How High-Performing Businesses Boost the Bottom Line through American Express Business Cards

Commissioned by American Express OPEN 2010

• Consulting • Technology • Outsourcing
The High-Value, Low-Effort Secret

There are some business owners who seem to know all the secrets—like where to find the best deals, which technology to use, or how to effortlessly add value to their bottom line. It’s this last secret that drew our attention and led to this Study, as we learned how certain customers are using their American Express Business Cards to add substantial value to their bottom lines.

These businesses use their Cards for most of their expenses, essentially “running” their businesses on their Cards. They take full advantage of our products and services, like our Charge Cards, Membership Rewards and online tools—and use them together to reduce business costs, improve cash flow, and save time. The goal of this Study is to help you understand and implement their best practices to boost the bottom line for your business.

Conducted by Accenture, this Study is the result of research with more than 135 small businesses of various sizes and industries across the U.S., and it includes data and analysis of how these businesses essentially create savings through their spending. By following the best practices outlined here, a mid-range small business could save approximately $15,000 a year.

I hope you find this Study a source of inspiration, with insights and practical advice that can help you drive value for your business. If you use any of these or other strategies, I invite you to share your story with me at the e-mail address below. Your experience may provide valuable insights to other entrepreneurs.

I thank you in advance and extend special appreciation to the Cardmembers who participated in this Study.

Sincerely,

Marcy Shinder
Vice President & General Manager, Business Charge Cards
American Express OPEN
marcy@openforum.com
The American Express OPEN System
This Study examines how small businesses can maximize the value offered by the American Express OPEN system. This system is the suite of OPEN Cards, Tools and Data, and Services.

OPEN Cards
The cards included in this Study are the OPEN Charge Cards. Charge cards are similar to credit cards, except that a charge card’s balance must be paid in full every statement period. The OPEN Charge Cards are:

- Business Green Rewards Card
- Business Gold Card
- Business Platinum Card
- Business Centurion Card
- The Plum Card

This Study highlights core features of OPEN Charge Cards such as built-in discounts, rebates and rewards.

OPEN Tools and Data
The Study examines how Cardmembers capture value from tools and data related to accounting and tax processes (e.g. OPEN expense management tools). Other tools, such as OPEN Forum® and AcceptPay™ are not included in the Study.

OPEN Services
The OPEN system includes services such as concierge and insurance which offer significant benefits. These services are not part of the Study.

"Best-in-class" Businesses
To understand the value potential of the OPEN system, the Study identifies what this report refers to as best-in-class businesses. "Best-in-class businesses" are those companies that, compared with all participants in the Study, capture the greatest value within three key categories: cost reduction, improved cash flow and time savings. In this report, findings reflect average values.

The best-in-class businesses’ use of the OPEN system is referred to as “best-in-class practices.” While individual results may vary, the Study found that small businesses can capture significant value by adopting these practices.
Executive Summary

Small business owners constantly seek new ways to improve their bottom line. American Express commissioned Accenture to conduct a Study to better understand how OPEN can help small businesses achieve that goal.

This Study of over 135 U.S. firms—ranging in size from one to over 100 employees and in revenues from $200,000 to over $20 million a year—clearly shows that small businesses can derive substantial value from the OPEN system.

Strategy for Achieving Value

Companies that achieve the greatest value view the OPEN system as an integral part of their business. These companies “run and fund” their business on the OPEN system. This means they pay for a large portion of purchases with the Card and extract significant value from rewards, discounts, and improved cash flow.

The Study identified three actions that are key to becoming a business that runs and funds on the OPEN system:

• Consolidate purchases onto the OPEN Card
• Maximize value from points and cash flow
• Take advantage of OPEN tools and data

Companies aspiring to get more value from their OPEN Card can use these actions as a guide to achieving best-in-class value.

