

Travel and Expense Management (TEM):

A White Paper on Inlogik's TEM Solution

inlogik **ProMaster**

Executive Summary

Paper is slowly becoming a thing of the past in the world of travel & entertainment expense management. The emphasis on corporate cost containment and fraud mitigation during the past few years has prompted accounts payable professionals to seek new ways to automate traditionally paper-based and labor intensive expense reimbursement processes. The need to document and secure the intrinsic risks associated with the expense management process within the protocols set forth by the Sarbanes-Oxley Act of 2002 (SOX) has provided additional impetus, especially where senior management has been involved.

Our latest research also indicates that businesses are turning to Travel & Expense Management (TEM) solutions that streamline the expense submission and reimbursement cycle to meet these new requirements for efficiency and control. Consider the results of our *2005 Financial Automation Survey (FAS)* of Fortune 1000 finance, treasury, and accounting professionals:

- » The passage of the Sarbanes-Oxley Act has increased interest in new financial automation technology at more than 60 percent of respondents' organisations.
- » Almost 75 percent of respondents to the survey are either currently using an automated TEM solution or planning to implement one over the next 12 months.

This report is written for those survey respondents who are actively exploring TEM solutions. Beginning with an introduction to TEM, it highlights the benefits that they deliver. It concludes with an in-depth profile of one of the top vendors in this space—Inlogik—describing in detail Inlogik's ProMaster solution and the company's approach to TEM.

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Introduction

Travel and entertainment related expenses—the second largest controllable cost pool at most organisations, just behind salaries and benefits—have long been subject to management programs and automation, but more recently current TEM processes have come under renewed scrutiny for the following reasons:

Rising cost of business travel. Escalating prices of travel services—airfare, lodging and travel agency fees to name a few—coupled with an upswing in the number of annual business trips per employee, are proving to be a significant drain on the bottom-line for most organisations.

Hassle of managing travel process. There are complexities inherent to managing any paper-based process and TEM is no exception. As organisations continue to rely on paper—or spreadsheets at best—the process of collecting, approving and auditing expense reports translates to long hours and numerous headaches in the travel management process.

Increase in incidence of fraud. The practice of fudging travel and entertainment expense reports has reached epidemic proportions, with tales of corporate abuse making headlines over the last few years. Lack of proper controls make travel related expenses fertile ground for employee fraud.

Emphasis on cost containment. Our research indicates that the average cost to manually process an expense report is in excess of \$35, while travel agency fees account for an additional \$50 per trip. Multiplied by the total number of trips, this amounts to thousands of dollars on travel management, reducing which can have a material impact on profitability.

Poor spend visibility and control. Lack of accurate and timely visibility into travel spending—including information on compliance with corporate travel policies and preferred vendor agreements—prevents organisations from consolidating spend, which would in turn allow them to leverage volumes and achieve stronger negotiating positions.

Costs incurred due to late payments. Paper-based processes result in long turn-arounds for expense reimbursement resulting in low levels of employee satisfaction and morale. On the other side of the equation, lack of timely reconciliation of expenses results in late fees to credit card companies and other penalties for late payment.

This nagging realisation that existing TEM processes are inadequate has been magnified by the call for greater system integrity and accurate reporting as a result of the Sarbanes-Oxley (SOX) legislation. Sarbanes-Oxley has increased senior managers' focus on travel & entertainment expenses by drawing their attention to the compliance risks

inherent to manual, paper-based processes. The application of SOX standards to the financial supply chain is expected to generate system improvements that will drive down long-term transaction costs with commensurate productivity gains. It is not a surprise, therefore, that 62 percent of the respondents to our *2005 Financial Automation Survey* (FAS) indicated that SOX has increased their interest in new financial automation technology.

The Rationale for Expense Management Automation

Paper is a thing of the past in the TEM world. Gone are the days when employees used to complete a paper form or Excel spreadsheet detailing their expenses, print it out and forward it along with paper receipts to a supervisor in the accounts payable department for approval. Keying this information into the company’s accounting system, filing the expense report and receipts in a cabinet and issuing a paper cheque for reimbursement is a thing of the past. Until recently, obstacles to automation included a lack of awareness of the technology, confusion about and reluctance to make initial investments, and the simple fact that current approaches, however slow or costly, still accomplish the goal of reimbursing employees.

