The Automation of Travel and Entertainment Management

More than $370 billion is spent annually on T&E expenses, a sector that continues to grow. The volume of T&E reports mandates streamlined, automated processes. Many companies now use ad hoc systems that result in inconsistencies and encourage fraud. Solution providers offer various software packages and Web-enabled solutions that deliver bottom-line benefits.

Introduction

T&E has become the second largest sales and general administrative expense line item on the income statement, surpassed only by payroll. T&E costs are projected to grow at approximately 5 percent annually despite sophisticated video conferencing capabilities and companies' efforts to reduce travel costs in a challenging environment.

While some forms of T&E automation have existed for years, T&E is only starting to capture the attention of senior finance and IT executives. Companies have just begun to look at best-of-breed solutions that deliver a solid, measurable ROI for extending large investments in ERP applications and leveraging the self-service capabilities of the Web.

A Manual Process

Most organizations are still mired in the manual processing of T&E expense reports. The process begins with an employee completing a form containing all relevant expenses. The form then is routed to a supervisor for review and approval, or sent directly to accounting without review or authorization. In some cases, the report is returned to the employee for additional information or clarification before the supervisor provides a rubber-stamped approval and forwards the report to accounts payable. There, a clerk keys the data into financial systems to record the expense on the ledger and the employee is reimbursed for the expense. A study conducted by American Express found that the cost of this type of process could be as high as $63.75 per report with a high probability for error.

In other organizations, where the volume of T&E reports mandates some form of automation, companies use a homegrown system that typically consists of an Excel-based template with few controls resulting in an inconsistent application of corporate policy that encourages fraudulent behavior. There is a significant opportunity for organizations to realize bottom-line benefits and improve employee productivity by implementing a Web-based, best-of-breed solution.

• Of the $370 billion spent on business travel worldwide, 17 percent is spent on the process of tracking and reporting expenses.
• The average corporation processes 20,000 expense reports per $1 billion of revenue.
• The average expense report requires 18 days to process after submission, which costs approximately $36 per report.
• T&E is the most widely used application after email and Web browsers in most organizations.
• Twelve percent of all expense reports are returned for clarification or errors.
• Only 60 percent of all expense reports comply with corporate policy.

Selecting the Right Solution

Software packages have a wide range of capabilities to help companies automate T&E reporting processes and deliver bottom-line benefits. Some solutions specialize in a particular industry while others have been developed around a specific technical platform. There has also been some consolidation and shakeout as the top providers have won market share and the major ERP vendors have developed Web-enabled solutions that are tightly integrated with their core financial modules.

The requirements of all stakeholders should be analyzed and weighted to determine which solution will best suit the organizations' needs. To properly evaluate competing solutions, consider several criteria:

• User Interface – The interface should be both intuitive and visually appealing, allowing users accustomed to Web applications to use the T&E product with little or no training.
• Flexible Rules – The system should include embedded travel policies and easily configurable system settings for a nontechnical system.
administrator. It should allow different policies to be applied to different groups of personnel.

- **Vendor’s Financial Position** – Analysis of a vendor’s financial position is critical in understanding the company’s stability as well as its ability to raise additional capital.

- **Workflow** – The workflow engine should provide automated capabilities for expense report routing and approval. It should also provide feedback to the employee regarding the status of the submission (approved, paid, etc.). The ability of the package to integrate with the organization’s email platform to allow automated messaging and alerts is a critical requirement for enabling workflow.

- **Credit Card Integration** – The system should support an automated download of expense transactions from major credit card companies and automatically populate individual expense reports.

- **ERP Integration** – The system should integrate with core administrative applications, including accounts payable, general ledger, payroll, human resources, and project accounting.

- **International Functionality** – The system should support multiple currencies, multiple languages, and accommodate country-specific tax localizations.

- **Expense Management** – The system should provide data for the organization to analyze, control, and manage expenses based on spending patterns (e.g., negotiating better rates with service providers, such as airlines, hotels, and car rental agencies).

- **Technical Platform** – The underlying technology should be stable and consistent with the organization’s IT strategy. With client/server being replaced by Web-enabled systems, thin-client architecture offers a minimal “footprint” (i.e., no software is installed on the users’ PC or laptop) and a scalable architecture that allows users to access the application from remote locations.

- **References** – Vendor references provide insight with regard to project team requirements, design, build, test, and rollout timeframes, and key lessons learned.

- **Flexible Deployment Options** – The vendor should offer outsourcing or self-hosting options for application management as well as standard licensing agreements. Some vendors may be willing to participate in gain sharing arrangements that are based on cost savings estimates or return on investment criteria.

### The T&E Value Proposition

Implementing a T&E solution presents a compelling value proposition for companies to reduce costs and eliminate the manual process of submitting, reviewing, and reimbursing expenses. In an average company, two-thirds of all employees travel at least once per year and one-third travel as often as once a month, a T&E solution impacts a large portion of employees.

