FinancialDirector　SOLDO

SPEND MANAGEMENT

Getting variable spending under control at a time of crisis

By Financial Director in partnership with Soldo

Foreword

No company – or even industry – has been sheltered from the market meltdown that has occurred this year.

Every firm has had to reconsider how it survives day to day, making cashflow a top priority despite the seemingly incompatible need to continue to invest in longer term projects.

As markets were on the brink of collapse, *Financial Director* in partnership with Soldo surveyed our readers on attitudes towards cash management, and how variable spend is analysed. Here, we present the results of our research, in which we look at how finance departments were positioned just as the crisis hit. In the pages that follow, you will discover how the finance function deals with variable spending, how firms analyse their spend data, and how well advanced many are in terms of technological development.

There are a number of conclusions to be made from the study, and in the following pages you will discover how some firms may have shielded themselves from the turmoil, while others may be ill prepared.

Read on to get a clearer understanding of where many in the finance function sat as the crisis hit – and our assessment of what the impact was, is, and could be.

Michael McCaw
Editor
Financial Director

Key takeaways

- Good cashflow management and the selection of the right technologies are paramount to a successful finance function
- The finance function still spends significant amount of time tracking and analysing spend
- Forecasting variable spend presents a significant problem for the department
- The finance department is slowly attempting to embrace new technologies
- Corporate cards with employee reimbursements and petty cash may still be widely used across businesses
- Some within the finance function are wary of embracing real-time spend data analysis, though those who have are making use of it

Cash management trumps profitability

The finance function faces many challenges, and as the impacts of the coronavirus began to sweep through markets, day to day hurdles may have been unsurprising. Cashflow management was the greatest challenge to 72.1 percent of respondents, followed by improving profitability, introducing new technology, and accounts payable automation.

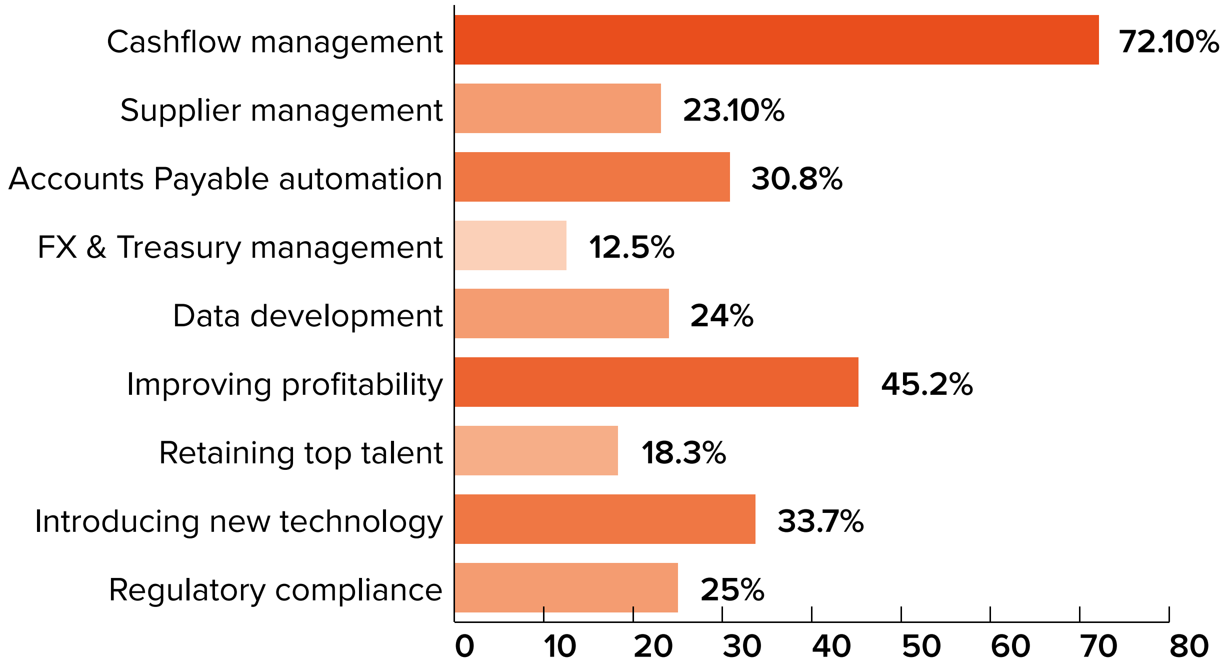
Cashflow and profitability are normally considered hand in hand. However, our results suggest that at least from the beginning of this year, a far greater emphasis was being placed on liquidity over profitable gains. It seems that finance professionals were leaning towards safer short term strategies even before markets hit serious difficulties. Most finance functions will place more emphasis on profitability, suggesting our respondents considered us to be at an ominous point in the economic cycle.

