SAP Concur Solutions Business Outcome Whitepaper

The New Normal: Setting Organization Expectations Powered by Data

Hitting Budget and Staying There

THE BEST RUN SAP

The COVID-19 pandemic, and the subsequent economic fallout, have made a monumental impact on organizations of all sizes; upending the concept of "business as usual," and turning budgeting for 2021, 2022 and beyond into a herculean challenge.

Most companies are taking the conservative approach, spending less, trimming more, and allocating the available dollars far differently than they did in years past. There's also an amplified focus on fiscal governance. **Every dollar spent has to produce an outcome.**

A New Approach to Budgeting

Whereas an overage here or there might have been tolerated when business was booming, finance executives are now tightening their budgetary reins. The goal is not only keeping every department within its magic number, but ensuring that those funds are spent in ways that meet the organization's objectives – from producing revenue, to attracting students, patients or customers, to supporting research programs, to elevating the quality of service or care.

According to McKinsey & Company, many finance leaders are turning to zero-based budgeting – where anticipated expenses have to be justified and approved for each new budget period – to navigate through the great unknown of 2021. [1]

Even those who are sticking with the more traditional approach are producing budgets that match resources with strategy – knowing those strategies will most likely shift in the months to come.

In a recent survey, **43 percent of the 127 CFOs surveyed cited the need to streamline their budget process,** so they can react more quickly and efficiently. A full 65 percent anticipate a greater use of rolling forecasts in 2021 and beyond. [2]

To accomplish this level of control, budgetary management can't operate in silos. It requires connectivity, visibility, and a unified, companywide effort with everyone working toward the same goals. Instead of acting as the budgetary police, the finance area becomes the catalyst for change

– providing the data and tools needed for stronger fiscal governance and accountability across the organization.

"For most companies, the biggest 'aha' of the pandemic was budget. When revenues declined, payments started coming in later and cash flow started to slow; budgets came to a screeching halt," explained Marchelle Klippenstein, Vice President, Customer Improvement for SAP Concur. "They had to conserve funds, but still had to generate revenue. Then, everyone had to figure out how they were going to pivot so they could operate in this new environment. Everything had to be re-evaluated very quickly."

That experience has prompted companies to step back and take a long, hard look at how they manage spend.

"Organizations are putting new frameworks in place to prevent what they just went through from ever happening again," Klippenstein said. "Not that anyone can prevent a pandemic. But, they can prevent the angst, emotional challenge, and tactical business issues they faced in what will be their new environment."

The result is a more proactive, comprehensive approach to budget compliance. Instead of focusing in on one area or process, organizations are using data to understand how they operate today, and how to gain the visibility and control to ensure expenditures are not only valid, but directly support business objectives.

Rethinking Budget Detail

It's impossible to manage what you can't define or see – something companies discovered all too quickly when the pandemic began.

"Budgets are often maintained at departmental levels and have so many things rolled up in them – including T&E – that it becomes impossible to understand where the overages are coming from," explained Jameson Hughes, Client Sales Executive for the SAP Concur organization. "For effective oversight, budgets have to be delineated down to the appropriate level."

Assess the budgetary structure you currently have in place. Is there enough line-item detail to truly understand – and effectively manage – where your dollars are going? Is your travel and expense (T&E) budget well categorized, or is it part of a larger catch-all expense bucket for multiple types of spend?
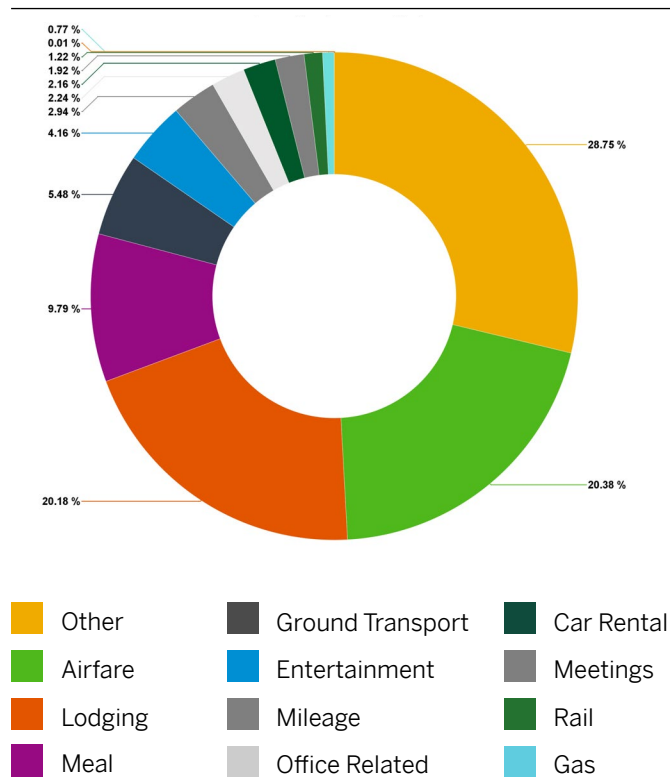
Although monitoring overall expense may have worked well in the past, today, departmental and finance leadership need a far clearer picture of where dollars are being spent, and a means to monitor those line items in near real-time.

