

A Step Closer to Integration Nirvana: SEAMLESS TRAVEL & EXPENSE MANAGEMENT

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Several powerful forces are converging in large companies. First, corporations want to improve operational efficiencies by more effectively leveraging investments in enterprise applications. Second, companies want to manage their expenses in areas such as Travel and Entertainment (T&E) by using available transaction data to negotiate volume discounts with vendors such as airlines, hotels, and rental car agencies. Finally, the Sarbanes-Oxley Act of 2002 is compelling companies to automate the processing of financial data. Collectively, these forces are having a profound effect on how organizations manage internal and external financial processes.

The Challenge

In the last five years, there have been significant advances in internal processes, and the use of ERP and expense management applications has become almost ubiquitous. However, managing this vast amount of data and making it easily accessible to employees has been frustratingly cumbersome and inefficient. This is particularly true in the T&E area, where travel is often the third highest controllable corporate expense behind payroll, according to the Aberdeen Group.

Many business travelers spend valuable time pouring over receipts and man-

ually entering the information into an Excel spreadsheet. In fact, a Deloitte study found that manual expense reports take up to 30 minutes to complete. The inefficiencies continue once the expense report is submitted to the finance department; finance professionals often spend hours reconciling receipts for small purchases.

The Root of the Problem

In the past, companies managed T&E expenditure by giving their employees a cash advance or having the employee pay on their own credit card. Both these options are expensive for companies to handle; cash is difficult and expensive to reconcile, and is open to abuse. Meanwhile, it's difficult to integrate personal credit card data with ERP systems.

Consider the findings of Mahendra Gupta and Richard Palmer of RPMG Research Corp. In their article, "Preliminary Analysis of 2004 Corporate Travel Benchmark Survey Data," Gupta and Palmer note that paper-based expense reports cost \$22 to process, not including traveler time and effort. Both systems make it almost impossible for companies to analyze spending patterns to negotiate with vendors such as airlines or hotels.

The introduction of commercial cards has enabled companies to more easily track T&E expenditure. Marrying this enriched data with enterprise applications has been a challenge until recently. To accommodate corporate card data, companies have developed customized systems integration solutions that receive manual file feeds from banks in proprietary formats. These solutions often require a sizable investment and are difficult to maintain and upgrade. As a result, many companies still manually manage T&E expenditures. The irony is that all the information necessary to streamline T&E spending often exists today in different organizations' databases; they just haven't been able to talk to each other.

These inefficiencies affect expense reporting and hamper a company's abili-

ty to monitor and reduce travel costs by area. For example, without a fully integrated travel expense system, it's difficult for a company to determine how much money it's spending on airline tickets, car rental, or hotel expenses. This makes it hard, if not impossible, for companies to accurately negotiate savings with vendors or even ensure that negotiated discounts are being applied.

The challenge for companies is even more pronounced when detailed commercial card data is available. In many markets today, commercial Visa card transactions now contain three tiers of information: Levels 1, 2, and 3. Level 1 data is the basic transaction information, including merchant details, cardholder's name, account number, and amount. Level 2 contains tax and accounting information, while Level 3 contains line-item details, including airline itinerary, hotel folio, and fleet data. The opportunity costs associated with mishandling or even ignoring enhanced commercial card data is significant, considering how this data can be used to improve operational efficiencies.

Today, there's an even better way to integrate commercial card data with enterprise applications.

A Solution Exists

Consider the analogy of a river dividing two communities. The first challenge is to build a bridge connecting one side to the other to allow traffic flow between the two. Once the infrastructure is in place, the bridge can more easily be expanded to accommodate the greater volume of traffic.

The good news is that enriched data can now be mapped directly into a company's ERP system and databases over the Internet using open standards and protocols, thereby minimizing the requirement for integration on the part of large corporations.

How Does It Work?

Companies can now access Level 1, Level 2, and Level 3 data and route it directly into their ERP and expense man-

business integration journal takeaways

BUSINESS

- According to the Aberdeen Group, travel is often the third highest controllable corporate expense behind payroll.
- Integrating enriched commercial card data with enterprise applications delivers real, bottom-line benefits to corporations.
- According to Deloitte Consulting, an automated expense system would reduce the management time to complete a report from 29 to only two minutes.

