

# Digital Transformation in Payments and Spend Management

Lower Costs, Increase Efficiency and Strengthen Control

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# Payments and Spend Management

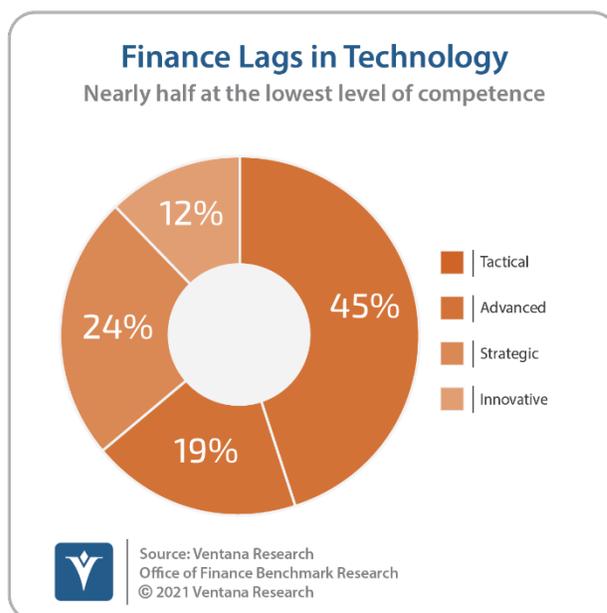
Organizations have traditionally handled the multiple components of payments and spend management in a scattershot manner due to the legacy of paper-based systems used by individual business units. As a result, even when they switch from paper to software, organizations often make siloed technology and process improvements one by one. These decisions limit a business unit's ability to fully achieve the benefits of the software. Digital transformation efforts in this area therefore miss the opportunity to provide senior executives, including the CFO, with a clearer picture of spending.

Digitally transforming payments and spend management goes beyond simple automation. CFOs and controllers should assess their existing methods and technology against the goals of avoiding unnecessary outlays, enhancing controls, increasing operational efficiency and using analytics to increase the effectiveness of money spent. The objective should be to digitize all aspects of payments and spend to the greatest extent possible, and as quickly as possible.

## Benefits of Digitizing Spend

Historically, it has been difficult to convince CFOs and controllers to invest in technology that makes it easier to spend money because of a fear of losing fiscal control. Before digital systems, miring people in paperwork was a crude and only sometimes effective control strategy. Today, however, not using technology to streamline corporate payments and spend increases costs, decreases control and makes it difficult for executives and managers to identify ways to increase the effectiveness of monies spent. Yet, our Office of Finance Benchmark Research finds that the department is a technology laggard: 45% of these business units operate at the lowest level of technology competence while just 12% are innovative.

A digital approach is superior to manual systems not only because it enables greater efficiency through automation but also because it offers programmatic control of almost any aspect of an outlay, such as limiting purchases to preferred vendors and enforcing travel policies at the time trips are arranged. Digital systems facilitate data capture and analysis, so executives and managers have a better understanding of where and how money is spent. Furthermore, discounts earned through volume purchase agreements are easier to enforce when organization-wide transaction data is readily available, especially





for spending that is employee initiated and other purchases where vendor-specific information may be absent or difficult to acquire. In countries where value-added tax (VAT) exemptions arise, organizations can substantially reduce their VAT leakage and, if needed, mount an audit defense by ensuring that all relevant information is captured along with the transaction.



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Digitally transforming spend benefits employees by reducing workloads and eliminating, or significantly reducing, out-of-pocket expenditures while maintaining control. For example, payment cards can be structured so that they can only be used with specific vendors up to maximum amounts and for certain classes of goods. Receipts are now routinely captured with mobile phone cameras and digitally processed to facilitate data entry thus improving the accuracy and accelerating the processing of client expense reports, which can eliminate needless points of friction. An electronic requisition can be substantially less burdensome for the employee with software applications that provide a consumer-like experience and mobile device integration, thus encouraging compliance.

## Four Areas of Focus

The four types of outlays that are especially ripe for digital transformation include travel and transportation (such as lodging, food and incidentals associated with travel); employee expenses (for example, office supplies and software subscriptions), indirect spend (including supplies, accounts payable, marketing and advertising); and payments.

In travel and transportation, organizations often take an ad-hoc approach to arranging, approving, reviewing and reimbursing travel. The processes are manual and, although they may seem tried-and-true, they forego opportunities to reduce costs and increase control. For instance, volume discounts with a preferred set of airline, car rental and lodging providers stretch travel budgets and are more effective when used in conjunction with a booking tool that integrates with an expense management tool. In turn, negotiations with travel vendors can be more productive when a rich set of data (such as dates, frequency and locations, in addition to amounts) is available to the procurement department.

With regard to employee expenses, electronically scanning and ingesting expense receipts and invoices is a great first step. Many organizations have gone one step further and utilize one or more applications for handling expenses and managing invoice approvals. However, to achieve the full benefits of digitizing expenses, they should have an expense management



system that reduces workloads for the back office and employees alike and reduces employee reimbursement dwell time as much as possible by using automated approval processes.

A fully automated accounts payable function usually begins with invoice scanning and electronic approval routing but combining better controls with rapid processing can support a greater volume of early payment discounts and better vendor relations. And payments that incorporate end-to-end automation of data movements also substantially reduce errors and the need for accountants to spend time on checks and reconciliations.

When all four areas are fully transformed, organizations gain a more complete and accurate set of data for analysis and reporting. Moreover, additional transaction details can be automatically captured, including the exact time and location. Having a full set of payments and spend data accessible (with permissions) to anyone in the organization, executives and managers will have a complete view of spending in their span of responsibility to be able to make better informed data-driven decisions. In addition, a cohesive set of accurate and timely information reduces risk, increases controls and improves compliance management.

## Managing the Transformation

Digital transformation of payments and spend management is only achieved when organizations marry widely adopted process improvements with the right software. Software selection therefore should be based equally on its ability to deliver a superior user experience and to provide immediate access to an authoritative set of data for analysis and situational awareness. To achieve the maximum benefit from digitally transforming payments and spend, the initiative should be a deliberate process with defined roles, responsibilities and timelines. As such, CFO involvement in the process is essential.

Accomplishing the goal of digital transformation does not require an immediate and full set of changes. Incremental gains, especially when undertaken with a longer-term vision in mind, will produce substantial benefits. Establishing a long-term goal achieved through incremental steps produces increasing benefits. Conducting a gap analysis in each spend category between existing practices and processes and a desired optimized approach while establishing a prioritized set of steps is a useful starting point.

Today, organizations have many options that were unavailable until recently and they should investigate how to begin the transformation process that will result in increased savings and efficiency, greater control and better compliance.



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