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Expense Management Strategies for an Economic Downturn

Report prepared by Accenture in collaboration with American Express®





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Foreword: What the Economic Downturn Means for Expense Management Professionals

Accenture's research shows companies that transform their businesses during a recession see sustainable advantages when the economy improves.¹

Economic Situation

Massive devaluation of banks' assets following the collapse of the US sub-prime mortgage market has resulted in a world-wide contraction of credit. Without access to credit, many companies have had to forgo making investments and reduce growth expectations.

The effects of these trends are global. The International Monetary Fund (IMF) recently reduced its projection of global GDP growth in 2009 from 3% to 2.2%.² If this prediction holds, net consumption, investment, and government spending will decrease in 2009, placing considerable downward pressure on revenue and profit.

Profitability is further being pressured by commodity price increases which neared 20 year highs in mid 2008. This has an impact on travel areas of spend such as air, rail, hotel, and car expenses. For example, in the second quarter of 2008,

the Bureau of Transportation Statistics (BTS) recorded the highest level of average airfares for any quarter in the past 13 years.

Challenges

Indirect spend is often viewed as one of a company's most controllable expenses. As profit pressures begin to mount, expense management professionals will be pressured by top-down mandates to reduce costs.

However, many companies rely on global operating models and have employees with global job responsibilities. For such companies, it may not be possible to cut indirect spend categories such as air, hotel, and telecommunications without hindering business operations.

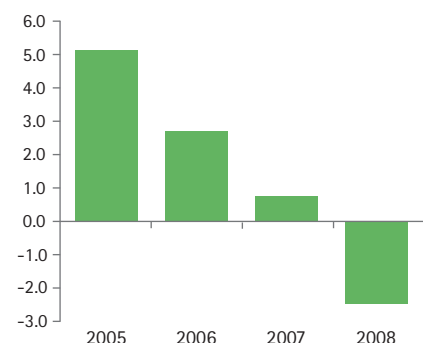
¹ "When Good Management Shows: Creating Value in an Uncertain Economy" Accenture Management Consulting Report, August 2008.

² IMF Economic Outlook; October 2008

Opportunities

Despite these challenges, an economic downturn also provides an opportunity to transform business and improve performance. With scrutiny on cost reduction, expense management professionals are in a prime position to drive transformational changes that result in both immediate savings as well as sustainable long-term value.

% Change in U.S. Corporate Profits



Source: Bureau of Economic Analysis
(<http://www.bea.gov/briefm/corpprof.htm>)

About this Study

American Express commissioned Accenture to study how large, global companies are leveraging leading expense management practices to strategically manage costs.

Insights presented in this study are based on in-depth interviews during the fall of 2008 with senior level expense management professionals at seven of American Express' top Commercial Card clients.

Profile of the Companies Interviewed

- **Size:** Global Fortune 500 or U.S. Fortune 500, median 2007 gross revenues of \$30B (\$5B to +\$200B); SG&A at 25% and T&E at 2-4% of revenue
- **Geography:** Operations in 20+ countries
- **Industry:** Seven different industries (consumer products, pharmaceuticals, medical devices, petrol-chemicals, business services, technology, aero-space and parts) with notably different expense management profiles

Leading practices were checked against Accenture's high performance business research, published Accenture Point of View documents, and well respected industry publications.

Throughout this study, "leading" is used to suggest relative performance above a peer-set and "expenses" pertain only to indirect spend services and commodities.

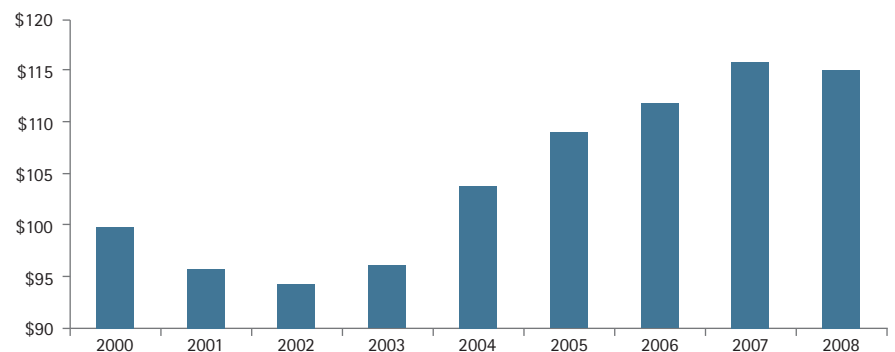
In the second quarter of 2008, the Bureau of Transportation Statistics (BTS) recorded the highest level of average airfares for any quarter in the past 13 years.

