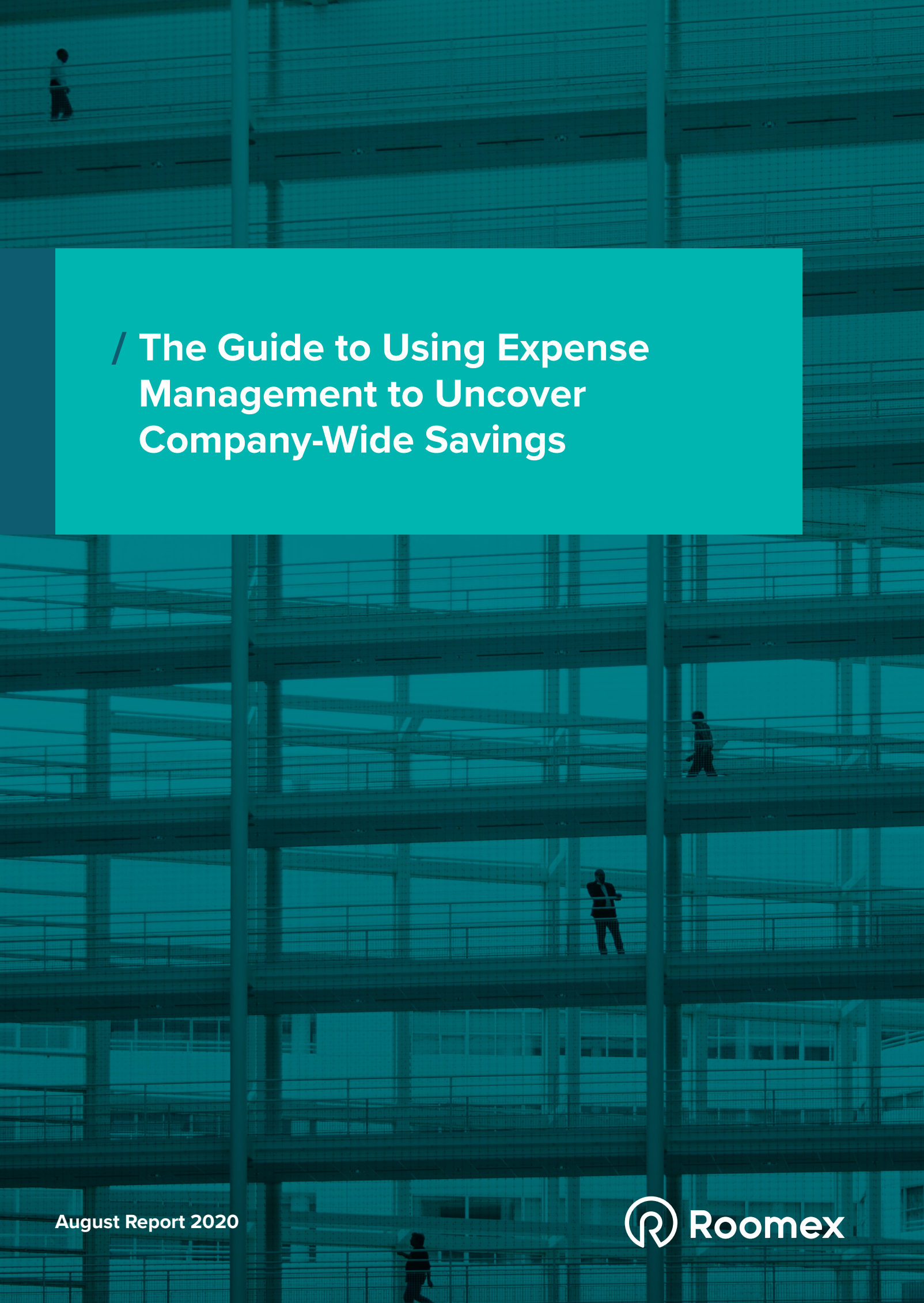

The Guide to Using Expense Management to Uncover Company-Wide Savings

August Report 2020

Roomex

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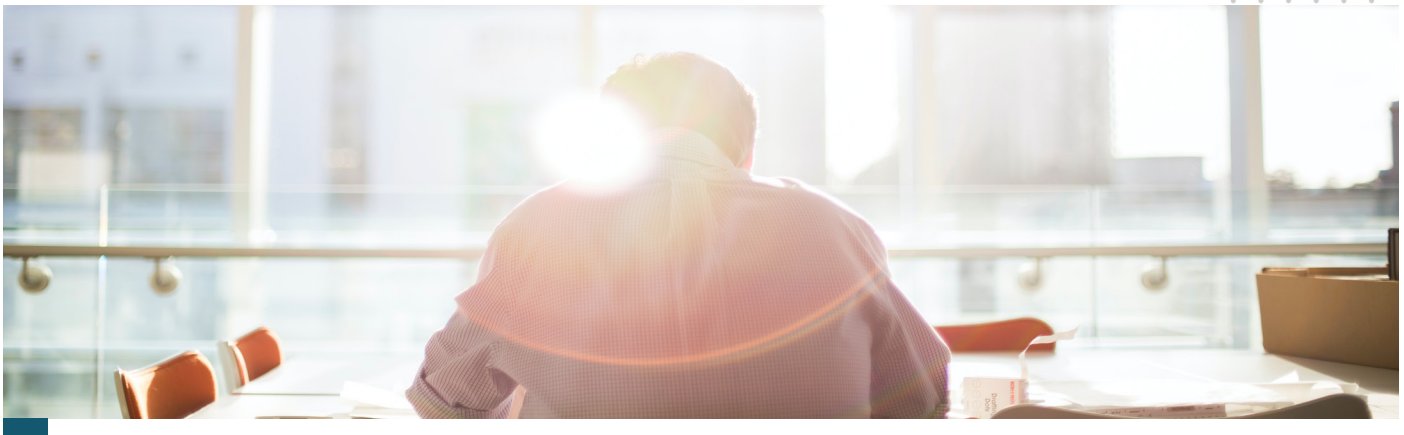


1. Introduction

The word expense immediately draws negative feelings. One reason, because yes, it essentially means cost. But, what if we shifted that story - and used it as a way to visualise new ways to save?

The process of expense management has undergone a huge shift over the last few years. When coupled with a company's strategic goals, and managed in a user-friendly, efficient manner- expense management can highlight areas where savings can be increased while easing stressors associated with the process.

