



5 Steps to Strategic Spend Management

SMART WAYS TO HANDLE INVOICES AND EXPENSES TO POSITION YOUR ORGANIZATION FOR GROWTH

Introduction

How is your company spending its money? This question is central to the role of the CFO—particularly finance leaders of small to mid-size businesses who must carefully manage cash flow to survive and thrive.

Most organizations have policies and guidelines when it comes to handling expenses and invoices. Established procedures help ensure that employees and vendors are adhering to core rules when it comes spending levels, use of preferred vendors, negotiated discounts, and other policies.

Traditionally, expense and invoice management has been viewed as a cost center. The pervasive attitude is that “The company has to spend money, so there isn’t much we can do about it.”

However, in today’s competitive environment simply sticking to spending guidelines falls short of propelling your company forward. You need to be strategic in your spending, identifying areas where you can invest wisely to meet current demands and fuel future growth.

This white paper will explore five initiatives that can help guide your company toward a more strategic approach to expense and invoice management.

TOPICS INCLUDE:

1. Why is a spend management process so important, even in high-growth industries where cash flow and profit margins are strong?
2. How well will your company’s spend management adapt to evolving business conditions? Is your expense and invoice management strategy able to capitalize on change and deal with uncertainty?
3. How accountable are the business leaders in your organization for their current and future spend management?
4. Do you regularly communicate and review your spend management plan?
5. Is your spend management strategy aligned with future business goals? Does everyone in the organization understand the long-term vision and how smart spend management helps to achieve those goals?

1 Understand Your Spend Management Processes

Do you need a spend management strategy even if your company isn't a global enterprise? The simple answer is yes. "A spend management plan is critical to a company's financial health, regardless of industry or size," said Jason Woods, CFO of Concur, a provider of travel, expense, and invoice management solutions.

Even companies in high-growth industries with strong cash flow need clearly defined policies for travel, entertainment, and procurement, experts noted. "The resources and effort that executive teams put toward spend management can be seen as a real differentiator," said Charles Miller, Principal, Bain & Co. He also noted that businesses in high-margin fields need to have strong spend management processes to provide the needed cash to fuel growth.

A well-defined spend management policy and—equally important—good governance, are essential not just for finance, but for anyone in the company who travels or makes purchases. "A policy where the manager is the conduit of the policy and compliance works best," said Mary Driscoll, Senior Research Fellow for APQC, a consultancy focused on benchmarking, best practices, process, and performance improvement. "It should not be up to the finance or accounting department to manage the spending of the individual traveler or purchasing professional."

Technology serves as the backbone of modern spend management processes, and the systems should ensure adherence to policies. "Good policy and good governance must be enforced to be effective," Driscoll said.

What can happen when a company lacks an expense management strategy? Driscoll shared one story of an employee ordering a \$2,000 office chair. The incident occurred because there were no formal checks in place to rein in that type of spending and the policy did not clearly address specific spending limits.

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—Jason Woods, CFO, Concur



2 Build Flexibility into Your Spend Management Strategy

Spend management process should provide a framework for how an organization manages expenses and invoices, but experts noted that there should be an ability to make adjustments to meet evolving employee and business needs.

While expense controls are important, there are instances that call for exceptions, experts noted. It may be company policy to stay in a particular hotel or purchase parts from an approved vendor, but the system and process should enable variances when appropriate.

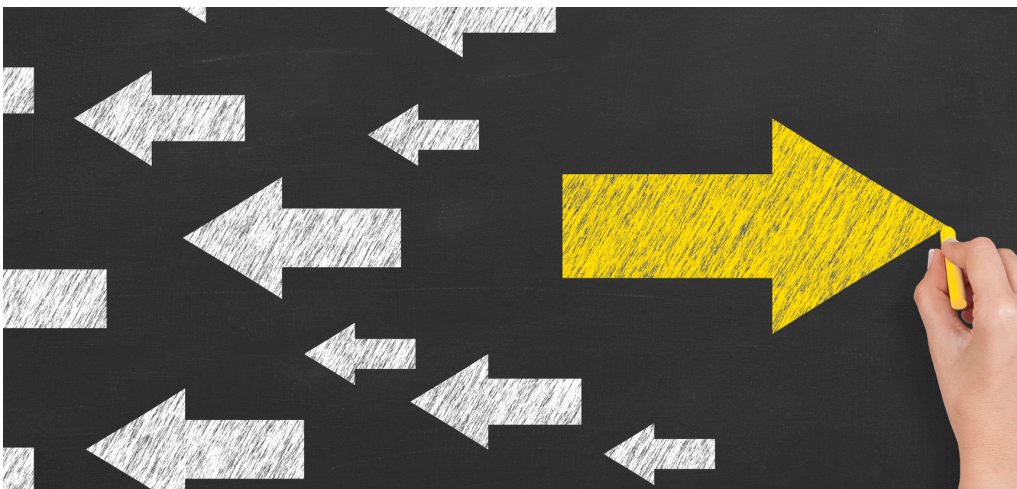
“The spend management process needs to be flexible enough to meet the changing needs of the organization, but it also needs to be disciplined enough to manage your process to ensure compliance,” Woods said.

Travelers and purchasing agents are driving the need for flexibility. “For example, there has been a greater acceptance of using ride-sharing services such as Uber and Lyft for business travel, and that change is happening because travelers spoke with their dollars and preferences,” said Will Tate, Partner, GoldSpring Consulting LLC.

