Fidesic

Real Results Series: Executive Summary

A real result is about putting cash back on your bottom line. On average, indirect expenses represent 30 to 60 percent of an enterprise's total expenses. Expense management automation (EMA) enables your organization to achieve hard dollar savings – in specifically targeted ways. In addition, EMA dramatically improves the processing efficiencies and cycle times associated with the expense reporting process. The first in the "Real Result Series" by Fidesic Corporation, this paper offers an overview of the prime cost savings targets – and the real results you can expect to achieve using an EMA solution to improve your organization's financial health.

Introduction

EXPENSE MANAGEMENT AUTOMATION DEFINED

EMA offerings are web-based applications that help companies streamline reimbursement processes, enforce policy compliance, and track overall spending for better expenditure analysis. EMA solutions help companies better scrutinize and control enterprise spending by automating the filing, approval, payment, and control of employee expenditures.

EMPLOYEE INITIATED INDIRECT EXPENSES

Employee initiated indirect expenditures are those expense items where an employee pays for business related goods or services up-front using out-of-pocket cash, personal credit, or a personally-paid corporate credit card – and then seeks reimbursement, typically through a paper or spreadsheet expense reporting process.

In addition, employees often use check requests, company-paid credit cards or direct bill accounts to pay for their indirect goods and services purchases. In these cases, companies struggle to ensure that employees are complying with internal controls, properly documenting the expenses for regulatory compliance, and recording appropriate cost accounting details.

Employee-initiated indirect expenditures represent 30 percent to 60 percent of expenses at organizations. These expenses may include items such as:

- Books, periodicals, and research publications
- Landscaping and snow-clearing services
- Tuition and conference fees
- Catering and business meals
- Employee gifts, rewards, or events
- Auto mileage reimbursements for personal vehicle use
- Fleet vehicle fueling, maintenance and repairs
- Parking and tolls
- Customer entertainment and events
- Telephone and Internet access services
- Office, engineering, laboratory, or shop supplies
- Postage, shipping and freight services
- Maintenance, repair, and operations to maintain and repair machinery, especially in remote locations

And the most commonly recognized, travel and entertainment – this alone accounting for up to 20 percent of a company's indirect spend.

CONTENT OVERVIEW

EMA solutions are designed to automate the expense reimbursement process. Specific savings opportunities can be targeted to produce the most significant bottom line results. This paper identifies key targets – discussing each business problem and how EMA can be applied to produce significant bottom line results.

Control Spending

THE PRIME TARGET

Implement automated compliance monitoring and review processes to reduce total indirect spending by approximately 10 percent.

MANUAL PROCESSES INHIBIT ACCOUNTABILITY

Unlike purchases of direct goods and services where spending is tightly controlled and typically accomplished by professionally-trained buyers within a sourcing function, employee-initiated indirect expenses present executives with significant challenges in their efforts to ensure that every corporate dollar is well-spent. Even though finance managers likely have established internal controls with detailed spending policies and practices, their ability to ensure compliance is severely hampered by manual processing methods.

For the most part, employees desire to do the right thing on behalf of their employers. They are busy however and inundated with new information every day. The typical problems that hinder spending compliance are:

- Employees, including managers, are often uneducated about spending policy details, especially allowable amounts for particular types of expenses
- Managers have few tools to monitor employee spending behavior, and correct it as needed
- Historical data is unavailable making it difficult to hold employees accountable for repetitive out-of-compliance behavior over a long period of time
- Approval or rejection decisions go unrecorded making it difficult to hold managers accountable for their efforts to ensure spending compliance

For example, a new employee embarks on their first business trip. Of course they meant to read the Expense Policy document that came with all of their other new employee paperwork a few weeks ago, but today standing at the car rental counter they do not know whether they should purchase auto insurance or not. It's after business hours and there's nobody to call, so just to be on the safe side, they purchase the insurance. Unfortunately, this is not in compliance with company spending policies.