This guide is going to **discuss and break down the direct and indirect costs of traditional expense management processes**, then move to **explain how the method can be improved to yield savings**. Next, it will provide **templates to help you create an expense policy** that benefits your employee's daily routines as well as the company as a whole.

2. Why traditional expense management is a cost to your business (and why it's a thing of the past)

In this section we're going to cover:

- The reasons why expense management is costing you so much
- The direct costs of expense management
- The indirect costs of expense management

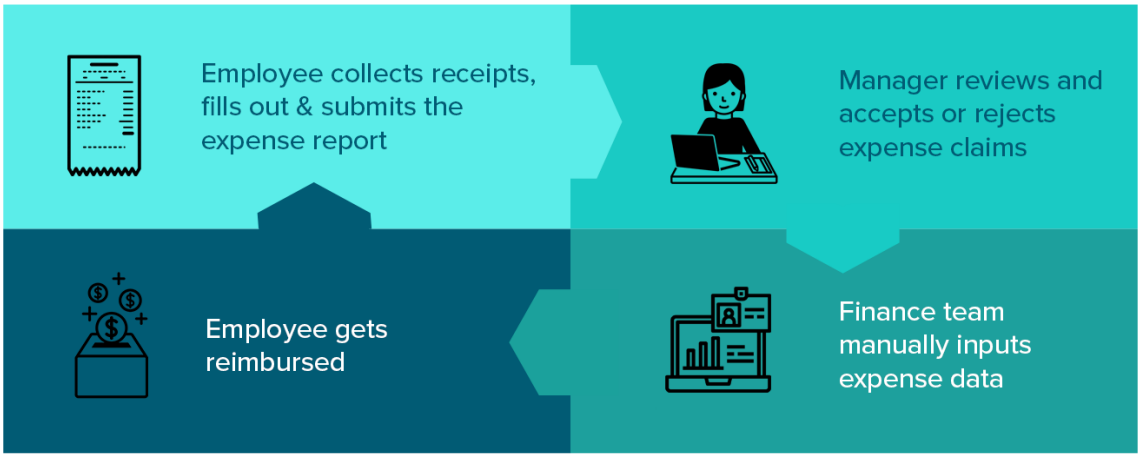
First, let's tackle just why expenses are costing you so much with the way they are traditionally done.

