



# INAFP

Inland Northwest Association for Financial Professionals

## INAFP NEWS

February 2008

[www.inafp.org](http://www.inafp.org)

### January Meeting Recap

**According to the U.S. Department of Labor, as of 2003, 2 out of every 5 workers were utilizing the internet and/or e-mail in the workplace.** There is no doubt that the internet and e-mail have become a pervasive form of communication in the work place. There is also no doubt that e-mail communication has become a valuable tool for business. However, every good tool comes with its own drawbacks, and e-mail is no exception.

The January INAFP meeting featured attorney Shawn Sladich discussing some of the legal ramifications of using e-mail and other technological innovations in the workplace.

The use of e-mail has brought about several developments in the legal arena. The right to privacy, restricted use of company computers, and discovery surrounding evidence contained in e-mails are all at the center of recent cases.

Ms. Sladich has several recommendations in order to keep your company and yourself out of legal hot water: 1) Employers should have a written policy informing employees that their e-mails may be monitored by the employer at anytime, for any reason. 2) A company does have the right to restrict the use of computer equipment and should have a communication system policy, which can include phone, fax, internet and e-mail. 3) A policy for maintaining and deleting e-mails should also be in place and adhered to in order to prevent issues in the discovery process in the event that a lawsuit does come about.

### Are You Ready for 'Stag-flation Lite'?

by Chris Farrell  
*BusinessWeek.com*

Is another big name from the 1970s attempting a comeback? Stagflation, the worst-of-both-worlds scenario in which weak growth is accompanied by robust inflation, may be on the radar again. It's enough to conjure memories of President Gerald Ford's ill-fated campaign to talk down prices through a "Whip Inflation Now" (WIN) campaign. The risk is evident in the latest economic numbers. Indeed, Marc Faber, the widely followed global investment adviser based in Asia believes that "we're already in stagflation: no real economic growth—or recession—amidst inflation" in his latest Gloom Boom & Doom Report.

Certainly, the economy is teetering on the edge of recession. Government statisticians reported on Jan. 30 that gross domestic product, dragged down by the declining home market, grew at an anemic 0.6% in the final three months of 2007. The 2.2% rate for all of 2007 was the worst performance in five years.

### GDP Numbers Signal Trouble

With releases like the GDP report pointing to a weakening U.S. economy, the Federal Reserve is aggressively easing monetary policy to offset the gathering recessionary forces. The central bank cut its benchmark interest rate to 3% from 3.5% on Jan. 30. The sense of urgency for policymakers is clear: The Fed has slashed rates by a dramatic 1.25% in a mere eight days.

Yet inflation is also running hot. The GDP report has the prices of goods paid for by consumers during the fourth quarter increasing by 3.8%, up sharply from the 1.8% pace of the previous three months. The cost of living as measured by the more widely followed consumer price index rose by a steep 4.1% last year—its highest rate in 17 years—while in the last quarter of last year the CPI surged by 5.6%. No matter how it's measured, consumer inflation is well above the Fed's target range of 1% to 2%.

What if 4% is a CPI floor rather than a cost-of-living ceiling? It's possible, considering the Fed has eased so much that its benchmark interest rate is below the rate of inflation, a signal that inflation pressures could erupt later. Meanwhile, the weak dollar, combined with higher energy, food, and commodity prices, is exerting upward pressure on overall inflation. "We're in an environment of greater-than-average inflation risk," says James Paulsen, chief investment strategist at [Wells Capital Management](#).

### **Fed "Can Keep Inflation Under Control"**

To be sure, few prognosticators worry about a reprise of double-digit inflation rates of the 1970s. The international competition for goods and services is a force for lower prices. So is the current meltdown in the housing market.

Perhaps most important, considering the painful monetary lessons of the '70s, most economists believe the Fed wouldn't tolerate a repeat performance. "Philosophically, the Fed is much more attuned to the problem of inflation compared to the 1970s," says Mark Thoma, an economist at the University of Oregon. Adds James Hamilton, an economist at the University of California, San Diego: "The Fed is not an omnipotent institution, but it can keep inflation under control."

