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Expense Management Automation

Process Efficiency, Greater Visibility

February 2007



Executive Summary

T&E (travel and entertainment) expense management is a complex process that, when manually managed, is fraught with extraordinary compliance risk. Unfortunately, lack of automation in managing one of the largest categories of controllable enterprise spend is the norm, leaving most enterprises with inefficient processes that offer little visibility into overall T&E spend and no mechanism to ensure policy compliance.

Key Business Value Findings

Several primary factors are increasing the focus on expense management for the 377 enterprises that participated in this study:

- **Compliance focus:** The need to reduce the current risk levels posed by non-compliance with internal policies and external tax/government regulations
- **Cost reduction:** The competitive pressure to reduce processing and auditing **costs** associated with expense reports
- **Employee productivity:** The organizational pressure to improve employee productivity and satisfaction

The top strategic action planned by **nearly 70%** of respondents in this study is the adoption/improvement of technology to automate expense management processes.

Implications and Analysis

Enterprises are looking to automate the “back end” of expense management to streamline processing, gain visibility over spending patterns, and increase control.

- **Processing costs:** while enterprises using fully automated processes have a cost of **\$15** per report on average, those using manual systems spend, on average, more than double (\$31 per expense report).
 - A company processing 5,000 expense reports a month can save approximately \$16 per report on processing costs by moving to a fully automated system. The result is a savings of **\$960,000 in one year**.
- Approximately **70% of Best in Class** enterprises are using one of the four automated methods for expense management (i.e., end-to-end solution, ERP provider, expense management software or outsourcing).

Recommendations

- Centralize management of T&E expenses.
- Ensure that T&E policy is well-communicated, closely monitored, and updated regularly.
- Promote the usage of corporate cards and ensure integration of corporate card feed to expense management solution.
- Utilize technology, such as web-based (On-Demand), submission, approval and reporting tools, to simplify expense management and move away from paper-based and largely fragmented methods.
- Aggregate and analyze T&E expense data to identify opportunities to leverage spend and negotiate improved supplier discounts and supplier contracts.



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Chapter One: Issue at Hand

Key Takeaways

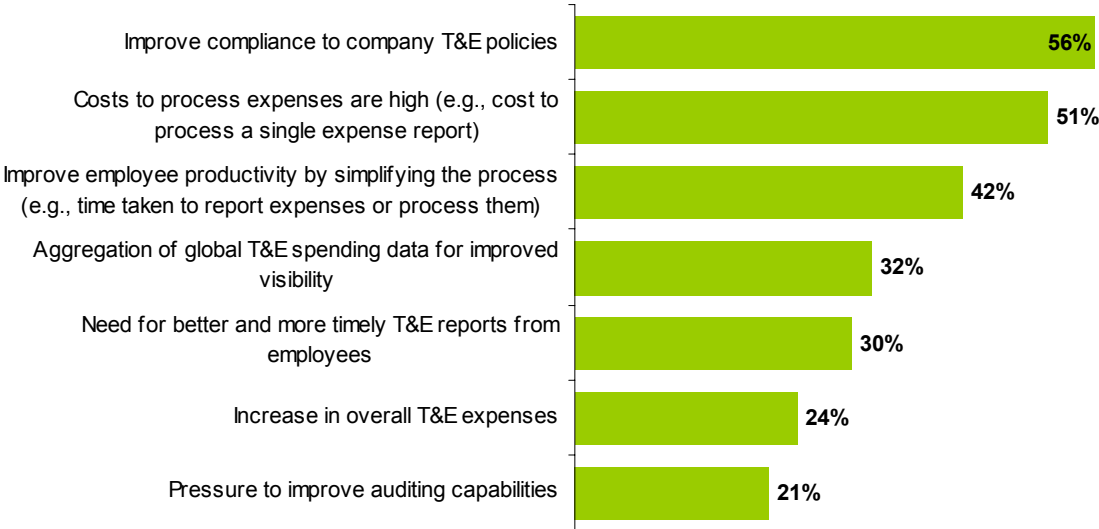
- The top pressures facing enterprises are improving compliance to T&E policies while reducing the cost of processing expense reports.
- Employee productivity and satisfaction are key reasons to improve expense management.
- Spending on most categories within T&E (e.g., air, hotel) has gone up over the last two years, which speaks to the need for improved efficiency and visibility into spending.

