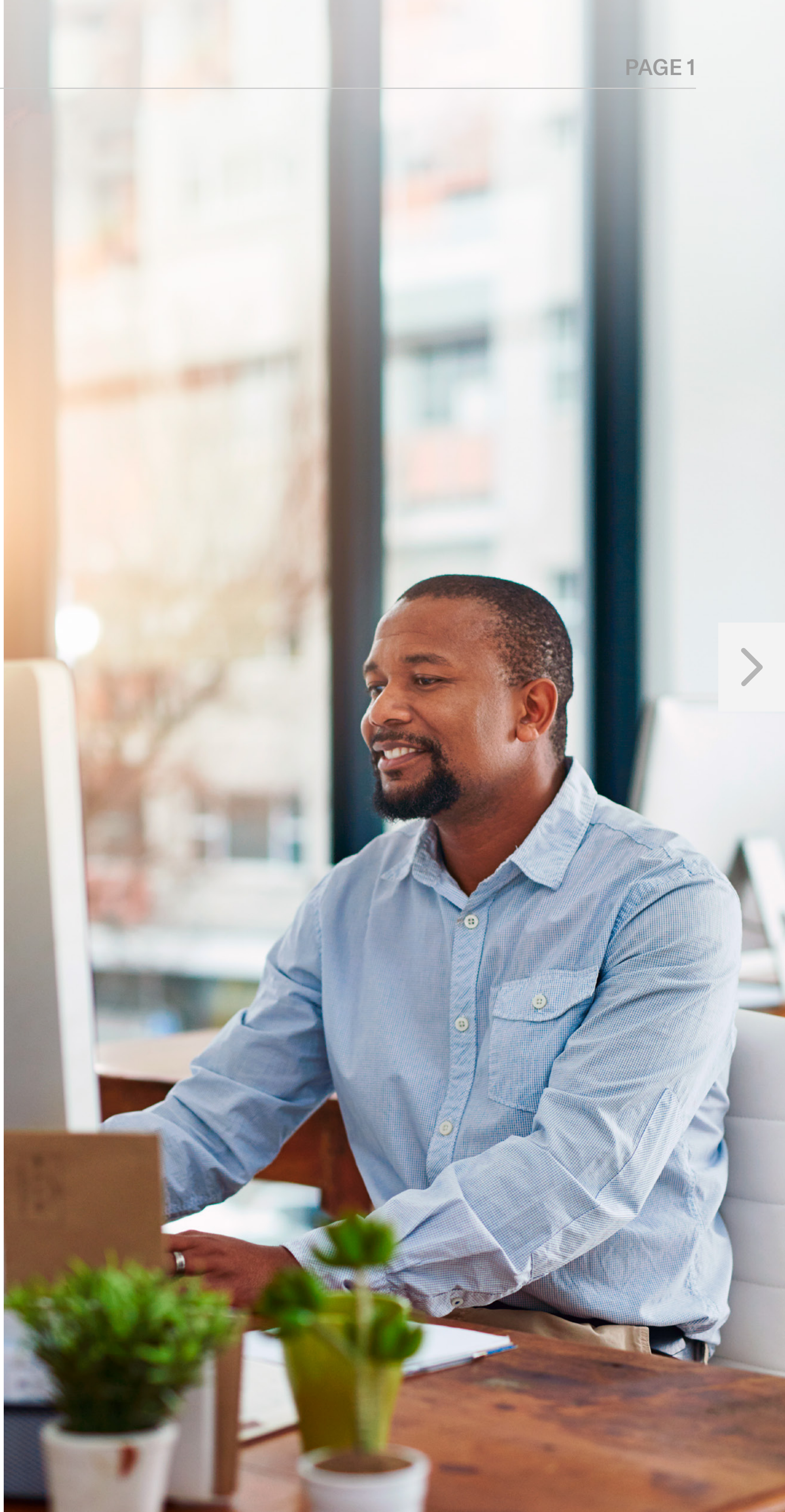
Mind the Asterisk

What to Look for in a Card Solution

Corpay



Exceptions Are Costly

Credit cards are a valuable component of a supplier payment program. Not every supplier will accept card payments, but many do prefer the speed, convenience, and security that comes with them. The company making payments on the card also gets a one or two percent rebate.*

*Except when they don't.

The problem begins with the way in which banks estimate rebates for their card programs...this is a purely theoretical number.

