

Visa Commercial Card Case Study.

New Zealand Department of Conservation Te Papa Atawhai

As part of their commitment towards sustainability, the New Zealand Department of Conservation has implemented a Visa Purchasing Card Program which, they say, has reduced the number of steps in their purchasing process, resulting in greater efficiencies and cost savings.

Background

The New Zealand Department of Conservation (DOC) was established in April 1987 and is responsible for conserving the country's natural and historic heritage for the benefit and enjoyment of New Zealanders. Total Operating Expenditure is in excess of NZ\$100 million. DOC has a decentralised organisational structure, reflecting the nature of its work - there are 50 Area Offices, which are grouped into 13 Conservancies, or regions, each with a dedicated support office¹. The Department's Wellington-based Headquarters is responsible for developing national policies and procedures, and providing services and support functions². It is located in 'Conservation House (Whare Kaupapa Atawhai)', one of New Zealand's flagship environmentally pro-active buildings.

In line with the New Zealand Government's Carbon Neutral Public Service program, sustainability and environmental responsibility is currently a major focus for DOC³. One of the key business initiatives that DOC has undertaken to improve resource utilisation, reporting and efficiency, is the implementation of a Visa Purchasing Card Program. Visa Purchasing Cards have enabled DOC to implement a purchasing process for low-value, high-volume expenditure which saves paper, time and, in turn, taxpayer funded dollars.

Drivers for Change

In early 2004 DOC undertook the 'Value for Money' project which identified that the manual, procurement, supplier sourcing, payment and reconciliation process employed by DOC for low-value purchases was:

- Inefficient and costly, providing limited visibility and control;
- Being used inconsistently amongst Conservancies, with one Conservancy doing away with the use of the standard Purchase Order (PO) process for all transactions under a certain dollar value altogether;
- Leading to a proliferation of suppliers and a large volume of low-value transactions, resulting in DOC foregoing preferred supplier discounts.

Further analysis identified that 86% of DOC's total invoices were for a value of under NZ\$1,000, equating to only 7% of total operating expenditure. The department concluded that considerable resources were being utilised to enable low-value purchasing, and that there was an opportunity for significant process improvement. In line with this finding, in mid-2004, the General Manager of DOC's Business Management Division was tasked with investigating the feasibility of issuing Purchasing Cards.



1. Department of Conservation - Finance Division June 2008. 2. Department of Conservation Annual Report for the year ended 30th June 2007, page 14. 3. The New Zealand Government's Carbon Neutral Public Service program aims to demonstrate government leadership on sustainability by reducing government's environmental impact. The program objective is to make the six lead agencies carbon neutral by 2012, with the other 28 agencies being on the path to carbon neutrality by this date.

"The wide acceptance of Visa Purchasing Cards has also been critical to success of the program, particularly as some of DOC's cardholders are located in very remote regions of New Zealand"

Suresh Senadeera, Corporate Accountant, DOC



Benefits Realised

In addition to the efficiencies and savings detailed above, DOC has realised a number of key benefits since the implementation of their Visa Purchasing Card Program, including:

- Improved supplier relationships and discounts – Suppliers have been rationalised, more national contracts have been negotiated and where possible international payments are made by Purchasing Card;
- Single monthly payment and simplified Accounts Payable processes- Consolidation of multiple payments to multiple suppliers into one payment to the bank and a simplified bank reconciliation process has further reduced the Accounts Payable workload;
- Reduction of fraud risk - Improved tracking and reporting and a reduction in petty cash usage has reduced the potential for internal and external fraud;
- Elimination of manual processes - The number of steps in DOC's low-value purchasing process has been reduced from 13 to six. The need for manual intervention has been eliminated, resulting in a decline in data entry errors and improved staff productivity and satisfaction.

