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Articles

Government & Corporate Purchase Card Acceptance on the Rise: Enhance Your Profitability through Level III Processing

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Each year more companies and government agencies expand their purchase card programs (Visa, MasterCard, AMEX). While the federal government's *SmartPay*® program is the largest, state and local government purchase card programs combined are nearly as large. And a full 72% of Fortune 500 companies pay extensively with purchase cards.¹

In fact, spending on Government and Commercial purchase cards in 2005 reached \$110 billion, a 37.5 percent increase over 2003. Looking forward, purchase card spending is expected to reach \$180 billion by 2010.² In most cases, accepting purchase cards is required in order to do business effectively with the organizations that want to pay this way.

Purchase card acceptors value the faster payment, streamlined A/R, and increased float that accompanies credit card payments. At the same time, they are increasingly scrutinizing the rates and transaction cost they incur. *Switching to Level III processing is a concrete and cost-saving step that will provide an opportunity to better serve your existing customers, and possibly open new doors.*

While Level III processing³ has considerable advantages, it has historically been used in practice only infrequently. According to Mark Amtower, publisher of *The Amtower Report* business newsletter and author of *Government Marketing Best Practices*, "at least 3 out of five GSA schedule vendors have been not been set up to accept Purchasing Cards properly . Most were set up to accept standard consumer credit cards as opposed to purchasing cards, meaning they are not passing Level III invoice detail ." An April 2002 study by Celent Communications, "*Purchasing Cards in the U.S.*" indicates that **fewer than 15% of U.S. merchants are equipped to transmit Level III data and that only 35% of all purchasing card transactions carry this level of detail.** The main reasons that a supplier cannot capture and pass Level III data are:

- Incorrect credit card processing technology
- Lack of well-defined procedures or untrained staff
- Processors' inability to accept or transmit the data

If any one of these conditions exists, the Level III data will not transmit, and processing fees will be assessed at a significantly higher rate. These conditions often exist for one of two reasons. **The first** is that the existing processor (or bank) sales staff did not possess the knowledge, technical capability, or financial incentive to educate suppliers and to set them up properly. **The second** is that some vendors have the outdated and mistaken belief that Level III capable technology is cost prohibitive.

A service provider capable of Level III data transmission needs to (1) understand what processor platforms are certified for proper Level III transmission, (2) have staff that can explain the Visa and MasterCard criteria for each Level III interchange rate, (3) be willing to educate and explain proper procedures, and (4) have access to the new Level III systems that are inexpensive and easy to implement.

Working with a processor that possess the above attributes, a supplier accepting purchase cards and passing Level III is at an

advantage for two reasons:

- **Cost Savings**
- **Increased Marketability**

Cost savings for the Supplier – MasterCard and Visa have created special rates to support purchase card programs by reducing the supplier's transaction costs if Level III line item detail is captured and transmitted with the financial settlement. These special rates are intended to be an incentive to pass Level III, which in turn will assist buyers in managing their purchase card programs. Level III processing can lower the supplier's discount rate by as much as 1.0% – 1.5% when compared to non-Level III processing, and depending upon the card type and the size of the transaction.

Increased Marketability – Level III data is extremely valuable to the managers of purchase card programs. It saves them time and helps them run their purchase card programs more effectively. Susan Avery, Senior Writer for Purchasing Magazine reported that *“maximizing cost savings is dependent upon integrating the cards into the financial supply chain. As such, purchasing card program managers are saying that they need Level III data with their transactions.”* Increasingly these government and corporate purchase card managers are influencing supplier selection and vendor reduction efforts, so assisting them in obtaining the data they need is a prudent step.

Federal Government Need for Level III – According to a presentation given in August 2006 by David J. Shea, Director GSA SmartPay, *“only 15.9% of GSA SmartPay® transactions and 16.3% of transaction spend have level 3 line item data”* and the *“Lack of [Level III] data remains an significant customer agency concern”*. Indeed for the upcoming GSA SmartPay® 2 contract, purchase card program bidders will receive evaluation points for proposing a plan to increase the number of merchants providing level III data. This situation represents an opportunity for contractors who are not passing Level III to begin doing so, and position themselves as more customer-centric organizations.

Corporate Need for Level III – While the federal government cannot *require* suppliers to pass level III, corporations can and do. To assist corporations in finding Level III capable suppliers, Visa and MasterCard maintain Supplier locator databases that identify the suppliers that can pass the Level of detail they require. Katherine Novikov, CEO of Diamond Mind, Inc. says *“Corporations need for Level III data can also be seen in the significant number of RFPs that explicitly state that Level III is a requirement. Suppliers without this capability can miss opportunities.”*

Purchasing cards have gained considerable momentum and recently taken the lead in terms of total commercial-card charge volume. Purchase card buyers, both government and corporate, value suppliers who accept their purchase cards and transmit accurate Level III data. Despite the inherent cost savings in doing this, only a minority of government contractors offer Level III processing at this time. This is a result of perceptions, now outdated, about the cost and effort needed to become Level III capable.

Technological advances in inexpensive POS technology are putting Level III capability into the hands of any vendor wishing to lower costs and display greater responsiveness to purchase card buyers. Companies that seize the moment and take the initiative to be set up properly to transmit Level III data stand to enhance their positioning and reduce their costs.

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Larry Allen is Executive Vice President of the Coalition for Government Procurement, a leading Washington D.C. based association representing companies that sell commercial services and products to the federal government primarily through multiple award schedule (MAS) contracts and GWACs. The Coalition's mission is to protect the interest of its members by providing valuable information on issues affecting the government market and by constantly advocating common sense in government procurement policy. In 2006, Federal Computer Week ranked Larry Allen #7 on their annual list of the Top Power Players in government IT. Mr. Allen can be reached at lallen@thecgp.org or (202) 331-0975

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¹ “Purchasing Cards in the U.S. Report”, 2002, Celent Communications, Boston, MA.

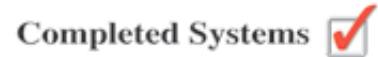
² “2005 Purchasing Card Benchmark Survey”, Richard J. Palmer, PhD., Mahendra Gupta, PhD., and Robert L. Vigil, PhD., RPMG Research.

³ **Level I** reporting data include transaction date, merchant name, and total transaction amount, but no description of goods or services or reference to taxes paid. **Level II** includes the addition of sales tax data. **Level III** adds item description detail(s), product

code, quantities, duty amount, freight paid, ship-to-zip code and ship-from-zip-code.

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