T&E INTEGRATION, FROM SOURCE TO BACK OFFICE: HOW DO THE SMB'S STACK UP?

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Report Highlights

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SMBs have less than half of T&E spend under management compared to Best-in-Class.

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SMBs are only 60% as likely to have defined exceptions for out of policy T&E submissions compared to the Best-in-Class.

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53% of SMBs have adopted a corporate card solution.

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SMBs are twice as likely to utilize a home grown T&E management solution.

This report examines the integration for T&E expense management for the small and medium businesses segment (SMB) compared to Best-in-Class performance, from the source capture of the information to back office integration.

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The first and largest issue by far is having control of T&E expenses.

All companies have travel and entertainment (T&E) expenses, and the challenges and issues in managing them are the same regardless of size. However, the question remains as to whether size matters when it comes to managing these expenses. Are smaller companies more efficient, or do size and scale help when it comes to integration of the T&E solution with other systems? Where does the balance lie between aiding the traveler and supporting the business? Are they compatible or conflicting goals when it comes to prioritizing technology solutions?

This report will examine these questions for small and medium businesses (SMBs) in terms of their capabilities and technology adoption compared to Best-in-Class companies, in order to determine where the differences lie and improvements that are needed. SMBs for this report are defined as companies with 1000 employees or less.

Business Pressures Facing All Companies

In order to understand the approach that companies are taking when it comes to managing their T&E, it is important to consider the business pressures that they are under. Figure 1 provides a view of the business pressures that *All Companies* are facing.

The first and largest issue by far is having control of T&E expenses. Management does not like surprises when it comes to reporting, and having visibility into expenses at all levels at the earliest possible point is a key to avoiding those surprises. Ideally, capturing the commitment or transaction at the source and making it visible would be ideal. However, control also means compliance and adherence to policies in order to drive better decisions, which will help minimize the expenses prior to the transaction itself. The result is that the greater the amount of spend under management by a T&E solution, the greater the control.

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The more spend being managed, the greater the visibility. However, that assumes that there is good integration from the source to the back-end systems in order to enable that visibility across the board. Spreadsheets and application silos are the biggest culprits when it comes to poor visibility. The goal is that once a transaction is made, it becomes visible immediately, with the data being captured at the source.

Figure 1: Business Pressures
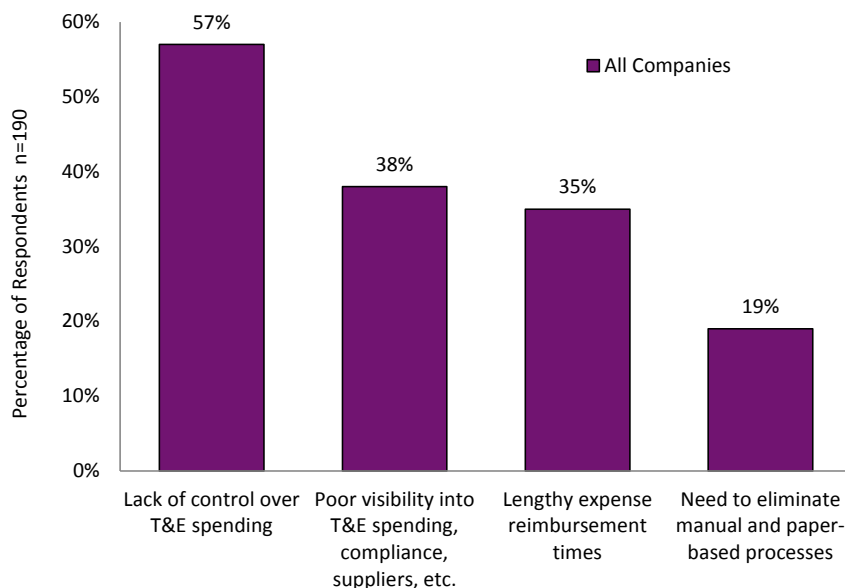
Source: Aberdeen Group, August 2015

> **Eliminating the manual handoffs and capturing the information electronically is the key to enabling standardization, streamlining, and strong integration.**

In addition to the company perspective, the needs of the traveler are also a concern. Lengthy reimbursement times can be a sore spot for employees when it comes to expenses for which they used their own money or credit, particularly if the process takes too long. The process time is often a function of how manual the T&E management function is. Eliminating the manual handoffs and capturing the information electronically is the key to enabling standardization, streamlining, and strong integration.