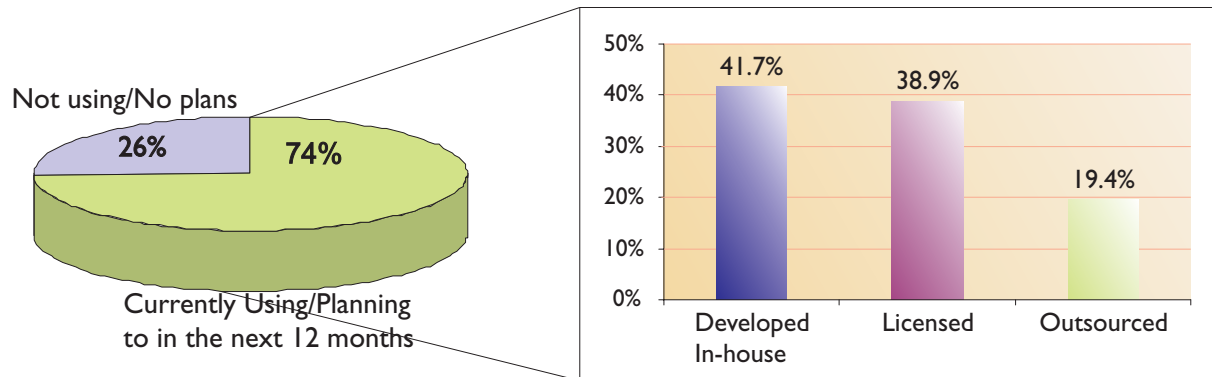
However, accounts payable departments are realising that the challenges associated with these paper-based, manual reimbursement processes (See Figure 1)—lengthy reimbursement cycles, losses from fraud, inability to comply with regulatory requirements, travel policy non-compliance and poor spend visibility—far outweigh the costs of automation. Our research suggests that, to overcome the above challenges of manual processes, accounts payable departments are turning their attention to a rapidly maturing set of technologies that we call Travel Expense Management (TEM).

FIGURE 1: MANUAL EXPENSE MANAGEMENT PROCESS



The typical expense reimbursement process is slow and costly to both travelers and company administrators. The average expense report is handled by four people, takes 27 days for the employee to be reimbursed and costs the company in excess of \$35 to process.

FIGURE 2: ADOPTION OF AUTOMATED TEM SOLUTIONS



Source: PayStream Advisors Financial Automation Survey 2005

Our survey of financial professionals revealed that almost two-thirds of the respondents are currently using an automated TEM system or planning to implement one in the next 12 months. Though a number of organisations (41.7 percent) currently use home-grown systems, we expect this balance to shift heavily in favor of third party solutions going forward.

Our recent survey of finance, treasury, and accounting professionals revealed that almost 75 percent of respondents (See Figure 2) are either currently using an automated TEM solution or planning to implement one within the next 12 months. We predict adoption among large and mid-sized companies will further accelerate as the benefits of expense automation become increasingly clear and well-known.

What is TEM Automation?

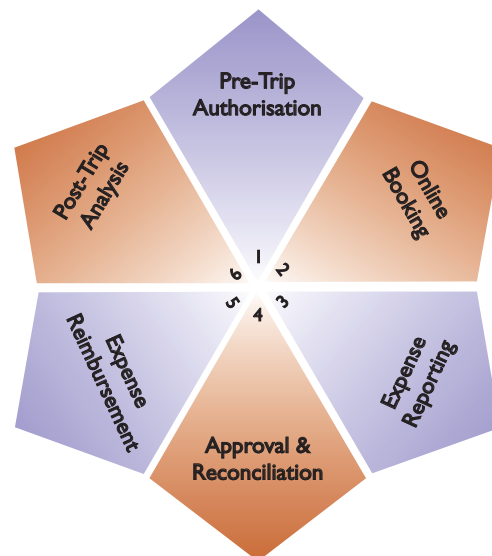
Travel and Expense Management systems streamline the expense reimbursement process while providing mechanisms to control cost proactively through reporting and analytical tools (See Figure 3). TEM solutions can provide a combination of pre-trip authorisation, expense reporting and reimbursement and post-trip analysis functionality in order to create an end-to-end solution. The following are the components of a TEM solution:

- * **Pre-trip authorisation:** This involves setting business rules prior to the trip, like spending limits per city or per category and specifying preferred vendors to ensure compliance with the companies' travel policy and vendor agreements. This feature proactively notifies employees upfront whether an expense or limit is authorised, preventing them from requesting reimbursement for unauthorised expenses after the fact.
- * **Online Booking:** This step enables employees to book the various segments of their trip including flight tickets, hotel reservations and car rentals through an integrated Web-based system. It provides a single source to manage all aspects of a trip and ensures that employees use only preferred suppliers. Some vendors also offer GDS affiliations that provide companies with lower transaction costs compared to using a traditional travel agent. Online booking inte-

gration with TEM is a newer, yet growing offering of TEM solutions.

- * **Expense Reporting:** Most solutions allow pre-population of expense reports with data from corporate credit card issuers eliminating the need for manual entry of data. Pre-population also reduces the occurrence of errors and fraud. Receipts can be scanned and digitally attached or mailed to accounts payable. Additionally, employees can allocate expenses to appropriate categories (personal vs. client entertainment for example) and different cost centers.
- * **Approval and Reconciliation:** The TEM solution can be integrated with the existing HR infrastructure to determine where each report should be sent for approval. The workflow functionality enables routing of tasks to managers based on pre-determined rules and access rights and provides email notifications/reminders for pending requests. Intelligent agents and flags guide users to take appropriate actions. Managers have access to current report status and can view reports online to approve or disapprove requests on an individual basis.
- * **Reimbursement:** Direct deposit to employees' bank accounts either through payroll or accounts payable eliminates the time consuming and inefficient process of preparing and mailing paper cheques. Payments are made to employees and credit card companies more quickly resulting in improved employee satisfaction, better card issuer rebates and a reduction of late fees. Records of all payments made are maintained for posting to the general ledger.
- * **Post-trip Analysis:** This stage involves analysis of key metrics and generation of standard and ad-hoc reports. Spending can be analysed at various levels—employee, department, category etc.—eliminating wasteful expenditure through control measures and regular audits. Data can be aggregated to identify vendors who are getting the bulk of the business and to negotiate volume

FIGURE 3: TEM AUTOMATION PROCESS



TEM solutions optimise the expense reimbursement cycle by streamlining how organisations manage and approve expense reimbursement and improve their spend management analysis. Each of the solutions profiled in this report has a different approach to focusing on the TEM universe, addressing its component steps and achieving effectiveness.

discounts. Overall cost of services can be reduced through these mechanisms. The decision support tools are generally well-developed and give purchasing managers vast amounts of aggregated information about purchasing habits, a very compelling feature of TEM solutions.

Benefits of TEM Solutions

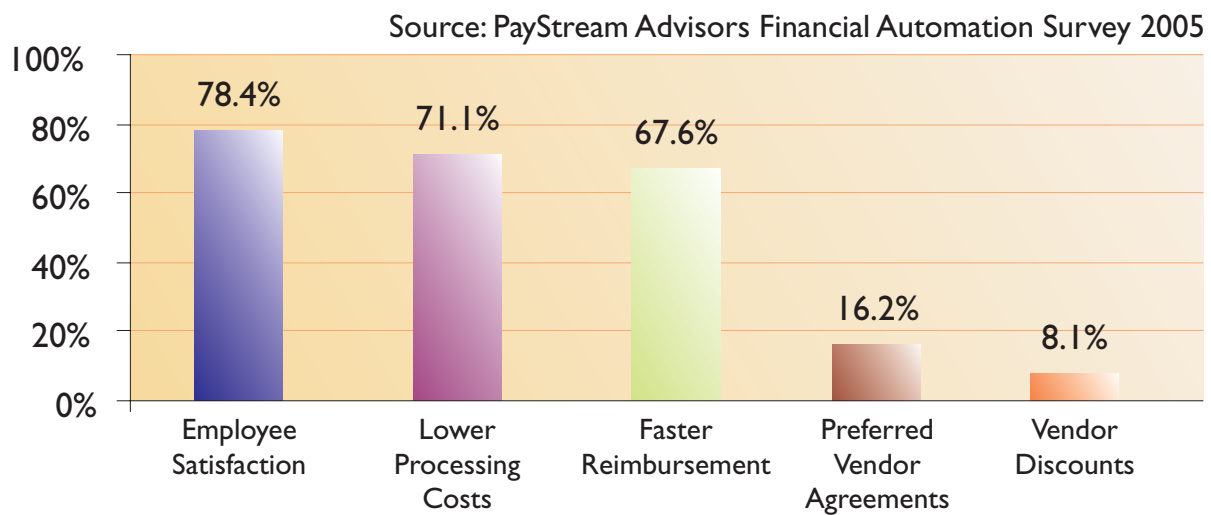
Accounts payable departments that utilise a TEM solution experience a wide range of benefits, depending on the type of solution they deploy (see Figure 4). In general, they benefit in the following areas:

- * **Faster Reimbursement:** Under the traditional expense reporting system, an employee completes a paper form detailing his expenses and forwards that along with his receipts to a supervisor. The manager must approve and then forward the employee's report along to accounting. Staff then key information into the company's system, file the record and receipts away, and issue and mail a paper cheque to the employee translating to a long and painful approval and reimbursement process. Using an automated system, employees can enter their expenses via an online interface, typically pre-populated with corporate card data. Scanning technology allows for digital storage of receipts as needed. Supervisors then approve charges online, accounting makes final approval and payment is remitted to the employee via direct deposit resulting in a smoother process and faster reimbursement of expenses.
- * **Employee Satisfaction:** First, automation and integration of credit cards results in lower out-of-pocket expenses and accelerated reimbursement of expenses. Second, most solutions offer web-based options allowing employees to complete and submit their expense reports whenever and from wherever it is most convenient for them. Additionally, pre-population of expense reports with credit card statement data makes the data entry process quick, painless and less prone to errors. Finally, some solutions that offer pre-trip authorisation functionality, alert employees about out-of-policy expenses and prevent non-sanctioned travel proactively, rather than after the trip. All the above factors translate to improved employee satisfaction and worker productivity.
- * **Travel Policy Compliance:** Ensuring travel policy compliance is another way a TEM solution can save a company thousands of dollars a year in needless spending. By integrating a travel booking feature and pre-trip authorisation workflow, companies can prevent non-sanctioned travel spending before it happens, rather than address it after the fact. However, it is important to keep in mind that these tools have their own drawbacks. On the one hand, it ensures travel policy compliance and reduces losses incurred from maverick spend. On the other hand, it adds another step to the process for both the traveler—who has to submit a request in addition to the final expense report—and the manager—who needs to approve two transactions instead of just one. Finally, pre-populated reports, using data from credit card statements, further mitigate the likelihood of errors or fraud in

reporting.

- * **Lower Costs:** Our research revealed that automating the TEM function can slash the cost of processing an expense report by 80 percent or more and reduce a company’s reimbursement cycle from weeks to a matter of days. Additionally, online review and approval of expense reports frees up accounts payable staff enabling them to spend time on more important, strategic tasks. The accompanying reduction in staff hours needed to handle the expense report function can mean further windfall savings in administrative costs.
- * **Spend Visibility & Analytics:** TEM solutions also generate a wealth of data that can be mined for spend analysis. Aggregating purchase orders and negotiating preferred vendor agreements and volume discounts can save a large company millions of dollars a year in expenses. Greater spend visibility brings attention to trends while allowing companies to benchmark themselves against peers, making long-range planning much easier for corporate managers. Different packages offer different levels of data capture and various screens for analysing employee and company spending habits.
- * **Regulatory Compliance:** Another major benefit of TEM solutions lies in the functionality that they offer in the area of compliance management enabling organisations to adhere to regulatory requirements and control the costs of compliance initiatives. TEM solutions provide features and tools to ensure proper documentation and testing of controls. Secondly, these solutions promote travel policy compliance and offer organisations the ability to audit all travel spending resulting in better compliance with Sarbanes-Oxley and other regulatory requirements.