Average Retail Gasoline Prices



Source: Bureau of Economic Analysis (<http://www.bts.gov/>)

Airline Ticket Index (200=100)



Source: Bureau of Transportation Statistics (<http://www.bts.gov/>)

Overview: Key Findings

A previous Accenture and American Express study found that companies with leading practices have total T&E budgets that are 9% below their peers.³

Slowing global growth and rising commodity prices have placed tremendous pressure on numerous companies. Many companies will respond to these challenges by significantly cutting costs.

Leading companies take a more measured approach to expense management; these companies focus on developing operating advantages in the short-term through cultural shifts and data analysis and by building structural advantages for sustainable growth in the long-term.

Focus Area One: Hold Employees Accountable

The current economic environment provides an opportunity to raise employee awareness of the importance of expense management. Expense management professionals at leading companies have developed a strategy where employees are held accountable for fiscal responsibility and are seen as partners in making the right financial decisions.

To build and sustain this strategy, expense management professionals effectively **communicate** policy; **educate** employees on the financial impacts of their decisions; and **enforce** individuals' adherence to policy. When companies focus on employee accountability, they drive increased compliance and savings.

Focus Area Two: Drive Value through Data Analysis

The complexities of identifying risks, planning for commodity price volatility, and operating a global expense program remain constant challenges for expense management professionals. Enhanced data analysis can help expense management professionals take a strategic, fact-based approach to addressing these challenges.

Expense management professionals at leading companies develop an operating advantage by **consolidating** multiple data sources to gain a holistic view of indirect spend; **analyzing** data to inform sourcing negotiations and provide insight into employee spend behavior; and **acting** on data by linking specific actions to cost savings.

³ Accenture American Express Corporate Card Data Value Study, 2004

Short-Term and Long-Term Cost Management:

Operating advantage: Short-term initiatives that drive value within the current operating structure leveraging current capabilities. (Focus Area 1 and 2)

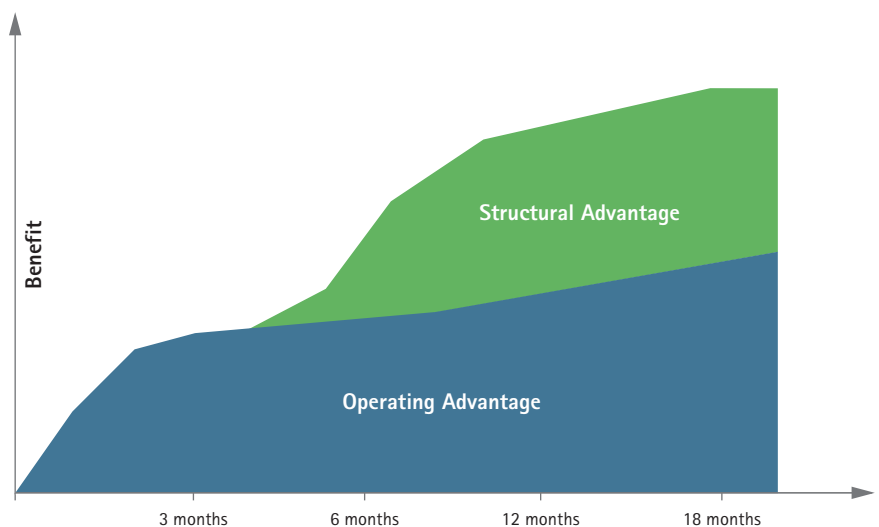
Structural advantage: Long-term initiatives that drive sustainable growth by increasing operating efficiencies and managing the most significant assets of the business such as capital, property, plant and equipment, and people. (Focus Area 3)

Focus Area Three: Plan for the Long-Term

The profit pressures of the current economic downturn have created an incentive for expense management professionals to consider developing long-term, structural advantages. Leading companies are using the current economic climate to justify structural changes that **simplify** their organization. This simplification can come from many areas, with technology being one of the most effective. Technology enables companies to make sound, timely and cost-effective decisions by providing increased data visibility and decreased operational complexity.