The Tip of the Iceberg

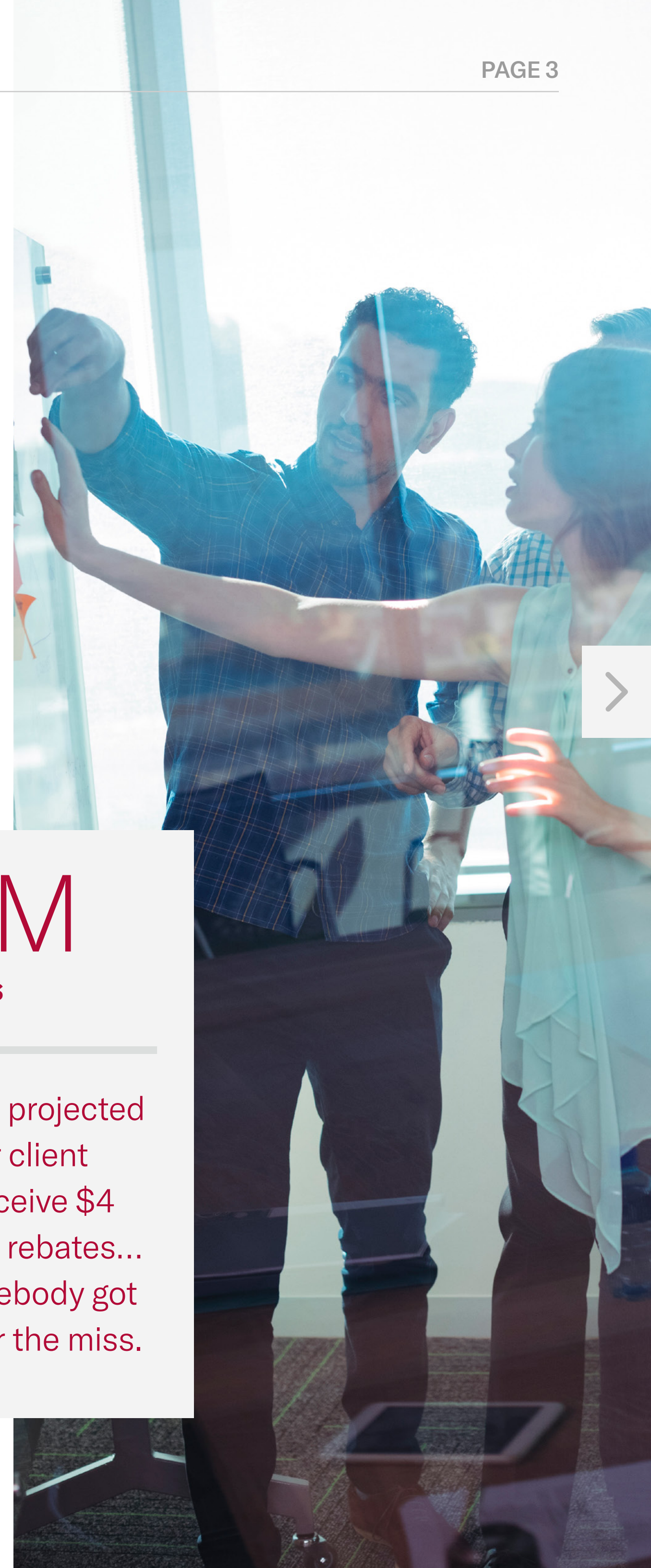
That asterisk can be a problem — even a career-ending one. At Corpay, our sales team worked with a client who signed up for a card program with one of the major card networks through their bank. When considering this client's card spend, the bank projected that their client would receive $4 million in rebates. That's a significant amount of money, so the client's company put it in their budget. In the end, they only earned about **10 percent of that amount** in rebates — and somebody got fired over the miss.

Job loss is an extreme example of a situation gone wrong. Still, it speaks to something we frequently see in the marketplace: companies sign up for card programs based on the expectation of rebates that never even come close to what was projected.

> *To only get 10 or 15 percent of that [projected rebate] amount is actually very common.*

Rebates will also steadily decline over time without an ongoing effort to upkeep them.

There are two reasons for this lack of upkeep: Supplier enablement and the asterisk attached to that rebate percentage.



$4M

IN REBATES

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Optimistic Projections

The problem begins with the way in which banks estimate rebates for their card programs.

- First, they get a supplier file from the prospective client.
- Then they compare that file to their current acceptance network.
- If they find suppliers in their network with whom the client spends six or seven digits annually, they figure that they'll only have to enable a few of them to get a large program.
- They tally up the spending with those big suppliers and multiply that number by the advertised rebate percentage to get a projected rebate number.

This is a purely theoretical number. Card network agreements typically say that companies who join their acceptance network cannot pick card payees.

> *If they accept card payments from one company, they must accept them from all. But in practice, that does not happen, and we all know it.*

A supplier may be happy to accept a card at a terminal or for small, one-time orders. Even so, they don't necessarily want to accept the same for large orders from their strategic customers with whom they may already have terms in place. They may accept it until a larger invoice goes out and the cost is too much to bear. Or they may continue to accept card payments, but pass the fee on to the buyer, either as a direct charge or in the form of a price increase.

Suppliers Are in Control

Most buyers aren't going to force a supplier to take payment by card because they have relationships they want to maintain. They also realize that margins are thin.

