



4. Improvements in travel and expense management can bring considerable cost savings, while increasing policy compliance and reducing fraud.

T&E management is a major focus area for companies, especially in view of the recent economic downturn and increasingly strict regulation on corporate governance. With the right policy, processes and systems in place, significant gains can be made in terms of efficiency and savings, as well as improved compliance.

Companies have two main objectives when tackling expense management:

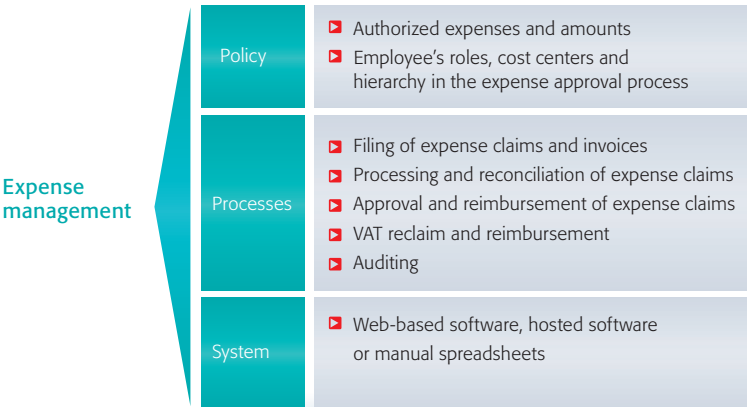
- **Increase compliance with regulation on corporate governance.** A strong T&E policy and enhanced reporting capabilities improve visibility and reduce system abuses or outright fraud. These improvements help companies meet regulatory requirements while supporting strategic objectives.
- **Reduce costs.** Direct savings are possible when improvements are made in a number of areas, such as T&E policy, negotiations with suppliers, and reporting. Indirect savings can be achieved by implementing more efficient processes, both in terms of the technological systems used and the way expense management teams are organized. For example, an automated expense management system can reduce the cost of processing expense claims by more than 30-40 percent, according to industry experts.

This means tackling three main areas:

- **Policy** or clear rules that let employees know which expenses are acceptable, whether or not they need to seek prior approval for expenses, how they should pay, and when and how to file claims.
- **Processes** for filing expense claims, collecting invoices, approving and reimbursing expenses, reclaiming VAT and auditing. Many of these processes can be outsourced to third-party specialists.
- **Systems**, which can be either manual or automated, stand-alone or fully-integrated into other IT systems (e.g., online booking tools and payment card solutions). Companies can choose between Web-based solutions managed by service providers, or hosted solutions, where the software is managed inside the company.

Best practices in each of these areas are discussed in this section.

Figure 64: Expense management involves policy, processes and a system



Source: CWT Travel Management Institute

Expense management: a growing market

CWT estimates the addressable expense management market at approximately US\$49 billion globally, split into US\$4 billion for expense management systems and US\$45 billion for outsourcing services. (See Figure 65.) These figures refer to market potential as opposed to actual revenues realized by providers.

Figure 65: CWT estimates the value of the global expense management market at \$49 billion

Total expense management market (2010)				
System market			Outsourcing services market	
Major assumptions	Scenario		Major assumptions	
	Low case	Base case		
Total business travel market (Europe + N. America + Asia Pacific)	US\$725bn		Total business travel market (Europe + N. America + Asia Pacific)	US\$725bn
Average cost per business trip	US\$1,062	US\$1,328	Ratio of direct travel costs/ indirect travel costs	20:1
Ratio of trips to expense reports generated	1.08:1		Share of travel costs within total business-related indirect costs	40%
Average price per expense report	US\$5.3	US\$6.6	Share of expense claims costs within total business-related indirect costs	52%
Total system market	US\$3.2bn	US\$4.9bn	Total outsourcing market	US\$45.1bn