Also of note is the volume of finance professionals facing challenges in introducing new technology – 33.7 percent - and separately, dealing with accounts payable automation, at 30.8 percent. The benefits are wide-ranging, and certainly having advanced technology in place can place a firm at a strategic advantage. But there are challenges to embracing new technologies, namely selecting the correct types of solutions and working with the right partners.

“We’re hearing more and more finance leaders wanting to introduce new technologies but not achieving the results they were hoping for,” says Hannah Murray-Sykes, head of portfolio marketing at Soldo. “With everything that has been going on, some technologies aren’t living up to expectation now that they are being pushed to their limits, especially given that teams are more dispersed than they were before.

“People are realising that they have to be more agile, and that being selective about the technologies they bring to their disposal is crucial,” she says.

WHAT ARE THE KEY CHALLENGES YOU FACE WITHIN YOUR COMPANY?



WHAT CHALLENGES DO YOU FACE WHEN MITIGATING AND MANAGING SPENDING RISK?

Lots of admin between comparing contractor timesheets to invoices, recharging costs to clients

Management responsible for the spending fail

Some expenses cannot be forsaken because the payment request either comes from the shareholder or executive directors

Purely cash flow

Decision making

Ensuring spend is necessary

Contract duration

The use of multiple platforms to manage spend

Budget controllers not being responsive to spend management

Too many company credit cards

Getting approval

Poor controls

Data quality

Unpredictability of most expenses

Authorisation done properly

Lack of cooperation from divisional heads

Keep up staff tracking

Time management

Gathering timely commitment information for budget managers

Inflationary pressures and government laws abrupt changes

Ensuring the right control and time to analyse

Timeliness

We may not have control over external factors like the likely payment dates by customers

Respondents were asked which challenges they face when approaching spending risk, and a number of themes came through clearly.

Perhaps most prominently, firms struggle to gain insights and control spending on a timely basis. Much of that is down to data quality, and how they pull intelligence together in order to align outgoings with other liquid assets.

Firms have been looking for greater data insights for many years. However, only in recent years have the possibilities of advanced data management through technology really become clear. New data metrics and advances in artificial intelligence allow firms to look more closely into outgoings to improve efficiencies. However, respondents also pointed out that different platforms are used to file the information – making it just as difficult to pull data together – as well as invoice management problems.

The problems have been exacerbated over the past few months however, with companies attempting to flatten their outgoings as economic problems weigh heavily on every firm's capacity to spend. Also, difficulties arise in bringing information together from across the business.

"A number of these problems are outside the control of the core finance team, it would seem. When you don't have insights into what others around the business should be accountable for that's got to make things much more of a challenge," says Murray-Sykes.