FIGURE 4: BENEFITS OF TEM SOLUTIONS



Respondents to our Financial Automation Survey stated that employee satisfaction and lower processing costs were the top benefits of TEM solutions followed by faster reimbursement. A minority of respondents stated that the ability to negotiate preferred vendor discounts and volume discounts were benefits they achieved through automation.

About Inlogik Pty. Ltd.

Inlogik, headquartered in Sydney, Australia, is a global provider of solutions that enable corporations to manage all their employee expenses through a single, integrated application. ProMaster, Inlogik's premier corporate expense management software, that was originally released in 1998, is designed to aggregate employee expenses from multiple sources including T&E, purchasing cards, mobile phone bills, fuel cards and out of pocket expenses, as well as managing utility bills and preferred supplier catalogs.

Inlogik originally operated as a management consulting company servicing the travel and entertainment market. Since that time it has evolved from developing specialised technology solutions for clients into a solution provider that today markets Best-of-Breed software products and services in over 40 countries. Founded in 1993, Inlogik was acquired by NAQ Technology, an Australian IT group, in March 2005. Today, the combined company supports over 100 employees and operates out of strategically located offices in Melbourne, Sydney & Brisbane, Australia, Houston, USA and London, UK.

ProMaster has been designed to help companies replace manual and cumbersome expense management processes through automated data import, configurable workflow and transaction handling, while enforcing travel policies as well as mitigating fraud. Inlogik markets its ProMaster solution through a direct sales force, which is structured geographically, and has concentrated on the petrochemical, government, manufacturing and financial services verticals over the last three years.

Company executives stated that Inlogik has experienced an average 22 percent compound growth over three years. The company processes over 4 million expense report transactions annually, which has grown exponentially from only 500,000 a year in 2003. Inlogik processes approximately \$400 million in spend annually through ProMaster.

Inlogik serves over 250 customers worldwide including major corporations such as Shell, Philips International, British Petroleum, Boeing, Baxter Healthcare, Wyeth Pharmaceuticals, Australian Department of Defence, National Australia Bank, Rothschild Bank. Inlogik estimates that its solution is used by over 250,000 end users, but is unable to provide an exact user count due to a number of unlimited user enterprise licenses it provides.

Inlogik ProMaster

Inlogik offers both hosted and licensed options for its ProMaster solution, version 4.4.2. ProMaster is a completely Web-enabled application that does not require any software to be installed on the client side; all users need to access ProMaster is a standard Web browser. ProMaster is a flexible and configurable solution that currently supports 44 different electronic card feeds, 14 database types, 5 different ERP/HR interfaces and Inlogik can easily add additional feeds from other systems if required by the client. ProMaster supports card data feeds for purchasing (p-cards), T&E and fuel cards. Additionally, it accepts data feeds for cellular

phone and utilities billings.

The system also supports single sign-on functionality, if required, by allowing travelers to log into ProMaster using their Microsoft Active Directory login information, or other single sign-on solutions. At present, Inlogik does not offer any pre-trip authorisation functionality with its solution, but stated that the forthcoming version 4.5.0 of ProMaster, which will be released later in 2006, will offer this capability. ProMaster does not currently provide any online booking tools or GDS affiliations. As with other enterprise systems, integration to third party booking tools is readily accommodated. Inlogik believes that most of its large clients prefer a value-for-money TEM solution that offers the flexibility to access one or more travel booking tools; hence the company has made a conscious decision to interface, rather than embed a travel booking tool in ProMaster.

We found the user interface and GUI to be uncluttered and intuitive, with a home page that displays a standard menu, an overview of tasks that require user attention and a list of transactions that are pending in each stage of the workflow; all items are completely configurable based on the customer requirements and user profiles. Program administrators have the flexibility of setting up and changing user profiles as needed and performing data imports from a number of sources – corporate cards, HR systems, General Ledger etc. – either manually or through scheduled activities.