Highlights of the Study

• A mid-range small business can add $15,000 per year to its bottom line by using the OPEN system to reduce costs, improve cash flow, and save time.
• Best-in-class companies use rewards and discounts to reduce their total expense base1 by 1.1%, which is over five times that of other study participants.
• Nearly two-thirds (65%) of OPEN Charge Cardmembers can put more than $50,000 per month on their Card.
• Best-in-class firms save five hours per week by reducing manual payments and streamlining accounting and tax processes with OPEN tools.
• Best-in-class companies put a larger portion of business purchases on the OPEN Card—57% of their total expense base, compared to 11% for others.

1 In the Study, “total expense base” refers to operating, inventory, and materials expenses (excluding rent and labor) across all payment types.
Unlocking Value from the OPEN System

Study participants were asked to describe the most important benefits the OPEN system delivers to their business. The top three were:

I. Cost Reduction
II. Improved Cash Flow
III. Time Savings

The Study found that a company does not have to be a multi-million dollar business to achieve best-in-class value from these three sources. The top-saving businesses in the Study spanned a wide variety of industries and sizes.2

These best-in-class businesses share something in common: they use OPEN as a system to run and fund their business.

What Does It Mean To "Run and Fund" on the OPEN System?

Businesses that "run" their business on the OPEN system use every opportunity to pay for purchases with their OPEN Card.

The Study shows that the best-in-class on average put a much larger proportion—57%—of their total expense base on the OPEN Card, compared to 11% for other Study participants.

With a large proportion of purchases on the OPEN Card, the best-in-class then "fund" their business by redeeming earned points, investing freed up cash, and streamlining processes with OPEN tools and data.

Businesses need to both "run and fund" on the OPEN system to maximize value from the three sources of value listed above.

How One Small Business Can Capture $15,000 in Value with the OPEN System

Using the hypothetical Company ACE as an example, this report will show how small businesses can unlock the value of the OPEN system.

ACE is a mid-range small business with $500,000 in total expense base and $100,000 in profits per year. For ACE, running on the OPEN system means spending approximately $300,000 per year or an average of $25,000 per month on the OPEN Card.

By employing best-in-class practices with the OPEN system, ACE captures $15,000 of savings as follows:

I. Cost Reduction

By reinvesting rewards and taking advantage of card discounts, ACE saves $5,500 per year and improves bottom line profits by 5.5%.

II. Improved Cash Flow

The high purchasing power of the OPEN Charge Card allows ACE to float up to $50,000 of purchases per month and avoid $2,500 per year of costs from using a line-of-credit, improving bottom line profit by 2.5%.

III. Time Savings

By reducing cash and check payments and leveraging OPEN tools, ACE saves five hours per week, which delivers $7,000 in value and improves bottom line profit by 7%.

In all, Company ACE realizes savings of up to $15,000 per year and a 15% increase in profits by using the OPEN system.

The following sections explore the three sources of value in greater detail.

Company ACE with $500k Total Expense Base, $100k Profit, $300k OPEN Card Spend per year

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Study Results</th>
<th>Bottom Line Value for ACE</th>
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<tbody>
<tr>
<td>Cost Reduction</td>
<td>1.1% reduction of total expense base</td>
<td>$5,500 / year</td>
</tr>
<tr>
<td>Improved Cash Flow</td>
<td>65% of OPEN users can put $50,000 per month on the Card</td>
<td>$2,500 / year vs. line-of-credit</td>
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<tr>
<td>Time Savings</td>
<td>5 hours / week</td>
<td>$7,000 / year</td>
</tr>
<tr>
<td>Total Savings Opportunity</td>
<td>$15,000 / year</td>
<td>+15% to profit</td>
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2More detailed demographic information on the best-in-class businesses can be found at the end of this report.
## 1. Cost Reduction

Small businesses can reduce a sizable portion of their expenses with the OPEN system.

