Avoiding the shoebox: managing expenses in small and mid-sized businesses

How automation can help small and mid-sized businesses manage expenses

July 2010

Managing employee expenses can be one of the most irritating tasks a small or medium-sized business can have. Tracking receipts and accounting for spend incurred can be a real hassle – not to mention the headache of sorting through travel and entertainment (T&E) expenses from employees. More than ever, small businesses need to efficiently control costs and optimise cash flow, but how, and what role does automation play in this process?

Clive Longbottom
Quocirca Ltd
Tel : +44 118 948 3360 ext 200
Email: Clive.Longbottom@Quocirca.com

Rob Bamforth
Quocirca Ltd
Tel: +44 1264 711101
Email: Rob.Bamforth@Quocirca.com

Avoiding the shoebox: managing expenses in small and mid-sized businesses

Dealing with travel and expense management for small and mid-sized businesses

When most people think of expense reporting, they think of travel and entertainment (T&E) expenses. However, for small businesses, the need for an expense claim solution can go beyond T&E expense management to the everyday business expenses (e.g. utilities, office supplies, advertising, etc.). Managing these expenses can have a major impact on a business when an official audit is carried out and discrepancies are found between what is and what should be. Managing T&E and other business expenses effectively and efficiently is an imperative – not just a nice to have.

- **Small and mid-sized businesses tend to have different business expense management needs, compared to large organisations**
  Smaller organisations tend to expense a broader range of items than large organisations. Ensuring that claims are valid, and that tax and other legal issues are dealt with correctly, is a major concern.

- **Although the spreadsheet still rules, it is a costly way of managing expenses**
  Transcription errors, fraud, lack of centralised data and therefore the capability to report on expense trends, along with the sheer effort required to check and consolidate spreadsheet-based expense claims should drive small and mid-sized businesses to review usage – and look for more effective alternative solutions.

- **Business expense management will always be a cost to the business**
  Business expense management is a "commodity process" – one where carrying the process adds no real value to the business. The aim has to be to minimise the cost of operating the process. Manual, internal means of operating business expense management are not conducive to minimal cost.

- **Automation has to be the goal**
  Enabling employees to log expenses closer to the point of transaction and using direct consolidation against the employee's credit card records speeds up how expenses are dealt with and avoids errors in submission, with the added benefit of minimising fraudulent claims.

- **Domain expertise is a growing need**
  As more of the employee base becomes mobile, and the mobility includes crossing geographic borders, the need to understand the legal aspects of such mobility is far more difficult for a small or mid-sized business to manage. Using a dedicated external service provider to manage business expense claims means the costs of maintaining such knowledge are shared across a broad user base, and future legal problems can be avoided.

- **On-demand business expense management helps both the business and the employee**
  Using an external system to automate business expense management not only avoids the costs of a manual system, but also avoids errors and enables better reporting and trend analysis for internal and external needs. The employee also has a less invasive and impactful process, and claims are dealt with far more quickly and effectively – with fewer iterations between the business and themselves over possible errors.

- **A forward-looking provider is needed**
  As the internet embraces more areas, the need to incorporate mobile phones and other devices, along with direct integration into third party charge and payment systems, will increase. Quocirca recommends looking for providers who can demonstrate leadership in such areas.

Conclusions

Business expense management can be a costly and legally difficult set of processes to manage. Through the use of an on-demand provider, processes can be automated, errors can be avoided, and legal needs can be managed without the need for the business to try and maintain such in-depth domain expertise. Moving away from spreadsheets to a system based on data consolidated from all employees and using direct expense data indicated via electronic credit card records means that a small or mid-sized business can see where expenses are being accrued, can look at how these are trending and can gain far greater insights and control over what is happening – reducing costs and providing a faster and more accurate claims approval and payment system to their employees.

1. Introduction

There's a raft of new emails, each with a spreadsheet as an attachment. There's also a raft of physical envelopes that have appeared in the in-tray. Yes – it's that wonderful time again for the financial person within the organisation: it's time to deal with expense claims.

For a small or medium business (for the sake of this report, anywhere from five employees through to one hundred or so), expense management tends to be slightly different to those incurred in larger organisations. Employees tend to expense business purchases that in a larger organisation would be subject to a full purchasing department's processes. Business items such as magazine or on-line subscriptions, paying fees for advertising and marketing, alongside the usual travel, accommodation and subsistence are all pushed through company or personal credit cards as an easy and rapid means of dealing with what is seen as an annoyance. Increasingly, mobile phones, laptops and other items such as printer consumables and equipment maintenance are expensed via an individual employee, rather than via the company itself. In many cases, these items will be expensed on the employee's personal credit cards alongside personal expenditure, such as the weekly groceries, the family vacation and the new gaming system for the kids.