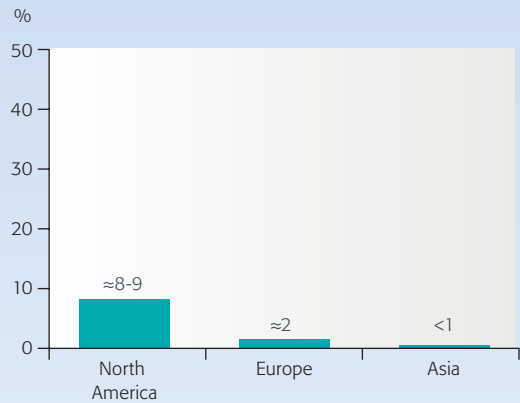
Source: CWT Travel Management Institute

This market is likely to expand by 6-9 percent in North America and 5-8 percent in Europe in 2011-15, thanks to a combination of economic growth (hence greater expenditure) and increased penetration (more systems in use in companies):

- **Economic growth.** GDP should grow by 10.9 percent in Asia, 4.4 percent in North America and 3.4 percent in Europe annually for the 2011-15 period according to the International Monetary Fund. Correspondingly, business travel spend is expected to grow by 10.3 percent, 6 percent and 4.5 percent annually in these three regions.
- **Increased penetration.** There is plenty of room for growth, as expense management systems have penetrated only a small corner of the market up until now—mainly larger corporations. The estimated penetration rates in companies of more than 50 employees range from less than 1 percent in Asia and 2 percent in Europe to 8-9 percent in North America, as shown in Figure 66.

Figure 66: Penetration of expense management systems is low

Estimated penetration of expense management systems within companies of more than 50 employees (2010)



Source: CWT Travel Management Institute

These differences are largely explained by the regions' varying levels of maturity in three main areas that drive penetration:

- **Cost-cutting programs.** Given their ability to streamline administration as well as facilitate data tracking and auditing, expense management tools are naturally seen as a way to reduce costs. And, according to a report by McKinsey,⁹ cost cutting is by far the top priority for organizations' procurement (identified by 46 percent of survey respondents), well ahead of supplier relationship management (18 percent) or gaining control of more spend areas (14 percent).
- **Adoption of corporate payment cards and online booking tools (OBTs).** To bring more efficiency, companies already equipped with corporate payment cards and OBTs often add expense management systems—and penetration rates for both are rising, especially among mid-sized European companies. Increasingly, organizations are opting for integrated travel and expense management solutions, which can cost significantly less than separate systems, especially when bundled with payment card solutions. According to CWT research, an expense report costs 20-25 percent less when the expense management system is bundled with corporate cards.

⁹ "Five ways CFOs can make cost cuts stick," McKinsey Quarterly (May 2010)

- **Regulation on corporate accountability and responsibility.** National and international regulation drives the expense management market by requiring companies to adhere to strict standards of accountability that require stringent reporting and compliance measures. In the United States, all publicly listed companies must abide by the Sarbanes–Oxley Act (2002), while in Europe, EU and national regulations impose even tighter restrictions in some areas, as well as complex VAT reclaiming processes. Automated expense management solutions play an obvious role in meeting those obligations.

Figure 67: The expense management market is driven by economic growth and increasing penetration of expense management systems

		Driver	Future growth		Sources
			North America	Europe	
Volume	Economic growth	GDP annual growth forecast (2011F-15F)	4.4%	3.4%	IMF
		Business travel market annual growth forecast (2010-20F)	6%	4.5%	World Travel & Tourism Council
	Penetration rate driver	Trend for cost cutting programs	★ ★ ★	★ ★ ★	Interviews
		Increasing use and penetration of payment cards and online booking tools	★ ★ ★	★ ★ ★	
		Compliance and reporting regulation	★ ★ ★	★ ★ ★	
	Estimated annual growth (2011-15F)		6.9%	5.8%	CWT estimates

Source: CWT Travel Management Institute
Based on data from the International Monetary Fund and World Travel & Tourism Council, interviews with industry experts, and CWT estimates

Policy

Once a company has asserted the need for an automated expense management process, it usually sets up a project team to define new rules and processes. This typically takes 3 to 12 months, depending on the organizational complexity.