Upon return, the employee submits their expense report using the company paper form or spreadsheet. Under car rental, the employee entered $117.63. The manager receives the expense report and adds it to a stack of six others. Pressured with competing priorities, the manager quickly reviews the employee's expense report for "reasonableness" and approves it. In accounting, during an audit of the expense report and its receipts, the out-of-compliance purchase is identified. The employee and manager are notified, the employee explains the situation, and the manager authorizes the exception. The expense report is paid as submitted.

Unfortunately, this scenario is about the best it could be in a manual processing environment. Consequently, it is easy for employees to inadvertently overspend or frankly to be careless about spending, and it is easy for out-of-compliance spending to be missed by managers and accounting team auditors in the expense report review process.

REAL RESULT SOLUTIONS

Much like seeing the police car on the corner, EMA solutions cause a natural reaction to be more aware of spending policies and ease up just a little on the pedal. That "just a little" is frequently enough to recover as much as 10 percent of an organization's overall indirect spending.

EMA solutions offer a variety of tools to help employees and managers do a better job of spending wisely and staying in compliance with company policies.

For example, Fidesic Expense enables an organization to:

- Set up "allowable amounts" for each expense type, e.g. $15 for lunch

- Set up certain expense types to always require a detailed description and/or business purpose, e.g. for "Other" or "Miscellaneous"
- Set up certain expense types to always be non-reimbursable, e.g. in-room movies
- Automatically monitor employee expenses – requiring that over amounts be reduced or explained for manager approval, calculating non-reimbursable expenses as a zero amount, and collecting the supporting information for miscellaneous expenses – all real-time while the employee is preparing the expense report
- Automatically highlight out-of-compliance spending and miscellaneous expense items for manager review – to ensure a quality decision resulting in rejection or approval
- Automatically record employee policy exceptions, and manager rejection and approval decisions

By presenting employees with policy compliance issues, and by highlighting them for review by managers, Fidesic Expense improves spending policy awareness and ensures that all employees and their managers can be held accountable for their spending decisions.

By keeping a record of policy exceptions and associated decision-making, the company can do a better job of ensuring the best policies are in place, as well as identifying and redirecting problem situations.

When comparing EMA solutions, look for features and functionality that drive policy compliance awareness and accountability as well as tools that allow you to administer and easily update your policies within the system.

Prevent Fraud

THE PRIME TARGET

Implement fraud deterrent and detection tools to assure regulatory compliance and reduce employee reimbursement fraud costs of approximately $2,000 per employee per year.

EXPENSE REIMBURSEMENT FRAUD IS COMMON

Published by the Association of Certified Fraud Examiners, the 2002 Report to the Nation on Occupational Fraud and Abuse classifies "expense reimbursement schemes, in which an employee makes a claim for reimbursement of fictitious or inflated business expenses" among the most common methods of committing occupational fraud.

Expense reimbursement schemes represented 12.2 percent of cases studied, with a median cost of $60,000. Based on statistical data presented in the report and considering there are approximately 150 million U.S. employees, it is estimated that each employee accounts for about $2,000 per year in fraudulent expense reimbursements.

Businesses with fewer than 1000 employees suffer a higher median cost of loss than larger entities, even though the Report states that fraud happens roughly equally across publicly-traded, privately-held, or government organizations.

FINDING THE RAINCOAT

Uncovering hidden fraud is the challenge. The classic urban legend in the world of expense reporting is a story referred to as "find the raincoat". In this story an employee is in Florida in March on vacation. The employee's manager calls and asks the employee to head to New York City for a couple of days, before returning home, to address an urgent customer issue. Upon arrival in NYC, it is cold and pouring down rain, so the employee purchases a raincoat for $100.

Upon return, the employee files their expense report for a total amount of $872.33, including an "Other" expense item for a $100 raincoat. The expense report is rejected because spending policies do not allow reimbursement for raincoats. A few days later, the employee submits a revised expense report for a total amount of $872.33 – the same total amount, but no raincoat.

It is not uncommon for non-reimbursable expenses to be hidden, lost in the unrecorded detail of an expense report. Generally honest employees rationalize their behavior, as in the case of the raincoat, that the company should have covered the expense.