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Best-in-Class Definition:

- Best-in-Class – Top 20%
- Industry Avg. – Middle 50%
- Laggards – Bottom 30%
- All Others – Bottom 80%

Best-in-Class Maturity Matrix

We first look at the performance of the SMBs' group in Table 1, compared to Best-in-Class companies, to see where the differences may be.

The performance criteria for determining the Best-in-Class (see sidebar for Best-in-Class definition) are the percentage of travel spend under management, the compliance rate to policies, the number of days to process an expense report, and the average cost for processing a report.

Table 1: Best-in-Class Performance Metrics

Performance Metric	Best-in-Class	SMBs
Percentage of your business travel spending is under management	92%	45%
Rate of compliance to corporate T&E policies for your company	87%	76%
Number of days for an expense report to be approved for reimbursement (from when report is submitted until it is approved and sent for reimbursement)	3.5 Days	7.3 Days
Average cost to process one expense report	$25.92	$35.02

Source: Aberdeen Group, August 2015

There is quite a gap for the SMBs' group, compared to the Best-in-Class as far as spend under management, with the Best-in-Class having twice the percentage of T&E spend under management for their T&E solution. Unmanaged spend creates an issue because of manual handoffs and entering of expenses. It also creates an issue for approval and compliance to travel policies when the actions taken are outside of a system. It also creates an issue for approval and compliance to travel policies when the actions taken are outside the system.

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At over a week, the number of days to approve an expense report for SMBs is more than twice that of the Best-in-Class. The extra time is most likely because SMBs have less integration than the Best-in-Class. Having less than half the spend under management adds time to the process, and drives up costs for the SMB.
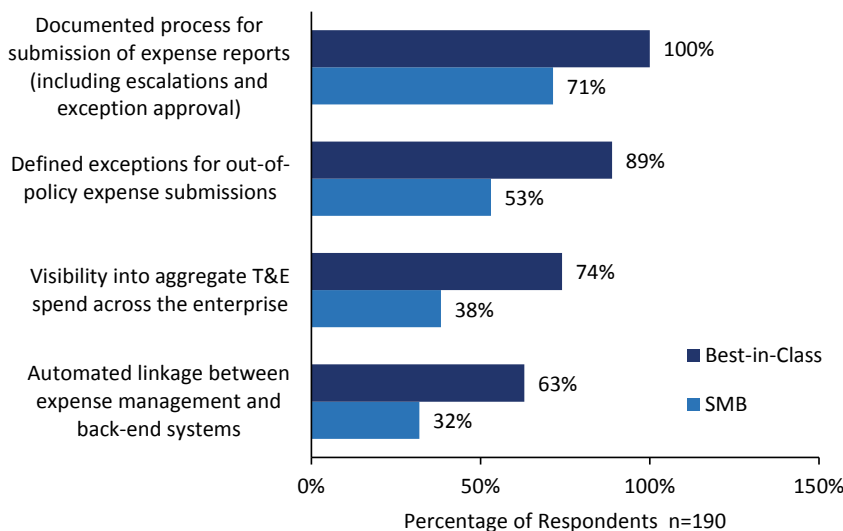
Capabilities

Figure 2 shows the basic framework and infrastructure behind a T&E solution for Best-in-Class companies compared to SMBs. Having a documented process for T&E expense management is the first step. Although SMBs companies have a fairly strong adoption of a documented process, they still lag behind the Best-in-Class, who are 40% more likely to have this in place.

➡ **Read the full report,** "The T&E Expense Report That "Writes Itself": How Close Are We?"

➡ **Related Research** "Best-in-Class T&E Expense Management: How They Do It"

Figure 2: Capabilities to Support T&E Expense Management

Documented process for submission of expense reports (including escalations and exception approval): Best-in-Class 100%, SMB 71%

Defined exceptions for out-of-policy expense submissions: Best-in-Class 89%, SMB 53%

Visibility into aggregate T&E spend across the enterprise: Best-in-Class 74%, SMB 38%

Automated linkage between expense management and back-end systems: Best-in-Class 63%, SMB 32%

Percentage of Respondents n=190

■ Best-in-Class
■ SMB

Source: Aberdeen Group, August 2015

The gap widens when it comes to having a process for managing exceptions, with the Best-in-Class being 68% more likely to have this in place. The significance is that when exceptions do occur and there is no established process to deal with them, expense

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Visibility is the result of having the big picture of which expenses are coming, or are expected. This is produced by an integrated view of the expenses.

reporting is bogged down and there are delays. Most exceptions can be identified and explanation codes can be standardized, such that the process comes to a stop only when a true exception occurs. Having a process that handles exceptions and minimizes delays is why the Best-in-Class can get an expense report turned around in 3.5 days, compared to 7.3 days for SMBs. Exceptions also place unnecessary demands on management time to resolve or sign off on what are in many cases routine approvals. This is why efforts should be focused on improving the exception management process.