The spend assessment resource drain

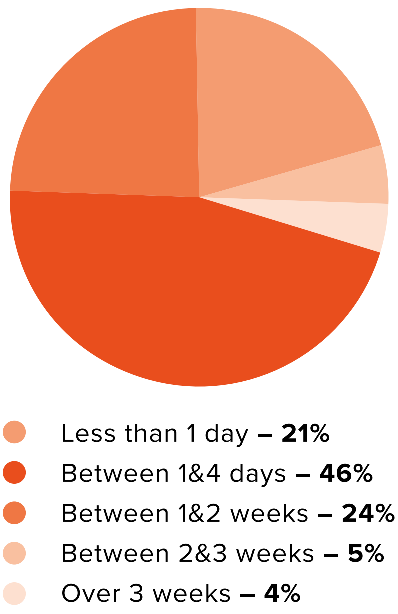
Closely managing a company's spend is a major part of the finance function's role, and even though technological developments have changed the way the department operates many are still spending significant amounts of time working through the data.

We asked our audience how much time is spent on a monthly basis investigating company-wide spending, and as many as 70 percent told us that between one day and two weeks are dedicated to the task.

"The amount of time still spent here is slightly surprising given the amount of pressure and expectation there is on information that the finance team need to supply to the business, and all the regulatory pressures," says Murray-Sykes.

In recent months the finance function has come under significant pressure to provide strategic level advice through scenario tests and the consideration of the assessment of other risks. With that in mind, it seems like an inordinate amount of resource is drained from the function to monitor spend. Worryingly, as these statistics were drawn as markets were relatively normalised, there may now be more pressure on finance professionals to react more quickly to changes in budget and outgoings – leading to firms spending even more time focused on crunching the data.

In an average month, how much time do you spend managing, tracking and analysing company-wide spending?



Which functions and/or departments do you currently spend the most time tracking spend for?

Operations [7] – Marketing [4] – Projects [3] – IT [3] – Sales [3] – Treasury [2] – Purchasing [2] – Suppliers in China and freight costs – R&D, Development – Purchasing – Payroll – Factory overheads – Cost of sales – Credit control – Tax/Compliance – Accounts Receivable – Transport – Contract services – Production

We also tracked which departments the finance function dedicates the most time tracking spend for, and the results were again clear. Most said operations take up most time, followed by marketing, projects, IT, sales and purchasing.

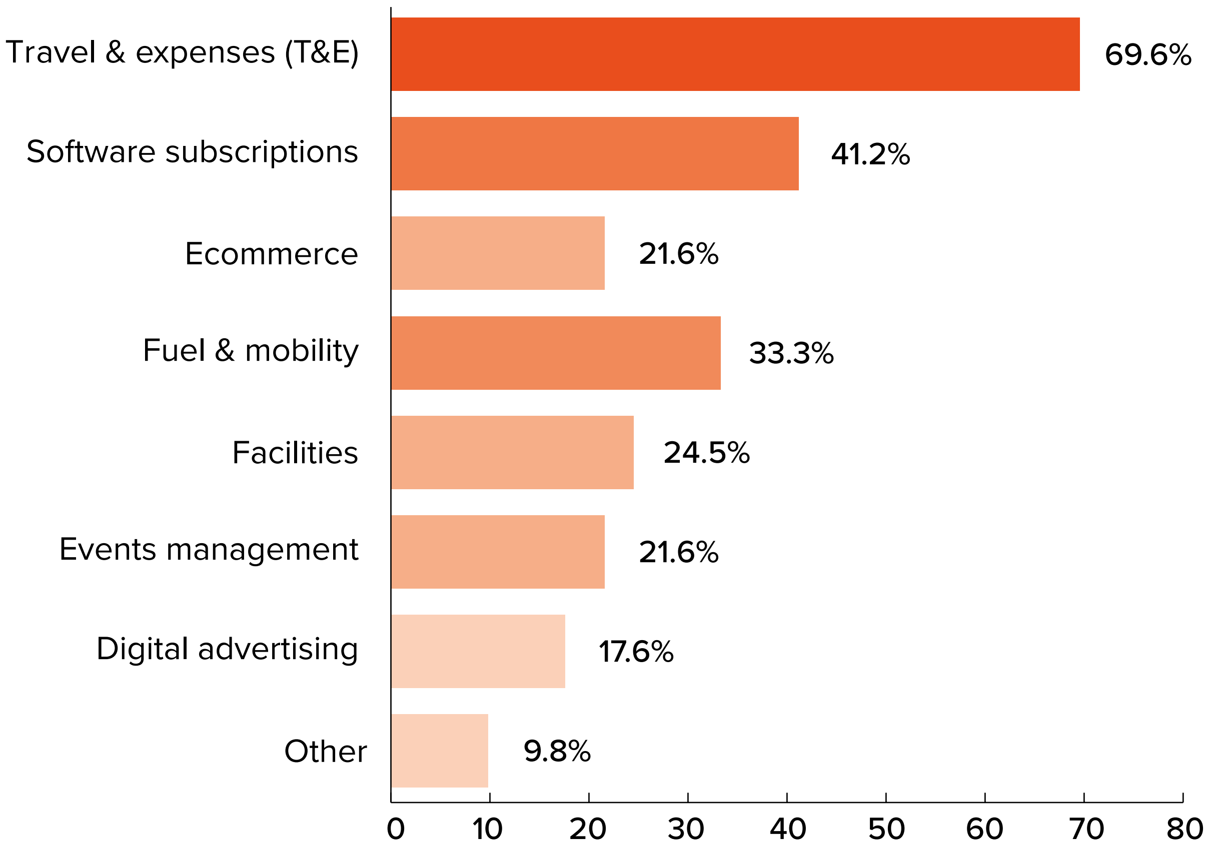
A number of the areas highlighted are those that might be considered to be more agile. With a lot of the technologies that these different areas are buying into, there is an expectation that costs will be reduced and processes improved. Agility has become of significant importance, however, communicating progress to the finance function is paramount – as is spending in the right areas as the demands of the business change from one economic reality to another.