For the majority of small and mid-sized businesses, control for such business expenses is through the ubiquitous spreadsheet filled in by the employee on a regular (generally monthly) basis. These spreadsheets are submitted to a central point, where they are checked for overall validity, accuracy and that the appropriate supporting documentation is available. Transcription errors have to be checked for and the spreadsheet then has to be consolidated with the various receipts and, where necessary, copies of credit card statements. Errors – such as claiming for personal items, mis-dating of claims and double claiming against original receipt and credit card statement – have to be taken back to the employee, and it may take several iterations before something that is acceptable to the employee and the business is reached. There will always be the employee who believes that "everyone does it" – adding the extra little bit to each mileage claim, changing the "0" on the receipt to an "8", asking for additional blank taxi receipts and so on. Identifying such expense misuse and dealing with it in a small or mid-sized business may not always be easy – and yet can result in major downstream issues.

This is where the joy of an external tax audit comes in. Provided that the person responsible for checking and consolidating all the expenses has kept fully up to date with all the laws around what can and can't be claimed and what has to be paid to the government and that everything has been fully cross checked and dealt with, there will be no problems. This tends to be beyond most small and mid-sized businesses – these skills tend to migrate not only to the larger organisations, but to the tax auditors themselves. However, any discrepancies may result in the company having to pay extra to the government – plus any interest and fines that may apply – and then to go back to the employee and reclaim certain expense payments, to charge them tax on certain repayments made or, in some cases, discipline or fire them.

All told, business expense management can be an expensive minefield for a small or mid-sized business to navigate. If only the whole thing could be made easier! Hang on – it can be: but only when automation is brought to the fore, so that domain expertise can be easily applied to deal with the rapidly changing situation in how expenses need to be dealt with.

2. The dangers of manual processing of business expense claims

Firstly, though, let's look at why manual systems aren't the best way to try and deal with business expenses.

Business expense management falls into an area that Quocirca terms a "commodity process". This is a process that every organisation has to carry out, and doing it well provides no competitive edge or additional revenues to the bottom line. Business expense management – no matter how well it is managed – will remain a cost: the key is to minimise this cost to the business as much as possible. The costs themselves accrue through the time spent by the employee in maintaining adequate records, in filling in and submitting claims, along with the time expended by the person or people within the business responsible for checking and authorising payment of any claims. Then, there are the probable costs that have to be allowed for when an external audit is carried out – ensuring that everything can be demonstrated to meet legal requirements and that all claims and payments have been made correctly.

Manual systems, usually based around spreadsheets, are cumbersome, and employees tend to put off completing their claims until the last possible moment. This results in a last minute dash to bring together all the receipts and details of trips, including accommodation, subsistence and so on from all travel undertaken, along with all other expenditure made through the period on other business items – postage, subscriptions, mobile telephones, ad-hoc

quocirca

maintenance and so on. All these receipts may be spread around – the travel bookings may well have been made over the internet, and the receipts will be in the office or at home. Hotel, taxi and subsistence receipts may well have been placed in individual trip wallets that have then been aggregated into one "safe" place through the month – the ubiquitous "shoebox". Ad-hoc business expenditure receipts could be in a jacket pocket, in a briefcase, in a drawer at the employee's desk, tucked into a wallet or held electronically in an employee's email inbox. Bringing all of these together is, in itself, a problem, and many employees use the "best efforts" mantra – they spend a minute or so looking, give up and enter the claim without the supporting documentation. Transcribing information accurately is the next problem. As well as standard mis-keying by the employee, many receipts are hard to read in the first place, and after being in a pocket or wallet for a period of time, the print on many receipts may well be completely illegible.

Then there's the complete ostrich – the employee who hoards their expenses until they can be hoarded no longer – those where a sudden "War and Peace" claim is made – three or more months of expenses appear, with the employee expecting immediate payment (generally because they are facing having zero available space on their personal credit card). These are also the ones who are likely to try and reclaim credit card interest from the business – a dubious business claim at the best of times, and certainly legally dubious at the worst of times. For the financial person in the business, these claims can cause further problems – they may cross not only the minor internal financial reporting cycles, but may cross major external ones, requiring adjustments to be made and filed against existing records.

However, when Quocirca looks at the overall chaos of business expense management for small and mid-sized businesses, there is the one great hope: there tends to be the one point of commonality – the credit card. Payment by cheque is almost unheard of, and payment by cash tends to be for smaller items such as tips, magazines and so on. For those businesses using company credit cards only, the statement will be sent directly to the company, and direct comparisons between claims and statement can be made. For those where personal credit cards are being used (and this remains the majority of small and mid-sized businesses), there are other problems. Many employees loathe submitting full credit card statements with their claims, as these statements will also include personal expenditure details, as well as their outstanding credit balance, which they rightly want to keep to themselves. These records, though, do provide the single point of truth: the data is held electronically by the card operator, and cannot be transcribed wrongly or fraudulently changed if the right means of using the data are implemented.