Lack of visibility is one of the reasons behind the pressure to gain control of T&E expense management. The Best-in-Class are nearly twice as likely to have visibility compared to the SMBs companies. Visibility is the result of having the big picture when it comes to which expenses are coming, or are expected. This is produced by an integrated view of the expenses. Without that view, there is concern for the unknown, which fosters the perception of lack of control.

Only about one third of SMBs have automation connecting the T&E expense management system and back-end systems, — one of the reasons why the visibility is not as strong for the SMBs compared to the Best-in-Class. The delay of information flow is one of the reasons for the lack of visibility. Even though the information has been captured at the source, if it can't be seen due to process handoffs and delays, then from a reporting standpoint it's not visible.

Source Capture and Integration with T&E

As we identified in our recent report, The T&E Expense Report That "Writes Itself": How Close Are We?, April 2015, there are three transaction sources that must be dealt with for T&E management. They are the corporate card system/program, the

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travel and booking system, and paper receipts not covered by the first two. The default is always a paper receipt, but as companies grow, they realize that the sooner they can capture the information, the better the visibility they will have. Integration at the point of the transaction captures the information at the source, and if tied to the back-end systems provides visibility at the earliest possible point. We now look at the maturity of companies when it comes to adopting solutions that enable source capture of information, and secondly the integration of the source capture information with T&E expense management solution and back-end systems as required.

Source Capture Application Adoption

Figure 3 shows the adoption of applications that enable source capture to occur. The most common and widely adopted by the Best-in-Class is some form of corporate card system/program. Anything that can be charged can be captured here, which certainly helps the employee, because it has the backing from the company. It also provides visibility and typically analytic tools to organize and report on expense information from a variety of viewpoints. This is one area where moving to a corporate card would greatly improve the SMBs' efficiency and visibility. The second major area is to incorporate a travel booking solution. This could be for open or managed travel, but the advantage is that company preferences and policies can be offered and suggested to all users where discounts may apply or less expensive rates have been negotiated. The travel booking system will typically involve many of the large expenditures, such as airfare, which is a significant factor for visibility to large transactions.

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The ability does exist with mobile applications to scan receipts at the source as they occur and translate them into an expense line item right from the scan with optical recognition technology, such as OCR (optical character recognition).

Figure 3: Source Capture Application Adoption
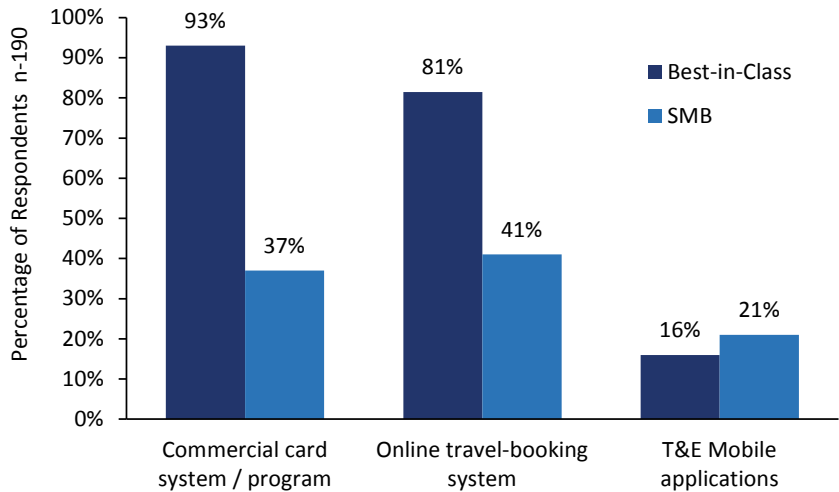
Source: Aberdeen Group, August 2015

The third area of source capture is in dealing with paper receipts. The default position is to key them into a system at the earliest possible point, which might be feasible at the time of the transaction, but typically not. However, the ability does exist with mobile applications to scan receipts at the source as they occur and translate them into an expense line item right from the scan with optical recognition technology, such as OCR (optical character recognition). Although the ability exists for mobile applications to operate in this mode, the inclusion of mobile applications as part of the T&E solution is not as widely adopted at this point. However, the rapid evolution to include mobile is underway. The hurdles to overcome are usually related to sorting out policy issues for mobile (company or personal device) and managing across multiple platforms, which may take time, but there is no doubt that using mobile devices for source capture is the direction of the future.