That could prove cold comfort. The risk for business, consumers, and investors is the emergence of a different kind of stagflation—call it "stagflation-lite." It would be defined by higher-than-expected inflation rates (say, a 5.6% increase in the CPI) and lower-than-expected growth rates (like a 0.6% economic expansion).

## **The Re-Re-Invention of the P-Card**

### **Cards are pushed as a piece of the payments puzzle and not a stand-alone solution**

by Richard Gamble  
*TreasuryandRisk.com*

Seneca Medical Inc. only started using purchasing cards in 2007, but already the company is employing a couple of different strategies to make the cards work more effectively for the \$350 million distributor of medical and surgical supplies. First, Seneca has eight plastic cards in circulation to use traditionally to buy small stuff directly. But it also has a ghost card it uses with two suppliers of core inventory, and that 'card' sees \$700,000 of action monthly, with an impressive average transaction size of \$30,000.

While invoices are still received and matched, payment to suppliers is not delayed. "When we get invoices from the suppliers using the ghost card, we match them with our monthly credit card bill," reports CFO Todd Howell. "The vendor is paid on shipment, and we don't have to pay our bank [KeyBank] for 30 days and are not charged interest. These suppliers offer prompt-payment discounts, so by paying quickly with the card, we get a 2% discount. That means that a \$50,000 order only costs us \$49,000. It's a tremendous savings." Seneca only uses the cards with these two vendors for purchases in Indiana and Ohio, but hopes to pump up volume by using the card in two more states soon.

But while Seneca tried to convince other large suppliers to participate, it did not want to let them recoup card interchange (another term for discount rate charged by bankers for using cards) by raising prices. "We wouldn't use the card with these suppliers," Howell explains. "There are smaller vendors who will happily discount for immediate access to their money, but many of the big ones like Johnson & Johnson don't like it."

So does that mean a card program doesn't really fit Tiffin, Ohio-based Seneca? Not at all. The company doesn't sweat the fact that cards don't work across the board. It simply segments suppliers and uses cards where they do work.

While this approach makes sense, it is not the way companies or card providers used to approach card programs. For years, banks marketed purchasing cards as a stand-alone product that worked best when a company could get as many suppliers as possible to accept it. While p-cards gained in popularity among purchasers, thanks to attractive rebates earned on large programs, big suppliers sometimes balked when it came to accepting cards and paying interchange—or, worse, raised prices to offset interchange.

Now, banks and procurement executives are singing a new tune that reflects not only recognition that companies can still gain efficiencies by using cards selectively, but also promotes a new treasury philosophy and the dominant trend in treasury technology—payments can be made in many forms but the key to productivity is an integrated, holistic payments strategy that handles the variations on a single platform. This next generation of payments automation will have “a single user interface on the front end, but four pipes on the back end” that will deliver payments by card, check, ACH or wire, predicts Greg Hammermaster, senior vice president for commercial card services at SunTrust Bank in Atlanta. “The choice of pipe will be driven by corporate policy and implemented by system programming.”

With this approach, treasury staffs can now turn to their banking partners to ask for a custom-fit for a payable rather than worrying about getting sold a vehicle that may not be the most efficient. “Clients send us one file and we help them determine the payment mix to get the best return on investment,” reports Peggy Yankovich, a senior vice president at Bank of America.

So what does all this mean for p-cards? Probably that almost all companies eventually will use them to some degree, given that they will be an easy “pipe” option on these payment platforms. And the more p-cards move from being a substitute for petty cash to being a strategic procurement tool, the more deeply involved treasury becomes, notes Frank Dombroski, vice president for commercial card solutions at JPMorgan Chase. “Our vision is to tie all the payment types into one holistic solution set,” he explains. “As the holistic approach evolves, card payments become more of a cash management solution, and treasury becomes more influential than ever in central procurement strategy.”

The new approach is exactly the shot in the arm that p-cards needed. After years of pushing cards and rebates, providers could see the marketing strategy was running out of steam for a variety of reasons—primarily because major suppliers who held the key to automating large transactions just weren't willing to bite. Sure, dollars being charged to p-cards were growing, but basically in step with overall corporate spending. “They are stuck below 5% of overall spend and below the \$5,000 transaction level,” notes Drew Hofler, senior manager of financial solutions for \$350 million Ariba Inc., a leading supplier of e-procurement systems with headquarters in Sunnyvale, Calif.

