TOP 10 REASONS

TO AUTOMATE OPERATING EXPENSE CONTROLS

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INTRODUCTION

IF YOU ARE LIKE MOST SMALL-TO-MIDSIZED BUSINESS EXECUTIVES, YOUR PRIMARY FOCUS IS ON GROWING REVENUE AND CONTROLLING COMPANY SPENDING.

To that end, you leverage technology to eliminate inefficient processes in your company, such as a CRM system to manage revenue and an accounting or ERP solution as your back-end financial system of record. However, chances are you still use manual, paper-based processes to deal with company expenses.

Excel-based travel expense reports and piles of paper purchase requisitions are the norm and your finance department gets barraged every month-end with questions from concerned budget owners. Why? Because without an automated system to control operating expenses, you have little or no ability to actively manage company spending and often are left hoping that decisions to spend money remain within budget and in compliance with company policies.

Automation is the key to controlling and reducing operating expenses. Operating expenses include every place your company spends money—travel and entertainment expenditures, payroll, purchasing and the piles of invoices that flood the accounts payable team.

For Fortune 1000 companies, automated expense controls have been standard operating procedure for a number of years. Until recently, these kinds of process efficiencies and controls were far too costly for most small and midsized companies to consider. Now, with new web-based technologies, these businesses are embracing the concept of automated operating expense controls and adopting it at a rapid pace.

According to PayStream Advisors, an expense management research and consulting firm, by the end of 2006, only 10% of small and 25% of medium sized businesses had implemented an automated expense control solution compared to 40% of companies with $2 billion or more in revenue. Aberdeen Group, a technology research firm, confirms these figures with its own research, and goes further to report that 61% of the small and midsized companies it surveyed plan to use or consider on-demand, Software as a Service (SaaS) financial applications in the next 18 months.

These impressive numbers show that small and midsized businesses are catching onto the benefits of automated expense controls. However, the specific impetus that leads a company to resolve operating expense control concerns varies greatly from organization to organization.

This "top-ten" list of why companies automate operating expense controls has been compiled from leading technology and payment consulting and research firms, leading financial publications and extensive interviews with businesses that use expense control software. One or more of these situations may, in fact, be true for you.

TOP 10 REASONS
TO AUTOMATE OPERATING EXPENSE CONTROLS

REASON #10: HUMAN ERROR COSTS YOUR COMPANY MONEY

Manual processes increase errors. According to The Association of Work Process Improvement, when data is keyed, human error comes into play resulting in an approximate error-rate of 2–4%. The types of errors associated with manually entered data are not isolated to one part of the process. Rather these errors exist throughout the entire life of a document.

Many common errors occur when a document is created. A travel and entertainment (T&E) expense report, for example, might contain inaccurate categorizations of expenses, or incorrectly entered credit card charges. Purchase requisitions are plagued by incorrect naming practices for vendors, products and services, limiting an organization's visibility into spending patterns and decreasing negotiation leverage with vendors.[1] Further, spending data is often inconsistently captured because of misspellings, duplications, or the over use of "other" as a data classification.[2] Errors also occur in the manual reconciliation of purchase orders to invoices.

Data-entry corrections are costly. In addition, incorrect information leads to poor decision-making and missed opportunities, which further exacerbates costs.

Automation can reduce and often eliminate these errors, which leads to cost savings throughout an organization. More accurate categorizations of expenses can lead to increased tax deductions. Integration of an automated T&E solution with credit card statements facilitates pre-population of statement data into expense reports, further reducing the need for manual data entry. Electronic purchase orders and purchasing catalogs ensure consistent naming practices and provide leverage to negotiate better vendor pricing.

Anytime you can automate manual processes, the resulting data files are much more accurate and complete. These types of process improvements are especially important in finance operations.

REASON #9: CHASING PAPER AROUND THE OFFICE IS A WASTE OF TIME

Manual processes are not only costly and prone to error; they are also time-consuming. As a result, most small and midsized companies spend too much time manually creating, collecting, approving and auditing expense documents, leaving little time to analyze the actual dollars being spent.[3]

Manually filling out complicated T&E reports takes traveling employees' focus off core job tasks. Slow T&E reporting processes also mean longer reimbursement cycles. Accounts payable managers lose valuable time fielding inquiries on expense reimbursements from employees. Employee productivity is also taxed when purchase requisitions are walked around the office to obtain the required signatures.

The "sneaker net" becomes even more of a burden when documents need to be shared among people in multiple locations. Shipping documents is unnecessarily costly, especially considering how often they are shipped at the last minute at premium rates.

