

FCm Travel Solutions WHITE PAPER

Travel & Entertainment Costs

Globalisation and the drive to be more competitive in business have resulted in efficiencies being built into almost every area of business. But one area that has traditionally lagged behind others is the management of travel and entertainment (T&E) expenses. This white paper will discuss the latest research into T&E expense management, identify ways to achieve compliance with T&E policies and improve the visibility of T&E spend within your organisation.

Further, it will identify how Best in Class companies manage their T&E spend so that you can learn from their experience, emulate their processes and improve measures to reduce T&E costs within your own organisation.

Why enforce compliance to T&E policies?

In some organisations T&E expenses remain a grey area where employees arbitrarily decide how expenses are spent and claimed. And while most employees make their T&E expenses decisions prudently, some take advantage of a lack of formal policies and adequate guidelines. International research company, Aberdeen Research recently published Travel & Entertainment Expense Management: Reduce Processing Costs & Improve Policy Compliance. The research study found that:

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- > T&E expenses accounted for between 8 and 10 per cent of total operating costs within companies. It makes sense then that this significant cost needs to be handled with the utmost efficiency.
- > It also found about 20 per cent of T&E spending is outside of company policy,
- > And that many employees regard the policy as a guideline and either inconsistently adhered to or outright ignored. Obviously, this is an area where costs can spiral unless action is taken.

So how do you get compliance?

Lack of compliance is due largely to poor communication and inefficient tools. Best in Class organisations achieved T&E policy compliance through:

- > Evaluating the T&E policy. Ask yourself; is your organisation's policy inclusive of all aspects of T&E expenses, from pre-trip approvals to reimbursement? Is the policy dynamic and up to date? Aberdeen Research found that while 94 per cent of companies have T&E policies, only one quarter regularly update them. An organisation's T&E policy needs to move with the times: It needs to take into account changes in airline policies, accommodation services, the entertainment industry, ground transport and meal services.
- > Communicating the policy to all employees so they realise its importance, significance and relevance.
- > Enforcing the policy. For the policy to have "teeth", and therefore make a positive impact on T&E costs, it must be enforced throughout the organisation, at all levels. Aberdeen Research found on average almost one in every five T&E expense claims are outside of company policy. Compare this to Best in Class organisations which experience only about 12 per cent violation in policy. Clearly, companies that implement prescriptive T&E policies, communicate these to their employees and enforce the policy reap the rewards in terms of reduced costs and increased savings.
- > Communicating success. By communicating successes and acknowledging compliance to the T&E policy, employees feel part of the process and have some ownership of it. If employees realise that complying with the T&E policy improves their organisation's efficiency, then they will be more inclined to adhere to the policy in future T&E claims.
- > Keeping it simple. Organisations that keep expense management processes simple and easy to use have an increased compliance to policy.

What are the two biggest challenges in managing T&E spending?

1. The research found that enforcing compliance with T&E policy was the biggest challenge facing finance executives and travel managers today. There is little point in sourcing best fare air tickets, when compliance to T&E policies is non-existent. Organisations that aim to prevent T&E policy violations reaped the rewards in compliance over those that simply work to detect them.

2. The second challenge is the level of visibility on T&E spending throughout the organisation. By visibility we mean gaining access to sufficient and timely data on T&E costs. Is it easy to track what the costs are and how they are spent, or is it a case of using an educated guess when necessary? Without knowing the specifics on T&E expenses, it is almost impossible to achieve cost-reduction targets and overall improvement initiatives. The research showed more than 40 per cent of organisations use systems and processes that are only moderately automated and that these systems and processes vary throughout the company. Best in Class organisations outclassed the rest of the sample, largely due to efficiencies gained through automation. Putting it plainly, if you improve visibility on T&E spending, you will improve your organisation's bottom line.

Is adopting an end-to-end solution the answer?

Quite simply, an end-to-end solution is the answer to becoming Best in Class and making the most of efficiencies, technology and sound T&E policies. The research shows an increasing interest in an end-to-end T&E solution that incorporates both travel-booking/planning and expense management and tracking. This system makes financial sense because actual travel is only half of the equation.

The appeal of an end-to-end solution is that it includes everything from pre-trip approvals to reimbursement/card payment services and the follow-up auditing of expenses. The research shows the growth in using an integrated T&E solution is significant.

Presently, 19 per cent of respondents report using a totally integrated system, while a significant 26 per cent are planning to adopt this type of solution by 2008. Another key finding involves expense management solutions, which are already widely used (43 per cent, with an additional 18 per cent planning to adopt the solutions). Aberdeen found that Best in Class organisations were able to achieve reimbursement cycle times (which is the creation of expense report to payment) of less than five days, compared to 15 days. These organisations also have significantly reduced costs in terms of processing expense reports, and transaction costs when booking travel. Figure 2 illustrates this data.

What do Best in Class organisations do to consistently outperform others in T&E management?

- a well-structured and consistent method of communicating, enforcing and updating their T&E policy.
- an excellent understanding of T&E spending through the collection and analysis of granular and specific data (76 per cent of Best in Class use a corporate card program). This allows them to eventually fulfill stronger negotiating positions and volume discounts.
- Best in Class organisations have invested heavily in automation tools like FCM Expense to simplify and improve efficiency of processes (eg booking travel or reporting expenses), thereby improving compliance to policies.
- they consistently measure and monitor their T&E spend performance and compliance (eg expense reporting cycle times). However, discussion on Best in Class organisations and how they manage T&E spending means nothing without the figures to prove the opportunities to reduce costs.

Figure 3 shows a conservative example of a company that has on average 17,000

T&E transactions with 21,000 expense reports in a one year timeframe (the volume will obviously vary from business to business and is meant as an example only). In this instance, the Best in Class company was able to achieve significantly lower processing costs (largely due to automation) compared to the Average company, resulting in annual savings of \$881,000.

Where to from here?

- Centralise management of T&E and standardise processes for booking travel reporting and reconciling expenses.
- Utilise automation technologies for booking and planning travel as well as managing expenses.
- Collect data on process efficiency and set targets.
- Improve communication of your corporate T&E policy and solicit feedback to improve policy.
- Enforce and monitor compliance to policy by being preventative rather than detective.

- Integrate tools used for travel booking with your expense management solution, reimbursement tools, and corporate card programs. By implementing these steps, your organisation will be on its way to achieving the cost savings evident in Best in Class organisations.

Conclusion

T&E expense management is an area of your business where costs can spiral in the absence of firm management, spending policies and guidelines. Organisations that ignore the need for expense management solutions soon pay the price in terms of escalating T&E costs. By implementing the latest, most user-friendly T&E software available, such as FCm

Expense, expense management can be handled efficiently and T&E expenses can be controlled. By implementing FCm Expense you can ensure your organisation becomes Best in Class in its handling of T&E expenses.

FCm Travel Solutions and our leading edge technology, FCm Expense, can help you achieve real savings on your T&E spend because we understand that travel is only half the equation. The other associated costs can soon add up to missed saving opportunities. Moreover, introducing a fully-integrated end-to-end solution will centralise and standardise your T&E spend, giving your organization the opportunity to become far more efficient in its handling of T&E spending.

Talk to your FCm Travel Solutions representative today or call 0800 747 767 or visit us at www.fcmtravel.co.nz for more information.