TECHNOLOGY

- It's difficult to integrate personal credit card data with ERP systems.
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agement systems. The data is collected in a standardized format and fed directly from payment processing systems through a "transmitter," using a format with field lengths specifically designed to handle line-item details and all commercial card data. The data is transmitted point-to-point using a variety of transmission mechanisms such as HTTPS over the Internet. The data can then be read seamlessly by the company's ERP system through a "receiver" that automatically routes the data to the correct area within an organization. Once routed, the data is pre-configured and pre-populates company forms, such as expense reports. In addition, the relevant Level 3 data, such as airline name, ticket cost, airline ticket number, fare code, class of service, and city pair (e.g., Sydney to London) is fed into a database where it can be easily accessed for vendor contract optimization and proactive loss prevention.

What Are the Benefits?

The benefits of a fully integrated payment and corporate information system include:

- **More efficient expense reporting:** Pre-populated expense reports could save companies thousands of dollars a year. The Deloitte report cited earlier estimates that an automated expense system would reduce the management time to complete a report from 30 to only two minutes. Meanwhile, the RPMG Research Corp. study found that the administrative processing cost of electronic expense reporting in conjunction with corporate cards was down to \$12 from \$22 for paper reports. These savings translate into administrative efficiencies, too, with some companies that use electronic expense reporting tools claiming a threefold increase in the number of expense reports processed per administrative employee.
- **Supplier discounts:** A fully integrated T&E system better prepares companies to negotiate volume discounts from

hotel chains, airlines, and car rental agencies. A 2002 Deloitte Consulting study of Visa procure-to-pay best practices noted that one such company managed to reduce its travel spending by 29 percent. About 39 percent of respondents in the RPMG study use card spending data to request better discounts from vendors. The companies surveyed that use card spending data reported an average reduction of 4.9 percent in annual travel costs.

- **Increased compliance:** An integrated payment data and ERP system helps ensure that employees comply with corporate T&E policies.
- **Lower implementation costs:** The costs of upgrading an ERP system to handle enhanced payment data is far lower over time than the costs of implementing and maintaining a custom-built solution.
- **Exception reporting:** Once companies have all the data in their database, they can easily access exceptions. For example, companies can pull out all transactions relating to travel on airlines not on their approved vendor list. In the past, companies would do random reporting, which was inefficient and sometimes inconclusive.

Corporations worldwide seek to automate and optimize their processes. Integrating payment data and corporate information systems is an excellent way to leverage existing IT investments to cut costs and improve efficiencies across the T&E spectrum.

Looking to the Future

The efficiency derived from integrating commercial card data with corporate information systems isn't confined to T&E spending. Procurement costs are another enormous headache for many companies. By integrating enriched purchasing card data with ERP systems, companies can track vendor spending more efficiently.

As with T&E costs, enriched procurement data can be sent from the vendor through the card networks directly into the procurement systems and database of the corporate buyer. Information, such as quantity and type of product ordered, tax, shipping and handling charges, can help companies understand and manage procurement spending. In the U.S., the federal government has saved \$1.4 billion a year in reduced costs by using purchasing cards to automate procurement spending, while the U.K. government estimates that it has saved almost \$9 million a month. Overall,

according to Gupta and Palmer's 2003 Purchasing Card Benchmarking Study, purchasing card use in the U.S. is generating overall transaction cost savings of more than \$23 billion per year and has, on average, resulted in a 74 percent reduction in procurement cycle time.

Conclusions

Financial managers and business executives can apply the benefits of integrated commercial card data in different ways. Consider what it can do for financial managers:

- A March 2001 Lehigh University study titled "Reducing the Transactions Costs of Purchasing Low Value Goods and Services" notes that integrated commercial card data can reduce internal transaction costs by up to 65 percent.
- A 2002 Deloitte Consulting study on strategic cost reduction cited enhanced vendor savings of 15 to 25 percent.

For business executives, the benefits are linked to greater compliance and employee efficiency. Collectively, integrating enriched commercial card data with enterprise applications delivers real, bottom-line benefits to corporations.

These gains aren't limited to lower costs and improved efficiencies, but also translate to greater employee satisfaction. **bij**

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