Traditional expense policies are created with two main goals. First, to reduce expense fraud amongst employees. Second, to have complete control over all employee spending.

Have you ever or do you currently manage expenses in any of the following ways?

- ☑ Filing Expenses: Used one company credit card (say the CEO) for all at work expenses
- ☑ Filing Expenses: Paid for expenses out of your own pocket while travelling
- ☑ Filing Expenses: Filled out an excel sheet or sent an email with your expenses after travelling
- ☑ Filing Expenses: Wasted a half a day sorting through receipts and stapling them to your tracking sheet
- ☑ Managing Expenses: Spent the hectic last days of the month sorting through, recording, and cross-checking employee expense reports
- ☑ Managing Expenses: Finding and dealing with the consequences of expense fraud
- ☑ Managing Expenses: Paid out individual employee expenses on top of their paycheck, and allocated costs from the total company budget
- ☑ Managing Expenses: Had one designated employee that was responsible for reminding employees to file expenses and chase employees to submit reports

If you ticked any of these boxes and/or grimaced recalling some bad memories - looks like you've seen the dark side of expense management (we have too.) And, even worse, these convoluted processes are not just headache-inducing, but are hard on your company's pockets. Why? Because 9 times out of 10 traditional expense management looks a bit like this:



If you're the employee with the expenses to claim and you skip a step you fear not getting a full refund. If you're working in finance and don't get all the forms completed correctly or enter the data incorrectly it could lead to a bigger error. Either way - most businesses stick to this process to feel safe, keep a 'tight' budget, and reduce fraud. But do they?

In short. No. Traditional means of expense management have both direct and hidden costs.

The direct costs of traditional expense management

1. Money

There's an average monetary cost that companies spend processing expense reports, a landmark study from the Aberdeen Group placed the cost at £16.50 per report, where Concur found that it's closer to £29.00, and the Global Business Travel Associaton reported it's around £45.00. To keep it simple and not get lost in the numbers, let's say the average cost of processing an expense report is the average of these three findings, so £30.10.

Follow along with the formulas on the next few pages with this template

Let's say I run a construction company with 50 employees travelling per month, each submitting claims 2 times each.

Number of people X 12 X Number of Reports X Average expense report processing cost

50 X 12 X 2 X £30.10 = £36,120 per year

So for my company of 50 travelling employees filing 2 reports per month, I'd be wasting not only energy but £36,120 a year. And, that's not even including any expense management software you're using.

Next, find out how much you're spending on your expense management software. A formula for this could look like:

Number of users X 12 X Cost of Programme Monthly

In the case of my sample company, we'd estimate individual license would cost on average £15.00 monthly.

50 X 12 X £15= £9,000 per year

So, in total, my company would have spent £45,120 just on filing and managing expenses in the traditional way. And, we haven't even allocated for the cost of making a mistake (because 19% of expense reports will have one) or the extremely high cost of fraud (which is much more common than you think.)

Want to try it for yourself? Here's a free template to calculate the cost of processing expense reports at your company.