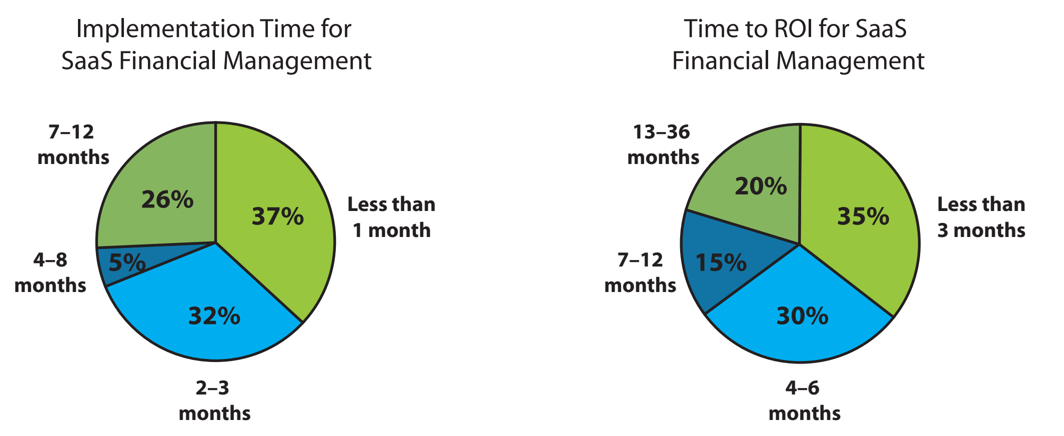
Many organizations are driven to automate expense controls to save time. Expense reports, purchase requisitions and invoices are all automatically routed through company established approval processes and are easily accessible to employees at all levels. Report preparation and submission is expedited, allowing employees to return to more important tasks.

REASON #8: YOU LIKE REALLY BIG, FAST ROIs

According to a recent spotlight report by TripleTree, a research-based investment banking firm, the return on a properly implemented expense control initiative often exceeds 10 times the initial investment.[4] The explanation for these large returns is simple: expense control initiatives afford more control and accountability over operating profitability. They do this by increasing the efficiency gained from each dollar of revenue and providing valuable insight into each dollar of spend.[5] Altogether, automating expense controls is one of the best ROI success stories in the entire technology industry.

The path to positive ROI becomes even shorter when companies deploy SaaS solutions. Companies surveyed by Aberdeen Group in a recent SaaS Buyer's Guide achieved a return on their investment in financial SaaS technology in as little as a few months, as opposed to quarters or years.[6] Lower up-front costs and more rapid implementations are the main reasons for the faster payback. There is no need for a company to invest in hardware, networks, software, security, backup and recovery, software upgrade or maintenance efforts, and all the other requirements of IT delivery. Further, the SaaS web-based delivery model, supported in many cases by a service-oriented architecture, enables more laser-focused deployments.[7] Of current SaaS financial management users, 58% report that they were able to implement in two months or less, and 69% report implementation in three months or less. Moreover, 65% report they achieved ROI in six months or less.[8] (Fig. 1.)

Figure 1: Implementation and ROI Times for SaaS FInancial Management



Source: Aberdeen Group, August 2006

REASON #7: GREAT DECISIONS REQUIRE GREAT INFORMATION

Business and finance executives make decisions that impact their companies every day; the merit of those decisions depends on the availability and integrity of relevant information. Gathering information using a manual system is a tedious process that leaves less time for analysis. Even if spending has been well documented, individual transactions need to be manually manipulated in spreadsheets in order to cross-compare data. This approach lengthens the time when problematic spending occurs and corrective action is taken. Often by the time problems are identified it is too late to take any action at all.

In contrast, automated expense control solutions gather business intelligence data in a centrally accessible location, enabling users throughout the company to make faster, smarter decisions. Critical data is gathered easily and organized on the fly to identify spending patterns in real-time. Complicated spending trends are filtered into meaningful data so that decision-makers can identify problematic spending that needs additional analysis or action. Further, transactional data can be aggregated into a single view, or scrutinized as individual transaction details. The results can then be presented in a useful way to drive beneficial decision-making.

When integrated business information management tools are in place, people are empowered to make better decisions and drive results within and beyond their organization.

REASON #6: YOU NEED TO DO MORE WITH LESS

In today's economic environment, whether businesses are faced with down-sizing or experiencing increased growth, the expectation is the same—accomplish more with less. This is driving organizations toward solutions that introduce automation, leverage technology and reduce repetitive manual processes.