In addition to the best practices described earlier, the following are worth considering:

- **Include expense management in a broader T&E management policy.** (See Pages 66-70 for best practices in policy and compliance.)
- **Ensure that the policy covers payment methods.** For example, employees can be asked to consistently use corporate payment cards to assist data tracking and help make the reconciliation process more efficient.
- **Set up expense management tools to**
- **reinforce the policy.** For example, online expense claim tools can show out-of-policy spend items to send a reminder to travelers, while flagging non-compliance to auditors.
- **Enable senior executives to access real-time data, in order to track traveler compliance** (e.g., overall rate of compliant bookings and compliance with specific policy items, such as the use of preferred suppliers).
- **Ensure non-compliance is followed up.** According to surveyed travel managers, only 60 percent of companies require travelers to justify out-of-policy bookings, leaving 26 percent who do not or are unlikely to do so. This is confirmed by travelers: 16 percent say no real action is taken, while 34 percent do not know the consequences of out-of-policy bookings. (See Figures 68-69.)

Figure 68: A quarter of travel managers say travelers do not have to justify out-of-policy bookings

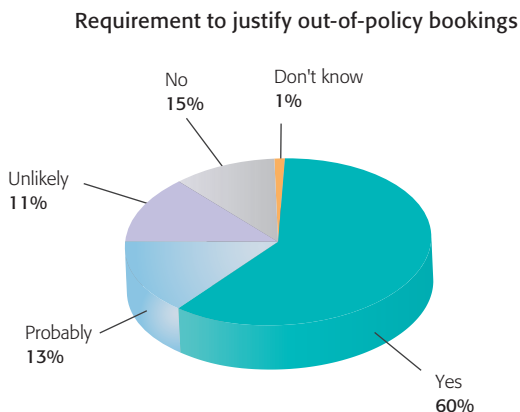
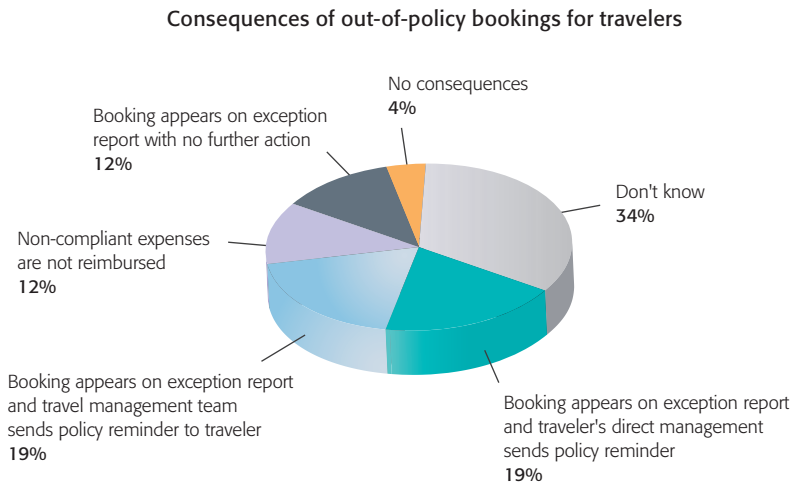


Figure 69: 50 percent of travelers say out-of-policy bookings are not followed up or they are unaware of the consequences



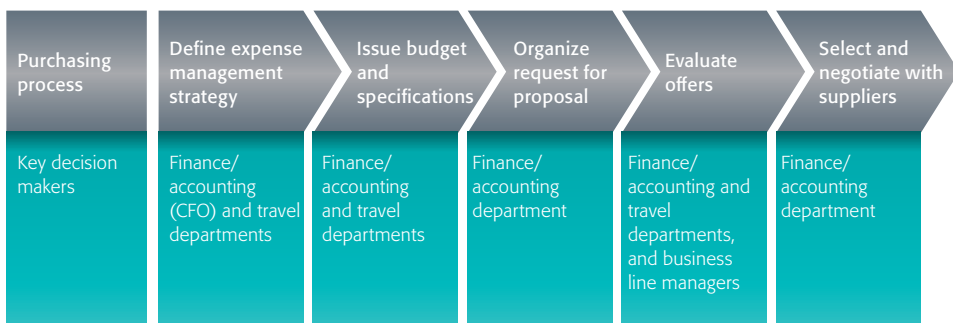
Source: CWT Travel Management Institute
Based on a survey of travelers (2,875 responses)