2. Expense fraud

Fraud is something you wish didn't happen, but turning a blind eye to it could cost your business thousands.

Before moving any further, let's let the numbers speak for themselves, sourced from the 2020 annual report by the Association of Certified Fraud Examiners (ACFE), and their 2019 Benchmarking Report.

1. Theft by employees costs companies around **5% of their annual revenues** or $4.5 trillion on a global level.
2. There are many ways employees commit fraud against their employers, **however, 55% of all crimes cited were of employees creating fraudulent physical documents**. This is possible and most common when companies have outdated expense reporting methods.
3. A **lack of internal controls** contributed to nearly ⅓ of all fraud
4. 60% of organisations expect to **increase their investments in anti-fraud programmes** over the next 2 years

Since we're all on the same page that fraud is real and happens all around us, let's figure out some reasons how it happens, and how it can be stopped. We're focusing here on fraud in expense reports, as they are the most common type of fraud related to workforce travel.

1. Vague travel and expense policies

You shouldn't underestimate the importance of creating strong travel and expense policies (and we'll walk you through creating them in this guide.) Most big companies have strong, detailed travel policies in place but even they forget to add information on alcohol, car washes, GPS, train ticket upgrades, or hotel laundry. The clearer you are in drafting these policies, the more difficult it will be for employees to cheat on their expense reports. Keep reading and we'll cover how to write up an expense policy for your company.

2. Employees not feeling valued and 'pay themselves back'

Lots of employees feel burnt out, unrecognised and unfulfilled. This is due to many things, from poor compensation to micromanagement to constant travelling. Whatever it may be, they pay themselves back with small expense report deceptions. So, value and prioritise your team!

3. An oppressive travel policy

I know we just mentioned the problem with vague expense policies- however, if you go draconian on your employees it can create an 'us vs. them' culture in your company, and will hurt your bottom line when employees cheat on future reports to 'get back'. Aim for the sweet spot here where the policy is clear, but exceeding policy, especially when it's necessary, think the cost of travelling to London vs Birmingham, will not garner punishment.

4. Employees learned from their boss, who learned from their boss... and so on

Just as kids copy the behaviour of their parents, employees will mimic the behaviour of their superiors. If your top execs are splashing out on fancy dinners and drinks, chances are at least a few employees will follow suit.

5. Human error

Everyone makes mistakes. Sometimes even the most attention oriented travel managers book a room out of policy, or an employee submits the same receipt twice. These mistakes are tough to spot in a traditional expense management system, but easy in modern ones like RoomexPay.

6. Managers make mistakes too

I know we've harped on the 'traditional' way of managing expenses a lot, but this type of fraud is another one that stems directly from that process. Managers are not accountants, and shouldn't be. Once the employee organises their receipts and records it in the companies excel sheet, they send it on to their boss to approve. The manager typically will approve or misread some sections, maybe skipping over fraudulent claims, because again, they are not an accountant! Take them out of the equation and reduce fraud.

And... there's likely more. Clearly fraud doesn't present itself in obvious ways and can be extremely time consuming and difficult for even the sharpest accountants to catch. Between the complications of detecting fraud and the lack of real-time data that traditional expense management practices provide, **it's inevitable that expense report fraud is occurring. But, it can be stopped.**

The indirect costs of traditional expense management

As you just read, there's a lot of money to be saved just as we skim the surface of auditing your expense management practices. So far you've accounted for the cost per expense claim and the amount lost due to expense report fraud. Now let's look into the biggest indirect cost to traditional expense management.

Time.

How much time are you spending filing and reconciling expense reports each year?

Starting with some ground rules from the Global Business Travel Association. We'll assume the following stats to create our time formula:

1. **It takes 15 minutes for an employee to complete an expense report**
2. **5 minutes for the manager to review**
3. **10 minutes for a finance team member to review, reimburse and reconcile**

In total, about 30 minutes of three different employees time per report. Not so bad? Right... Well, 19% of expense reports or 1 in 5 contain an error. And each error takes about 8 minutes to correct.