Most employees still report expenses using offline, paper forms or rudimentary computer spreadsheets that are then approved manually by managers and processed by the accounts payable (A/P) department. This process can frustrate employees, who must make notes and collect receipts over a period of time and then wait weeks for approvals and reimbursement. Additionally, T&E policies become guidelines at best for managers, who lack visibility into preferred vendor contracts and supplier agreements and are left with a “rubber-stamp” to approve reports. Moreover, the manual processes used to process expense reports are highly error-prone and exasperating to all, including A/P personnel, who often have to “chase down” individuals to make sure that reports are filed accurately and in a timely manner.

Compliance: The Top Priority

As shown in Figure 1, according to the 377 enterprises that participated in this study, the biggest factor driving them to improve these processes is an effort to **improve compliance** with company policies on T&E. In addition, enterprises have clearly reported the need to **reduce costs** associated with processing and auditing expense reports.

Figure 1: Factors Pressuring Companies to Improve Expense Management



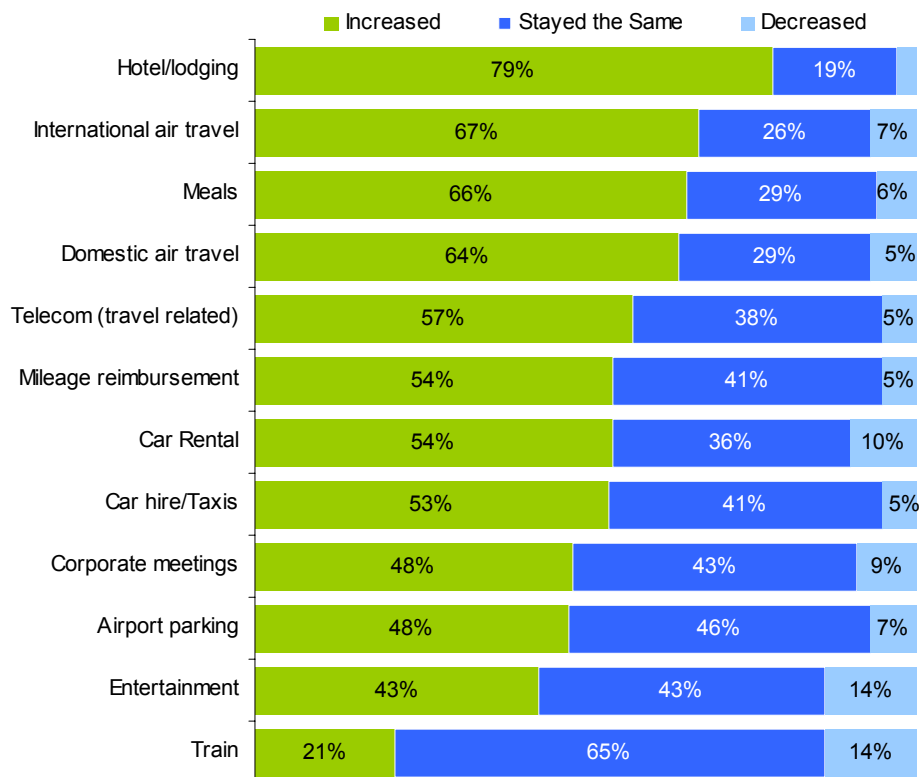
Source: AberdeenGroup, February 2007



Forty-two percent of all respondents reported that a driving factor to advance expense management processes is to **improve employee productivity and satisfaction**, which refers to the time spent creating, submitting, reviewing and approving expense reports, as well as the level of satisfaction gained from more timely reimbursements.