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Source Capture Integration

The next step is to recognize the state of integration for the capture of source information. Capturing the data at the source is a prerequisite, but *the automation stops if the integration does not exist with the T&E solution*.

As shown in Figure 4, the strongest point of integration is the corporate card for both the Best-in-Class and the SMBs. There is a 75% greater likelihood for the Best-in-Class, but more than half of the SMBs have adopted the integration for a corporate card solution.

Figure 4: Integration of Source with T&E System
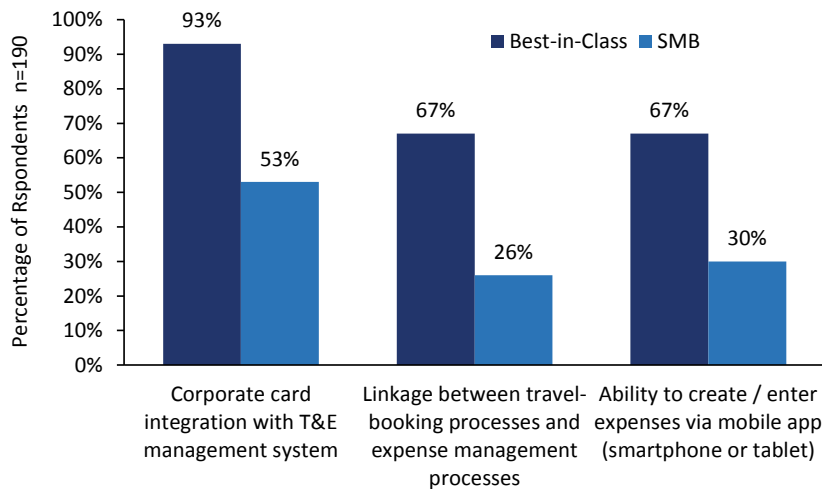
Source: Aberdeen Group, August 2015

The case for integration of the travel booking system with the T&E system is far different however. The Best-in-Class are more than twice as likely to have this in place, and although they have a clear advantage, there is still only 67% adoption rate of this integration. The adoption rate level of the SMBs for a travel booking system is only half of what their corporate card adoption rate is. There are also some integration challenges,

Small and Medium Business (SMB) T&E Profile vs. Best-in-Class

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particularly for global companies, where it's entirely possible that multiple travel and booking solutions are being utilized. Having them all integrated seamlessly also depends on the expertise of the solution provider for each one.

The degree of integration for mobile to the T&E expense system is perhaps somewhat of a surprise, based on the low level of mobile adoption, however having the integration for mobile applications in place is a precursor to rolling out the entire process. So even though the application use is lagging behind, the integration capability certainly foretells the direction companies are headed.

T&E Integration Profile with Back-End Systems

The next level of integration is the connection from the T&E expense management system to back-end systems, as shown in Figure 5.

Figure 5: T&E Integration with Back-end Systems
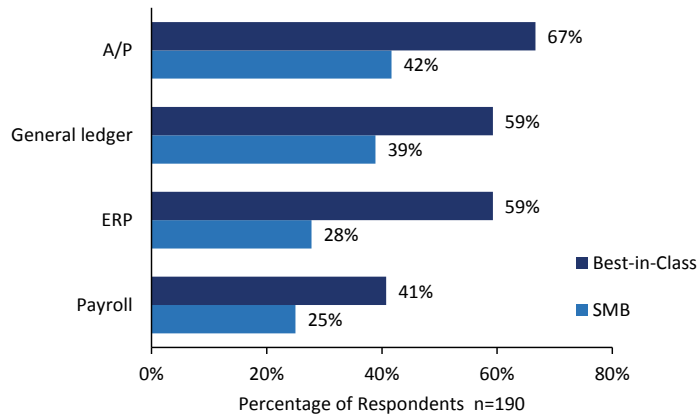
Source: Aberdeen Group, August 2015

This is where the integration for the SMB appears to be most lacking. Other than the tie to accounts payable (A/P), the tie to the general ledger, the ERP/transaction system, and payroll are

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all less than 40%. *Management visibility from the financial reporting system to T&E expenses will be delayed in many cases as a result of the "handoff" from the T&E system to the back-end systems.* The Best-in-Class have more work to do as well, but SMB are certainly lagging in many cases.