Equations for you to use to project how much time is being spent filing, approving, and reviewing expense claims

These equations are done on an individual traveller, manager, and finance team level. If you'd like to calculate the time spent by your whole team, multiple the total number of minutes by the number of people in the department. Here's a handy spreadsheet to help keep you organised as you're calculating.

> 1. Time spent by an employee, assuming they take 15 minutes to complete an expense report and they submit 2 per month.

15 minutes spent per claim X Number of claims per month X 12 months a year

15 X 2 X 12 = 360 minutes

In this case, employees would have spent 360 minutes, or 6 hours each year filing expense reports. If you had 50 employees all following that practice that is 300 hours wasted or 21 days.

> 2. Time spent by managers, assuming it takes 5 minutes to approve an expense report, and they approve 5 per month.

5 minutes spent per claim X Number of claims per month X 12 months a year

5 X 5 X 12 = 300 minutes

In this case, each manager would have spent 5 hours reviewing expense claims. If you had 20 managers following this practice that would be 100 hours or 4 days a year.

> 3. Time spent by the finance team, assuming it takes 10 minutes to review, reimburse and reconcile an expense report, assuming they process 20 per month.

10 minutes spent per claim X Number of claims per month X 12 months a year

10 X 20 X 12 = 2,400 minutes

In this case, one person on the finance team would spend 40 hours a year reviewing expenses.

Our data from the Global Business Travel Association didn't end there. There is always room for error. According to them, 1 in 5 claims needs to be corrected, each taking 18 minutes.

> 4. Time spent by the finance team correcting errors in ⅓ of the 100 expense reports filed each month (20), each taking 18 minutes.

18 minutes per error X Number of claims per month X 12 months a year

18 X 20 X 12 = 4,320 minutes

In this case, one person on the finance team would spend an additional 3 days a year fixing errors in expense claims.

> 5. Finally - let's calculate the total time spent across company functions on expense management by adding all of the minutes together. Remember this is only accounting for our small example.

Employee + Manager + Finance + Finance error accounting

360 + 300 + 2400+ 4320 = 7,380 minutes

In this case, the company would have spent an additional **123** hours or **5** days a year managing expenses.

Try this out for yourself with our template

3. What a modern expense management platform looks like

So far we've established that the traditional way of managing workforce travel expenses costs your business money and employees a whole lot of time. You've done the work, calculated out how much you've spent in previous years and are looking to come up with a plan of action to implement change.

In this section, we're going to cover:

1. The benefits of a modern expense management platform
2. Creating an expense policy
3. Expense policy template

The benefits of a modern expense management platform

Let's begin with the data. In the same Aberdeen Group report referenced earlier, they explored what CFO's are looking to change about their current expense management practices:

1. **50% of CFO's had the goal of improving compliance with compliance policies**
2. **41% wanted to enhance business reporting and analytics**
3. **55% wanted to automate expense management practices**

A good place to start is by learning the benefits of a modern expense management system, and how they differ from traditional ones:

1. They focus on live, consolidated analytics rather than reporting

Just like your budget, your expense policy shouldn't be static. Maintaining compliance takes a lot of effort from your team. Modern expense management systems or proactive expense management removes this effort. In a matter of seconds, you'll be able to gain visibility into an individual, a department, and the business's spend as a whole. You can receive notifications in real-time of each transaction when certain individuals or departments get within reaching budget capacity and allocate more funds or freeze spend. You'll have all transactions categorised as they are made, saving time later. You'll also be able to course-correct faster if departments or individuals need less or more budget. Employees will be able to know when they are close to going out of budget.

This consolidated view of all transactions gives you visibility into daily, monthly, and yearly spend proactively, rather than reactively. Switch the narrative and the standard from reporting to live analytics. You'll be able to catch compliance or budget issues right in their tracks, or make an amendment in real-time should the budget need to be rewritten (because it always does!)