Processes

Effective expense management goes beyond selecting a suitable expense management provider. Companies need to work closely with their provider to ensure that the right processes are in place and fully operational.

- **Select an efficient expense management system.** Typically five steps are involved in selecting an expense management system: defining an expense management strategy, setting a budget and specifications, organizing a request for proposal, evaluating the different offerings, and negotiating with providers. (See Figure 70.)

Figure 70: Five key steps in supplier selection



Source: CWT Travel Management Institute

The finance/accounting department—and more specifically, the chief financial officer—is most often the key decision maker in the choice of expense management providers, usually working closely with the purchasing department, which leads negotiations with suppliers. Ideally, the travel department also takes part in the process, given the synergies between travel and expense management, and in some organizations the travel department has the lead.

According to market feedback, the most important criteria for an expense management system are return on investment and adaptability—i.e., its ability to be integrated into existing systems and across multiple regions if required, and updated as necessary in line with an evolving T&E policy or other parameters. Small and medium companies also look for simplicity or ease of use. (See Figure 71.)

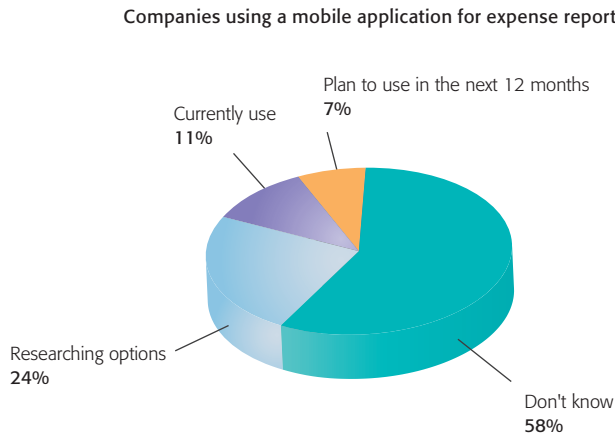
Figure 71: Key criteria when selecting an expense management supplier

Key purchasing criteria	Relative importance	
	Large companies	Small-medium companies
Return on investment	★ ★ ★	★ ★ ★
Adaptability and flexibility	★ ★ ★	★ ★ ★
Ergonomy	★ ★ ★	★ ★ ★
Simplicity	★ ★ ★	★ ★ ★
New features	★ ★ ★	★ ★ ★
Price	★ ★ ★	★ ★ ★
Implementation	★ ★ ★	★ ★ ★

Source: CWT Travel Management Institute

- Contracts are generally signed for 3-5 years and cover access to the expense management system interface, implementation, support and maintenance services. Options may include integration with the company's existing IT systems (online booking tool, enterprise resource planning tool and corporate payment card system), auditing and analysis services, e-scanning services, and a custom VAT reclaim program. In addition, special clauses may include discounts based on the volume of expense reports generated, or further customization for an additional fee.
- **Ensure that the expense management system is user-friendly and efficient.** As a general rule, the more automated and integrated the system, the greater the savings since employees spend less time filing their expense claims, and the administration is lighter downstream. Among the features worth considering are:
 - ▣ Mobile applications for on-the-go processing of expense claims—an increasingly popular feature, according to the CWT survey (Figure 72)
 - ▣ Easy-to-use categorization of spend items
 - ▣ Currency conversion
 - ▣ Pre-populated claims forms, integrating data from online booking tools and corporate payment cards
 - ▣ Automated policy checks to warn employees of any breaches and flag the relevant items for managers and auditors
 - ▣ Integration with finance systems
 - ▣ Automatic reimbursement
 - ▣ Short and simple electronic submission, including scanned receipts

