of P-card transactions and another 30% use somewhat automated solutions provided by their bank or issuer. However, over the

next year, 47% reported plans to use fully automated solutions (28% looking to their banks/issuer and 19% looking to a third-party solution).

Figure 7: Administration and Management of P-cards



Source: Aberdeen Group, August 2007

Case Study – Large Construction and Engineering Enterprise

According to the P-card Administrator of a \$3 billion dollar+ enterprise, its P-card program averages 70,000 transactions per year, totaling approximately \$17 million. Transaction limits are generally set at \$2,500, however, the monthly maximum is \$15,000.

“When I first joined the company, we had over 100 billing accounts, making management and administration extremely difficult, this has since dropped to 17,” said the P-Card Administrator, adding, “One of my major challenges today is that I am faced with using three different systems (provided by our bank/issuer) - one to view statements, another for online administration and a third for reconciliation; the worst part is that they are not connected.” To perform the necessary level of analysis, the P-Card Administrator must download custom reports from the three systems into an Access database that she created and perform her analysis outside of the actual card system.

Her team’s analysis of different internal transaction processing costs found the following:

- P-cards processing versus purchase order: P-cards save **157 min** and **\$140** per transaction. They looked at PO process in detail including, requisition, creating the PO, approval time, mailroom time, reconciliation, etc.
- P-cards processing versus direct invoicing: P-cards save **\$18** per transaction

“I’m always looking for ways to increase program size. Often I run reports on invoices and POs to look for opportunities where a P-card can add value; if I find something I contact those budget holders and attempt to move them onto the P-card program,” the P-card Administrator.

Key Performance Metrics

As shown previously, our analysis has included Best in Class, Industry Average and Laggard data, however, an important variable when considering P-cards is the size of the company. In Table 4, we can see how the average number of transactions and annual spend via P-card differs by company size, however, the dollar value has significantly increased compared to one year ago.

Table 4: Average Number of Transactions and Spend via P-card

	Mid-Market	Large
Average number of transactions per month	26,098	85,214
Average annual spend via P-card - On year ago	\$ 4,182,000	\$ 8,270,492
Average annual spend via P-card - Current	\$ 5,262,907	\$ 9,767,905

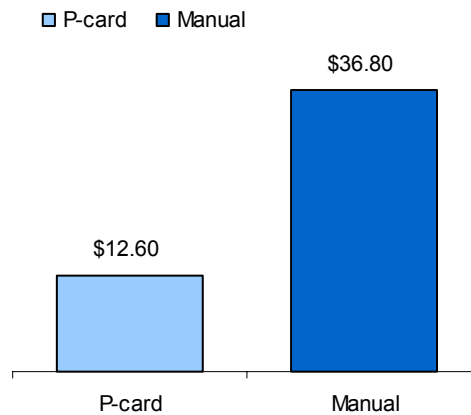
Source: AberdeenGroup, August 2007

There is no doubt that a bulk of the savings from utilizing P-cards come from reduced transaction costs. This is largely due to reduced time for expense reporting and invoice-processing, as well as less time spent on reconciling transactions and expense accounting/reporting.

The next level of savings comes from increased visibility into company spend. When moving to more automated transaction-reporting and processing, an enterprise can significantly reduce “maverick” spend, eliminate unauthorized purchases by employees, and monitor transactions almost in real time.

The enriched data available from these card transactions enables companies of all sizes to better monitor and identify spending patterns. At the same time, payment card programs make it easier to enforce employee compliance with enterprise policies.

Figure 8: Transaction Processing Costs



Source: AberdeenGroup, August 2007

Aberdeen Insights – From Maverick Spend Marvel to P2P Player

Purchasing cards were originally established as an alternative to petty-cash and other small, generally manual, purchases. This legacy now presents a primary hurdle to the expansion of P-card programs today, and will require a new mindset for P-card program managers if they are to identify greater percentages of “card-able” spend.

Procure-to-Pay (P2P)

With the rise and broad adoption of e-procurement technology, the procure-to-pay (P2P) process within most enterprises has become both more robust and more fluid. Usage of P-cards arose to start capturing data for those “maverick” transactions that normally fell outside of the standard P2P process. Today, procurement organizations the world over focus intently on the reduction of “maverick” spend - this, in many cases, is a drive to eliminate the kinds of transactions that P-cards were developed to manage.