ProMaster offers comprehensive integration with data from credit card statements, allowing pre-population of credit card transactions to expense reports, requiring travelers to only input the out-of-pocket expenses. ProMaster utilises the data delivered by card providers including merchant codes, tax rates, tax amounts etc. to automatically allocate expenses to General Ledger accounts using pre-configured business rules. When users log into the system, they are presented with color coded icons showing actions that can be taken on each outstanding transaction – such as view, match, validate, dispute or mark as private. Minimal input is then required from the account holder to validate the expense and pass it through a sophisticated workflow process for review, approval and finally import into the back-end ERP and payment systems.

One unique aspect of ProMaster is the fact that it allows users to validate individual transactions or combine a number of transactions into an expense report and then route them through a workflow process for approval. If receipts need to be submitted, users can print the expense report and send that along with the receipts to the customer's central processing location either through regular mail, email or fax. Inlogik recently added receipt image management functionality to ProMaster and stated that it expects to implement this capability as a product upgrade with its first client in August 2006.

ProMaster offers robust workflow functionality for the approval of expenses, including straight-through processing for certain transactions versus multi-level approval for others. All business rules that trigger workflows are completely configurable by the client. The system provides interesting features like preventing users from approving their own expenses, irrespective of their user profile, and also allowing users the flexibility to delegate all or a portion of

their rights to another user for a specified period of time. This delegation of authority can be used to accommodate such instances as an absence on vacation or sick leave, or where an administrative support person is responsible for managing a number of cardholders' transactions.

ProMaster supports email alerts notifying users about transactions awaiting approval as well as escalation procedures, and for all other events within the workflow and process. The content of the emails can be generated using pre-specified templates and is also fully customisable by the client. Once, the transactions have been reviewed by a supervisor and approved they can be posted to the General Ledger by running an activity manually or automatically.

Inlogik offers a number of different types of reports that come bundled with ProMaster. Other reports that meet the specific business needs of customers can be generated on request. ProMaster does not provide a report writer, but integrates seamlessly with any third party tool. By default, the system generates HTML reports, but the transaction data can also be downloaded in .xls, .csv or .txt formats for further analysis and manipulation. Typical report categories are administrative reports, archive reports, expense or General Ledger reports and user and VAT/tax reports. Through its strong reporting capabilities, ProMaster offers post-trip spend analysis including analysing expenses at various levels including employee, business unit, location, merchant type or spend category, enabling customers to aggregate data and negotiate better rates with vendors.

Inlogik has developed a seven stage implementation methodology for ProMaster which spans all areas from contracting, solution definition and information gathering to rollout and ongoing management of the solution. On average, a standard implementation of ProMaster takes between 30-60 days. This assumes that client resources are made available to Inlogik in a reasonable timeframe and existing card feeds and ERP/HR interfaces are used. Training is typically provided on-site with the client in a Train-the-Trainer format. Inlogik can also provide ongoing training if required by the client. Inlogik's pricing model is based on the number of users that access the system irrespective of transaction volumes and the total cost of ownership depends on user counts, amount of customisation and existing client infrastructure.

Outlook

Inlogik is an exceptionally strong competitor in the travel and expense management space outside of North America. However, over the last two to three years, Inlogik has extended its global footprint and is becoming an equally formidable provider in the United States. Its client list, which includes household names like Shell & Philips, speaks to this achievement.

The heart of the solution lies in its integration with corporate cards that streamlines and automates the expense submission and validation process. The automated data import not only reduces manual data entry but also strengthens internal controls and enables organisations to reduce losses from errors and fraud. Inlogik is also significantly strengthening solution functionality and upgrading its product with each new release. Company executives stated that forthcoming releases of ProMaster will include pre-trip authorisation functionality and online booking interfaces to enable corporations to control costs proactively as well as provide receipt

imaging functionality.

Inlogik has a unique approach to expense management. It offers an integrated application that handles multiple expense types ranging from travel & entertainment, procurement and fuel cards to cellular phone and utility bills and out-of-pocket expenses. Given the breadth of solution functionality offered by Inlogik, and its global presence, it is not surprising that multinational companies like Shell and Philips use Inlogik's ProMaster to automate their worldwide expense management processes. Whether an organisation is seeking a focused solution for TEM or investigating a comprehensive solution for all its expenses, we believe that Inlogik should be on the list of solution providers to evaluate.

