



CFO innovation ASIA ROUNDTABLE

**TRAVEL & ENTERTAINMENT
EXPENSES**

**Nurturing a Culture of Cost
Management in Volatile Times**

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About This Report

Concur, a global provider of integrated travel and expense management solutions, asked CFO Innovation Asia to invite a select group of CFOs, finance directors, controllers and other senior finance executives to a roundtable in Hong Kong on 7 June 2012. The participants shared their experiences and ideas about nurturing a culture of cost management around T&E (travel and entertainment) and other expenses.

This report records the insights of the following participants:

Sue Yeung
Vice President, Finance and Chief
Financial Officer
AsiaSat

Ramnath Sundaresan
Director, Finance & Controlling
Asia Pacific
BASF

Angela To
Director, Finance, Asia
Colliers International

Harry C. L. Poon
Executive Director and Head of
Financial Control
CITIC Securities International

Michael Eberhard
EVP & GM, Asia Pacific
Concur

Carisy Kwong
Finance Director, North Asia
Dairy Farm

N. Sivaji Rao
Financial Controller
H. Daya International

Rolf Frank
Head of Financial Accounting
ING Insurance Asia/Pacific

Dixon Choi
CFO, Hong Kong
Ipsos

Jeff Obermayer
Senior Vice President & Chief
Financial Officer
Johnson Electric

Kenneth Ho
Chief Financial Officer
Swatch Group Hong Kong

Pauline Kwok
Finance Director
TTI Electronics Asia

Theresa Chan
Corporate Finance Director
Warner Bros. (F. E.) Inc.

Andy Hung
Executive Director and Chief
Financial Officer
Willis-Array Electronics (Holdings)

Moderator
Cesar Bacani
Editor-in-Chief
CFO Innovation Asia

This report identifies the persons quoted whenever possible. However, some statements are not attributed to allow participants to express views that may not reflect those of their organisation.

One constant of CFO Innovation's quarterly Business Outlook Survey since it was launched in September 2009 is the top-of-mind place of cutting costs and supplier spend in the consciousness of Asia's finance chiefs. In the latest survey for the third quarter of 2012, 41% of respondents cited reducing overhead costs as a top-three key strategic focus. Another 28% said they would be focusing on cutting direct costs.



Blame the rising cost and uncertainties in doing business in these volatile times. For example, according to property management group Colliers International, retail leases in Hong Kong will overtake rents in New York by 2014. "Many companies in the luxury goods industry are competing with each other for sites in Tsim Sha Tsui and Causeway Bay [in Hong Kong]," said Kenneth Ho, CFO of watchmaker Swatch Group Hong Kong.

Colliers itself is facing higher costs. "Recently, we're seeing a trend where our T&E cost is moving upwards," said Angela To, Director for Finance, Asia. The company is expanding to second and third-tier cities in China and elsewhere. "So right now, we're thinking of strategies to cut down on travel and expenses."

"Apart from people costs and rental costs, I would say that travel and en-

tertainment are some of our major cost items," said Harry C.L. Poon, Executive Director and Head of Financial Control at CITIC Securities International. "It requires a lot of logistics and manpower to make sure claims are processed on time, at the same time that the efficient and user friendly procedures are compatible with control and approval-discipline."

"We are in retail for fast moving consumer goods, so we are very cost-conscious because our margins are thin," said Carisy Kwong, Finance Director, North Asia, at pan-Asian retailer Dairy Farm. Even if costs remain stable, added Jeff Obermayer, Senior Vice President & Chief Financial Officer at global motion sub-systems company Johnson Electric, "margins can always be better."

They were speaking at a recent breakfast roundtable discussion organised by CFO Innovation Asia in partnership with Concur, a provider of travel



Dixon Choi, Ipsos

and expense management solutions. The 13 senior finance executives were joined by Michael Eberhard, Concur's Executive Vice President & General Manager, Asia Pacific, and Cesar Bacani, Editor-in-Chief of CFO Innovation.

Leading by Example

One key take-away from the discussion was the importance of leadership by example in managing costs. "Our policy is that everyone travels economy, no matter if it's the chairman or the lowest rank," said Andy Hung, Executive Director and Chief Financial Officer at electronic components maker Willas-Array. "Privately you can travel any way you like, but for business, definitely economy."

"Leading by example is the key to success in nurturing a culture [of cost management]," agreed Dixon Choi, Hong Kong CFO for global market research organisation Ipsos. He recounted a recent regional conference where everyone had to share rooms, even the managing director. People were given the option not to share (they had to pay the difference themselves), but no one did.

This is easier said than done, of course. As one participant observed,

some leaders are unwilling, or unable, to set the example. One executive in his organisation likes to attend all client conferences and industry events. Finance is trying to modify his behaviour by quantifying how much business the company would gain if he goes and how much it will lose if he stays put in the office.