> *Asking suppliers to accept card in the first place will shave a couple of percentage points off in card fees, and they don't want to throw their suppliers under the bus.*

In fact, accounts payable teams don't enjoy — or have time for — reaching out to enroll suppliers in card options in the first place. It's often tedious and time-consuming work. Initially, the bank helps identify card-accepting suppliers. After the program goes live, however, AP is pretty much on its own. If they don't enable new suppliers or keep existing ones on board, card spend will decline.

Cue the Asterisks

That's when the asterisks kick in.

Many bank programs are tiered based on how much you spend on card.

> *The advertised rebate may be two percent, but below a certain spending threshold, it may drop to one-and-a-half percent. Go below that threshold, and it sinks to one percent.*

There may be other caveats as well, such as requirements regarding "file turn days," which is the time to pay. In this case, you must pay within seven days of getting the statement to get the highest rate. Some banks even offer daily terms. Whatever you spend that day, for example, you must pay the next day to get the advertised rebate.

Then there are level 1, 2, and 3 transactions, which carry different fees based on risk. Say you swipe a card at the gas pump, and you enter your zip code. That's a level 1 transaction because it's a relatively small amount, and you're providing additional data. The merchant pays a reduced discount fee because there's less risk, which means the rebate is also reduced.

There's also the danger of clawbacks — the pulling back of already-disbursed funds. Banks and card providers will sometimes offer a signing bonus against the projected rebate, with a clawback provision to protect themselves if card spending turns out to be lower — which it almost always is.

The final insult:

> *Some card companies hold your rebate until the end of the year because they want to ensure you've hit an annual minimum.*

Banks and card providers will include a clawback provision to protect themselves if card spend turns out to be lower — which it almost always is.

The Harsh Reality

These programs are marketed and sold at the highest possible outcome, but the reality is vastly different. AP teams must hustle to enable enough suppliers — and keep them enabled — all while maintaining their information to make the projected rebate.

> *Only a handful of companies will achieve the promised rebate and end up at the profitable end of the curve. If you don't understand the bank's projection requirements and budget, you're taking a big risk.*

Of course, the bank has managed its risk, and they still make money on every card transaction no matter what.

So, what's the alternative?

The New Reality

Payment automation providers take a different approach. First, we reach out to all your suppliers — not just those you spend the most with. It doesn't make sense for an AP department to reach out to smaller suppliers every year to ask if they'll accept payment by card. It does make sense for a payment automation company to do so because we've built a network of suppliers paid by hundreds (or even thousands) of clients. Also, we have a share in the rebate. That means you'll see a lower advertised rebate rate, but:

- You'll actually earn more money at the end of the day
- More suppliers will accept card overall
- You'll receive monthly rebates that are not tier-based

Card options have not gotten as much traction in B2B payments as they should, and all the asterisks that banks attach to their card programs are part of the reason. The companies we talk to are often burned by the card programs presented by their banks. Because they didn't achieve the rebates they were led to expect, they're hesitant to start new card programs with more specialized companies. Combine that with the perceived effort it takes to enable suppliers, and most companies end up not utilizing cards as strategically as they could.

Spend Smarter

Now that remote work is pushing companies to pay electronically, it's worth taking another look at card programs to find one that can support your company's financial goals by achieving the advertised rebate. It's also worth considering a card program supported by a comprehensive payment automation solution. The advertised rebate may be lower than the imaginary numbers projected by banks, but the technology and services provided mean you'll stand a much better chance of actually receiving the full rebate amount.

When looking for a solution that can do this for you, consider a provider that offers the following:

- ☐ Rebates without restrictions such as tiers or minimum spend thresholds
- ☐ Ongoing vendor enrollment and enablement
- ☐ Targeted incentivization programs for vendors to accept card payments
- ☐ Consolidation of multiple card programs into one (purchasing, T&E, fuel, etc.)
- ☐ Integration with paperless expense management tools
- ☐ Comprehensive payment automation for scheduled, on-time vendor payments

Finding a provider that can check all these boxes (and more!) is crucial to the growth of your company.

With asterisk-ridden card programs flooding the market, there's never been a better time to modernize the way your company makes payments.

Reach out to our in-house payment experts today to get your card spend on the right track — no asterisks included.

About Corpay

Corpay (NYSE: CPAY) is a global leader in payments, helping businesses of all sizes better track and manage spend. Through its unified spend management platform, Corpay Complete, Corpay offers a range of solutions including Payments Automation, Invoice Automation, Procure-to-Pay, Expense Management, and Commercial Card programs. These solutions empower clients to automate, secure, and streamline business payments while reducing overall costs. An S&P 500 and Fortune 1000 company, Corpay processes 1.9 billion transactions annually and is the #1 B2B commercial Mastercard® issuer in North America. Learn more at www.corpay.com.

Additional Resources

- The Executive's Guide for Evaluating Electronic Payment Solutions
- MSS Solutions Study
- How to Actually Calculate the Benefits of ROI
- Atlantic Electric Case Study

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