Figure 72: On-the-go expense reporting is already used by 11 percent of companies and 7 percent plan to in the next 12 months



Source: CWT Travel Management Institute
Based on a survey of travel managers (132 responses)

Case study: making in-house expense management more efficient

A multinational producer of high-tech materials and devices found its employees were unhappy with its manual expense management process, which required time-consuming report filing and long waits for reimbursement. At the same time, the management wanted to better manage the risks of fraud and out-of-policy expenses as travel spend, in particular, was becoming more complex (up to 5,000 employees were traveling every year, making 20,000 trips to 400 different destinations, and accounting for US\$131 million annually). The company did not want to outsource its expense management after a negative experience with payroll outsourcing that raised a number of issues and did not bring the expected return on investment. Instead, the company decided to introduce an automated system in-house, working with a supplier who would develop a customized system in Sweden, the company's home market.

It took a year to build a well-configured system, but the results were convincing: increased visibility on T&E spend; improved productivity thanks to employees saving time when filing expense reports; and lower costs through improvements such as policy adjustments, renegotiations with preferred suppliers and reduced fraud. The company now intends to roll out the system across its subsidiaries worldwide and also integrate an online booking tool through the same provider.

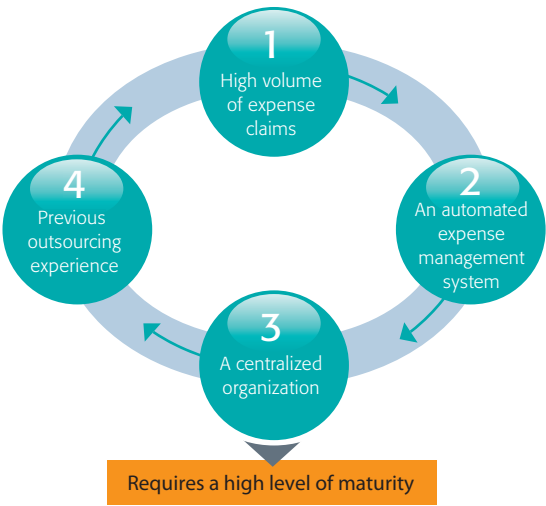
- **Find the right balance between pre-trip approval and post-trip expense auditing.** Pre-trip approval processes can mean that less post-trip auditing is required. Often, however, pre-trip approval can be avoided when employees are required to use preferred booking channels that are set up to reinforce compliance, as described above. A good compromise can be simplifying the pre-trip approval process as far as possible (e.g., by enabling electronic approval for a trip or reducing the number of hierarchical levels involved) or limiting it to some exceptions (e.g., long-haul or business class travel).

Ideally, out-of-policy items are flagged in the expense management system, and auditors investigate these, as well as the most expensive claims and a random sample of 10-20 percent of claims. A further audit might be conducted of employees known to have breached the policy previously.

- **Ask specialists to manage VAT claims.** Exhaustive, accurate data is essential for managing VAT claims effectively. In the most advanced companies, VAT specialists process cross-border claims, relying on an efficient, unified expense management system to do so effectively.

- **Consider fully outsourced expense management.** Outsourcing can help reduce expense management costs while providing expertise that may not be available in-house. Yet few companies outsource expense management today: under 5 percent of companies served by large IT service organizations, according to CWT research. Companies that outsource successfully tend to share a number of characteristics. First, to make return on investment possible, they must have a high volume of expense claims (at least 50,000 per year). Then, automated expense management software and a centralized organization allow efficient implementation. Previous outsourcing experience (e.g., in payroll management) also helps ensure that the process brings benefits.