Expense management professionals who position their companies to take advantage of the current economic climate will improve performance in the short-term and be well positioned for success when the economy recovers.

Short-Term and Long-Term Cost Management



Source: Accenture Rapid and Sustained Cost Management; the Winning Edge in Uncertain Times

Focus Area One: Hold Employees Accountable

In 2008, global companies' entrusted employees with an average of \$500MM to \$1.2B in annual T&E spend.

Much of indirect spend is in employees' hands. As a result, an individual commitment to managing spend is integral to controlling costs. The current economic climate provides a unique opportunity to take additional steps to raise employee awareness of the importance of expense management.

Adopting a strategy of employee accountability can drive operating advantages with little to no investment. To do this, leading expense management professionals clearly **communicate** policies, **educate** employees on the importance of compliance, and **enforce** policies by holding individuals accountable.

Communicate

Promote awareness of policies.

Effective communication and accessibility of policies can result in increased compliance and financial savings. Making policies easily accessible can empower employees to make informed decisions.

A global technologies company increased compliance by reducing the policy page from seven clicks off of the home page to two.

By providing employees with timely reminders of policies, companies can increase compliance.

A leading business services company uses automatic email notifications to encourage compliance and provides 'travel smart' tips via email newsletters with links to a user-friendly policy website.

Emails are also automatically sent when individuals miss expense submission deadlines by one hour. This helps to drive compliance and ensures timely submission of expense reports.

Educate

Expose business costs to employees.

When employees are informed of the financial implications of not adhering to policies, they are more likely to make more cost effective decisions.

Informing an employee of processing costs, sourcing benefits, and corporate card spend incentives helps them to understand the financial rationale behind policies. For example, when an office worker chooses to buy office supplies with petty cash instead of a purchasing card, they do not realize that the company loses the spend incentive from the card issuer and the volume rebate from the supplier. By educating

Educate: Exposing booking costs to employees increased adoption rates of the online booking tool by 30%.

A large medical device company had difficulty driving employees to its online booking tool until it began including the 'backend' \$40 live agent booking fees in travelers' itineraries.

In making this small change, the company increased adoption of the online booking tool by 30% within a matter of weeks. This move had the additional benefit of increasing bookings with preferred suppliers which were clearly identified with a star.

Enforce: Leveraging individual performance metrics to increase compliance.

A leading business services company integrates compliance metrics as well as incentives for policy adherence into individual performance reviews.

When a situation arises during promotion ratings where two employees are rated exactly the same in every other performance category, a record of on-time expense report submissions is often used as a tie-breaker. This fact is well known amongst employees.

This company also provides incentives for using the corporate card, per policy. Although this company has individual liability for its corporate cards, it offers reimbursement of the annual program fee to employees who pay all corporate card bills on-time and in-full.

employees on these 'hidden costs,' they become aware that even simple payment choices can directly impact the bottom line.

Mandating training on policies can ensure employee awareness. However, training alone may not be sufficient. Requiring employees to formally acknowledge policies with a signed statement can also help.

A global consumer products company increased compliance levels after requiring employees to sign a document acknowledging their awareness and understanding of company policies.

By educating employees on the financial implications of adherence to policies, companies can enable their employees to act as responsible decision makers. Exposing total costs to travelers can have a significant impact on behavior.

Enforce

Drive individual and leader cost accountability.

Including compliance to policy as an individual performance metric can directly influence employee behavior, curb maverick spend and reduce leakage. The same principle applies in holding business unit leaders responsible for organizational spend. Internal benchmarking can have an additional impact on compliance by creating a sense of competition, particularly between business units and even between employees.

Using individual and group metrics for benchmarking creates a basis for assessing the current state. By comparing operating units, segments and even countries, companies can duplicate internal leading practices and hold non-compliers accountable.

To target indirect spend reduction, the expense management team at a global conglomerate distributes monthly dashboards to senior management highlighting spend trends. Including this information as a performance metric for the operating company leads results in more diligence in encouraging cost conscious behaviors on behalf of the leads within their unit.