As the crisis hit, organisations were looking to company and employee cards for a variety of spending requirements – as opposed to more fixed and inflexible long term payment plans. It may be assumed that spending has been curtailed given the economic climate and significant savings are being made, freeing up budgets and allowing organisations to redirect funds.

That will especially be the case for travel and expenses and fuel and mobility, which accounted for a lot of card spend before the crisis hit. However, ecommerce and software subscriptions feature heavily on card payments – both of which are sure to have increased in recent months as firms turn to the virtual world to connect internally and externally, and manage different processes remotely.

The make up and volume of these spends may have decreased in recent months, but the need to monitor and analyse variable card spending has become more important than ever. With firms looking to flatten outgoings, controlling and being able to forecast these spends will be paramount to each organisation's health in the periods ahead.

CARD SPENDING



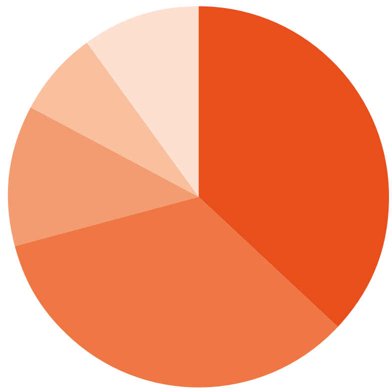
Significant unpredictable costs

Looking at travel and expenses specifically, we asked how much each organisation allocates to the segment on an annual basis, and as many as 71 percent of respondents said T&E accounted for up to two percent. Conversely, 10 percent said they budgeted more than eight percent of budget to variable, T&E costs.

While T&E allocations may well have decreased in recent months, many finance departments would have grasped the opportunity to better understand spending patterns. If nothing else, now is an opportune moment to assess supplier data and potentially allow firms to reassess expense policies.

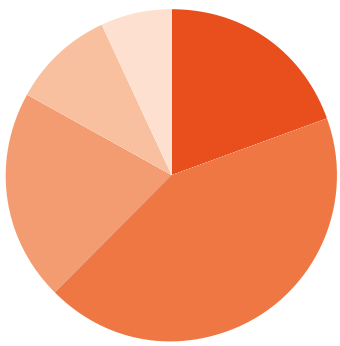
"When organisations plan out their travel and expenses budget generally they look at the last two to five years' worth of data and spend and try to approximate how much more will need to be factored in," says Murray-Sykes. "But people are going to have to be much more careful with this type of variable cost. We would expect this to be much more closely controlled than it has been in the past."