Best in Class Strategy: Integration

Best in Class enterprises take a different view and utilize P-cards across a far greater number of categories and attribute a large part of their successes to their ability to utilize standard requisition to order processes for their card purchases and their ability to socialize P-card invoice data with their back-end system(s) of record. Additionally, the rise of Level 3 data capture in P-card statements, enables procurement department to identify more and better opportunities to aggregate P-card spend and negotiate superior savings because of improved leverage¹ in card-able categories

¹ [Corporate Payment Cards: More Value, Higher Savings](#) (August, 2006)

Chapter Three: Required Actions

Whether a company is trying to move its Purchasing Card program performance from “Laggard” to “Industry Average,” or “Industry Average” to “Best in Class,” the following actions will help spur the necessary performance improvements:

Laggard Steps to Success

- **Designate a purchasing card program administrator and empower the position.**

Push control of your program down the organization and identify a manager who can both administer the program as it exists today and energize its expansion. In a role that should be part sales (to build internal support for adoption and sell suppliers on the benefits) and part compliance (managing limits and policies and adherence to them), an effective card administrator is one that is empowered to make policy decisions. **41%** of Best in Class programs have a P-card program administrator.

- **Energize the program with the development of a new P-card policy and limit ways to bypass using the cards.**

The average card program has been in place for more than three years and faces program fatigue. To combat this problem, develop a new policy that provides more flexibility from an administrative management and oversight standpoint (i.e the management of limits) but is more stringent in its usage policies. **68%** of Best in Class programs offer greater administrative flexibility. Mandate card usage for defined categories and require a signed/emailed VP-level approval for all off-card purchases made in these categories.

- **Educate your internal stakeholders and suppliers via a formal expansion program**

51% of the Best in Class programs have dedicated expansion programs that focus on expanding their programs beyond non-purchase order or ad hoc transactions via supplier outreach and internal education. Leverage your P-card solution provider to provide assistance in the development of a series best practices around the unique offerings of your program and develop an aggressive supplier outreach program that focuses on the primary value proposition.

Industry Average Steps to Success

- **Seek greater invoice detail.**

Level 3 data is widely available in the marketplace and becoming a standard feature in most P-card programs. In fact, **68%** of Best in Class programs receive Level 3 data. Acknowledge that there is an effort required on the part of your suppliers to provide this information and collaborate with them on the most efficient ways to do so. Set aggressive growth targets to capture Level 2 and Level 3 data across a broader percent of spend over the next 6 to

Fast Facts

The Best in Class have a higher percentage of card-able spend (**22%**) and superior savings rates (**64% higher** than their peers). They also....

- Understand the value of detailed (Level 3) invoice data (**68%**)
- Offer greater program administrative flexibility (**68%**)
- Take a deliberate approach to program expansion (**51%**)

12 months and work with procurement to evaluate the benefits of the richer data.

- **Involve P-card administrators in strategic sourcing initiatives.**

The move to Best in Class will require a deliberate effort to expand the number of categories and the amount of spend within each category. P-card administrators can play a valuable role in the expansion of your card program by engaging sourcing teams at the outset of an initiative to help identify existing and new 'card-able' categories and ensure that any supplier requirements are included in the RFP or bid process. P-card administrators can also assist by introducing any card program requirements during the contract negotiation.

Case Study – Tucson, Arizona

Building upon the success of a small departmental card program, the procurement department for the City of Tucson, Arizona began an initiative to identify a P-card program that could extend similar benefits across the entire city.

Following an extensive RFP process and a six-month pilot program, the P-card program was rolled out to the entire city in early 2005. The rollout effort consumed significant time and resources and while major glitches were avoided, the program was not completely embraced and adoption lagged. To ensure broader adoption, the procurement department

- **Established and enforced stricter usage guidelines for small purchase**
- **Reduced the times and days that petty cash reimbursements are available**
- **Worked with their sourcing professionals to ensure that the majority of RFPs across any type of service/item include language to ensure that they will be included in the card program**
- **Allowed department heads to manage and set their group's transaction limits**

"We doubled the amount of spend on our card in the second year of the program. We think that we will double it again this year. And, with the savings we have seen to date, we do not anticipate curbing usage anytime soon. Our main challenge has been matching our staffing to the program growth," said Brian P. Garrity, C.P.M., CPPB; Management Coordinator Department of Procurement, City of Tucson.