More blatantly, dollars are lost in claims where two employees claim the same taxi fare, where meal costs are inflated to just below the receipt requirement amount, and where "Other" or "Miscellaneous" expense categories cover a myriad of sins.

The point is paper and spreadsheet processes make it easier for employees to hide inflated or fictitious expense items.

REAL RESULT SOLUTIONS

The deterrent to employee reimbursement fraud lies in data collection – the detection of employee reimbursement fraud lies in data analytics. The bottom line, EMA solutions significantly increase the risk to the employee that they will get caught – therefore employees are less likely to submit fraudulent expenses.

For example, Fidesic Expense enables organizations to:

- Set up "detail screens" or special required fields to collect additional information for certain types of expenses
- Efficiently collect a greater amount of detail than is possible with paper or spreadsheet methods
- Highlight non-compliant and unusual expenses for manager review
- Perform data analytics designed to detect suspicious spending patterns that may indicate fraud
- Perform comparative analytics designed to identify significant variances between spending patters that may indicate fraud

Simply by collecting and electronically storing detailed data about employee expenses, Fidesic Expense becomes an effective deterrent to employees who correctly assume the risk is now just too high.

As more detailed spend data are stored electronically, more consistency develops among the spending pattern norms. As norms become better defined, the ability to detect nuances and discrepancies in spending behavior increases. Detecting nuances and discrepancies enables effective fraud detection through data analytics.

When comparing EMA solutions, look for features and functionality that allow you to set up different and detailed data collection requirements for different types of expenses. Remember, reporting tools can only report on the data that is available – therefore your ability to detect fraud through data analytics is directly dependent on being able to collect the necessary data elements.

Negotiate Supplier Discounts

THE PRIME TARGET

Lower the cost of goods and services by effectively using detailed spend data to substantially increase supplier discounts.

SUMMARY DATA IS INEFFECTIVE

It is virtually impossible for purchasing professionals to get the very best preferred supplier discounts available for indirect purchases. Why? Because they lack the detailed data that is necessary to effectively negotiate the best available rates.

Traditional paper and spreadsheet expense reporting processes collect data at a summary level – producing general ledger total amounts for airfare, lodging, supplies, tuition, and so on for a wide variety of indirect expense categories.

Buyers come to the bargaining table knowing that they spent $400,000 last year in tuition fees, or $700,000 on lodging, or $2,000,000 in airfare. Knowing what amount of business went to an individual supplier is usually derived as a reasoned estimate – airfare was approximately $1,000,000 to United Airlines, $500,000 to Northwest Airlines, and the remainder to a broad variety of carriers.

THE CASH IS IN THE DETAILS

Discounts can be 20 percent or greater when customers are able to clearly align their business volume commitments with the supplier's business needs, such as seasonality and inventory management requirements. To confidently and accurately make these commitments, organizations need to know very specific details about their spending patterns.

For example, consider the difference in negotiating leverage if the buyer can guarantee 200 room nights at the Phoenix Ritz Carlton in July vs. January. Consider the difference if the buyer can guarantee 15 students, or half the maximum, for Microsoft Certified System Engineer training in Seattle, San Francisco, and Austin classes in March and September vs. simply estimating that 90 students will take MCSE training sometime, somewhere this year.

Research focused on improving travel management supplier negotiations based on data from EMA solutions, shows that companies typically enjoy 10 percent or more cost savings of their entire annual T&E spend. On average, small companies spend $1.8 million, while midsize companies spend $10.3 million – representing $180,000 and $1,030,000 in savings opportunities respectively.

REAL RESULT SOLUTIONS

Small and midsize organizations have substantial untapped cash available by focusing efforts on preferred supplier negotiations. To do so effectively, they must first collect the detailed data about their indirect expense spending. Then, after a very short time, they can begin to engage in negotiations that return the absolute best value for their dollars.