A key factor especially for multinational enterprises is the ability to **aggregate data globally** for T&E expenses. As shown in Figure 2, most categories of expenses are on the rise, therefore, as T&E spending increases, enterprises will be looking for detailed information that will help them reduce costs. In practice, however, global consolidation is far trickier than it may seem. The obstacles range from technical (platforms that don't integrate seamlessly) to linguistic (providing multiple versions of self-booking and expense management tools that must be created). There are also human and cultural factors—resistance to change, a preference for local vendors and a desire to remain autonomous.

Figure 2: T&E Spending Over the Last Two Years



Source: AberdeenGroup, February 2007

With the T&E spending trends likely to continue in the near-term, lack of streamlined and efficient processes on the back end that provide greater visibility will become an even greater challenge.

Chapter Two: Key Business Value Findings

Key Takeaways

- Automation can lead to processing cost savings of approximately \$15 per expense report.
- Best in Class enterprises report, on average, an 83% rate of compliance with T&E policies.
- The majority of enterprises plan to adopt/improve technology for expense management.

By a large majority (68%), survey respondents plan to **adopt technologies** that automate expense management processes as a top strategy (Figure 3). This fact tells us that enterprises that have not already done so are ready to take that next step. Processes for expense-reporting, submission and reimbursement for the most part have been standardized, whether in a manual or automated fashion. However, standardization of processes does not always translate to an efficient system with clear visibility into whether employee expenses are compliant to company policy. Thus, a key action is to more **effectively communicate** these policies, according to 46% of enterprises.

One of the strategies that have risen in priority is the use of **corporate cards**, and according to 45% of the survey pool, a key action is to increase the usage of these cards. This makes the collection of expense data easier providing that the card issuer is capable of extracting detailed information, which can then be uploaded into an expense management system.

Competitive Framework Key

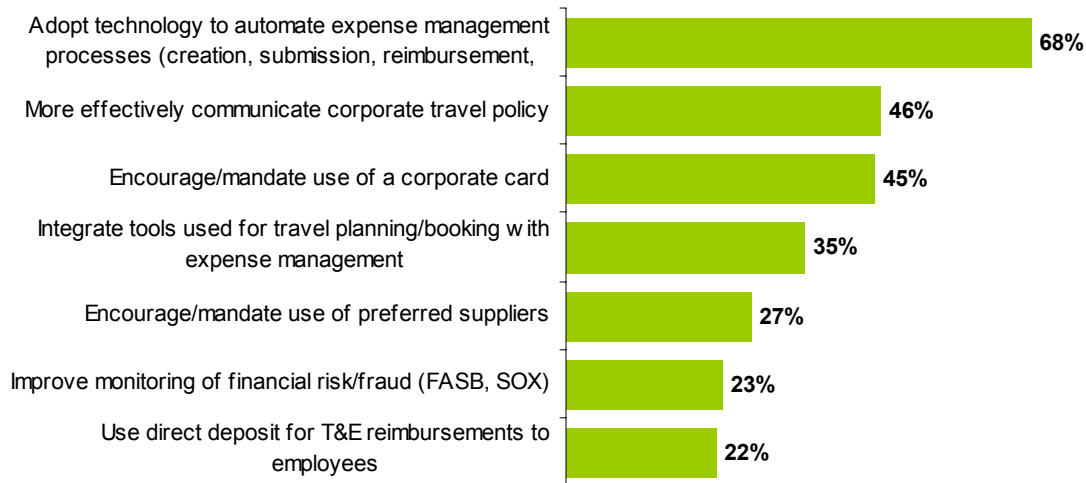
The Aberdeen Competitive Framework defines enterprises as falling into one of the three following levels of practices and performance:

Laggards (30%) — practices that are significantly behind the average of the industry