#### Completing and Submitting Expense Reports Is Greatly Simplified

- Expense reports prepopulated with credit card transactions
- Faster reimbursement
- Anytime, anywhere access to expense reports via a Web browser
- Email notification

#### Reviewing and Approving Reports Is Streamlined and Automated

- Online approvals
- Ability to only view expenses that are exceptions to policy
- Email notification
- Dynamic approval hierarchies

#### Automating the T&E Process Impacts the Bottom Line

- Reduction in processing costs
- Robust rules engine provides consistent enforcement of travel policy and spending guidelines
- Increased focus on value-added decision support activities
- Headcount reductions

#### Measuring the Benefits

We believe there are numerous areas where companies can realize substantial benefits by implementing a Web-enabled, self-service T&E solution. Companies can use the cost savings from this initiative to offset expenses in other areas where the payback period may be longer, such as expanding the companies’ ERP system to include new modules, implementing a performance management or business intelligence tool, or reengineering financial processes.

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### Issues with T&E

- Transaction processing focus
- Data not available to negotiate with vendors
- T&E “system” is an Excel spreadsheet
- Data is rekeyed into accounts payable or payroll applications
- Travel policy not clearly communicated or enforced
- Long cycle times to process reports
- T&E is low on CFO’s list of priorities

### T&E Trends

- Best-of-breed vendors are driving growth
- ERP vendors continue to lag behind the niche providers
- Products are incorporating additional functionality:
  - Timekeeping
  - E-Procurement
  - Electronic billing presentation and payment (EBPP)
  - Corporate expense analytics
  - Outsourcing gaining wider acceptance

### The T&E Value Proposition

- Reduction in processing costs
- Rapid implementation timeframe
- Limited IT staff and hardware commitments
- Reduced time to complete, submit, and approve reports
- Better data to negotiate with vendors
- Increased compliance with vendor contracts and company policies

### Increase in Compliance/Policy Enforcement Savings

- Studies show that one in five expense reports contain an exception to a company’s travel policy. Some companies have only a 60 percent compliance rate, which results in excessive spending on unauthorized charges.
- Travel managers can expect savings up to 10 percent through improved compliance and consistent enforcement of corporate policy.
Better Data for Vendor Negotiations
• One of the most common reasons for selecting an automated expense reporting system is the value that data provides to analyze spending patterns, provide support for vendor negotiations and assist with forecasting.
• The average savings from negotiations with complete, centralized travel data was 24 percent, compared to 14 percent for those that lacked access to reliable data.1

Headcount Reduction / Redeployment
• Headcount numbers vary and are dependent on the organizational structure. When General Motors implemented a best-of-breed solution, they reduced their headcount in T&E processing from 23 to 11.5.
• Individuals can be freed up for more value-added activities like relationship maintenance with suppliers, targeted audits, decision analytics, or customer/employee support.

Use of a Corporate Card and Rebates
By moving to a corporate card, a company can generate a rebate as a signing bonus or as a basis points discount. One of the key decisions that each company has to evaluate is whether to issue a company-paid or sponsored card. Company-paid cards offer the opportunity for even greater rebates since the credit card vendor receives a single payment (no delinquent accounts) and they can reduce the resources required to support the account.

However, the company must ensure that only valid business expenses are charged on the card or must establish a procedure to recoup costs from the employee. With a company-sponsored card, each employee is billed individually and assumes the responsibility for payment. By increasing the volume on the card via a OneCard approach (adding p-cards, telephony, etc.) even more substantial savings can be achieved.

Electronics Record Retention
• By using an automated solution with integrated credit card feeds, a company can comply with tax regulations on electronic receipts substantiation. This eliminates the need to copy, file, and archive receipts with the exception of hotel receipts or cash transactions in excess of the statutory limit.
• Savings for this category can be estimated at $0.25 per report.

Value-Added Tax Reclamations
A central data capture system can ensure that a company is able to recover the correct value and reduce errors and work effort associated with this process.
• VAT/GST taxes generally run between 7 and 17 percent of the total eligible items.6
• VAT recapture is specific to expense categories such as lodging, rental cars, meals, gas, and trade shows.
• VAT is country-specific and many countries do not offer reclamation for T&E expenditures.

Productivity Benefits/Soft Dollars
• Travelers in companies that employ automated expense reporting systems spend an average of 33 percent less time preparing reports than travelers in other best practice companies.1
• Many studies show that companies can decrease the cost of processing each expense report from $25 to $50 down to less than $4 by reducing the amount of time to prepare, review, and approve the report.

Conclusion
As companies leverage large investments in ERP and try to streamline transaction processing, Web-enabled T&E solutions offer compelling value through process automation, increased policy compliance, and cost savings opportunities.

Endnotes
6 American Express, VAT Refunds: How Reclaims Reduce International Corporate Travel Spend.