For example, Fidesic Expense enables organizations to:

- Collect specific data that assists with negotiations for certain expense types
- Access standard reports designed to optimize supplier negotiations, such as:
    - Air travel city-pairs
    - Hotel property locations
    - Hotel room rates
    - Delivery originations/destinations
    - Meeting catering services

Similar to fraud prevention, your ability to get the best value through supplier negotiations is based on the ability to access actual detailed spend data and to identify spending behavior patterns through data analytics. When comparing EMA solutions, look for tools that enable collecting the necessary data elements and a focus on enterprise spend management through supplier management practices.

Cash In On Preferred Suppliers

THE PRIME TARGET

Realize preferred supplier discounts by ensuring employees are spending company dollars with preferred suppliers – and that managers are accountable for preferred supplier spending practices.

MAVERICK BUYING IS EXPENSIVE

Research shows that purchases from non-preferred suppliers can cost over 25 percent more than the cost of purchasing from a preferred supplier. So called "maverick buying" is truly frustrating to buyers as it weakens the organization's ability to meet its volume commitments and risks the ability to actually realize the negotiated discounts.

Frequently employees are not aware that preferred suppliers exist or who they are. And, even when they do, employees sometimes think they are doing the right thing by purchasing from an alternative supplier who seems to have a lower price.

Perhaps, for example, an organization has a preferred supplier relationship with FedEx for its overnight delivery services. One branch office though believes that FedEx is "expensive", especially since the U.S. Post Office is right next door. They understand that the higher price may be justified for other offices because of the added convenience, but they can save the company some money.

Or, in another common example these days, United Airlines and Northwest Airlines are the company's preferred air travel suppliers. The employee, however, is able to purchase a ticket on Jet Blue – saving the company $300 on the ticket price.

In each case, the employee is unaware of volume discounts taking place in the back office billing process or rebates or free tickets. They have not considered that if their connection in Chicago is grounded due to weather late tonight, that they do not have a single source travel provider who is going to get them a place to sleep for the night and rebook their itinerary.

The buyer, in negotiating each preferred supplier deal, considers the total value at stake on behalf of the organization.

To be clear, there are valid business reasons at times to purchase from other than preferred supplies, such as staying at a particular hotel requested by a customer or obtaining emergency supplies from Staples because it was closer to the training location.

REAL RESULT SOLUTIONS

Getting the maximum return from preferred supplier relationships requires that employees and managers are driving their spending toward these suppliers. Exceptions need to be identified – so that new opportunities for negotiations are identified, so that legitimate business needs are accommodated, and so that managers can modify the spending practices of their employees as needed.

For example, Fidesic Expense enables organizations to:

- Identify preferred suppliers for certain expense types
- Set up a business rule that requires employees to provide an explanation when preferred suppliers were not used for certain expense types
- Highlight preferred supplier compliance exceptions to managers for review and decision making
- Collect and record compliance exceptions as well as approval and rejection decision making – holding employees and managers accountable for their spending practices over time

When comparing EMA solutions, look for features and functionality that provide you the ability to monitor the use, and exceptions to use, of preferred suppliers – holding both employees and managers accountable for the spend decisions.

Bank Client Billable Expenses

THE PRIME TARGET

Recover spent cash by enabling efficient and timely data collection, client and project allocations, and billings of client reimbursable expenses.

MORE PROCESS, MORE REGULATIONS

For those who bill expenses back to clients, it must feel like adding insult to injury. The process usually means tacking an entire other cumbersome manual process on to the already existing challenges of filing expense reports in a paper and spreadsheet world.

Client billable expenses are those indirect expenses that are eligible to be recovered from clients by invoicing them for the expense amounts incurred. This practice is common, especially in firms engaging in areas such as government project subcontracting, technical repair services, home health care, professional services, or investment banking, for example.