"The pandemic shined a light on how many different ways fiscal resources get consumed and employees spend money," Klippenstein said. "Even though travel wasn't happening, hundreds of millions of dollars in employee-initiated spend were still going out the door."

The SAP Concur organization benchmarked our own clients' spend by expense category Q1 2019 through Q4 2019. **At the time, more than twenty-eight percent of those expenditures fell into the "other" category**, and office-related expenses made up only a small percentage of the overall budget.

While this delineation made sense pre-pandemic, in 2021 and beyond, organizations could consider dissecting the "other" category further, adding expense categories that are reflective of what's actually happening with spend today.

Spend by Expense Category - SAP Concur Customer Data
Q1 2019 - Q4 - 2020

🟡 Other	⬛ Ground Transport	🟢 Car Rental
🟢 Airfare	🔵 Entertainment	⬜ Meetings
🟠 Lodging	⬜ Mileage	🟢 Rail
🟣 Meal	⬜ Office Related	🔵 Gas

Re-evaluating Your Travel, Expense, and Spend Policies

Even after a vaccine has eradicated the threat and life returns to some semblance of "normal," it's clear that the post-pandemic business environment won't look the same as it did before COVID-19 took its toll.

An April 2020 survey by Gartner found that forty-one percent of employees will partially work from home after the pandemic ends.[3] **74 percent of CFOs surveyed plan to permanently shift some employees to remote work**.[4]

"Companies are restructuring everything—their offices, their employee requirements and the tools available to their staff," Klippenstein said. "At the same time, everyone is trying to figure out what the new version of employee mobility will look like. Everything is changing."

Most organizations were very relaxed on reimbursement submissions throughout 2020. They had to move fast to keep the business operating and comply with local directives. Now that the dust has settled, finance leaders are reviewing and revising existing T&E policies – including any addendums put in place during lockdown – to add clarity, reduce rogue spend, and better define allowed expenses.

While it's crucial to set a policy around home office and personal technology spend, particularly if these weren't detailed before, it's also important to look at your historic spend data and identify areas where a small policy change could make a big difference.

"Look at what you're doing today, and where you can make small tweaks that make it easy for an employee to do things that save you money – like processing transactions on a corporate card rather than out-of-pocket transactions," Hughes said. "Build a business case around the extra work that cash out-of-pocket spend creates for your area, and the extra exposure from a control and compliance standpoint."

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>
> Marchelle Klippenstein, VP Customer Improvement, SAP Concur Organization

That makes it easier to justify why you're making the policy change to the C-suite, stakeholders, and employees alike.

Even if you don't mandate corporate card use, you can still make small tweaks to your policy and expense management system to drive positive behavioral change.

"Consider matching the receipt limit on your corporate card with IRS guidance, which requires a receipt for expense over $75.00, but set your out-of-pocket cash receipt level at zero dollars," Hughes said. "That one, small change can make a world of difference in incentivizing employees to use the corporate card, which saves the company money and time."

"Consider matching the receipt limit on your corporate card with IRS guidance, which requires a receipt for expense over $75.00, **but set your out-of-pocket cash receipt level at zero dollars**…"

Adding Controls to the Front End

You can have all the policies in the world, but if you don't have the controls in place to enforce those policies on the front end, you could end up with some big surprises – and budget overages – at month end.

"Throughout the pandemic, as their supply chain was disrupted, many of our customers saw a gap between the controls they had in place for their short-tail spend, and what they truly ended up spending on what we call the long tail," Klippenstein said.

Pre-COVID, most worked with set supplier population that accounted for eighty percent of their expenses, with preapproved purchase orders, and other controls in place to manage that spend.

"Pandemic equals disruption. So, when those regular suppliers got knocked out or had delivery challenges, the long tail – that twenty percent without controls – started to take precedent," Klippenstein said. "Finance leaders had to find a way to get their arms around that and realized that [SAP] Concur could help."

Finance leaders and department heads realized that by ramping up their pre-approval processes, they were able to maintain a clearer picture of what, where, and with whom funds were being spent before the money was out the door, adding control, and eliminating surprises at month-end. The key was making it easy to request and respond to these preapprovals from a mobile device, so this added step didn't impede the employee's ability to conduct business, or the approving manager's productivity.

In addition to controlling costs, these streamlined preapprovals and near-real-time view of incoming travel, expense, and invoice will actually play a role in employee safety when travel ramps back up.