As businesses grow and the volume of transactions increases, companies face additional burdens. A 2004 survey by IOMA, an independent organization that provides financial business intelligence, highlighted the increased workload A/P departments face, noting that all participants are processing more invoices, T&E vouchers, T&E expense reports and checks in response to increased economic activity and growth.

Manual processing limits the quantity of transactions an individual employee can handle. As transaction volume increases, time wasted on manual processes becomes more and more significant. This often results in the need for increased hiring in response to business advancement.

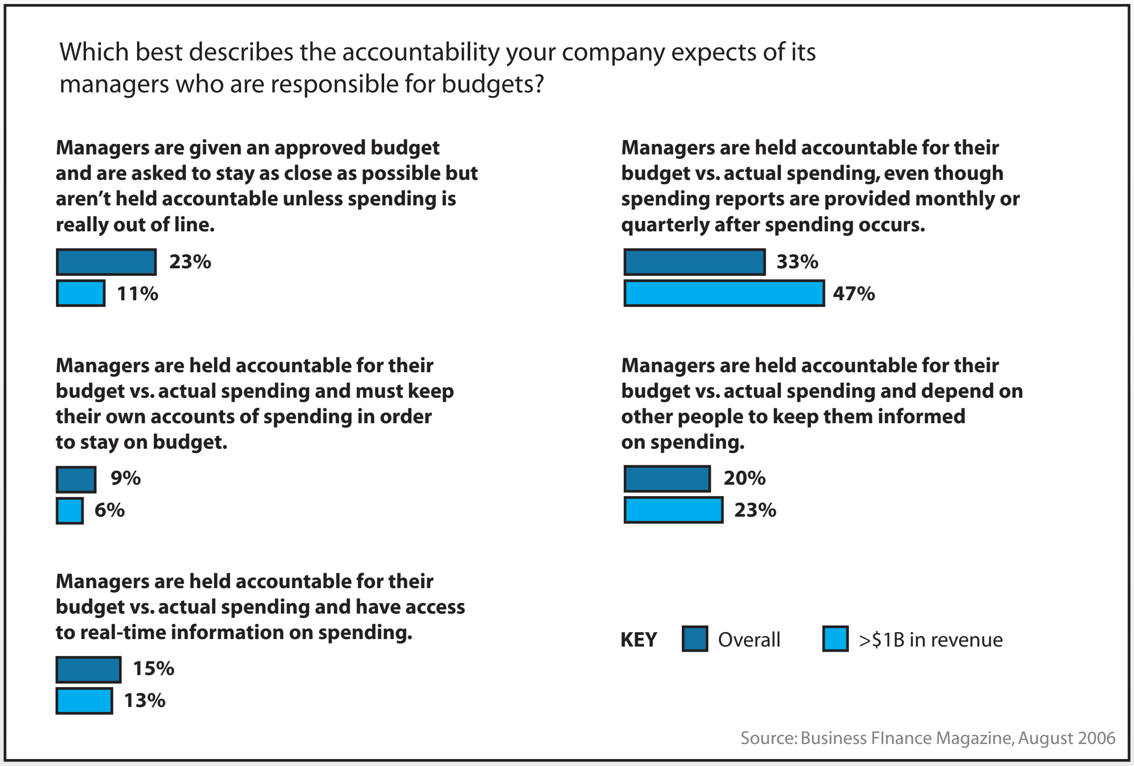
Automating expense controls enables companies to process more transactions with fewer people, while substantially reducing processing costs. Expanding volumes of accounting paperwork are processed more efficiently and with a significant reduction in errors, decreasing the need to hire additional staff as transaction volume grows.

REASON #5: YOU HAVE NO IDEA HOW YOU WENT OVER BUDGET, AGAIN

How many times have you heard your budget owners question how they could have gone over budget, yet again? Better yet, how many calls does your finance department field from managers asking when the budget vs. actual spending reports will be available after monthly and quarterly closes?

According to Business Finance Magazine, 56% of companies who participated in its August 2006 expense management survey have insufficient approval accountability. Specifically, 23% do not hold their managers accountable for their approved budgets at all, and 33% hold them accountable for overspending but only provide budget vs. actual reports weeks after spending has

Figure 2: Insufficient approval accountability



occurred.[9] (Fig. 2.) The bottom line: greater than half of the companies surveyed are missing a big piece of expense control through this lack of reasonable accountability.

Budget accountability and timely reporting are essential to promoting expense control efficiencies. With an automated expense control system, corporate budget data can be imported to provide the foundation to manage budget vs. actual at the point spend is being requisitioned. In real time, managers can see accurate budget information and analyze how a requisition, invoice or expense report will impact their departments and businesses.