3. The costs of manual business expense systems

Running a manual system is bound to be cheap, isn't it? Everyone already has a spreadsheet capability, the templates can be run up by the financial person (with a bit of help from a techie IT person), and then it's just a simple process from there on. Paying for a business expense solution can mean buying software, a server to put it on, the skills to run the system and so on. That can't be more cost effective – can it? Well, maybe the on-premise server plus application way shouldn't be the one to look at as a comparison – maybe a completely on-demand, subscription-based service makes more sense. Let's see…

Well, let's assume that the business is 50 people strong. At an average rate of 50% mobility, 25 employees will have to send in monthly business expense claims. It is likely that another 10 employees will have to submit claims on an ad hoc basis during any particular month. For the 25 "road warriors", the problems are generally around keeping all the expense details to hand and in not making mistakes in filling in their expense forms – whether accidentally or on purpose. For the ad hoc claimant, it's far more likely to be around understanding how to fill in the form, and what the rules are around claiming, for example, travel mileage in their own vehicle, refreshments while out for a single day, or whatever. They will probably have to find someone to ask – but will still have a few problems in the majority of the claims submitted. For the business, it's the unprofitable time spent by the employee and the financial people in dealing with the whole process.

If a figure of one hour per claim is taken as the total time spent on business expense management, then we see that 35 hours – or the best part of a single employee's total working week – is lost to just managing business expense claims per month. However, Quocirca believes that the real time will be above an hour once the finding of receipts, the dealing with errors and the iterations to an acceptable point are taken into account, and a 50 employee business can easily see itself losing 5% (2 and a half man weeks per month) of its possible productivity just to dealing with business expense management.

That's a lot of money/resource – and, as previously stated, it shouldn't need to come down to seeing how this compares with an on-premise, licence plus maintenance standard application-based solution. There is a better approach – and it's already out there.

quocirca

4. Using automation and outsourcing to beat the shoebox

If the business expense processes could be made more immediate and automated, the amount of time spent on them could be compressed dramatically. If employees can be provided with an easy to use, highly available entry and management system, they can enter their expenses closer to the point of payment. If the system can be tied to their credit card records, then receipts are less of an issue.

Through only having the need to consolidate items claimed against specific credit card records, the employee's full personal credit card statement is not needed – and the business does not get to see any personal expenditure, the overall outstanding balance on the card or other private information. Once the expense has been agreed as being valid, the business can make a payment directly to the card issuer against the agreed items. All of a sudden, we've removed a lot of the time issues – and the impact on an employee's productivity – through applying automation. However, if we are still using an on-premise solution, there are still the problems of the cost of operating the system.

So, let's look at the option of an outsourced system. Whether you just want to regard this as something old fashioned as being a "managed service", or you want to be as up-to-the-minute as possible and regard it as a "cloud" service, letting someone else run the system for you has a pretty impressive set of arguments going for it. For starters, it will tend to be a subscription-based system; you will know exactly how much this is going to cost the business per month, every month. There will be lower, more controllable variable costs based on how many hours it took for each claim to be dealt with. Then there will be the other, less easily financially defined, savings. For example, if the system is owned and run by an external provider, then the technical issues of ensuring availability, in managing the system and ensuring that patches and upgrades are implemented are removed. If the external provider is dedicated to business expense management, then the need for an internal resource to attempt to keep up to date with changes to the legal aspects of expense claims are removed. If you have a number of employees who travel across geographic boundaries on a regular (or even irregular) basis, letting the service provider apply their expertise in what this means to how expenses need to be dealt with is far better than having your own employee hit the internet and the phone in trying to find out how that plane ticket from Paris to Mombasa needs to be dealt with, and if the breakfast at Charles de Gaulle airport has the same liabilities as the dinner at the Mombasa Hilton.

Furthermore, the use of a centralised system means that full reporting can be carried out against the data. Types of expense can be analysed, individuals can be compared against other similar employees in the business. Anomalies can be easily identified; such as, for example, a personal expense on a mobile phone contract that is higher than others. It may then be possible to get the employee to move their contract over to a cheaper provider to save money. Another example could be where multiple subscriptions to an online service are seen, and it can be seen that a corporate subscription would save money. With manual systems, identifying such possible savings are difficult – with an automated, centralised system, it becomes very easy.

5. Employee benefits through automated external business expense management

For the employee, automated business expense management has many benefits as well. In the majority of cases, the employee no longer has to keep exhaustive records themselves. Logging the expense directly into the system and indicating which credit card it was paid with is pretty much it: everything else will be dealt with behind the scenes. Payment of a claim will be faster, and will be direct to the card issuer, so avoiding any unwarranted and unclaimable interest payments on the card.