Another company interviewed increased expense submission rates by tracking submission rates as a performance metric. It is widely known within the organization that this metric is used in the performance assessment process.

Focus Area Two:

Drive Value through Data Analysis

Accenture research has found that businesses that substantially outperform competitors are 5 times more likely than low-performers to use analytics strategically.⁴

The complexities of running a global expense program remain constant challenges for expense management professionals. Focusing on data analysis provides an operating advantage for businesses by helping them bring clarity to business problems.

For most companies, developing data analysis capabilities requires little investment and can have an immediate benefit. For example, one company interviewed for this study leveraged one full-time employee, a spreadsheet tool, and database tool to consolidate their data and perform analysis.

Consolidate

Build a holistic view of corporate expenditures.

Consolidating multiple data sources to provide a holistic picture of company expenditures can provide incremental benefits to companies.

While access to data is fairly consistent, several interviewees for this study looked only at one source of data at a time. Few companies combined multiple data sources such as corporate card, meeting card, procurement card, and travel agency and ERP data to get a holistic view of expenditures.

Companies with leading practices consolidate data from multiple sources at the global, regional, and local levels to gain a holistic view of their expenditures.

For example, a large technology company uses a database tool to organize expense data on a monthly basis. Global expense submission information, corporate, agency, and ERP data are all combined. Having a consolidated view of company expense data has had tremendous benefits on sourcing negotiations and program management.

⁴ Accenture American Express Corporate Card Data Value Study, 2004

Analyze

Seek to understand spend trends and related financial impacts.

In times of economic uncertainty and extreme profit pressure, many companies make reactionary decisions that lead to only short-term benefits. Some of these decisions can even create unintended consequences in the future.

Lack of information is often to blame for reactionary decisions. Insights from data analysis can bring clarity to business problems and help leaders make fact-based, sustainable decisions.

Companies that have developed a sophisticated approach to data analysis often consider it to be a competitive advantage. Analysis goes beyond just reporting on the past but also helps companies understand underlying factors, model the financial implications of business decisions, and identify the best course of action.

Analyze: Savings of \$3.5MM annually by using analytics to model business scenarios. One large business services company applied a simple spreadsheet tool to analyze multiple travel related business scenarios and to identify the biggest savings opportunities.

By using analytics for modeling, the company was able to adjust travel patterns and determine the optimal scenarios for saving. One client location piloting this travel demand spreadsheet tool identified potential savings of over \$3.5MM annually.

Act

Hold suppliers and employees accountable for their choices.

Data is of little value if it can not be used in setting a course of action. Several companies interviewed sent reports to business unit leads without a corresponding action plan.

However, leading companies interviewed were able to act on insights from their data and measure the benefits of those actions.

For example, a large technology company takes an active, data-driven role in monitoring global supplier compliance. During a routine analysis of preferred supplier hotel rates, the company noticed that too often negotiated rates were not offered to employees. Empowered by this information, the company removed the hotel from its online booking tool, resulting in an estimated \$25,000 daily lost opportunity cost for

the hotel chain. Within a matter of days, the hotel established contact to mend the relationship and provide additional guarantees that the negotiated rate would be available.

Expense management programs that focus on analytics can act with certainty. Leading companies supply business leaders with the right analysis to make fact-based decisions and measure the benefits achieved.

Focus Area Three: Plan for the Long-Term

Companies that fully automate expense processing and maximize card capabilities reduce process costs by 40%.⁵

The profit pressures of the current economic downturn have created an incentive for expense management professionals to consider developing long-term, structural advantages. While many indirect commodities are being targeted for reduction, there is an opportunity to build a business case for changes that can offer future, suitable operating expenditure reductions, do not require enormous investments, provide a swift payback, and drive cost savings. Some organizations have recognized several significant changes over the past few months:

- Expense management professionals have the support of senior leaders for cost cutting measures
- Cultural shifts are occurring at a number of companies due to increased profit pressures
- Employees are more open to transformational changes during difficult times

These conditions provide expense management professionals with the opportunity to reduce operating costs and implement the right technologies for greater visibility.

Simplify

Promote a cost effective operating model that reduces redundant functions across the organization.