Drawing on Concur's client experiences (the company processed half a billion expense items around the world for customers last year), Eberhard observed that organisations where senior leaders take the time to talk through their T&E policies tend to be more effective in nurturing a cost management culture.

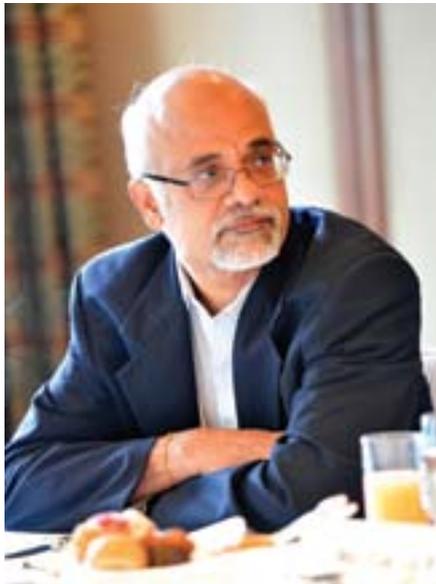
"One of a company's biggest controllable expenses is T&E, but senior executives may not necessarily understand the policies that finance is asking them and their employees to adhere to," he said. "The better they understand it, the better you have a conversation about leading by example."

But he warned against initiatives that directly tie cost-cutting to bonuses. "Most companies that focus on cost-oriented incentives tend to reverse them because of the negative effects," said Eberhard. People pay more atten-



Michael Eberhard, Concur

N. Sivaji Rao,
H. Daya International



tion to saving money rather than to growing the business.

In reality, he said, “you will have some divisions where you actually expect costs to increase based on their investments and what they’re doing, and you’ll have divisions where you expect costs to decrease [because they are slow-growing or have too much fat].”

“We have seen some creative approaches aimed at bringing down cost-per-employee [in aggregate] as opposed to overall cost in a department coming down,” he added. “We’ve seen some of that work very successfully as long as there is accurate data of what they are doing today and what they want to do tomorrow.”

Benchmarks and Budgets

The CFOs shared other strategies that are working well in their companies. One of them said T&E must be kept to 1% to 1.5% of revenues, a benchmark set by global headquarters based on historical trends. “It’s an overall average for the Asia-Pacific region,” this CFO explained. “The benchmark is higher for China and India [where sales have to travel to second-tier cit-

ies], and comparatively lower in [compact] Singapore.”

“We do it slightly differently,” said another CFO. “We delegate the responsibility to the individual because we send out a fixed T&E budget and people need to manage within that budget. They cannot exceed it.”

Finance regularly updates departments on how much they have spent. “We tell them how much they have left so they have to plan their trips accordingly,” she explained. “If they come close to the end, maybe they will downgrade their hotels and adopt other cost-cutting measures.”

Isn’t there a danger that people will stop traveling and growing the business by the end of the year because they have exhausted the budget? This CFO said finance can review the budget if there are new business events, for example. “But in most cases, we will keep it flat for the rolling 12 to 18 months.” The input of each department was taken into account in setting the budget, so everyone had skin in the game from the start.

Eberhard observed that companies that manage T&E through budgets are more likely to succeed if they do the allocations “bottom-up” because this “builds up accountability from the beginning. It’s really hard to hold people accountable if they weren’t involved in the creation of a T&E budget.”

The key is to provide the departments information on what they are spending today in the different T&E categories, give them an overall target and then allow them to own the process of how they will spend it. It is also important to give them the tools to track how they are doing against the budget, such as a quarterly reckoning on how much they have booked and how much they ultimately expensed, said Eberhard.

Ditching the Travel Agent

But budgeting does not work for some companies. "It's very hard to do a T&E budget because, in our kind of business, we never know what the customer wants," said Hung of Willis-Array. "All of a sudden, maybe a customer has a technical problem and we would need to send someone to solve it. Products might not fit the customer's need or there might be some design flaw."

Instead of budgets, the company has institutionalised practices aimed at putting a lid on T&E spending. These include bunching trips together whenever possible and flying to overseas destinations out of China instead of Hong Kong, where air fares are very expensive, staying in three-star hotels instead of international five-star hotels, and buying tickets from travel websites instead of using travel agents.

"Some local hotel chains in China, for example, are not bad in terms of quality," said Hung. "There's no need for a swimming pool or all those big things because you're there for only one night. And they're half the cost of the five-star hotel chains." Willis-Array asks its employees to try out the hotels and maintains a list of those judged to be good places to stay.