The reason is simple economics, argues Hofler: While buyers greatly simplified the settlement process for themselves and earned substantial rebates to boot, sellers are charged the “usurious” effective rate of at least 24% APR, when the effect of the discount is properly calculated. That won't fly with most of the large-ticket purchase-order suppliers that banks and purchasers covet. “Banks are pushing p-cards hard for A/P settlement, but the cost to core suppliers is often ridiculous,” he observes.

“That's why we're seeing a big move to buyer-funded discount management,” he notes. If the buyer is getting a 50 to 80 basis point rebate for card purchases and could get a price discount worth 120 to 150 basis points by paying the seller early with its own funds, a growing number of sophisticated purchasers are doing just that. Since accepting the card means the seller is paying the banks 200 to 250 basis points, eliminating the middleman is a win-win situation for buyer and seller, he explains.

Cutting-edge purchasing operations have a card program, but supplement it with buyer-funded discount management and then add third-party financing as a third option, since they usually limit internal funds available for supplier financing. “It takes a three-legged stool,” Hofler insists.

P-cards are also used to tout the process savings from relaxed controls, but then some suppliers began to look for cracks. That's what happened at the Terminix subsidiary of ServiceMaster Corp. in Downers Grove, Ill.

With a traditional card program, ServiceMaster charges \$145 million to 2,600 cards annually in its seven business units. But the contractors who were paid by card to do repair work for Terminix would sometimes keep the card number on file and simply charge a new job to that number the next time Terminix hired them instead of sending a new invoice. "It was creating a control and internal audit issue we had to resolve," says Mike Gaffey, director of card services.

Gaffey's banker JPMorgan solved the dilemma with a new tool, ExacTrac, which issues single-transaction card authorizations only after invoices have been approved. It's a clear win for Terminix and the bank, but it's not a huge win because the local repair firms are small fry with the size of transactions that p-cards have traditionally feasted on. But that's not a breakthrough into large transactions, and most corporate procurement operations are not willing to settle these until invoices have been received, matched and approved for payment. "You talk to one company and they tell you how well payment after invoice approval is working," reports Richard Palmer, Lumpkin Professor of Business at Eastern Illinois University and p-card's leading academic researcher. "You talk to another and they're striking out. It seems to depend a lot on the supplier. When you're buying products that carry fixed costs, it doesn't work well; suppliers either don't want to accept the card or try to raise prices. When you're buying services that don't carry fixed costs, it seems to work better," he explains.

That's disappointing news for card-issuing banks. To capture larger transactions and appeal to control-minded procurement in the Sarbanes-Oxley era, banks reinvented "cards" about two years ago as cardless devices that can be linked, one on one, with individual transactions. For example, when ABC Corp. gets an invoice from XYZ Corp. for \$257,834, ABC can perform two- or three-way matching, route the invoice to everyone who should see and approve it and then e-mail XYZ a card number that is good only for \$257,834 and only for 30 days.

Transactions settle through card networks and are eligible for rebates. XYZ pays the discount. "With delayed settlement, the incentive for suppliers to accept card payment pretty much disappears," observes Carol Barkley, senior vice president for marketing in U.S. Bank's corporate payment systems. "We encourage clients to look for win-win solutions that reward suppliers too. Sometimes that means trading rebates for something of greater value within the supply chain."

Banks that once won business by offering attractive rebates are now talking a different strategy for driving p-cards. "We're educating the market to focus on broad value instead of raw rebate dollars. It's an uphill effort, but we're getting there. Treasurers and procurement executives are seeing the wisdom of giving up some rebate margin to grow card-based spending and expand into new categories," notes JPMorgan's Dombroski. "Rebates will matter less in the world we are moving toward."

Now that MasterCard is a public corporation and Visa soon will be, there may be fresh approaches to pricing. And some banks have started a conversation about reducing the so-called discount rate that funds the givebacks as well as bank costs and profits. "We're talking with Visa and MasterCard," Dombroski reports, "about modifying the interchange structure, especially for large-ticket transactions. We think they are listening."