Figure 73: Four key characteristics for successful expense management outsourcing



Source: CWT Travel Management Institute

Case study: from manual to automated, and in-house to fully outsourced expense management

A large global conglomerate successfully switched from manual expense-claim processing to fully outsourced expense management, reducing costs and gaining flexibility in the process. To do so, it enlisted the support of its travel management company, CWT, from A to Z. This support covered setting up and administering a customized, automated expense management system with a technical hotline and day-to-day administration; processing expense claims (e.g., invoice collection, data reconciliation/analysis, and auditing); and managing payment cards.

- **If managing expenses in-house, consider shared services.** A slightly more common option is for companies to consolidate expense management for different business units within a shared service center, which is usually housed at a single location. Streamlining and standardizing internal processes through shared services typically reduces costs, while providing greater visibility and control.
- **Consider locating service centers in low-cost labor countries** (e.g., China, India, Ireland or Poland). This solution enables the company to either keep expense management tasks in-house or to externalize them to a company in a “best shore” location.
- **Roll out the system.** This involves the project team consulting with business units and getting buy-in from executives and training employees before the system comes into use. The full implementation process usually takes a few months, but can last up to a year. A step-by-step approach can facilitate major changes, such as switching from a manual, decentralized organization to a fully automated, centralized and outsourced one. Generally, companies implement the system in one region before replicating the process worldwide. In the past, major organizations tended to have one expense management system per region or even one per business line to adapt more easily to specific needs, but increasingly they are taking a global approach to enable data consolidation, assist auditing and better manage the risk of expense fraud. This in turn has a direct impact on supplier selection as companies seek out global providers.

Systems

Broadly speaking, expense management solutions are available as either Web-based software or hosted systems:

- **Web-based software (or software as a service – SaaS)** provides service on demand through Web browsers. These systems represent 70-80 percent of the market. Pricing is based on upfront implementation costs and ongoing transaction fees (typically a monthly payment based on the number of submitted expense reports) to cover report processing, as well as technical support services, system maintenance and upgrades. There also may be additional fees for features such as importing corporate payment card statements or online booking tool invoices, scanning receipts and conducting comprehensive audits.
- **Hosted systems**, sold under license, enable companies to install the software in-house so that users access the system directly from their computers. This pricing model combines upfront implementation costs and user fees (i.e., payment based on the number of licenses, rather than the volume of processed expense reports).

Figure 74: Two main pricing models for expense management software

Type of system	Description	Pros	Cons	Examples of suppliers	Market share	Penetration trend
Web-based	The software is hosted by the supplier and accessed by users through a web browser	Accessibility from remote locations Reduced need for expert IT teams Easier installation and implementation Scalability across platform Constant automatic software updating	Loss of control since data hosted by third party	Expense management specialists	70-80%	★ ★ ★
Hosted	The software is hosted by the customer and accessed by users directly from their computers	Higher security (the data is stored on own equipment) Possibility of direct and immediate customization if needed	Accessibility limited to the office Longer and more difficult implementation Need for IT expert teams ensuring installation, updates and maintenance	Enterprise resource planning providers	20-30%	★ ★ ★

Source: CWT Travel Management Institute

On average, an expense report costs US\$4-7 for “standard” service and US\$9-12 when additional features are included. (See Figure 75.)

Figure 75: Typical pricing of an expense report

	Type of system or service offered	Pricing	
		Upfront cost	Transaction fee (often monthly)
A Typical scope	+		
	System configuration and implementation	About 6 months of transaction (depending on implementation complexity)	
	+		
	Expense report treatment		Unit expense report price varies according to volume generated
	+		
	Support (hotline)		
B Optional scope (excluding outsourcing)	=		
	Maintenance (upgrades)		
	+		
	Total (A)		US\$4-7 per expense report
	=		
	Free for additional features	Price depends on chosen features and supplier	Price depends on the feature chosen and the supplier
	Total (A + B)		US\$9-12 per expense report

Source: CWT Travel Management Institute

The market can be further broken down into five main types of players with different positioning across the value chain:

■ **Pure players.** These specialists tend to focus on simple, affordable expense management solutions for small companies, as well as bundled solutions in cooperation with payment card companies, online booking tool providers, travel management companies and other partners. Pure players offer strong technological expertise and often have solid reputations, but their offerings tend to be limited geographically, focusing mainly on national, and sometimes regional, markets.