Critical Factors for Success

DOC cite the three month pilot conducted prior to organisation-wide rollout as their most critical success factor. The pilot enabled DOC to gain valuable experience and learnings relating to a number of different areas of the Purchasing Card Program, including:

- Change Management - Surveying pilot participants about their experiences helped identify and overcome any potential areas of cardholder resistance, such as computer literacy;
- Timing - Initially, DOC's statement close-off date occurred at the same time as their month end. Post-pilot, this was adjusted to the 2nd last working day of the month, ensuring that there is enough time for cardholders to code transactions, thereby, eliminating the need for accruals in DOC's FMIS;
- IT – The pilot enabled minor EMS functionality issues caused by DOC's Citrix connection to be identified and rectified prior to full implementation. The EMS itself, has been invaluable in helping DOC re-engineer their low-value purchasing process to eliminate manual steps.

The Future

DOC's future initiatives are tied to the New Zealand Government's Carbon Neutral Public Service program. The EMS reporting for Visa Purchasing Cards is already helping DOC to improve their carbon credit management, by enabling expenditure to be analysed by MCC and supplier, to determine expenditure on items such as fuel. Improved reporting and greater efficiencies are proving to be incentives to move more transactions on to Visa Purchasing Cards. In line with this, DOC is planning to:

- Move irregular or one-off suppliers who are currently paid by cheque over to Visa Purchasing for the majority of transactions with a value of up to NZ\$3,000;
- Evaluate the payment of mobile phone expenses on Visa Purchasing Card and enable presentation of itemised telephone bills in their EMS.

DOC is aiming to achieve both of these objectives by June 2009.

Source: Visa commissioned study: Material prepared by Marketing Perspectives via telephone interviews - New Zealand July 2008

"The new [Visa Purchasing Card] process has reduced the number of steps in DOC's low-value purchasing process from 13 to six"

Suresh Senadeera, Corporate Accountant, DOC

Solution Requirements

One of the major criticisms of the previous purchasing process employed by DOC was that it required staff members to raise a PO and obtain managerial sign-off prior to making a purchase, regardless of purchase value. The 'Value for Money' project identified that the removal of this step for all transactions under the value of NZ\$1,000, and the enablement of retrospective approval, would result in considerable efficiency gains and reduce transaction costs. Other key solution requirements included:

- Improved transparency and reporting of transactions which reduced fraud potential, and included the capability to have purchase data directly journalled into DOC's Financial Management Information System (FMIS)⁴;
- Enablement of supplier rationalisation and identification of potential national contracts and opportunities for supplier discounts;
- A process which would eliminate manual steps and reduce invoice quantities, thereby, improving Accounts Payable turnaround times and cash flow.

DOC released a tender for the provision of Purchasing Cards in late 2004. Responses from two of New Zealand's major banks were considered. The successful bank was appointed based on the strength of their bank-branded, internet-based Expense Management System (EMS) and their ability to offer Visa Purchasing Cards, due to their acceptance in regional NZ⁵.

The chosen EMS solution had a proven history of meeting the needs of New Zealand-based clients. One of the features that appealed to DOC was the misuse controls, including the provision of daily exception reporting of identified Merchant Category Codes (MCC) and transaction limits.

Implementation

With the assistance of the bank, DOC undertook a three month pilot in early 2005. Pilot participants included 150 cardholders and associated managers from the Conservancies of Canterbury, Wellington and Southland. The purpose of the pilot was to develop processes and rules around the implementation of a Visa Purchasing Card Program and understand whether such a program would be beneficial for the Department. The results of the pilot were encouraging with 75% of users who completed the post-pilot survey indicating that they were satisfied with the system trialed, and a similar percentage reporting that they had experienced a significant workload reduction⁶.

The pilot also enabled DOC to confirm a previous assumption that the threshold for purchasing card transactions should be set at NZ\$1,000. They considered that such a threshold would capture over 85% of all transactions, but, still be low enough to minimise risk exposure⁷.

DOC prepared and gained approval of a Business Case which detailed the advantages of implementing an organisation-wide Visa Purchasing Card Program. The rollout was completed by June 2005.

DOC took a structured implementation approach, working closely with the bank and engaging purchasing card consultants to ensure a smooth transition to the new process. A detailed Purchasing Card Procedure Manual was developed and provided to cardholders as part of a one hour training session which was held in each Conservancy.

