THE DRIVE FOR PAYMENT OPTIMIZATION

As businesses of all sizes continue to deal with a low-revenue growth environment, with annual changes in real U.S. gross output below 3% every year since 2010,[1] they are looking to drive greater efficiencies and returns from their various operations.

For many, new technologies provide significant opportunities for achieving that transformation.

One of the operational areas that offers considerable potential for technology-based transformation is the payments system. Over the past decade, commercial payments have shifted significantly toward electronic payment methods.

However, there has been a recent slowdown in the growth rate of electronic commercial payments.

- Following a dip in the immediate aftermath of the financial crisis, total U.S. commercial card volume rose by annual double-digit rates between 2010 and 2014, but this rate slowed to just 8% in 2015.[2]
- A recent AFP survey found that checks' share of B2B payments rose slightly from 50% in 2013 to 51% in 2016, thereby reversing a long-term downward trend.[3]

This can be partially attributed to the fact that many technology-centric companies have already converted to electronic payments. Additionally, a significant percentage of organizations may be reluctant to fully commit to electronic payments due to a number of factors, including organizational inertia and the perceived cost of adapting legacy payment systems to handle the new payment methods. It can also be due to a company's lack of in-house resources and external support to transition from trialing new payment methods to broad companywide adoption. To address these challenges, companies are looking to commercial card issuers for a range of payment solutions, as well as comprehensive onboarding and optimization support.

Look for program optimization support that includes:

- A commitment to engaging with our clients at all stages of the relationship.
- Providing a number of benchmarks and analyses to help clients gain insight into their commercial card program performance relative to peers.
- Implementation support for a select number of support activities, such as recruiting suppliers to accept card payments.

Engagement

View program optimization as an ongoing process, with new opportunities emerging as businesses continue to shift toward electronic payment systems.

Your account manager should work with you to:

- Obtain detailed spend data on both distributed cards and accounts payable.
- Establish a tailored program optimization plan, based on the account manager's knowledge of your needs, as well as on a detailed analysis of your spending patterns.
- Coordinate the type and level of optimization support you need from your financial institution.
- Prioritize activities to be undertaken.
- Support implementation.

Analysis and Implementation Support

Distributed Cards

For distributed card programs, a wide range of analyses and benchmarks can help you see how your programs perform in comparison to your industry and revenue peers.

Key Benchmarks for Distributed Cards

Benchmark Category	Card Deployment and Activation	Card Volume	Transaction Types	Spend Category Trends
Key Benchmarks	• Cardholder-to-employee ratio • Card activation rate	• Overall monthly card spend • Spend per card • Transactions per card • Average transaction size	• Percent of transactions under $2,500 paid by card (Purchasing and Commercial Card only) • Percent of transactions between $2,500 and $10,000 paid by card (Purchasing and Commercial Card only)	• Travel card spend as percentage of overall travel spend (Corporate Travel and Commercial Card only)

Comparison to Peer Industry and Revenue Groups

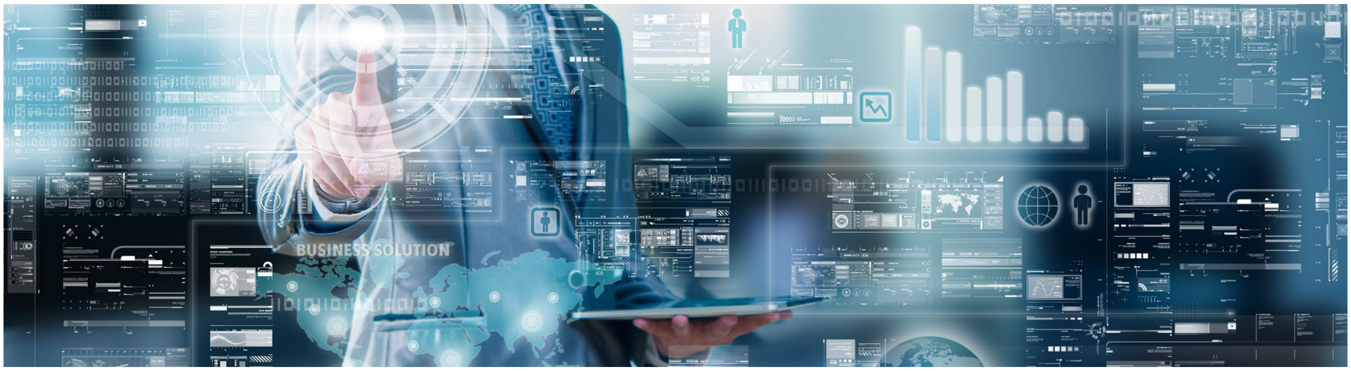
Below Median Performance — Above Median Performance

Transportation, Warehousing, and Delivery Services	Your Metric	Benchmark*	0-25%	25-50%	50-75%	75-100%
Monthly total purchasing card spend	$415,000	$8,250,000	■			
Monthly spend per card	$3,800	$3,807				■
Monthly transactions per card	5.25	8.30			■	
Total card spend per $ million in revenue	$1,250	$5,822	■			
Total card spend per employee	$350	$347				
Average transactions size	$3,755	$587		■		
Card-to-employee ratio	0.5	9.0%	■			
Percent of active cards	90.1%	91.0%				■
Percent of transactions under $2,500 paid by purchasing card	N/A	58.0%				
Percent of transactions between $2,500 and $10,000 paid by purchasing card	N/A	21.0%				

*Benchmark is the 75th percentile.

This report screenshot illustrates how companies can easily see how their distributed cards are performing for specific benchmarks relative to their industry and revenue-size peers. This enables companies to quickly identify areas of opportunity.

> U.S. commercial card volume rose from less than $400 billion in 2005 to more than $1 trillion in 2015.[4] Commercial ACH transaction volume reached $4.7 billion in 3Q16, up 6.5% y/y.[5]



Analysis and Implementation Support (Cont.)

Tools such as a cost savings calculator and ROI analysis help you assess the potential impact of improving performance and closing gaps relative to peers.

Once the benchmarking and analyses identify opportunities for program optimization, your financial institution should work with you to prioritize these opportunities, make recommendations for improving performance in targeted areas, and provide advice and tips on the best way to implement these recommendations. Your bank representative should also interact with your program administrators to see if these efforts are bearing fruit.

Accounts Payable

An important part of program implementation is to analyze accounts payable data and identify suppliers who could be converted to an automated payment method, thus increasing the opportunity to generate financial benefits through revenue share and working capital improvements.

Once they receive a client's vendor file, your financial institution should perform a vendor analysis to identify specific suppliers who are likely to accept card payments from you. Then, you can use the vendor analysis to identify spend categories in which you have lower commercial card usage than industry peers. Additionally, the vendor analysis can help to quantify the potential impact of converting a portion of your suppliers to commercial card payments.

Your financial institution should support you in recruiting suppliers to accept electronic payments, continually monitor the effectiveness of optimization efforts, and identify issues with supplier recruitment and activation of suppliers who have agreed to accept electronic payments.

READY TO HELP

At PNC, we combine a wider range of financial resources with a deeper understanding of your business to help you achieve your goals. To learn more about how we can bring ideas, insight and solutions to you, please contact your Treasury Management Officer or visit **pnc.com/treasury**.

1 U.S. Bureau of Economic Analysis

2 The Nilson Report, issue 1093, August 2016

3 2016 AFP Electronic Payments Survey

4 The Nilson Report, issue 863, August 2006, and issue 1093, August 2016

5 NACHA, The Electronic Payments Association

CIB TM PDF 0317-0151-499801