AsiaSat's Sue Yeung and Angela To of Colliers International

Employees at trading company H. Daya International do not stay in hotels at all. "Our experience in China is that it's more economical to take a flat on rental for a whole year and insist that your people stay in those flats," said Financial Controller N. Sivaji Rao. "A lot of our customers are doing this also. These flats are well-furnished; they have all the facilities like swimming pools and you can have a helper to cook and clean."

Eberhard agreed that companies can save a significant amount of money if they utilize travel websites. "The distribution system that an agency uses is called GDS, and many of those [second-line] properties are not in the



From left: Jeff Obermayer of Johnson Electric, Pauline Kwok of TTI Electronics, Choi of Ipsos, Andy Hung of Willis-Array Electronics, Yeung of AsiaSat and To of Colliers International



Kenneth Ho of Swatch Group, Theresa Chan of Warner Bros., Rolf Frank of ING Insurance and BASF's Ramnath Sundaesan

GDS," he explained. "If you're telling your employees 'you have to go to the agency,' you may be immediately cutting out a significant part of the lower cost inventory out there."

One alternative is to use aggregators like Ctrip.com and eLong in China and Cleartrip and MakeMyTrip in India to find those hotels not in the GDS database. "These aggregators have invested a huge amount of money to go out and get those hotels in inventory," said Eberhard.

All that said, Rolf Frank, Head of Financial Accounting at ING Insurance Asia/Pacific, believes that a dedicated travel agent is still an option. "My experience is that booking flights and hotels requires some expertise and knowledge on how the different fares and charges work," he said. An alternative is to turn over the booking function to the procurement function "because if you leave that to individuals, it is almost impossible to get the lowest rates."

Procurement to the Rescue

Indeed, said Eberhard, 70% of companies Concur works with have moved their travel management from finance or HR to procurement, which manag-

es it like any other expense category. Procurement goes out and gets corporate rates and contracts with airlines and hotels and then helps employees make the right decisions.

At ING Insurance, the procurement team recently negotiated contracts with some airlines and now the company's travel agent book flights under this corporate rate as much as possible.

Following a different path, one CFO said her company has set up a dedicated T&E international travel office. "We have a team of people negotiating international reduced corporate rates for us," she said. The company regularly holds media conferences and other events, so T&E volumes can be sizeable.

The contacts and relationships forged by the T&E team have other benefits, said this CFO. "Some of the hotel chains will alert us which particular day in the month would be very expensive because there is an event at the Exhibition Centre, for example. By moving our own event by a few days, we can save as much as 40%."

Pre-Travel Approval

One downside of company-rented service apartments is that they will typically not appear in the company's travel and expense management system, meaning that finance will not be able to compare rates and have a paper trail for control and analytics purposes. Eberhard said Concur is working on adding the capability to load service apartments rented by the company into the Concur booking tool, so employees will be able to book these apartments like any other accommodation.

Concur has also recently completed a new feature that allows almost real-

time approval by managers of proposed employee trips. “The biggest functionality we had to specifically build for Asia was this massive trend to do approval before you travel,” said Eberhard. “This has been a significant R&D effort on our side.”

If the travel and expense management system is integrated with those of the travel agencies and the company’s own hotel and apartment inventory, employees are able to see how much a particular hotel or flight is going to cost. After they have made their booking, the system routes the request to the manager for approval.

“Not only do you as manager get to see what they think the trip is going to be,” said Eberhard. “You can also see the decisions being made of where they will be staying and what flights they will be taking, versus what they didn’t choose.” The system will flag transactions that do not comply with the set T&E policies, such as a booking for business-class travel to a destination that the policy says should be economy class.

Bribery and Audit Trail

Some CFOs are looking at T&E not just from the cost management perspective. TTI Electronics Asia is owned by Berkshire Hathaway, the US\$144-billion-in-revenues conglomerate controlled by famed investor Warren Buffett. “Berkshire comes to us every year on internal audit,” said Finance Director Pauline Kwok. “They are very strict on compliance [with FCPA – the US Foreign Corrupt Practices Act] and T&E is one of the things they look into.”

The potential for T&E to be used for bribery and other illegal acts is also a key worry at telecommunications satellite company AsiaSat. “Our two biggest shareholders are GE and Citic from China, so we have to follow ev-

erything, including Sarbanes-Oxley,” said Sue Yeung, Vice President, Finance and Chief Financial Officer. AsiaSat has three different law firms to advise on compliance with the FCPA, the UK Bribery Act, and anti-bribery measures in China, Hong Kong and other places in Asia.

Even seemingly inoffensive gifting is now apparently suspect. One participant recounted how T&E claims by employees for moon cakes that were given to Customs officials in China were questioned by headquarters. “To us it is common to give moon cakes during the festive season; it is a courtesy,” this CFO said. But for people outside the region, it may violate the FCPA.