"Preapprovals offer fiscal protection as well as employee protection, which is going to be a dominant expectation going forward," Klippenstein said. "Employees are going to have to prove the business case for their travel, that it will generate revenue, and whether or not it is worth the risk the employee is taking and the level of protection the organization is providing."

Short-Tail Spend:

The 80% of spending that happens in an organization that is controlled, budgeted and planned for.

Long-Tail Spend:

The 20% of spend that typically goes unmanaged in an organization. Spending tends to occur across multiple categories, in lower-value transaction amounts, and with multiple suppliers.

Re-evaluating Your Travel, Expense, and Spend Policies

Whether intentional or otherwise, when humans are involved, errors will happen. Duplicate expenses, out-of-policy spend – as well as outright fraud – drain already tight budgets at a time when every dime is needed to keep the organizations going.

According to the Association of Certified Fraud Examiners (ACFE), asset misappropriation is the most common form of occupational fraud, accounting for 84 percent of those cases.[5] Take that statistic, and factor in a healthy dose of honest mistakes and disallowed expenses going through the process undetected, and even the most vigilant, belt tightening efforts don't stand a fat chance of succeeding.

To mitigate the problem, organizations should first dissect their current audit function. Are you auditing pre-payment or after the fact? What percentage of reimbursement requests are you reviewing? Is it a manual process or is it automated? How effective is it in eliminating duplicates, and non-compliant spend? Just as important, does it give you the data you need to see spend trends, patterns, or a way to identify serial abusers?

"Take a look at how you're actually performing when you audit. How effective is it, and how much manpower does it take?" Hughes said. "Increasing the volume of expense reports you audit, particularly if all or part of your process is manual, may create a bigger problem by adding a bigger workload than your staff can take on."

Instead, take a step back, and determine what you really need to get the outcomes you want.

You might be able to solve your problem with some minor system configurations or platform enhancements, or you may find that it makes more sense to apply artificial intelligence as a first line defense, so your staff is only reviewing flagged reports. Or, you could build a business case for outsourcing that function to auditing experts.

"Always start with the outcome you want to achieve, and build from there," Hughes said.

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>
> Jameson Hughes, Client Sales Executive, SAP Concur Organization

Using the Power of Data to Improve Budget-Based Outcomes

USING AND SHARING YOUR DATA FOR MORE VIGILANT, COMPANY-WIDE MONITORING

In today's business climate, AP and finance cannot be the only overseer of spend and budget. Stakeholders and department heads organization-wide must take an active part in that process, in a way that goes well beyond approving invoices and reimbursement requests. A siloed approach, with multiple systems operating in a vacuum, or reconciling spend against budget after the fact, just can't deliver the sound financial governance companies need to navigate through the years ahead.

In addition to preapprovals on the front end, stakeholders need **access to near-real-time spend data that they can review at a glance**, for more effective oversight. This proactive approach reduces operational interruptions due to budgetary overruns, and improves the effectiveness of planning activities.

Persona-based dashboards and reports enable budget owners to view key metrics for the company's combined spend associated with invoices and reimbursement requests. They can track how these metrics are trending, and gauge the impact on cash flow and budgets, as well as identify procurement and expense report processes that need changing or make it difficult for users.

Tools that pull data together and put a constant, consistent view of your company's budgetary health at your department heads' fingertips enables them to be more efficient at their jobs, and actively contribute to the company's fiscal governance.

A NEW BUSINESS DYNAMIC: A MORE HOLISTIC APPROACH TO BUDGET MANAGEMENT

As organizations regroup, reposition and adapt to a changed business landscape, effective budget management is more critical than ever. Solving one issue here or adding another piece of software there simply can't deliver the insight and agility companies need. Organizations that take a holistic approach to cost control and budget management, and fully utilize their data to drive the desired business outcomes, are the ones that will be well positioned to succeed – no matter what surprises the future holds.

> For more information on how SAP Concur solutions can help you better manage budget, improve compliance ,and gain near-real-time visibility into your spend **visit us online** or **contact your account team**.

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ABOUT SAP CONCUR

SAP® Concur® is the world's leading brand for integrated travel, expense, and invoice management solutions, driven by a relentless pursuit to simplify and automate these everyday processes. The highly-rated SAP Concur mobile app guides employees through business trips, charges are directly populated into expense reports, and invoice approvals are automated. By integrating near real-time data and using AI to analyze transactions, businesses can see what they're spending and avoid possible blind spots in the budget. SAP Concur solutions help eliminate yesterday's tedious tasks, make today's work easier, and support businesses to run at their best. Learn more at **concur.com** or the SAP Concur **blog**.

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[4] Gartner CFO Survey, April 2020

[5] ACFE, Report to the Nations, 2020

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