On average, what percentage of your company's overall budget do you allot for travel and expenses (T&E) in a given year?



Less than 1%	**37%**
1 - 2%	**34%**
2 - 5%	**12%**
5 - 7%	**7%**
More than 8%	**10%**

On average, what percentage of your company's overall budget do you allot for variable spend, outside of T&E, in a given year? This includes areas like software subscriptions, facility costs, fuel, mobility and ecommerce.



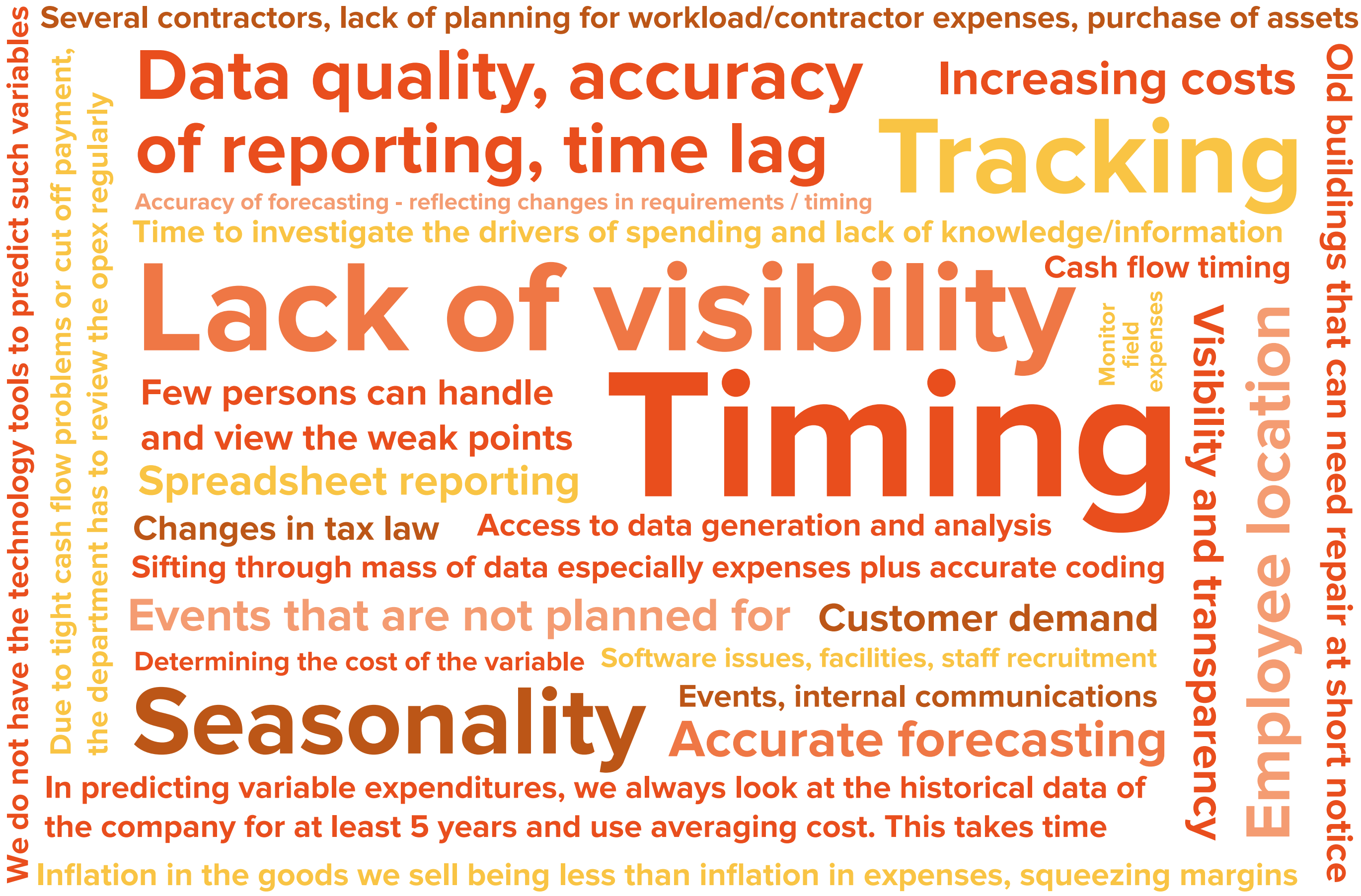
Less than 1%	**19.6%**
1 - 5%	**43.1%**
5 - 10%	**20.6%**
10 - 20%	**9.8%**
More than 20%	**6.9%**