In addition, there may be situations where it is prudent to deviate from the approved hotel or air travel partner. “Sometimes it makes sense not to take the airline that you’ve contracted with or stay at the preferred hotel, and that is okay, but there should be a reason for bending the policy and a recognition that if you bend it too often without justification you face losing negotiated discounts,” Tate said.

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– Concur Partner



3 Hold Business Leaders Accountable for Spending and Budgets

With sophisticated tools and solid processes, spend management can become a source of growth for the company, rather than strictly a cost center. To be successful, there has to be an open line of communication between business leaders and the finance team, which is monitoring spending and revenue projections to ensure steady cash flow.

Systems that provide greater visibility into budgets and current spending levels are essential to optimizing spend management. “As a business leader, you are accountable, but you don’t want to hear from the finance team that you’ve blown your Q2 budget and you’re only halfway through the quarter,” Woods said.

To effectively collaborate on current and projected spending levels, there has to be a continuous flow of information between the finance team and the business unit owners. “It is up to finance to perform the necessary cost analysis to understand what is driving cash shortfalls and communicate that with the business leaders,” said Driscoll.

There may be situations where revenue is on target, but costs are higher than expected. “This is where finance has to have the moxie to dedicate people to become experts in operational costs analysis. You need to go in there and dig,” stated Driscoll.

Communication regarding spending accountability is just as important a tool as technology, Driscoll noted. “Sometimes, you have to deliver messages to powerful business leaders about spending patterns that are out of the norm, for example, and that requires diplomacy. If you’re in charge of big facilities and big budgets and you want to order six months of electronic components and stockpile them, you have to be held accountable for the impact that will have on cash flow and working capital management.”

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– Senior Research Analyst



4 Communicate Spend Policy, Review Periodically and Alert Employees to Changes

While new hires typically get an employee manual that outlines the company's spending policies, it is important that these policies be reinforced periodically, particularly when there are changes.

According to Driscoll, companies should not rely entirely on the employee manual or the employee intranet to ensure that policies are being effectively communicated. "Telling people that the rule they need to follow is on page 48, section 2 of the manual isn't necessarily the best way to get the word out," she said.

GoldSpring Consulting's Tate noted that spend management systems provide more opportunities to remind travelers and buyers about policies. "You no longer have to wait until the invoice hits the accounting department. Technology helps users avoid making a purchase or booking a flight that doesn't comply with policy."

When mistakes happen, it is generally because the employee is unaware of a policy or there has been a change in policy that wasn't effectively communicated, experts noted.

Bain & Co.'s Miller said T&E and procurement policies should be reviewed at least annually, and more thoroughly every three to five years. "Chances are that the business conditions are not the same as they were five years ago, so a good review and refresh is needed."

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5 Align Spend Management Strategy with Business Goals

Many companies have a plan for the future that involves expanding into new markets, growing the company, and seeking additional channels of revenue. If the company is entering a new geographic market or launching a new product, spend expectations and governance need to be adjusted to meet those objectives. There may be increased travel or new vendors and purchasing categories as the company works toward those goals.

“The objectives of the business change over time, and those objectives should be what is driving spend management policy,” Concur’s Woods said.

One of the most effective ways to ensure that spend management and business strategy are aligned is tracking key metrics such as total invoices received, time for approval, and days payable outstanding. “You can’t influence what you don’t measure, and if you’re looking to change the direction of the business, you need a solid understanding of where you can improve your spend management processes,” Woods stated.

Senior finance executives typically maintain lists of projects that need funding, and better spend management can help the company move forward with innovation and expansion, according to Tate. “There may be funding for six projects, but there are a dozen on the list. With better spend management and better understanding of the role of spend management in managing cash flow and supporting growth, companies can meet those goals. The key is communicating those objectives to the business-line leaders so that they are aware of where the company is headed three or five years down the road and understand how better spend management can get them there.”

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Conclusion

A solid spend management strategy—backed up with the latest technology—will help a company run more efficiently. With automation to enforce policy compliance and streamline processing of approvals and invoices, travelers and procurement professionals can focus on more value-added tasks.

Policies have to be clear, concise, and fairly enforced, but they also need to be flexible. The contracted hotel or preferred vendor may not always be the best choice, so companies can improve business outcomes with a spend management structure that accommodates commonsense exceptions and evolves with the needs of travelers and buyers.

Everyone in the company should be on the same page when it comes to spend management. Backed up by ongoing communication with senior finance executives and real-time data monitoring, business leaders should be held accountable for compliance and staying on budget.

Going forward, robotics and artificial intelligence will handle some of the routine tasks such as routing recurring invoices and re-ordering office supplies, so travel and procurement teams will be free to focus on strategic initiatives such as building relationships with suppliers and expanding the business.

There's a potentially huge payoff - using technology wisely to improve performance will elevate expense and invoice management from a cost center to a strategic force that helps the business perform better.

About the Sponsor

Concur takes companies of all sizes and stages beyond automation to a completely connected spend management solution encompassing travel, expense, vendor invoices, compliance and risk. For more than 20 years, our global expertise and industry-leading innovation has kept customers a step ahead with time-saving tools, leading-edge technology and connected data, in a dynamic ecosystem of diverse partners and applications. User-friendly and business-ready, Concur unlocks powerful insights that help businesses reduce complexity and see spending clearly, so they can manage it proactively.