Managing and reporting on T&E can certainly be done offline, but the timeliness, efficiency, and visibility are all likely to suffer without integration.

To this point we have looked at the framework for T&E expense management, and the level of integration for each point from the source capture up to and including-back end systems. To complete the picture for end-to-end integration for the SMBs compared to the Best-in-Class, we now look at the technology enablers that are in place to support T&E expense management.

Technology to Support T&E Management and Integration

Figure 6 shows the basic technology application infrastructure to support T&E expense management. There is quite a gap between the SMBs and the Best-in-Class as far as using an end-to-end T&E solution whether it is standalone or part of a broader financial suite/ERP. The Best-in-Class are nearly three times as likely to have this in place compared to the SMBs. To standardize, streamline, or create a seamless end-to-end system for T&E management is tough to do without a strong application.

A significant factor is the percentage of SMBs that rely on a home-grown or custom solution, which is twice that of the Best-in-Class. Integration for home-grown applications to other financial solutions or source applications may not be as standardized or complete as a solution designed to manage T&E with out-of-the-box integration.

Small and Medium Business (SMB) T&E Profile vs. Best-in-Class

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Figure 5: Technology
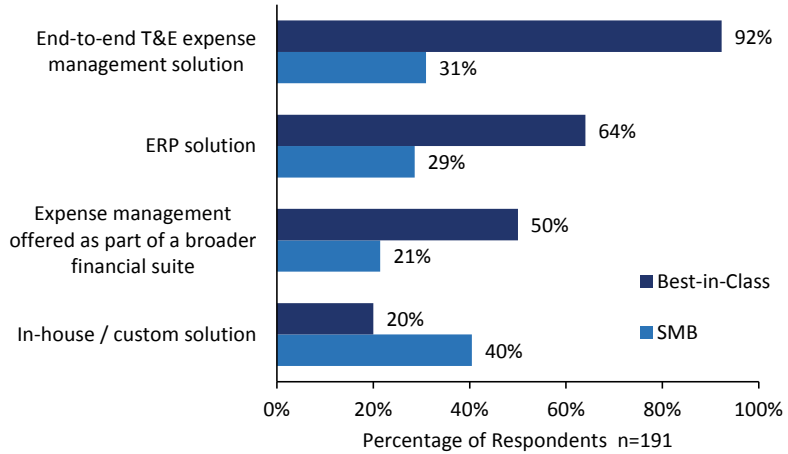
Source: Aberdeen Group, August 2015

This is part of the reason that the SMBs lags overall compared to the Best-in-Class, and in particular for the back-end system integration, which lags the most in comparison to other points of integration. Integrating with an ERP, financial system, or payroll will likely be subject to intense scrutiny, with more checks and balances to satisfy audit requirements and financial controls. For home-grown systems, which may have started as an expense report repository, these requirements may be tough to satisfy. If the pressures identified back in Figure 1 mount and the pain points become large enough, a technology upgrade may be in order.

Summary and Key Takeaways

As our research indicates, size and scale, as well as organizational maturity, do play a role when it comes to T&E expense management. The pressures and performance metrics suggest that there is certainly significant room for improvement in all areas of T&E for SMB companies, given the degree that SMB lag behind the Best-in-Class. The SMBs have many fundamentals in place in terms of policies, or adoption of some integration

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with source capture, but lack the overall breadth and scope of an integrated end-to-end T&E expense management approach. We offer the following suggestions as "next steps" for organizations to consider as they move toward a Best-in-Class environment:

➔ Complete a robust exception management policy with predetermined escalation paths

➔ Engage and adopt a corporate card management solution for T&E

➔ Establish and partner with a travel and booking system provider. (If global, identify enough for automation but minimize the number)

➔ Add or adopt the applications to create an end-to-end T&E solution

➔ Move away from home-grown solutions as much as possible

➔ Integrate the source capture applications for the card system and travel booking system with the T&E application

➔ Adopt a mobile platform for T&E applications or add to the existing in house mobile platform

➔ Develop integration from mobile to the T&E application

➔ Integrate the T&E application with the following back-end system/function(s)

  o ERP

  o General Ledger

  o A/P

  o Payroll

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For more information on this or other research topics, please visit www.aberdeen.com.

Related Research
Best-in-Class T&E Expense Management: How They Do It; June 2015   *Top 3 Actions to Enable The Expense Report That Writes Itself*; April 2015
The T&E Expense Report That "Writes Itself": How Close Are We?; April 2015   *The "Effortless Expense Report that Writes Itself": Key Steps to Success*; April 2015

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