REASON #4: REDUCING COSTS IMPROVES YOUR BOTTOM LINE

Organizations waste money at a very high rate if expenses are not kept in line. According to Aberdeen Group, organizations without automation are losing $260 billion in annual profits due to the inability to organize and analyze spend data and implement best practices to capture these lost savings.[10]

Automating expense controls has proven to be one of the most beneficial and effective ways for companies to reduce costs without eliminating staff or increasing end-user prices.[11] All dollars saved immediately translate into improved profitability.

According to TripleTree, it only takes a 1% decrease in operating costs to gain a 20% increase in earnings, whereas it takes a 10% increase in revenue to enact the same benefit.[12]

T&E is just one area of operating expenses where companies experience unnecessary spending. New research by PayStream Advisors reveals that automating the T&E arm of expense control can slash the cost of processing an expense report by 80% or more and reduce a company's reimbursement cycle from weeks to a matter of days. In addition, online review and approval of expense reports frees up A/P staff enabling them to spend time on more important, strategic tasks. The accompanying reduction in staff hours needed to handle the expense report function can be a further windfall of savings in administrative costs.[13]

Purchasing provides another opportunity to cut costs. By storing data in one place, companies are able to make informed comparisons to ensure they are receiving the best prices. Automation also ensures that purchases are kept within a list of approved vendors to make the most of existing relationships.

REASON #3: YOU DON'T WANT TO SEE YOURSELF ON THE NIGHTLY NEWS

Senior executives in both large public companies and small privately held organizations feel the pressure of increased regulatory compliance. Faced with the possibility of large fines and legal action, managers are increasing their focus on T&E spending and paying more attention to the compliance risks inherent in manual, paper-based processes. In fact, 55% of respondents to the PayStream Advisors 2006 Financial Automation Survey indicated that Sarbanes-Oxley legislation has increased their interest in expense control automation technology.[14]

While smaller privately held companies do not have the same stringent regulatory requirements as public companies, these organizations have a variety of drivers that make compliance issues a high priority. Well-documented audit trails decrease audit costs. Conversely, following a paper trail to pull appropriate information for an audit can be time consuming, disorganized and costly. Another driver is decreasing T&E fraud. According to the Association of Certified Fraud Examiners, U.S. companies lose 6% of their annual revenue on average due to fraud.

One of the most effective and least expensive solutions for achieving and maintaining corporate accountability and compliance is to automate operating expense controls. Information and records are electronically organized to formulate an airtight audit trail for all operating expenses. All audit-related documents are stored in one central location and retrieved electronically when needed. Sophisticated security precautions, such as password-only access and advanced encryption technology, ensure the safety and integrity of all company data. In addition, because financial policies can be enforced at the point of spend, the chance of fraud is greatly reduced.

T&E FRAUD

THE PRACTICE OF FUDGING T&E REPORTS HAS REACHED EPIDEMIC PROPORTIONS OVER THE LAST FEW YEARS WITH TALES OF CORPORATE ABUSE MAKING HEADLINES. LACK OF PROPER CONTROLS MAKE TRAVEL RELATED EXPENSES FERTILE GROUNDS FOR EMPLOYEE FRAUD.[15]

REASON #2: YOUR SALES FORCE THINKS THE FOUR SEASONS IS THE ONLY HOTEL IN NEW YORK

Corporate spending policies are meaningless if they are not enforced. Making employees aware of spending rules is the first step to enforcing them. Automated T&E systems ensure end-user awareness and adherence by delivering policy as employees fill out reports. In essence, controls are pushed out to the end user as part of the T&E interface.

Policies can be enforced at the point of spend rather than after-the-fact, eliminating the need to correct errors and retrace steps in the approval chain. Because company policies are automatically enforced and applied across an entire business, the end result is proactive enforcement of spending policies and subsequent prevention of out-of-policy spending. Control becomes defacto standard, instead of a constant concern.

POLICY ENFORCEMENT IS A DRIVER FOR AUTOMATION

63% OF RESPONDENTS TO THE BUSINESS FINANCE MAGAZINE AUGUST 2006 EXPENSE MANAGEMENT SURVEY CITED EXPENSE POLICY MANAGEMENT OR ENFORCEMENT AS A NUMBER ONE DRIVER IN THEIR DECISION TO AUTOMATE OPERATING EXPENSES. [16]

How does it work? With automated expense reports, required fields are linked to spending categories, which are set up in compliance with company spending policies. As employees fill out the report, they are alerted to out-of-policy spending. An automated system allows companies to set up expense reporting categories and policies governing airfare, hotels, rental cars, meal allowances, and other T&E categories. Categories can be further configured to set specific information fields that employees use to provide details about their expenses.