### **One View of Growth**

The five-year growth trend in p-card use is certainly positive. According to a 2007 survey commissioned by American Express Co. and taken by Accenture, the growth of indirect spending done with p-cards has increased dramatically, surging to 28% in 2007 from just 6% in 2003. That's the dollars. The number of transactions rose to 57% from 16% over that same time period.

The online survey of about 30 self-selecting companies also indicated that compliance with contracts and purchasing policy was greater when p-cards were used (86% compliance) than when they were not used (81% compliance). The survey did not attempt to measure growth of transactions where p-cards were used in combination with purchase orders, matching and approval prior to payment. It did find that 92% of the p-cards issued were individual cards, 4% were group or department cards and another 4% were supplier cards.

## **February's Meeting: "Avoiding Fraud & Scams"**

February's meeting topic is "Avoiding Fraud & Scams". Doreen Fox Kelsey will discuss some recent scams that you may not of yet heard about, and discuss with us what to look out for.

Ms. Kelsey is a consumer advocate and consultant to financial and other institutions, including non-profit humanitarian organizations. A financial services professional for over 30 years, Doreen draws on her experience to help consumers become more financially literate and able to navigate complex financial issues. She served as president for two years for the Financial Literacy Foundation and currently serves on the Advisory Council of the Prosthetics Outreach Foundation in Seattle, Wash.

A credit union professional from 1981-2005, Doreen was selected as the Credit Union National Association (CUNA) Marketing Professional of the Year in 1997. In her credit union career, she was vice president of marketing for Kirtland Federal Credit Union from 1990-1994 and for Spokane Railway Credit Union from 1994-2000. From 2000-2005, she led the research department for Spokane Teachers Credit Union. Ms. Kelsey has authored articles for national trade publications, consumer publications, and magazines.

### **Scholarship applications have been sent out and we're looking for members for the 2008 Scholarship Committee**

Scholarship application materials have been e-mailed and are posted on our website at [www.inafp.org](http://www.inafp.org). The scholarship application deadline is March 31. Please make sure the materials get to those in your organization who can distribute them to all interested parties.

Also, the scholarship committee is forming. **We still need a few good members** to come forward and participate in this year's committee. Participation involves reviewing scholarship applications and essays, and possibly spending approximately 2-3 hours interviewing the finalists. Please contact Brian Eldred if you're interested.

### **INAFP Board Position Open**

Board elections are coming in May and we will have an opening for a new board member. After 8 years total of board participation, including serving on the board for the last 4 years, Renne Ditton, our current president, will be stepping down.

If you are interested in joining our board, please contact Renne Ditton or one of the other officers – Robin Parks, Stephen Prince, Jennifer Ostby or Brian Eldred. We are looking forward to next year and welcome some new ideas.

### **Northwest Summit for Financial Professionals May 14-16 in Portland**

"Blazing New Trails" is this year's conference theme. Make plans now to attend! All the details will soon be available on <http://www.northwestsummit.org>. Or look for a link at [www.inafp.org](http://www.inafp.org).



## President's Message

Greetings!

Despite the frigid weather last month, we had a good turnout. Thank you to Shawn Sladich for her presentation on Email Etiquette.

Doreen Fox Kelsey from Kelsey Consulting will be joining us for our February luncheon to discuss "Avoiding Fraud and Scam's". The meeting will be on Wednesday, February 27<sup>th</sup> at the Hotel Lusso. Watch your email for more details on registering for the luncheon. We encourage you to bring a friend or colleague as this should be a very interesting presentation.

See you at the luncheon on Wednesday, February 27<sup>th</sup>.

Sincerely,

Renne Ditton  
President  
Sterling Savings Bank

### 2007 – 2008 Board of Directors:

<i>Renne Ditton / President</i>	Sterling Savings Bank	Renne.Ditton@sterlingsavings.com
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### UPCOMING INAFP MEETING CALENDAR

February 27 <sup>th</sup>	Avoiding Fraud and Scams
March 26 <sup>th</sup>	The Changing Payments Landscape – Key Trends & Insights
April 23 <sup>rd</sup>	Changes in the Credit Card Industry – How they affect you!
May 14 <sup>th</sup> -16 <sup>th</sup>	Regional AFP Conference in Portland
May 28 <sup>th</sup>	Economic Impacts for Spokane

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