### Overview

- **Best-in-class companies** cut their total expense base by 1.1% using OPEN’s rewards and discounts
- For Company ACE, this yields $5,500 per year or a 5.5% increase to bottom line profits
- **Best-in-class firms** creatively use rewards and select vendors that provide card discounts

### Here’s How Businesses Can Reduce Costs

Businesses can reduce costs through 3 spend-related features: Membership Rewards redemptions, Plum early-pay discounts, and OPEN Savings® discounts.

Best-in-class businesses get 2% back for every dollar spent with their OPEN Card. Since they charge a large part of their purchases on the Card, this 2% has substantial bottom line impact. These businesses cut 1.1% or $5,500 for every $500,000 of their total expense base.

In contrast, other Study participants get only 1.3% back for each dollar spent. With a smaller portion of purchases on their Card, these businesses cut 0.2% or $1,000 for every $500,000 of total expenses.

Comparing the two, the best-in-class get five times the cost reductions attained by other Study participants. (See Figure 1.)

### Impact to Bottom Line

For ACE, $5,500 in savings from rewards and discounts can be used to cover months of rent or leisure travel. Another way of looking at the savings: it adds 5.5% to the bottom line profit. (See Figure 2.)

For advertisers, travel companies and businesses in other low-margin industries, the bottom line impact can be even greater.

### Redeem and Reinvest Those Points

The Study found that the best-in-class keep a much lower points balance in proportion to annual OPEN Card spend compared to other companies: the best-in-class accumulated points balance represents about one and a half years of spend versus over five years for others. This means that the best-in-class more actively use their points while others tend to store them in a points bank.

In addition to active redemptions, best-in-class companies reinvest about two-thirds of their points back into the business. Moreover, they boost the value of their points through creative usages such as employee incentives and customer loyalty programs.³

### Select Vendors who Offer Discounts

Best-in-class companies also supplement the savings they get from point redemptions by actively selecting vendors who offer discounts (OPEN Savings®). The Study found that these discounts contribute to almost one-fifth of all savings that best-in-class firms achieve.

“By using the Plum Card with its 1.5% discount, we doubled our profit last year!”

CFO of an Online Advertising Company

“Instead of giving discounts on the retail price, I offer my customers gift cards with each purchase. This way, I can increase my sales without eating into my profit margin.”

Owner of an Electronics Retail Store

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³Plum Card users get similar value, but from the early-pay rebate instead of Membership Rewards
It’s All About the Points
Jeffrey Herold, Club Glove and Scheyden Eyewear
Jeffrey owns a golf accessories business.
He has been an OPEN Cardmember for 12 years.

Jeffrey pays with his OPEN Card to earn points
“We want to use the OPEN Card whenever possible because we want those points!”

He uses points to cut costs and reward employees
“When we need to get a flight and we can’t find anything reasonable cost-wise, we use points. At times, we also upgrade a staff member to first class on a business trip. It’s a wonderful incentive.”

Points give him both business and personal value
“When you’re a CEO, it seems like almost everything you do in life, your business is involved. When I use points to go on vacation, I still end up visiting clients.

To earn even more points, he negotiates with vendors to accept American Express
“I tell them, you’re going to get more business and you’ll get paid on time! You’ll avoid that awkward feeling of sending customers into collection. The last thing you want to have is a credit problem becoming a relationship killer.”
II. Improved Cash Flow

The high purchasing power of OPEN Charge Cards allows small businesses to float large amounts of purchases, thereby improving cash flow.

Overview
• Nearly two-thirds (65%) of OPEN Cardmembers can put more than $50,000 a month on the Charge Card
• The improved cash flow allows Company ACE to avoid $2,500 per year of interest charges from using alternative credit sources, adding 2.5% to bottom line profit
• Best-in-class businesses time their purchases to hold on to cash longer, giving them more opportunities to deploy the cash into areas that deliver savings

Here's How Businesses Can Improve Cash Flow
Businesses can use the OPEN Charge Card to hold on to cash about 25 days longer than with cash or check. The Study found that 60% of participants use OPEN Cards to hold onto cash longer.