Best of breed T&E solutions allow companies to set smart flags to auto-truncate or reject amounts that exceed category limits. Employees will see out-of-policy spending as they fill out their report and will be less likely to submit a report with errors, dramatically reducing processing time. Managers in the approval chain should be able to override certain flags on a case-by-case basis. Changing user behavior via policy enforcement eliminates expense waste.

These same controls can be applied to other areas of a company's operating expenses, such as purchasing and A/P invoice management.

REASON #1: YOU NEED CONTROL

Every time a paper document changes hands you lose a little bit of control. For most manual processes, a given document will be well traveled, with no ability to check the speed or status of the process along the journey. Without automation, all the steps in the life of a document will add up to missed opportunities and wasted money.

As a document moves through its steps, automation gives you control by precisely defining, managing and monitoring the interactions between people and systems.

Automation can be applied to manage all operating expenses, including purchasing and payroll, incoming invoices and travel and entertainment, providing a comprehensive, real-time view into how your company spends money. With automation, transactional efficiency and financial control are brought together where expenses occur. Automation can give your organization a balance between controlling spending and empowering employees with the tools to do their jobs well. This powerful combination allows superior business performance across your entire organization.

In short, the most important reason to automate is to gain complete control over operating expenses within your organization. In fact, moving to an automated solution is perhaps one of the most important changes you can make for your company. The benefits are tangible—you can see actual dollar savings quickly.[17] At the same time, you create a business culture that promotes expense control by empowering employees throughout your organization to take responsibility for how your company money is spent.

SOFTWARE AS A SERVICE FOR OPERATING EXPENSE CONTROLS

WEB 2.0, ON-DEMAND, SOFTWARE AS A SERVICE—

These terms refer to new web-based technologies that are changing how small and midsized businesses are operating by making it affordable to automate numerous cumbersome and inefficient workflows.

This is especially true for small and midsized companies looking to rein in operating expenses and improve expense visibility. In a recent report by Aberdeen Group, 70% of the small-to-midsized businesses surveyed said they have a strong preference for SaaS financial applications as opposed to on-premise solutions.[18]

The primary reasons for considering a SaaS financial management system are the same reasons on-demand technology is taking this market by storm. According to Aberdeen Group, the top drivers for implementing a SaaS financial solution over an on-premise solution are:

- **Internal IT resources are limited**
- **Upfront costs for licensed solutions are too high**
- **Faster payback on upfront investments is desired**[19]

Aberdeen Group reports the benefits for small and midsized companies that have implemented financial SaaS applications include:

- **Lower upfront costs**
- **Shorter implementation times**
- **Lower cost of maintenance**
- **Easier to use**
- **Faster ROI**[20]

Small and midsized businesses are citing other benefits to on-demand technology as well. Because a single instance of an on-demand application supports multiple customers, the tools are immediately available once a company subscribes. Incremental releases and new features are automatically deployed without any implementation effort required on the part of the customer.

SaaS applications remain easily configurable and are also flexible to changing business needs. In addition, the SaaS subscription-based service model allows companies to easily add new users and service functionality as needed.

With access to the Internet, any authorized employee can access an on-demand application wherever and whenever needed.

CONCLUSION

RELYING ON MANUAL PROCESSES IS AN INEFFICIENT WAY TO MANAGE EXPENSES.

Manual processes are error-prone, time-consuming and costly. Critical information regarding spending is difficult to compile and expense policies are hard to implement and enforce. Finally, manual processes offer little protection from fraud and are fraught with compliance risks.

Automation is changing the way small and midsized businesses think about and handle their operating expenses. Dynamic organizations are choosing automation to improve efficiency and allow financial policy and transactional efficiency to be brought together in one solution to gain complete operating expense control.

One of the most viable delivery methods of automated operating expense systems for small and midsized businesses is SaaS, which offers extensive capabilities while minimizing the time, cost and risk associated with automation. With all of the advantages provided by SaaS, automating operating expense controls has become a feasible and essential improvement for small and mid-sized business culture.

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Expensewatch.com is a complete web-based subscription service that gives small and midsized companies comprehensive tools to control and reduce operating expenses. Customers automate the control of their expenses with modules for T&E Expense Reporting, Purchasing and A/P Invoice Management. Corporate spending policies are automatically enforced and compliance issues are addressed. Budget management, real-time reporting, implementation, training, upgrades and support are all included in the subscription pricing. Expensewatch.com seamlessly integrates with most accounting, ERP and corporate systems to ensure transactional efficiency. Currently, thousands of people in more than 15 countries are using the expensewatch.com service.

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