As time progresses, newer means of dealing with business expenses are coming through. The use of smartphones has skyrocketed in recent years, helping to manage all aspects of business – from communication to business expenses. Businesses are seeing mobility as an essential tool for not only staying connected, but also for increasing productivity. For example, for outlets where cash still has to be used and a receipt issued, an employee can take a photo of the receipt using their camera phone and this can be automatically attached as an image to an expense record.

Everything here is aimed at making it easier for the employee to "do" their expense claim while on the move – seamlessly reconciling the record of expense at the point of transaction rather than waiting until later, making the need to keep exhaustive records backed up with pieces of creased, illegible paper unnecessary.

6. Conclusions

At first look, a manual business expense process can appear to be the cheapest means of managing business expenses. However, looking at the time wasted, the cost of errors, the need to maintain skills in pretty arcane legal areas and the need for consolidated reporting soon shows that the costs of remaining manual can be pretty horrendous.

Automated systems have many benefits, ranging from ease of use for the employee through to better reporting and hence the possibility to apply better controls for the business.

Outsourcing to a provider who can manage this automation provides further benefits; no variable costs around systems management, fully predictable costs around usage, no upfront licence costs with the need for spikes of maintenance payments.

Using a provider who has its own domain expertise in business expense management gives further benefits still: no need to try and keep up-to-date with local changes in tax and expense laws, no need to try and figure out what the rules should be when employees cross over geographic boundaries. The business can concentrate on its own internal expense policies that can be layered over the legal requirements.

Finally, choosing a vendor who is forward looking and has a proven track record in working with partners gives the ultimate in business expense management – look for the vendor who can show how they can tie in to financial systems, for those who work seamlessly with credit card issuers so that payments can be made directly without the need to pay the employee as an intermediary.

Also, as part of this capability to be forward looking, look at what the vendor has coming down the line – are they looking at making expense logging as easy as possible through looking to automate even the small, generally cash-based payments, such as taxi fares, snacks and certain ad-hoc business expenses so that employees can ensure that they log their expenses, that the records are accurate and timely, and that each individual gets what is owed to them, while the business can reclaim from government exactly what is owed to it.

quocirca

About Concur

Concur is the world's leading provider of on-demand Employee Spend Management services. Concur helps small, mid-size and large organisations control costs by uniting online travel booking with automated expense reporting and streamlining invoice processing. Concur's suite of award-winning on-demand services allow companies to get up and running quickly so they can focus on what's most important. By automating and optimising business processes, Concur delivers actionable business intelligence and rapid ROI, helping companies increase efficiency, control employee spend and drive down operational costs. Concur's business travel and invoice solutions are trusted by thousands of companies and reach millions of employees worldwide. Learn more at www.concur.co.uk.

World Headquarters
18400 NE Union Hill Road
Redmond, WA 98052
USA
tel (425) 702-8808
fax (425) 702-8828
(877) 4-CONCUR
www.concur.com

European Headquarters
7 Bath Road
Slough
Berkshire SL1 3UA
ENGLAND
tel +44 (0) 1753 574 400
fax +44 (0) 1753 501 700
www.concur.co.uk

Asia Pacific/Australian Headquarters
123 Epping Road
North Ryde NSW 2113
AUSTRALIA
tel +61 (2) 9113 7315
fax +61 (2) 9113 7330
www.concur.com.au

About Quocirca

Quocirca is a primary research and analysis company specialising in the business impact of information technology and communications (ITC). With world-wide, native language reach, Quocirca provides in-depth insights into the views of buyers and influencers in large, mid-sized and small organisations. Its analyst team is made up of real-world practitioners with first-hand experience of ITC delivery who continuously research and track the industry and its real usage in the markets.

Through researching perceptions, Quocirca uncovers the real hurdles to technology adoption – the personal and political aspects of an organisation's environment and the pressures of the need for demonstrable business value in any implementation. This capability to uncover and report back on the end-user perceptions in the market enables Quocirca to advise on the realities of technology adoption, not the promises.

Quocirca research is always pragmatic, business orientated and conducted in the context of the bigger picture. ITC has the ability to transform businesses and the processes that drive them, but often fails to do so. Quocirca's mission is to help organisations improve their success rate in process enablement through better levels of understanding and the adoption of the correct technologies at the correct time.

Quocirca has a pro-active primary research programme, regularly surveying users, purchasers and resellers of ITC products and services on emerging, evolving and maturing technologies. Over time, Quocirca has built a picture of long term investment trends, providing invaluable information for the whole of the ITC community.

Quocirca works with global and local providers of ITC products and services to help them deliver on the promise that ITC holds for business. Quocirca's clients include Oracle, Microsoft, IBM, O2, T-Mobile, HP, Xerox, EMC, Symantec and Cisco, along with other large and medium sized vendors, service providers and more specialist firms.

Details of Quocirca's work and the services it offers can be found at http://www.quocirca.com

quocirca