2. They're intuitive to use and set up

In your personal life do you go through three systems to make a payment? Did you get a how-to guide to learn how to use Amazon? No. It just made sense. Everyone is used to easy to use technology - and slow, complicated systems leave employees frustrated. Modern expense management systems use prepaid debit cards or credit cards and an app for their mobile phone. This means when they spend, it's easy and it's automatically recorded and tracked. And even more important - the easier it is to use, the more likely it will be adopted. From the administrator end, this means less chasing for receipts, approvals, and reactive budget updates due to changes in predicted spending. In other words- it's easy.

3. Fraud is reduced

As we discussed, fraud happens- and it's time-consuming to spot. With a proactive, modern expense management platform, policies are built right into the spend cycle, making it more challenging to commit fraud because it's easier to detect. These platforms offer various solutions for fraud. Depending on how your business manages policy, there's a lot of ways you can leverage these platforms to work for you. Here are some ideas:

- **Set up automatic per diem top-ups to prepaid credit cards on a weekly, monthly, or quarterly basis to avoid overspending**
- **Include a step for the employee to attach a picture of the receipt after they make the transaction**
- **Ensure the employee selects the category of spend after each transaction**
- **Flag purchases over a certain amount**
- **Require approvals on purchases made over budget**

With these automated checks and balances in place, it leads your team to work smarter not harder. Rather than the finance team sifting through messy reports trying to draw a possible fraud conclusion after it's been committed, the system will detect it at the moment.

4. Employees need a reliable, convenient, secure payment method

Paying out of pocket is annoying for both employees and finance departments. Employees wait weeks or months to get reimbursed, and finance teams spend hours cross-checking receipts and pushing out reimbursements. A lot of companies feel it's the only way, as they don't want to dish out company credit cards with £5,000 limits to every employee. COVID-19 has added pressure to both businesses and employees wallet's and asking an employee to pay out of pocket can put a strain on their own life. Not to mention it welcomes potential fraud opportunities.

Prepaid credit cards came onto the scene to create that happy medium. Companies simply add the exact amount budgeted for the trip or the week or the quarter onto the card, and employees have confidence that their spend is within budget while alleviating the pain of paying out of pocket. This also creates a more positive employee culture when everyone has a 'piece of the pie' - showing that you trust your employees.

On top of this, contactless payments are also trending during the pandemic, and customers are less likely to reach for cash for safety reasons. Last year they increased by 16%, and it's projected the adoption will be even higher this year. Prepaid credit cards are contactless, and can be added to Apple or Google Wallets.

5. They talk to your existing technologies

We need to stop the trend of the b2c world being far ahead when it comes to user experience compared to b2b technologies. Your employees know the power of good tech - and they use it every day. So, tap into existing technology one- your employee's smartphones. You and your employees own and regularly use smartphones, likely already for payments, so why replace this habit. Modern expense platforms are not reinventing the wheel, they're just making life easier through technology.