This is where an automated travel and expense management system becomes even more useful. When someone makes a claim for buying moon cakes or for hosting a meal for government officials, for example, the system can flag it and alert senior managers. If the system captures all the booked transactions, reimbursement claims, corporate card spending, and so on, it would also be possible to segment how much was spent for entertainment on which customer, providing clues on potential FCPA violations.



Frank, ING Insurance, Sundaresan, BASF, and Alexander Cheng of Concur

Automation should please the auditors, said Kwok, because manual processing can be vulnerable to error and fraud. "We would like all these manual jobs to be automated to give results that are more satisfactory to our auditors as well as speed up the turnaround time for the monthly closing," she said.

Will It Work?

Kwok was interested to find out whether automation could help with other issues such as taxation. For example, in some Asian markets, the tax treatment for entertainment spending on existing customers is different from the tax treatment of entertainment expenses involving potential clients. A T&E solution that allows finance to extract this information easily will be very useful.

She also wanted to know whether the solution will be able to not only segment spending by customer, but also extract information from the ERP and other systems about how much revenue was generated from those customers. "This will help our department heads decide whether the proposed travel will really generate more business and control costs," she explained.

For his part, H. Daya's Rao asked whether Concur's T&E solution can deal with courier expenses. The com-

pany sends out so many sample products by air that courier charges now rank second to salaries and wages in overall spending. Another participant focused on the issue of receipts as supporting documents. Can the Concur solution scan them so everything is paperless?

"Most of our customers are using our solution for more than T&E," Eberhard responded. "Any time an employee spends money, the process for filing and paying back is put within Concur. It doesn't matter if it's a hotel or a courier company. Each client decides what expense types they want to track and what expense types they want to process [using the solution]. You can use it for many different categories."

On receipts, the Concur system can indeed scan them. However, Eberhard warned, China and India require the paper documents as backing documents, so those papers will still need to be preserved. Segmenting according to existing and potential customers? Yes, the system can do that, too. And it can link the spending to the revenue generated by extracting the sales information from the financial management system.

Conclusion

But are the potential benefits worth the expense and effort of implementing an automated travel and expense management system? How much would the company need to spend, to begin with?

"It depends on what aspects of automation that you do," said Eberhard. "But most justify with returns within the first six months, and most of them are hard cost savings."

"From selling to CFOs for 20 years, I know that going in and talking theoretically does not typically work," he continued. "You actually have to have hard



Harry C.L. Poon, CITIC Securities International

cost savings. So if you look at your paper storage, your mailing costs, your processing costs, you can typically get it underneath a year in return. If you're looking at other things, say you're reducing travel costs by 3%-5%, then you'd be getting significantly returns within four to five months."

"There is a huge opportunity if you're not automated, and it doesn't have to be with Concur," Eberhard said. "I'll give you 90-to-one odds that you'll save money going to automation if you're manual today."

ING Insurance is actually already using Concur. "Processing is much easier and more transparent," said Frank. "Our employees are very happy that we can process claims much quicker and they

get reimbursed much quicker."

"We're fairly well satisfied," said another CFO whose company has signed up with Concur. "I won't say that Concur led to [massive] savings because travel is not a major part of our cost structure. But it's a good tool for analysis and we use it whenever need to pull back on expenses. Travel is something we can pull back in a downturn or whenever the economy is slowing down."

Different companies have different needs and circumstances, of course, so each CFO will have to make his or her own unique cost-benefit and other analysis. And as this roundtable discussion shows, sharing ideas and experiences with other finance leaders is also a helpful exercise.

About CFO Innovation Asia

An integrated digital, conference and research platform of Questex Media in the US, CFO Innovation Asia aims to provide strategic intelligence to the region's CFOs, finance directors, controllers and treasurers. It reaches more than 20,000 finance professionals through its three-times-a-week newsletters and regularly updated website.

CFO Innovation organises the annual two-day CFO Innovation Asia Forum in Singapore and other conferences in Hong Kong and China and India. It also broadcasts webinars and conducts research on a wide variety of finance, accounting, treasury, management and career development topics.

For more information, please see www.cfoinnovation.com

About Concur

Concur is a leading provider of integrated travel and expense management solutions. Its adaptable cloud-based and mobile solutions help companies and their employees control costs and save time.

Concur helps ensure that corporate travel is booked within policy before the trip is taken and reconciles expenses after travel is completed. By capturing and reporting on every aspect of travel and entertainment

(T&E) spend, Concur's solution provides detailed information to help clients effectively control spend and manage compliance.

Trusted by over 15,000 companies located in more than 100 countries worldwide, it processes 55 million transactions worth over US\$50 billion in T&E spend a year. Concur is publicly traded on the NASDAQ stock exchange under the ticker CNQR.

Learn more at www.concur.com.hk or www.concur.com.sg.

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