- **Providers of online booking tools and/or corporate payment cards.** These players partner with expense management specialists to offer bundled solutions focused on travel, usually addressing travel managers.
- **Enterprise resource planning (ERP) providers.** These companies provide integrated software to manage information across business functions within organizations. They focus mainly on large, multi-regional and global companies, and have begun providing expense management as part of their offering.

- **IT service companies and outsourcing companies.** These companies provide customized bundles of expense management and IT services, offering both competitively priced standard features and more expensive optional features. Their core target is large companies looking for a more standardized and cheaper offering than the solutions offered by ERP providers.
- **Travel management companies.** TMCs offer end-to-end solutions combining travel management and expense management. They may have proprietary expense management tools or act as resellers for third-party providers.

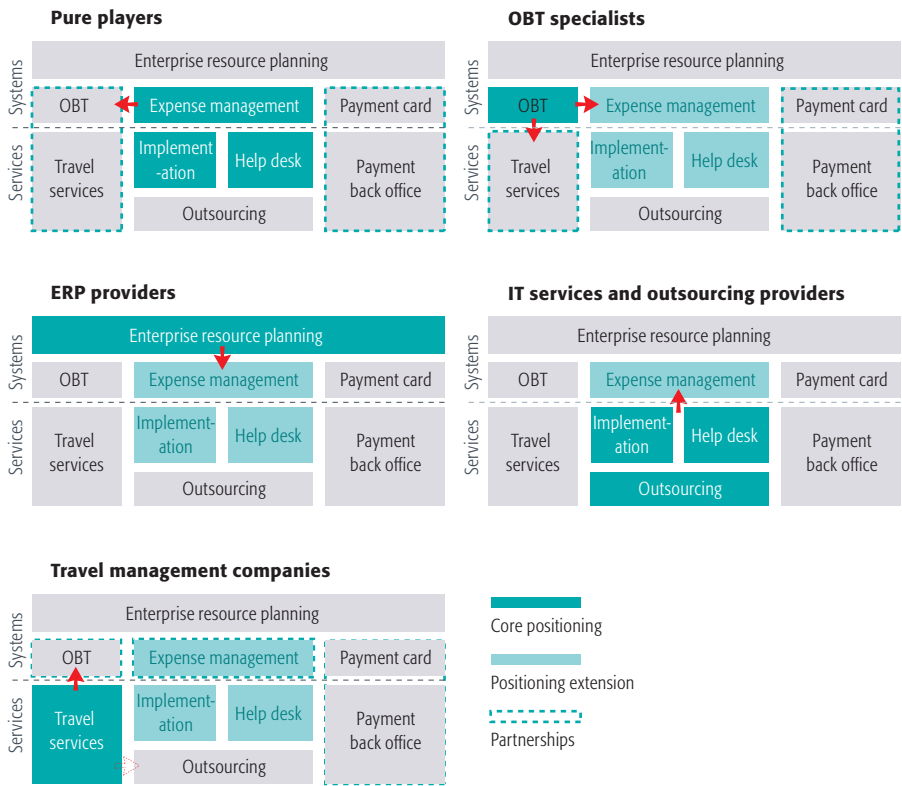
Figure 76: Five main categories of expense management providers

Type of players	Estimated share of expense management within total sales (2011)
Pure specialists	90%
Online booking tool/corporate card providers	15-30%
Enterprise resource planning providers	Marginal
IT services and outsourcing companies	
Travel management companies	

Source: CWT Travel Management Institute

Figure 77 shows how these different suppliers fit into the landscape of interrelated systems and services, and how they have moved into expense management from their core service offering.