How it works

DOC's Purchasing Card Program is managed via a largely decentralised model, with at least one Administrator being located in each Conservancy. The Administrator is responsible for training staff and managing the program for their Conservancy. This approach has reduced the pressure on Head Office and ensures that cardholders have a local 'expert' to call on. To ensure a high level of service is maintained, Head Office conducts refresher training for Administrators on an annual basis.



"The successful bank was appointed based on the strength of their bank-branded, internet-based Expense Management System and their ability to offer Visa Purchasing Cards, which have excellent acceptance throughout regional New Zealand"

Mark Hodgins, Business Services Supervisor, DOC

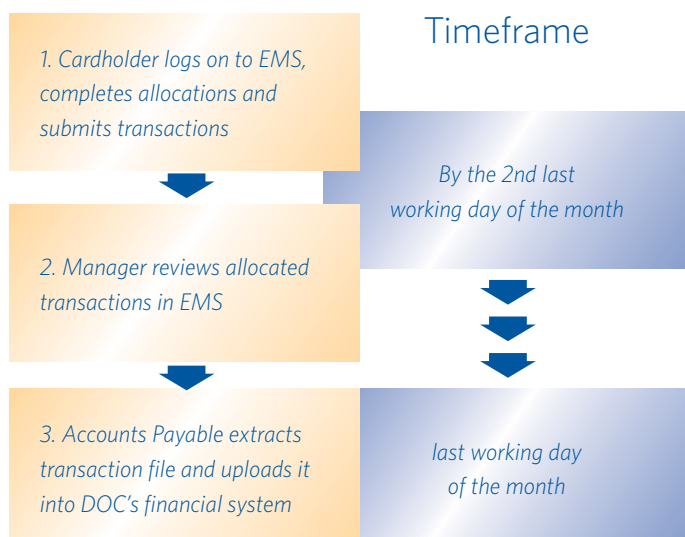


"Visa Purchasing Cards are now being used for over 55% of expenditure (under \$1,000). In real terms, this means that the number of invoices which need to be manually input into DOC's FMIS has been reduced by over 65,000 per annum and the number of one-off suppliers and expense claims has been reduced by 50%"

Suresh Senadeera, Corporate Accountant, DOC

Cardholders are expected to use their Visa Purchasing Card for all business expenditure under the value of NZ\$1,000.00 (with the exception of some travel expenses which are booked directly with DOC's travel provider and other National Contracts). Cards can be used for face-to-face purchases, over the phone, on the internet and via fax. DOC's Visa Purchasing Card is customised and features the organisation's logo to ensure that it is easily identified as a purchasing tool by staff. One level of transaction approval is required, except in the case of discretionary (Travel and Entertainment) expenditure, where two levels of approval are necessary.

Transactions are usually available for viewing and allocation 24 to 48 hours after the purchase is made. To simplify the reconciliation process, DOC's EMS is configured so that automatic allocation is enabled wherever possible and profiles are applied to cardholders, restricting the number of codes available for allocation. The monthly process followed by DOC is as follows:



To satisfy audit and tax requirements, cardholder are required to print a hardcopy of their cardholder statement, attach receipts and submit it to their manager for sign-off, prior to onforwarding it to the Administrator.

Card Program Parameters

Cards are issued to any staff member who is reasonably expected to make three or more business purchases a month. This equates to approximately 80% of DOC's 1800 staff members. Monthly card limits are determined by the position held and the purchasing requirements of the department, and range from NZ\$2,000.00 for Administration staff to NZ\$5,000.00 for Rangers / Field positions and Managers who travel frequently.

DOC's current annual card expenditure exceeds NZ\$7 million. The average value of card transactions is approximately NZ\$100.00, with most cardholders making between four to five transactions per month.

Results

DOC set a target of eliminating 50% of paper based supplier invoices (for amounts under \$1,000) by early 2007. According to Suresh Senadeera, Corporate Accountant, DOC, "This target has been exceeded, with Visa Purchasing Cards now accounting for 55% of purchases under \$1,000. In real terms, this means that the number of invoices which need to be manually input into DOC's FMIS has been reduced by over 65,000 per annum and the number of one-off suppliers and expense claims has been reduced by 50%".⁸