This essentially provides businesses with an interest-free, short-term loan that can be used to avoid cash shortfalls or invested into areas that deliver bottom line value. The volume of purchases a business can float is driven by a card’s purchasing power (or spending limit).

An analysis of American Express proprietary data from September 2009 shows that nearly two-thirds (65%) of all OPEN Cardmembers can put more than $50,000 per month on their Charge Card. This level of purchasing power is high enough for many businesses to consolidate all card payments onto one card, move over all possible cash/check payments, and consequently, earn even more from rewards or discounts. (See Figure 3.)

Impact to Bottom Line
Improved cash flow provides value in two ways:
• If the business is cash-constrained, it can avoid using more expensive credit sources to cover cash shortfalls.
• If the business is not cash-constrained, it can deploy the cash into value-generating investments.

As previously mentioned, Company ACE spends $300,000 a year, or $25,000 a month on their OPEN Card. If ACE is a cash-constrained business, by floating $25,000 a month, it saves $2,500 a year by eliminating the need to use an unsecured line-of-credit at a 10% interest rate.4

If ACE is not cash-constrained, the $25,000 float earns $250 per year from a savings account earning 1% interest. Alternatively, assuming ACE has a vendor that offers a 2% early cash payment discount, ACE can earn up to $6,000 per year on the freed up cash.

Utilize Purchasing Power and Time Purchases
Best-in-class companies take two steps to maximize their cash flow:
• Fully utilize their purchasing power by running their business on the OPEN system
• Time purchases to lengthen the time between purchase and final payment

“It’s free money. Last year people paid slower than normal and it helped us to bridge the gap. The extra cash flow allowed us to run our business as we normally would and even allowed us to make our investments grow.”

Owner of an Industrial Meters Reseller

“I look at when my card statement cycle begins and charge my purchases at the start of each cycle so I get almost 2 months of extra cash flow”

Owner of a Photography Retail Store

Purchasing Power Available to OPEN Charge Cardmembers

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<tr>
<th>Purchasing Power Available to OPEN Charge Cardmembers</th>
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<tr>
<td>$&lt;10k</td>
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<tr>
<td>10%</td>
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<tr>
<td>65% with $50,000+ Purchasing Power</td>
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Figure 3. Two-thirds of OPEN Cardmembers have more than 50K in purchasing power per month

4Interest rate based on average 5-year prime average of 6% plus 4% premium reflecting medium risk profile
Smart About Cash Flow
Karen Helburn, Just Hatched
Karen owns a baby gift business. She has been an OPEN Cardmember for 20 years.

Karen thinks of her OPEN Card as a source of funding
“I use it almost as an extension of credit, a mini loan for myself. It has really helped to free up cash and allow me to defer some payments interest free.”

She uses the Card to free up cash
“I use the Card to pay for one large inventory purchase with one particular vendor. I defer that payment a whole extra payment period to have time to sell the products and accumulate some additional cash.”

She turns the freed up cash into bottom line profits
“I have certain vendors where if I pre-pay with check, it’s an extra 5%, sometimes even more, 8%! With OPEN, I free up extra cash so I can take advantage of my vendors’ offers.”

She has eliminated the need for using other credit lines
“I do have a line-of-credit that occasionally I’ve had to tap into in the past. Now, I don’t have to do it anymore. I go ahead and use my OPEN Card instead.”
III. Time Savings

Small businesses can achieve significant time savings by using the OPEN system.

Overview
• Best-in-class businesses save five hours a week or 30 work days per year by using the OPEN system
• For Company ACE, this time saving translates into $7,000 per year—adding 7% to bottom line profit
• Time savings come from reducing the number of manual payments and streamlining accounting and tax processes

Here's How Businesses Can Save Time
Consolidating expenses onto the OPEN Card helps companies save time in two ways:
• Reducing the time spent making and tracking cash and check payments
• Making the accounting and tax reporting process more efficient by having a large proportion of expenses recorded in one place

Bottom Line Impact
Best-in-class businesses save five hours per week. This equates to over 30 work days, or more than $7,000 in added value based on a $29/hour accountant wage\(^5\). For companies where the CEO takes on an accountant role, the value to the business is presumably greater.