Conclusion

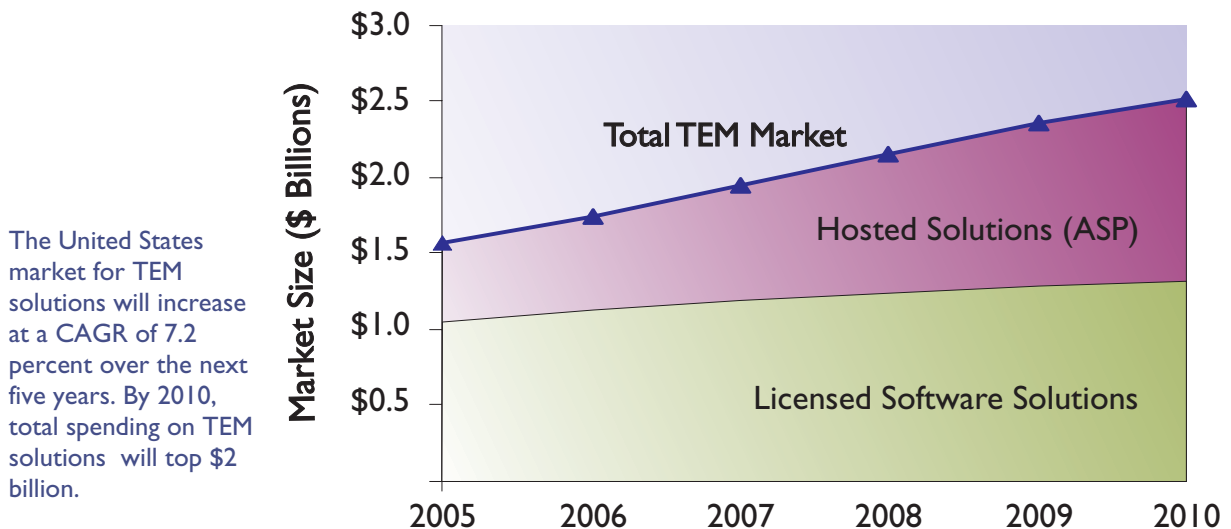
The market for Travel & Expense Management solutions has been growing rapidly over the last few years driven by organisations’ drive to contain costs and reduce occurrences of fraud. Our research indicates that TEM adoption is almost 40 percent among large companies (those with annual revenues in excess of \$500 million), while adoption rates vary between 10 to 25 percent for small and mid-size companies (those with annual revenues between \$10 million and \$500 million).

TEM solutions are still pre-dominantly software-based with penetration levels of almost 60 percent (in terms of number of implementations), but hosted solutions are slowly but surely gaining ground. We anticipate that by 2008 the split between licensed or self-hosted and hosted solutions will be almost even, with hosted solutions overtaking the software model going forward in the United States market. However, in markets outside the U.S., we do not expect to see a significant difference between growth rates for licensed and hosted solutions.

Based on the above adoption rates, we estimate total spending on TEM solutions for the United States market to be approximately \$1.5 billion in 2005—this includes both licensed or self-hosted solutions and hosted models, but does not take into consideration home-grown systems. Though almost 40 percent of TEM solutions are based on a subscription model, the split between licensed and hosted solutions spending is 75 and 25 percent because of the lower price point for hosted solutions.

The TEM market will continue to experience significant growth over the next five years. Total spending on TEM solutions will exceed \$2 billion by 2010, a compound annual growth rate (CAGR) of 7.2 percent (see Figure 5). If your organisation has not already automated the TEM process, now is the time to do so.

FIGURE 5: FORECASTED GROWTH OF THE WORLDWIDE TEM SOLUTION MARKET



About PayStream Advisors

PayStream Advisors is a technology research and consulting firm that improves the way companies plan, evaluate, and select emerging technologies to achieve their business objectives. PayStream Advisors assists clients in sorting through the growing complexities of IT applications related to financial automation with the goal of making objective, analytical, and actionable recommendations. Our clients include leading companies in the financial services, oil and gas, telecommunications, and waste management industries. Wherever financial automation technology is an issue, PayStream Advisors is there to help. For more information, call (704) 523-7357 extension 223 or visit us on the Web at www.paystreamadvisors.com.