

Government Contracting

Level-3 Processing: An opportunity for increasing sales and reducing costs

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I. Introduction

Businesses have two major goals – to increase sales and to decrease costs. Both goals are most likely on your mind, particularly about how to increase sales to the federal or state government, while keeping your cost base competitive. Your credit card processing infrastructure and functionality are a seemingly minor but often overlooked part of your business; however, it may be hindering you from fully achieving your goals.

“Three out of five GSA schedule vendors have been set up to accept Purchasing Cards improperly,” according to Mark Amtower, publisher of *FederalDirect* and author of *Government Marketing Best Practices*. Many were set up to accept standard consumer credit or charge regular credit cards, not purchasing cards. Purchasing cards require the capturing of more information, Level-3 line item detail, in order to provide appropriate controls to buying agencies. What does this mean if you are not set up correctly? In a nutshell - lost sales and excessive costs.

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Suppliers are losing sales because buyers are starting to actively look for providers of goods and services which provide Level-3 on their purchases. Procurement officials may refer to the Visa International database that reflects vendors that can offer Level-3 line item detail, and you will not be there! You will never hit the radar screen of these discriminating buyers.

In addition, you will pay too much in processing fees because your rates will be as much as 1% higher than another company which has been set up properly.

II. The SmartPay™ Card

The GSA *SmartPay™* Purchase Card is used to purchase goods and services in accordance with the Federal Acquisition Regulation (FAR). *SmartPay™* may be used as an ordering and payment mechanism for purchases. This means that when an order is shipped, the supplier bills the *SmartPay™* account instead of issuing an invoice directly to the federal agency.

SmartPay™ transaction volume by the agencies has significantly increased over the past 10 years

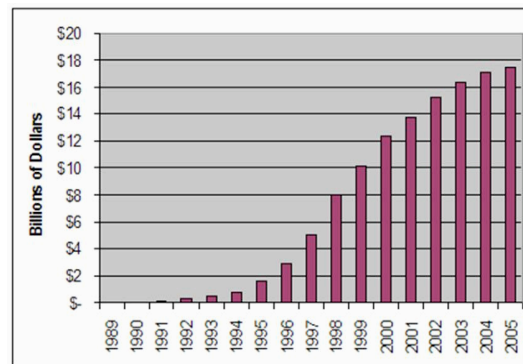


Figure 1: Aggregate SmartPay™ purchase volume by year (Source: GSA)

Sophisticated online transaction reporting systems are supplied to the respective agency as an integral part of the Purchase Card Program. These

systems allow the agency to electronically view transactions on a daily basis, so that they can be audited and prepared for entry into the agency's accounting systems.

III. What is Level-3 line item detail information and who uses it?

A powerful feature of GSA SmartPay™ Purchase Card systems is their ability to report Level-3 line item detail for a transaction. (See Figure 2)

According to a Visa USA Survey, “ninety percent (of Purchasing Managers) reported that receiving Level-3 data from a supplier is important

when making a purchase card transaction using electronic purchasing.”

A supplier providing Level-3 data may substantially reduce their credit card processing fees – sometimes by 33% and more.

By providing Level-3 data, a supplier may substantially reduce their credit card processing fees – sometimes by one-third and more based upon individual merchant situations.

Figure 2: Differences between Level-1, 2 & 3

Much like a detailed invoice, Level-3 line item detail defines "What" is being purchased and combines that information with the payment transaction and delivers it seamlessly and electronically to appropriate agency personnel.

Level-1	Level-2	Level-3
Transaction Info	Add: Purchase Info	Add: Product Info
<ul style="list-style-type: none"> • Merchant name • Total purchase amount • Date 	<ul style="list-style-type: none"> • Sales tax amount • Customer code • Tax Identification Number • Minority code • Store zip code • Merchant state code 	<ul style="list-style-type: none"> • Product quantity • Product code • Product commodity code • Product description • Product unit of measure • Ship from zip • Ship to zip • Freight amount • Duty amount • Product extended amount • Product net/gross indicator • Product discount indicator

IV. Does it cost more to provide Level-3 information?

No. In fact, it can cost much less than processing a Purchase or Credit Card transaction which is swiped through a credit card terminal or keyed in online.

MasterCard and Visa have created special rates to support Purchase Card programs by reducing the supplier's transaction costs if Level-3 line item detail information is captured and transmitted with the financial settlement.

Large-Ticket rates: For many government contractors, additional cost savings are possible through a special "large-ticket" interchange rate for the GSA SmartPay™ program applicable to both MasterCard and Visa transactions.

When supplying Level-3 data with transactions greater than \$5,000, the transaction rate can be calculated differently - a fixed transaction fee, plus a much smaller percentage. Thus, for a transaction of \$9,000 the effective rate may be well under 2% - *and* the supplier still obtains their money in 48 hours or less.

V. What makes Level-3 adoption a strategic business decision?

Level-3 line item detail was designed to support business-to-business (B2B) and business-to-government (B2G) credit card usage. In summary, Level-3 line item detail information provides:

- A foundation for e-commerce across all industries;
- Streamlined transaction accounting and reconciliation;
- Capability for timely transaction auditing policy compliance;

- Information for supply-chain and commodity management.

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According to industry consultant Katherine Novikov, *“in the past two years we have seen an increased impetus from federal agencies to ask for Level-3 data from their suppliers. Guidance called out in the Office of Management and Budget A-123 Circular makes it [even] more imperative for the agencies to demonstrate tighter fraud control regarding spending, for which Level-3 provides a built-in mechanism to do this.”*

In conclusion, in addition to the cost savings (lower credit card processing fees) and improved cash flow (48 hours as compared to 30 days or more for payment by check,) the decision to provide Level-3 data is a strategic one because it creates, by its very nature, a more tightly knit customer-supplier relationship. ♦

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