For Company ACE, the $7,000 adds 7% to the bottom line profit.

Steps the Best-in-class Take to Save Time
The Study found that 79% of best-in-class time savers have significantly replaced cash and checks. To transition smoothly from cash and checks, the best-in-class ensure that the OPEN Card is set up to be the primary means of payment. When possible, they store their card information with the vendors to create seamless automatic payments.

Additionally, best-in-class businesses ensure that spend information rolls up into one account, especially if the business has multiple employee cards. With a large portion of purchases recorded in one place, best-in-class companies streamline accounting processes by downloading OPEN spend data to their internal systems and taking advantage of OPEN's expense management tools.

The Study found that a vast majority of businesses using the expense management tools achieved substantial time savings by simplifying book-keeping and tax processing. (See Figure 4.)

"When I got the OPEN Card, I went to the person in charge of payables and told her, 'Going forward we are going to pay all bills with this card.'"
Owner of a Hardware Store

"I deal with 50–plus transactions per day. Not having to go through all that paper and having it all there is easy. If my accounting was more of a mess, my accountant would charge me more. This saves me a few thousand a year"
Owner of a Gourmet Bread Retail Shop

Figure 4. Many users have seen benefits through improved book-keeping and simplified tax processes

<table>
<thead>
<tr>
<th>Benefits from OPEN expense management tools</th>
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<tbody>
<tr>
<td>Improved Book-Keeping</td>
<td>86%</td>
</tr>
<tr>
<td>Simplified Tax</td>
<td>79%</td>
</tr>
</tbody>
</table>

5Based on median hourly accountant wage, U.S. Department of Labor, May 2008
Extraordinary Time Savings
Adam Wasserman, H&W Printing
Adam owns a printing business. He has been an OPEN Cardmember for 13 years.

Adam uses the OPEN system to manage expenses
"I pay 90% of my vendors with the OPEN Card. As a result, I can analyze our spend. I can see where we’re spending our money, how we’re spending our money, and who we’re spending our money with."

He has actively moved from paying with checks to using the OPEN Card
"Previously, it was a pain! We were probably writing 200-300 checks a month. Now we only need to write a maximum of 15-20 checks a month."

As a result, the time spent on paying vendors has been significantly reduced
"It only takes four hours a month to pay all our vendors. Four hours, that’s it!"

The time savings have translated into real bottom line value
"We used to have two people in the accounting department. Now I only have one. American Express has cut down my expenses by one person! I save 40 to 50 thousand a year!"
A Guide for Capturing Value from OPEN

For companies seeking to capture more value from OPEN, this section outlines three broad actions to take.

I. Consolidate Purchases onto the OPEN Card

Review current vendors and purchases
List your vendors and how much you spend with each
Categorize your vendors based on whether or not they accept the OPEN Card. Focus on the vendors with whom you have recurring and sizeable purchases

Move purchases to vendors who accept the OPEN Card
Inform the vendor and your accounting department that the OPEN Card will be used for all purchases going forward, and ensure the Card details are listed on record
Check if certain vendors can be replaced with an OPEN Savings® vendor such as FedEx or Marriott

Move purchases for travel and entertainment, advertising, office supplies and equipment, and shipping. Most vendors in these industries accept the OPEN Card
Assess the feasibility of moving higher impact purchases such as inventory and raw materials

Explore options for vendors that don’t accept the OPEN Card
Contact American Express Merchant Services to get help signing up the vendor, or try convincing the vendor by highlighting the potential benefits of accepting the Card:
- More customers and larger purchases
- Increased certainty of getting paid on time
- Avoided hassle of lost or delayed payments and frequent bank visits