Now more than ever variable costs are under the microscope. Crucial to that for many firms – and their finance department – will be the control of spending outside of travel and expenses.

Nearly half of our respondents said that between one and five percent of their company's overall budget was allotted to variable spend outside of travel and expenses (such as software subscriptions, facility costs, ecommerce, etc). A further fifth of respondents said between five and ten percent of budget was set aside for such costs. These are sizeable figures, particularly given the problems many have in monitoring them.

"This is likely an area firms will be looking to cut costs in the current climate," says Murray-Sykes. "For those that you can't really predict, it's a high percentage of the budget. It can be the most difficult area to track, and these results suggest a lot of budget is set aside for something that is difficult to keep full visibility over."

WHAT CHALLENGES DOES YOUR COMPANY FACE WHEN IT COMES TO PREDICTING VARIABLE COMPANY SPEND?



A key issue for the finance function over the past few years has been attempting to pull together relevant data on previous periods, and in planning for the future. The fact that variable spend can be difficult for traditional finance departments to monitor makes this even more problematic.

Asked which challenges the function faced in predicting variable spend, the data consolidation theme was clearly on the mind of many of our respondents. Creating efficient channels of communication to the finance function is clearly an issue, as is relying on governance mechanisms to ensure variable spend data is accounted for appropriately. Data accuracy and receiving it later than is required are also major issues.

"It's clear those still relying on spreadsheets are going to find things much more difficult when attempting to pull this data together, especially if it can't be trusted" says Murray-Sykes. "A lack of visibility can really hit cashflow"

Further, as a significant volume of expenses go on company or employee credit cards, accurate planning and predictions may be held up until transactions are settled - which could be further down the line than may be ideal.

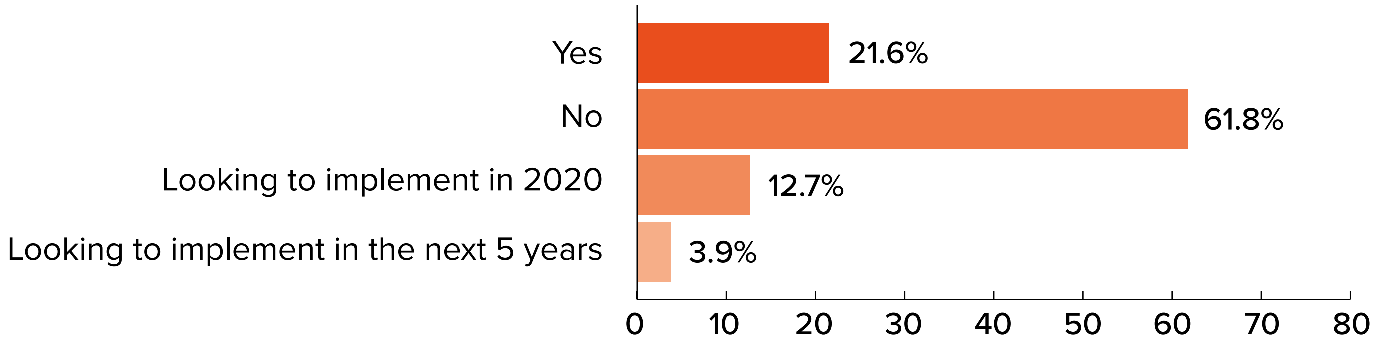
62.2%

OF RESPONDENTS SAID THEY WOULD CONSIDER USING A THIRD-PARTY AUTOMATION RESOURCE TO STREAMLINE SPEND AND EXPENSE MANAGEMENT

