

## Managing expenses: When expenses become expensive

Scott Beagrie 06 July 2009 11:35 This article first appeared in [Reward & Benefits Today](#).

**As the scandal in the House of Commons shows, a poorly managed expenses system gives poor value for money. That's why employers should consider online expense management systems.**

The MPs' expenses scandal has shocked, and in some cases amused, us, but it has also served to show that with no controls in place, effective expense management is nigh on impossible.

And, if left to chance, expenses can quickly become a major cost centre for any organisation – whether the House of Commons or a global corporation.

What takes place inside the average organisation as far as expense claims are concerned can have a serious impact on the bottom line at a time when spending is being cut across every department. And often this isn't due to [employees submitting dodgy claims](#) but rather because no-one has taken a hard look at how expenses are being managed inside the company.

### Priority

Until now, automated expense management systems have largely been a 'nice-to-have' rather than essential, but they are moving up the priority list for many employers. As well as removing grey areas and providing an objective method of processing expenses, they reduce paperwork and, importantly, provide real-time information that makes it possible to take a far more strategic approach to expense management.

One tell-tale sign of this, says David Vine, managing director of expense management service provider GlobalExpense, is that existing customers have suddenly started to realise the value of the information they have in their systems.

"They're starting to mine that information as it gives them enough intelligence to make strategic decisions designed to put more money on the bottom line of their business," he says. "If that's the way other businesses are thinking – which I believe it is – then expense management has finally worked its way on to the strategic agenda."

### Transparency

Given the present focus on costs, this is perhaps no surprise, but the transparency that such systems can bring in an increasingly compliance-oriented world means they are likely to become increasingly mainstream.

"Whether you're talking about the macro trend towards better regulation or a fear that staff are more tempted to commit fraud in a recession, financial directors will want to have good visibility and good controls in place," says Keith Rodgers, co-founder of Webster Buchanan Research, a market intelligence company specialising in human capital management and financial management sectors.

He adds that one of the ways companies have reacted to the downturn is by reducing or even banning corporate travel, and as the country moves out of recession and travel constraints are eased, firms will be looking at better ways to manage it so they don't return to the sloppy habits of the past.

While manual expense management systems have existed for years, one of the chief drivers of the rise of automated systems has been their availability as a full-range hosted offering - in common with the approach taken for the majority of business applications at the moment.

### Cheaper

A hosted solution means that the application is accessed via the internet and resides on the supplier's servers. It is paid for by subscription and is far cheaper to set up, maintain and upgrade than traditional local software.

"The thing about expense management is that you're dealing with a high volume of relatively small transactions, and the benefits from automation are cumulative," explains Tracey Davies, head of sales at HR software provider Computers in Personnel.

"To get the benefits quickly, you don't want to be investing heavily in building an IT infrastructure to manage it – there's no point when outsourcers have already done the hard work for you."

She adds that because a hosted approach means employees can access the software remotely, it makes it much easier for them to do it at their own convenience. "One reason expenses are difficult to control is that people often just don't have time to deal with them in the office," she says. "With a hosted service they can fill in the details from home or when they're travelling."

Rodgers adds that while outsourcing involves different people and different departments (employees, line managers, finance etc), as expense management is a standalone business process, it is relatively straightforward to lift it out of an organisation and hand it over to someone else.

"We're going to see more people opting to outsource expense management, either through hosted services or managed services models," he says. Hosted services is a pure IT model: your system provider runs the expense management software on its own IT infrastructure, and you use it over the internet just like you'd access an in-house server. Managed services usually involves the outsourcer going a step further and doing some of the data entry or other processing activity as well.

### **Control**

Functionality will differ from system to system, but most will equip organisations with the information needed to analyse spending patterns, enforce tighter controls and change their purchasing policies. In terms of control, for instance, category policy reminders will appear alongside the drop-down menus employees use to remind them of their expenditure limits in the areas they are claiming for, such as hotels or entertainment.

"It's far easier than looking on the intranet or a handbook and it means no-one can claim not to know the company policy any more," says Sanjay Parekh, managing director of web-based expense management solutions provider, WebExpense.

Specific limits can also be set, such as 'no more than £100 for a hotel per night' or that a particular individual can only approve claims of up to £500.

Parekh adds: "You have to be careful when controlling expenses because if you're perceived to be too Big Brother [about it] then people will resent it and find ways around it. But if you're seen to be helping them and pushing them the right way, most people won't go out and willfully try to cheat the system."

Vine also stresses the importance of employers not using automated expense systems as 'a big stick to hit employees with', but instead to get the employee to buy in to the concept, otherwise they will leave themselves open to abuse. "If you don't get [their] buy-in, you are leaving yourself open to retribution; through any system people will exact retribution if they wish," he says.

### **Savings**

While features like the category policy reminders are clearly meritorious, expense management systems really come in to their own right when used to identify areas where savings can be made. By analysing the massive amounts of data generated, you can start to build a precise picture of what you're purchasing and from whom, which in turn can help you reduce the number of suppliers you use and strike preferential deals with key partners.

For instance, when it comes to hotel expenditure, employers can start to work out how many nights a year they are spending at a particular city or hotel and use that data to negotiate better rates on a national basis.

Additionally, you can look at where you're spending money and see if there are better alternatives, says Rodgers. "If you have employees regularly paying for hotels in Manchester because your biggest clients are there, for example, are you better off renting a corporate apartment? If your field sales teams are travelling a lot in the South West of England and their offices are in the North East, is it worth looking at relocation?"

### **Top tips**

1. Question whether your current expense system is sufficiently transparent and provides enough information about where your money is spent
2. Remember hosted service providers offer a way for firms to get an expense management system up and running quickly
3. Communicate the benefits to employees
4. Mine the data to provide long-term forecasts about company expenditure
5. Use the information to negotiate better deals on hotels, car rental and so on.

**Case study: Ceridian**

Despite having an expenses policy in place, a variety of factors prompted HR services provider Ceridian to investigate the route to automating its expense system.

Among them was the fact that managers were deferring sign-off responsibility to secretaries and PAs, control was not being adequately managed, and while the business had experienced significant growth, costs were also growing disproportionately.

The company's principle aims were to manage its expenses objectively, introduce a point of control entry, and to create a pre-authorisation element to eliminate employee spending then claiming.

"When considering processes to automate, expenses are often not the first choice," says David O'Connell, marketing and commercial director at Ceridian. "However, this is where the greatest liberties are usually taken and where the most inconsistency occurs, so this makes expenses a good target for automation."

As a result of the system, measures implemented to meet the above objectives, which included getting employees to carefully consider whether the expense was strictly necessary, has resulted in the company achieving significant savings.

"In the case of our business, we saw a 56% reduction in travel and hotel costs, with employees opting for conference calls and web meetings as an alternative," says O'Connell.

He adds that real-time reporting has also improved cash-flow planning and analysis, made forecasting more effective, as well as identification of areas where cost savings can be made.