Alternatively, find other vendors that accept the OPEN Card via American Express B2B Directory, OPEN Forum, trade publications or referrals

See if it is possible to pay the vendor via other external services that accept the OPEN Card, such as PayPal

II. Maximize Value from Points and Cash Flow

Make the most out of points
Designate an employee to be your business’ “rewards expert”. This person should regularly browse Membership Rewards websites to explore rewards options and execute redemptions
List upcoming planned expenses that can be replaced with points. Some of the most popular redemptions include flights, lodging, office/home improvement and incentives/perks for customers and employees
Implement a policy to use points as a backup fund that will be automatically tapped for:

- Purchases during cash-sensitive periods
- Last-minute or emergency purchases
- Premium purchases (flying first-class, vacation packages, high-end merchandise)

Use PayWithPoints to pay for travel booked on the American Express travel website or the "Everyday Charges" feature on the Membership Rewards website to pay for past purchases such as gas, groceries and office supplies that appear on your OPEN Card statement.

**Time purchases to get more value**

Try to time charges within the first few days of the Card statement period to get nearly two months between the actual purchase and your payment to American Express.

Use this extra time to manage unpredictable customer payments and hold off tapping into a line-of credit. Plan and strategically deploy the cash towards the most productive investments. Try getting discounts from vendors in exchange for paying earlier or pre-paying.

**III. Take Advantage of OPEN Tools and Data**

Combine spend data into one place

Provide OPEN supplemental cards to employees that make business purchases. This way, their spend automatically rolls up to the primary OPEN account and expense reimbursement processes can be bypassed.

Make use of OPEN spend data to simplify accounting

Download OPEN spend data to the internal accounting system. The data is compatible with many common programs like Quicken and QuickBooks.

Leverage OPEN's expense management tools

Streamline manual processes for tracking expenses and updating the books with the expense management tools. Use these tools to track spend, categorize expenses, create reports and reconcile end-of-year tax information.

Import spend data and work on it through your internal systems if your business has more complex tracking needs and sophisticated systems.

Refer to the above for more information on the OPEN services covered in this section.
About the Study Methodology

Survey Participant Demographics
For this Study, Accenture conducted primary research with US-based small businesses in February and March of 2010. The research consisted of an online survey with 112 small businesses and 26 in-depth one-on-one interviews with small business owners and chief financial officers.

Participants were selected to ensure a broad representation of industries, size of business and OPEN Charge Card spend. All participants had at least $200,000 in annual revenue.

Industries Represented
- Accounting
- Advertising or marketing agency
- Agriculture
- Automotive (e.g., car dealer, gas station, auto repair, parking service)
- Construction
- Consulting services
- Educational services
- Electronic solutions providers
- Entertainment
- Health services or medical
- Insurance
- Legal or tax services
- Manufacturing
- Online retail
- Other
- Professional or business solutions
- Real estate
- Retail
- Software/hardware/networking solutions
- Vehicle or transportation services
- Wholesale trade

Best-in-class Demographics
The charts below outline the characteristics of best-in-class survey participants who were among the top 10% in reducing costs.

Number of Employees
- 50+ 14%
- 1-5 26%
- 6-15 30%
- 16-50 30%

Annual Revenue
- <$500k 14%
- $500k to <$750k 8%
- >$750k to $1.5m 15%
- $1.5m to <$5m 29%
- $5m+ 29%

Annual OPEN Card Spend
- >$750k 15%
- $100k to $750k 33%
- <$100k 52%
About American Express OPEN
American Express OPEN is the leading payment card issuer for small businesses in the United States and supports business owners with products and services to help them run and grow their businesses. This includes business charge and credit cards that deliver purchasing power, flexibility, rewards, savings on business services from an expanded lineup of partners and online tools and services designed to help improve profitability. Learn more at www.OPEN.com and connect with us at openforum.com and twitter.com/openforum.

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