Operating efficiencies becomes more crucial during an economic downturn. Standardizing processes, streamlining systems, and reducing redundancies can result in significant cost savings.

Establishing a lower cost operating model is a major transformation that requires consensus from multiple areas of an organization.

However, the increased attention from senior leadership and the greater reception to transformational changes during difficult times, make it easier for expense management professionals to gain support.

By moving to a centralized, shared services, or outsourced model, companies can reduce operating costs and complexities.

Improve

Implement enabling technologies for sustainable benefits.

Business leaders are often resistant to technology investments due to the initial capital expense, execution risk, and benefit realization. However, targeted investments with quick paybacks are a strategic way to drive sustainable cost reductions.

⁵ Accenture American Express Corporate Card Data Value Study, 2004

Simplify: Standardizing back office operations drives significant savings and increases visibility into employee expenses.

A global technology company has fueled growth through the acquisition of 100+ companies. As the company grew, so too did the complexity of its back office operations. Over the last 2 years, the company kicked off an initiative to consolidate 91 travel agency websites to 4, standardize back-office operations in a central location, create one global travel and meeting policy, and take a global approach to sourcing negotiations. The company was able to realize the following benefits:

- 42% reduction in expense management related operating expenditures
- 45% back-office FTE (full time equivalents) reduction
- 93% global adoption rates of online booking tool
- Additional benefits gained from having globally consolidated data for sourcing negotiations

As an example, meetings are a growing cost for companies and an expenditure that very few have full visibility into. Meetings management technologies allow for integrated processes, increased controls, and added visibility. Furthermore, meeting management technology provides expense management professionals with one centralized source to capture all meeting related spend data. Not only can greater sourcing benefits be achieved with consolidated and complete meeting spend data, but analytics into this data can also identify cost drivers, redundancies, and further ways to manage meetings costs.

Collaboration technologies, such as video conferencing, can also create sustainable savings. Although it can be a costly upfront investment, rising travel costs and the emergence of global teams have reduced the payback time for these investments.

Investing in tools to gain visibility into spend can also benefit companies. By acquiring database tools to integrate data, post charges to the general ledger, and automate expense processes, companies can save on processing costs.

As expense management receives increased focus in the coming year, strategic expense management professionals are taking advantage of the opportunity. They are looking to gain buy-in for organizational changes and technology that can position the company for success in the long-term.

Next Steps: Take Action

Planning makes up the majority of the effort for driving valuable improvements.

Expense management professionals who position their companies to take advantage of the economic downturn will not only realize short-term benefits, but will also position their companies for success when the economy improves.

Operating changes, such as developing individual accountability and improving data analysis, can drive benefits now. Structural changes, such as simplifying operations and improving processes, can deliver sustainable value.

Take action now by prioritizing initiatives, planning what changes are appropriate for your organization, and executing on the plan.

Prioritize

Assess your current environment and rank opportunities based on organizational readiness, level of executive support, and magnitude of the change:

- **Conduct an assessment** of your operating techniques to understand opportunities for improvement. Measure current operations and compare findings to external benchmarks of leading companies.
- **Prioritize** based on availability of funding and projected returns. Pair investments with sources of available funding and then prioritize projects by ROI. Order opportunities by organizational readiness for change.
- **Identify executive** support and areas of possible resistance.

Plan

The majority of the work involved in bringing about process improvements is planning:

- **Quantify the value** of changing via a business case. Organize existing data, estimate costs of change, and list assumptions.
- **Define a strategic roadmap** with detailed plans to bring change. Consider if changes should be made globally, regionally, or locally. List all risks and propose mitigation strategies.
- **Develop a communication plan** to gain support for change. Think about how to gain support from executives and how to 'sell' the change internally.

Execute

Execute on the plan. Consider three points when carrying out on your plan:

- **Gain and sustain executive support.** Identify supporters early and maintain relationships throughout the project.
- **Carry out on the plan.** Ensure that the plan is comprehensive and risk mitigation strategies are in place.
- **Measure progress frequently** and adjust the project plan as needed. Agree on key metrics to measure the success of the project and build a process to gather and review these metrics.