Best in Class Steps to Success

- **Integrate P-cards with your transaction systems (directly or via an automated expense management or e-procurement application)**

Integrating purchasing card transactional data into your system(s) of record (ERP, GL system, etc.) will increase visibility and enable further savings from the program.

Utilizing web-based workflow driven technology solutions will strengthen process compliance and provide assurances for program growth. Such tools not only help monitor compliance to policies, and allocation and reconciliation

of your P-card spend, but also provide controls and tools for analysis of data to monitor all p-card spend, including vendor performance.

- **Target new expansion opportunities based upon category AND supplier.**

While Best in Class programs have deeper penetration of card usage across a wider range of categories than all others, deeper analysis of the current spend categories in Best in Class card programs shows that a smaller percentage of these leading enterprises have captured spend in different services categories. A small subset of the Best in Class have successfully placed third-party consulting, contract labor, telecommunication services, and even employee benefit services on their cards, many more should follow their lead. Additionally, an analysis of current suppliers enrolled in the program should be performed to determine the characteristics of this unique supply base (region, size, vertical, etc.) and then target similar suppliers who are not already participating in the program.

Appendix A: Research Methodology

Between March 2007 and August 2007, Aberdeen Group examined purchasing card program processes, strategies, experiences, and intentions from 297 enterprises.

The study aimed to identify emerging best practices for purchasing card program management and provide a framework by which readers could assess their own capabilities.

Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on the strategies, experiences, and results of professionals with experiences using P-cards.

Responding enterprises included the following:

- **Job function:** The research sample included respondents with the following job functions: procurement and supply chain (67%), Finance (18%), sales & marketing (4%), IT (2%), and all others (9%)
- **Job title:** The research sample included respondents with the following job titles: CEO or president or other C-level (2%), vice president (3%), director (20%), manager (51%); and all others (24%)
- **Industry:** The research sample included respondents from finance (10%), education (10%), manufacturing (10%), retail (9%), utilities (8%), high-tech (6%), public sector (7%), CPG (4%), and then broadly distributed across 28 other industries.
- **Geography:** 50% of the research respondents were from North America, 26% were from Europe, Middle East & Africa, 16% were from Asia-Pacific, and 8% were from South America.
- **Company size:** 55% of respondents were from large enterprises (annual revenues above US\$1 billion); 35% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 10% of respondents were from small businesses (annual revenues of \$50 million or less).

Solution providers recognized as sponsors of this report had no substantive influence on the research results. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

Table 5: PACE Framework

PACE Key

Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:

Pressures — External forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)

Actions — The strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product/service strategy, target markets, financial strategy, go-to-market, and sales strategy)

Capabilities — The business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing)

Enablers — The key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)

Source: AberdeenGroup, August 2007

Table 6: Maturity Framework

Maturity Framework Key

The Aberdeen Maturity Framework defines enterprises as falling into one of the following three levels of practices and performance:

Best in Class (20%) — Practices that are the best currently being employed and significantly superior to the industry norm, and result in the top industry performance.

Industry Average (50%) — Practices that represent the average or norm, and result in average industry performance.

Laggards (30%) — Practices that are significantly behind the average of the industry, and result in below average performance

In the following categories:

Process — What is the scope of process standardization? What is the efficiency and effectiveness of this process?

Organization — How is your company currently organized to manage and optimize this particular process?

Knowledge — What visibility do you have into key data and intelligence required to manage this process?

Technology — What level of automation have you used to support this process? How is this automation integrated and aligned?

Performance — What do you measure? How frequently? What’s your actual performance?

Source: AberdeenGroup, August 2007

Table 7: Relationship between PACE and Competitive Framework

PACE and Competitive Framework How They Interact

Aberdeen research indicates that companies that identify the most impactful pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute.

Source: AberdeenGroup, August 2007

Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [E-Payables: Advancing Accounts Payable Automation](#) (March 2007)
- [Expense Management Automation](#) (February 2007)
- [Corporate Payment Cards: More Value, Higher Savings](#) (August 2006)
- [The Purchasing Cards Benchmark Report](#) (March 2005)

Information on these and any other Aberdeen publications can be found at
<http://www.aberdeen.com/channel/procs.asp>

Aberdeen's [2007 Global Supply Management Research Agenda](#) is also available.

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