Frequently, there are certain restrictions placed on client billable expenses. In some cases the reimbursable amounts are restricted to certain allowable amounts and/or certain types of expenses – in the case of government subcontracting this is driven by the Federal Acquisition Regulations. These reimbursement policies may be different from the employee organization's policies requiring the expense process to accommodate expense billing amounts that are different than employee reimbursement amounts. Further, reimbursements may be constrained by timeliness. That is, expenses may be required to be invoiced within 90 days of the actual expense date and/or within 30 days of the close date of the project – in the case of investment banking this is driven by Securities and Exchange Commission regulations.

TIMELINESS IS KEY AND HIGHLY IMPRACTICAL

The work schedules of these types of professionals cause even more complexity in literally sorting out which expenses to bill to whom. Imagine a professional services consultant planning for a week on the road to do some work at three clients. At two of the three clients, there are two different billable projects. When it is time to prepare their expense report, they face a complex web to sort out client and project allocations. In this scenario, they may:

- Allocate and bill the airfare expense equally across the three clients
- Allocate and bill the room rate and taxes for the first three nights to the first client, however assign one night to one project and two nights to a different project; then allocate the fourth night to the second client, but split between two projects, and finally allocate the last night to the third client
- However, they must ensure that they do not allocate or bill Internet access fees or sundry expenses from the hotel folio to any client
- Allocate and bill all meals from the last day to the third client, however split the entertainment expense from that day such that the wine purchase is not billed to the client
- Split the printing services expense item such that the sales presentation portion is not billed, however do allocate and bill the project summary report to the second client
- Finally, allocate and bill airport parking and mileage expenses equally across the three clients

This list, in reality, barely begins to list the routine allocation and billing needs of the typical professional services road warrior. Further, in addition to client and project allocations, organization cost accounting may also be needed. For example, the employee may have paid for a pizza lunch for the local sales team to enjoy during a case study presentation – such an expense may need to be charged to the sales or training division.

Once all of the expenses, along with their allocations and billable status have been recorded, then this data must be sufficiently detailed in an invoice that is sent to the client for payment.

REAL RESULT SOLUTIONS

Timeliness is absolutely critical to collecting this recoverable cash. EMA solutions must offer tools to employees that facilitate allocating expenses to internal cost centers, clients, projects, work orders, etc., as are germane to the organization's business.

For example, Fidesic Expense enables organizations to:

- Set up different types of allocation methods, e.g., cost centers, clients, projects
- Allocate expenses flexibly, e.g., by allocating an entire expense report, a single expense item, or one line item on the hotel folio
- Indicate expenses, or portions of expenses, that are client billable
- Import and export data electronically that supports accounting and client billing systems

When comparing EMA solutions, look for features and functionality that provide broad flexibility and that work hard to make allocations as easy to get done and get right as possible. Further, consider integration capabilities that would enable your organization to migrate data easily between relevant systems.

Conclusions

If you are using a paper or spreadsheet expense reporting process, there are significant, untapped, opportunities to return cash to your bottom line. Even by conservative estimates, deploying an EMA solution will result in rapid, hard dollar savings of 15 percent or more of your organization's current spend for indirect expenses – on average, saving more than $150,000 for small businesses and in excess of $1,000,000 for the typical midsize company.

EMA solutions are capable of delivering almost instantaneous financial results – lowering costs already covered by existing budgets. Improved policy compliance and spending practices begin to take effect immediately. In addition, research shows that obtaining these solutions as a service over the Web notably accelerates the return on investment.

Though the focus of this paper is on hard dollar savings opportunities, companies should not overlook the fact that EMA solutions are well-known for slashing processing costs and cycle times from the expense reporting process as well. In fact, processing costs for a typical expense report can be reduced by as much as 63 percent and the associated processing time by 79 percent – improving productivity, quality of life, and the bottom line for all involved.

Industry research consistently demonstrates that organizations of all sizes, industries, and entity types realize substantial savings – both as bottom line results and dramatic process improvements – by adopting EMA solutions as a part of their financial management strategy.

We appreciate your interest in "Real Results Series: Executive Summary" and we hope this paper has provided you with useful information. We invite you to contact Fidesic Corporation by visiting our website at http://www.fidesic.com, by email at sales@Fidesic.com, or by telephone at (425) 643-9905.