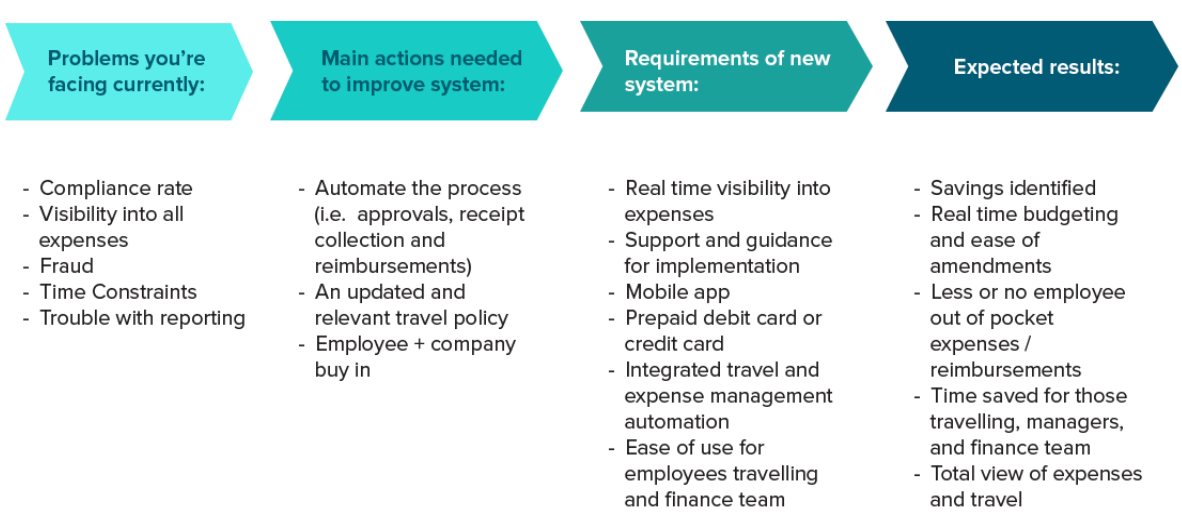
When employees are paying and recording their expenses on their smartphone not only is it convenient, but it saves time. There's no longer a need to 'do your expenses' upon returning to work.

It's also important your expense management platform integrates with other management tools you're already using- such as your travel management platform. These two go hand in hand and it's best when you can get the total view of spend broken out by booking cost data and in travel costs.

Right off the bat, a modern expense management system will reduce most of the major pain points you and your employees are facing with expenses while offering immediate benefits.

> *For your employees, there will be no more need for the collection of receipts, paying out of pocket, submitting reports on time, or waiting for reimbursement. The benefits for the finance team include simplicity of the entire process, less manual checks, no reimbursements, and no expense reporting. For managers, there's less time spent approving expenses and no onboarding time or cost. All this trickles down to your bottom line and what your investors are looking for.*

Before we move on to creating a dynamic expense policy here's a summary of what we've been discussing:



Creating an expense policy

An expense policy is an important part of your expense management platform. A well-thought policy leads to easier implementation and adherence to your expense management platform.

What is an expense policy?

Put simply, it's a set of rules and guidelines that specify how your employees can spend company money.

Why are they important?

Thoughtfully written expense policies keep everyone on the same page when it comes to spending, reducing the chance of fraud saves the company money, while increasing productivity. It should be simple, transparent, and trust evoking. They should be documents of empowerment, not restriction. It's not a list of things you can't do but a guide for employee decision making around spend.

Things to consider before writing your policy:

Be fair and transparent

If your employees see your policy as fair, they will be less likely to break it. At the end of the day, these employees are travelling on behalf of the company and should be able to claim reasonable expenses. An employee shouldn't spend hours finding a hotel within limits for a last-minute trip or go hungry if they fear they don't have enough for a cup of tea and dinner later.

The same rules apply to all

If managers can behave in a different way than their employees it creates tension on teams. Research shows that managers are more likely to go out of policy yet are half as likely to get rejected for that out of policy claim. A policy is only fair when everyone plays by the same rules.

Be flexible

The goal isn't just to cut costs - it's to ensure employees are well looked after and productive while travelling. Sometimes employees are forced to go out of policy, and it's not always a bad thing. If you're too strict it can drive resentment and employees can look to bend the rules.

Go with a localised approach

It's recommended to have different policies in place depending on the location. It costs more in London than in Birmingham and your expense policy should reflect that.

Get feedback from your employees

They are the ones travelling right? See what their pain points are, what they like about the current picture, and how you can improve. Not only does this create a better policy, but it creates ownership. Getting buy-in from managers also helps to ease implementation and adoption.

It should be simple yet specific

No. More. Jargon. The goal is to show the employee how they can spend company money, not educate them in law. The policy should be specific in what they can and cannot spend on to eliminate any confusion. For example, 'Laundry services are not included' or 'Dinner should not exceed £X.' The easier the rules are to remember and read, the more likely they will be followed.