The finance function has traditionally been thought of as the last to embrace operational change in the form of technological assistance. While other departments have looked to third party tech expertise in recent years, finance departments have been considered laggards in terms of accepting innovation. That may be a thing of the past, with nearly a third of our respondents suggesting they would consider looking to a third-party automation resource to streamline spend and expense management.

While this question was asked just as the economic crisis struck, implementation of such resources is still a strong option for finance departments. Automation can reduce costs, offer greater analytics, create better communications internally and externally, and ultimately help firms look to the future. Perhaps now is the right time for firms to reassess their requirements and wake up to that.

ARE YOU CURRENTLY UTILISING REAL-TIME DATA WITHIN YOUR FINANCIAL DEPARTMENT?



Many businesses will look to their finance teams to provide a single, clear, and useful data set of exactly what position the company is in at any given time. Historically, the function has provided this on a weekly or monthly basis, and over the past few years it has been possible to provide such insights in real time. But not everyone is currently looking to real-time data, with 61.8 percent of respondents saying they don't currently do so. However, with different business functions looking to real-time data to inform decisions (such as trading floors in banks, supply chain management in treasury), many in finance may start to feel left behind.

"Perhaps it feels like an insurmountable challenge, because there's a reliance on so many other people," says Murray-Sykes. "It's about behavioural change, relying on employees across the business to do things a certain way. I suspect respondents are concerned about whether or not it's realistic that they would be able to implement it rather than it being the case that they don't want to."

For those finance professionals who have taken that leap and embraced real-time data many of its capabilities are being applied. We asked those who use real-time data how they utilise it to influence business decisions, and the responses were varied.

HOW ARE YOU USING DATA TO INFLUENCE BUSINESS DECISIONS?

Constant updates of project progress

Summarise important deviations from the budget and distribute to managers.

Using data to predict profitability of projects and forecast spending on projects. Historical data used to assess profitability company wide

Using past information to highlight changes and patterns.

By using Xero and updating the books weekly, we have a stronger viewpoint on where we are.

Acting in line with data

through real time reporting and projections on changed scenarios

Cashflow forecasting

Generating business reports that have clarity and impact

Data is the scientific measurement in influencing management decision. This is important bases in business going concern.

Using weekly data to display how policy affects our cash-flow and profit

Targeting spend, improve cost-effective procurement, drive sales

Trends analysis

The responses show the development of a far more strategic finance function emerging, in which requirements are far more than simply reporting profit and loss.

"Not only does this show the value of real-time data, it shows how the finance function has become much more business-orientated and strategic. If they have the data in real-time, then the broader impact they can have across the rest of the business changes completely," says Murray-Sykes.

Conclusions

It's clear that many finance functions feel underinformed and that their communication protocols are unfit for purpose to allow them to gain full insights into their variable spending.

While cashflow is of significant importance to firms today, serious time and resource burdens exist in analysing spend, and forecasting, based on the data the finance function is able to rely upon.

However, more in the finance function have identified the need to utilise technology in order to automate spend analysis and other processes related to variable outgoings.

As companies still look to place expenses and similar variables on credit cards, sophisticated offerings exist to assist.

For more information of how to improve your spend and expense management contact Soldo.

About this survey

This survey was conducted between January and March 2020. The primary aim of the survey was to identify and evaluate how the finance function considers variable costs, and how tracking and analysis of those costs are made.

Reponses came from different levels of seniority within the finance function and across a variety of industries, from financial services to manufacturing, pharmaceuticals, retail, technology and construction. The survey and the report were conducted by Financial Director in partnership with Soldo.

FinancialDirector

SOLDO