This economic environment provides an opportunity to analyze the efficacy of current operations and to make improvements that fit a company's individual needs. If done correctly, these changes can deliver long-term, sustainable value.

Basic and Leading Practices By Focus Area: Identifying Opportunities for Change

	Basic Practice	Leading Practice
Focus Area 1: Hold Employees Accountable		
Communicate	<ul style="list-style-type: none"> • New employees are directed to intranet site containing policies • Online policy manual is available to all employees but not easily accessible or user-friendly • Non-compliance to policy results in no action or delayed action 	<ul style="list-style-type: none"> • Formally document and distribute all T&E policies and procedures; new employees are held accountable for knowing all policies • Automatic reminders sent for non-compliance to policy • Policies are available on an easily accessible, user-friendly website
Educate	<ul style="list-style-type: none"> • Employees are not exposed to true cost of spend decisions • Expense management professionals have a limited view into cost drivers; there is no formal cost reduction program 	<ul style="list-style-type: none"> • Employees understand downstream impacts of spend decisions and make cost conscious choices • Expense management professionals have visibility into the total cost of transactions and use this information to influence employee behavior
Measure	<ul style="list-style-type: none"> • No or limited benchmarking is performed • Individual performance management is not integrated with compliance to policies 	<ul style="list-style-type: none"> • Individual performance management integrates compliance to policies that are most costly to the company • Benchmarking is performed (internally and externally) and opportunities for innovative imitation are identified

Focus Area 2: Drive Value Through Data Analysis		
Consolidate	<ul style="list-style-type: none"> • Internal and external data sources are used in a standalone manner 	<ul style="list-style-type: none"> • Internal and external information is consolidated to create a holistic, meaningful, global view of spend
Analyze	<ul style="list-style-type: none"> • Limited value based analysis is performed; key business decisions are made without adequate information or are based on a simplistic frameworks (e.g. expect profit to go up, impact on capital or risk not considered) • Multiple definitions and calculations of metrics • Measures used at the top not aligned or connected to those used to manage day-to-day operations 	<ul style="list-style-type: none"> • All key business decisions are based on rigorous value analysis prepared with accurate and timely data; profit, cash flow, capital, and risk (short term and long term) are all considered • A single definition and calculation for each metric exists • Clear alignment between measures reported up and those used to manage down
Act	<ul style="list-style-type: none"> • Expense management group is in a reactive mode, responding to changes driven from elsewhere in the organization; plays a limited role in major business transformation efforts 	<ul style="list-style-type: none"> • Expense management group is proactive in driving both T&E/procurement-specific and enterprise-wide change aligned with the company strategy and with shareholder value creation; this group often plays a lead role in major business transformation efforts

Focus Area 3: Plan for the Long-Term		
Simplify	<ul style="list-style-type: none"> • Organization structure has "evolved" over time without intentional design; no use of shared services or limited use for selected transactional processes; limited use of low cost locations 	<ul style="list-style-type: none"> • Organization structure has been intentionally designed and optimized; all transactional activities are performed in shared service centers at low cost locations or are outsourced
Improve	<ul style="list-style-type: none"> • Multiple systems; limited or no global visibility into purchasing commitments, spend, or payables by vendor; limited use of EDI and/or other paperless technology • No or limited availability of collaboration technologies 	<ul style="list-style-type: none"> • Single end-to-end system used worldwide; system generated visibility into global purchasing commitments, spend, and payables balance for each supplier; heavy use of EDI and/or other paperless technologies • Global availability of collaboration technologies

About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become High-performance businesses and governments. With 186,000 people in 49 countries, the company generated net revenues of US\$23.39 billion for the fiscal year ended Aug. 31, 2008. Its home page is www.accenture.com.

About Finance & Performance Management

The Accenture Finance & Performance Management service line helps clients on their journey to high performance by identifying critical issues relative to the office of the CFO, setting strategic direction and successfully delivering innovative solutions to transform their finance management capabilities.

We offer a range of financial consulting services, focusing on the areas of Corporate Finance, Enterprise Performance Management, Finance Operations and Risk Management. We have the breadth of experience, global resources, superior assets and deep knowledge and insights to help the CFO create new forms of value.

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For more information, visit www.accenture.com/fm or contact: fpm.service.line@accenture.com.

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