Easy to find

Sounds basic, but make sure employees know where to reference the policy while on the go. It's best practice to offer expense policy training while employees are onboarding.

Documentation required

If you're using traditional expense management methods this is very important. Let your employees know what type of receipt and the date it's accepted until they need to attach to their expense report. For an automated system, it's much easier, however, it still needs to be addressed. For example, if a picture is required of the receipt or if the employee must select the category of the purchase.

Reimbursement

There should be very specific language for those that do not use prepaid company cards with employees paying out of pocket. Let your employees know when they will be paid back and how.

Integrate

As we've mentioned, it's best to have a real-time modern expense management platform. The perfect opportunity to put its bells and whistles to work is to include your expense policy right within the platform. Then the direction outlined in your expense policy document shows up throughout the steps of making a purchase, approving, and recording receipts.

We've created a sample expense policy to guide you as you draft yours. Note, this policy assumes you're already using or are switching to a modern expense management platform such as RoomexPay. It should be used as a guide.

Expense policy template

Our sample travel policy is extremely detailed, use only what is relevant to your business. We also reference our accommodation management platform RoomexStay. If you do not use this product to book accommodation, be sure to add in your travel booking policy.

Click here to download our free template

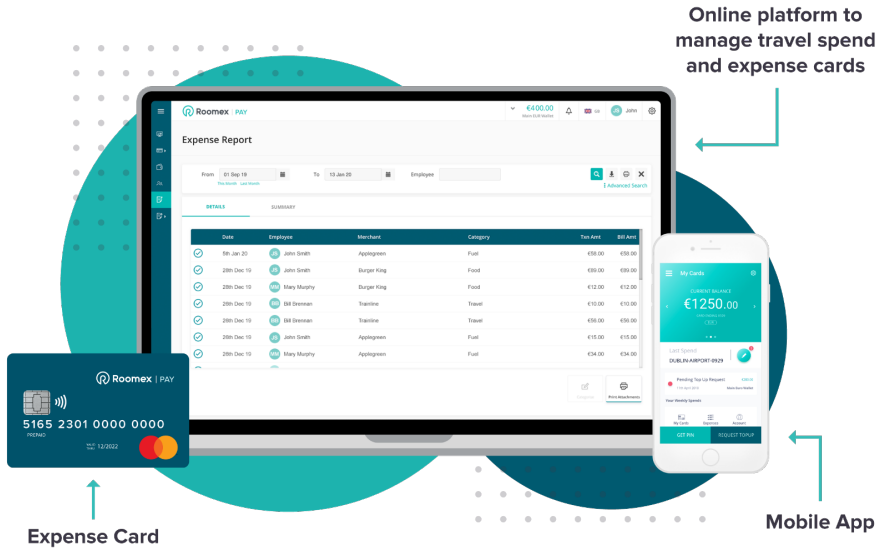
9. Conclusion

Overhauling traditional expense management practices have immediate positive impacts on your business. From cutting costs and reducing fraud to easing pain for employees, managers and the finance team - modern, proactive expense management systems have exponential benefits.

In this guide, we've covered the differences between how expenses were managed in the past, and how they can be managed today, and shown that by implementing these changes businesses can save both time and money.

Here at Roomex, we offer an end to end expense management solution called RoomexPay. It's easy to get set up, and we promise to help with any questions directly concerning your business as you get going.

- RoomexPay offers visibility and control to finance teams when all company spend can be monitored and analysed in real-time
- Prepaid company cards with customisable limits and top up schedules
- No more paperwork, false claims, or manual errors
- Employees will never be left out of pocket with prepaid company cards
- Expenses claimed in seconds when employees can simply snap a picture and categorise their expense on their mobile phones
- Best in class account management to guide you through best practices and the drafting of an expense policy



Get in touch with us to learn more about RoomexPay and begin the process of modernising your expenses

Roomex

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