Figure 77: How different players are positioned across the value chain



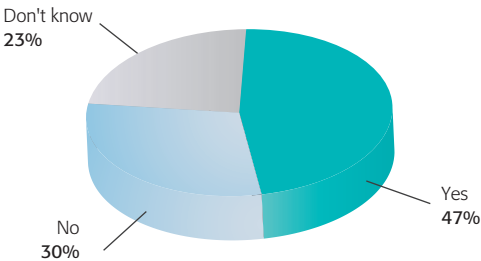
Source: CWT Travel Management Institute

Bundled solutions are increasingly in demand as companies favor a single interface to cover all their T&E management needs, including online booking and corporate payment cards. In fact, 47 percent of surveyed travel managers say

TMCs should include expense management in their offerings, no doubt reflecting the fact that travel expenses make up the bulk of expense claims. (See Figures 79-80.)

Figure 78: 47 percent of survey respondents say TMCs should offer expense management services

Travel managers who consider TMCs a valid player in expense management



Source: CWT Travel Management Institute
Based on a survey of travel managers (170 responses)

Figure 79: Travel expenses make up the bulk of expense claims

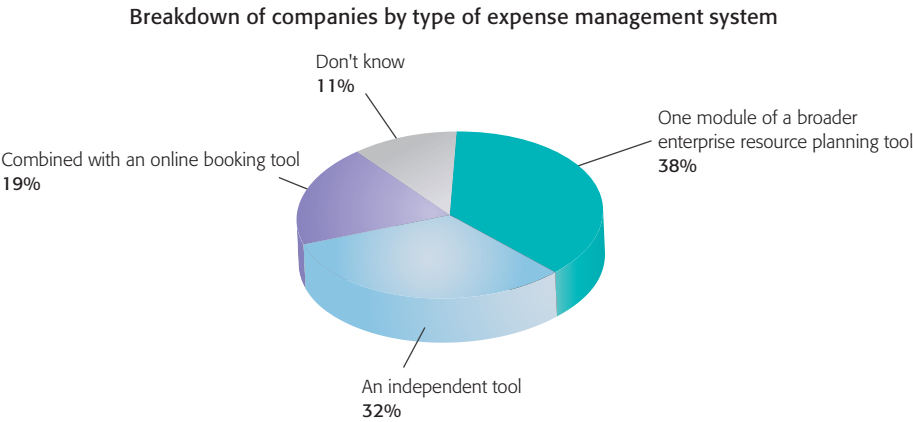
Type of business expense	Example	Share of T&E expenses
Travel	Transportation (airfares, rail travel, etc.)	★★★★
	Hotel accommodation	★★★☆☆
	Car rental	★★★☆☆
Other	Restaurants	★★★☆☆
	Taxis	★★★☆☆
	Other (parking, public transportation, etc.)	★★★☆☆

Source: CWT Travel Management Institute

CWT’s survey of travel managers shows that more than a third of companies (38 percent) are equipped with the expense management module of broader enterprise resource planning systems. This figure is likely to be artificially high, however, since the survey sample included a

large proportion of major companies. Slightly fewer (32 percent—a mix of large multinational companies and more local players) have an independent expense management tool, while 19 percent have a combined tool for expense management and online booking.

Figure 80: More than a third of surveyed companies have expense management tools integrated into a broader enterprise resource planning system



Source: CWT Travel Management Institute
Based on a survey of travel managers (134 responses)

SUMMARY

- **Effective expense management can help companies reduce direct and indirect costs, while improving compliance** with corporate governance regulation.
- **Web-based expense management solutions are increasingly bundled with online booking tools and corporate payment cards**, providing a single interface for all expense management needs.
- **Three main areas need to be tackled: policy** (including which expenses are acceptable, how to pay, and how to file claims), **processes** (many of which can be outsourced), and **systems** (which ideally are automated and integrated into other IT systems).
- **Companies can often gain in efficiency and flexibility by reorganizing the way expense management tasks are handled**, with in-house shared services and outsourcing, and/or operations housed in low-cost locations.