Industry Average (50%) — practices that represent the average or norm

Best in Class (20%) — practices that are the best currently being employed and significantly superior to the industry norm

Figure 3: Top Strategic Actions for Improving Expenses Management



Source: [AberdeenGroup](#), February 2007

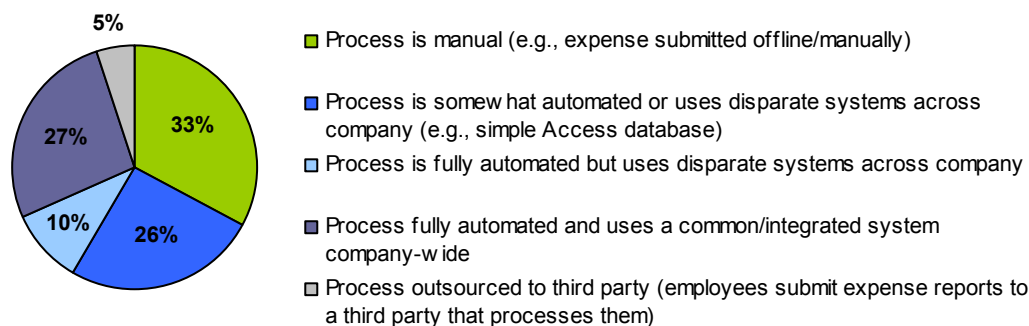
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Process Automation

Currently, one-third of enterprises use **manual processes**, which means they are using a paper-based method (e.g., filling out, printing and submitting a spreadsheet template). Another 26% reported using only partially automated or disparate systems across the company, which refers to a simple homegrown tool that is used in one business unit, as opposed to across the company. Approximately 27% are using **fully automated** processes for expense management; however, close to 70% of Best in Class companies fall in this category.

Figure 4: Automation of Expense Management Processes



Source: *AberdeenGroup*, February 2007

Potential for Savings

The interesting part is the actual cost of the various processes being used and the different levels of automation and integration. Our research found that for processes that are largely manual (i.e., expenses created, submitted and approved manually or offline) the cost is over **100% higher** than those that use fully automated processes (Table 1). The implication of this, when considering hundreds of thousands of expense reports, is clearly significant. (These processing costs do not include the cost of reimbursement)

Table 1: Costs of Processing Expense Reports by Level of Automation

| | |
|--|---------|
| Process is largely manual | \$ 31.4 |
| Process is somewhat automated or uses disparate systems company-wide | \$ 26.7 |
| Process outsourced to third party | \$ 24.8 |
| Process is fully automated but uses disparate systems company-wide | \$ 19.4 |
| Process fully automated and uses a common/integrated system company-wide | \$ 15.1 |

Source: *AberdeenGroup*, February 2007

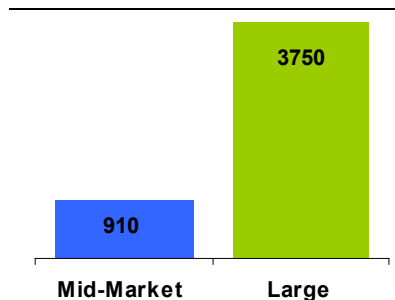
“Processing costs involves three or four people per expense report: the person creating the expense report, the manager/approver, reconciling with receipts and reports that are run to upload it back into ERP or other systems”

Procurement Manager – Large Food Manufacturer

To provide an idea of the size of programs and processes involved, our survey asked respondents for the average number of expense reports processed at their companies. Mid-market enterprises, on average, process **910 expense reports** per month, whereas their larger counterparts are processing an average of **3,750**. Seven percent of survey respondents reported processing more than 10,000 expense reports per month.

Take an example of a company processing 5,000 expense reports a month manually. The company can save approximately \$16 per report on processing costs by moving to a fully automated system. The result is a savings of **\$960,000 in one year**.

Figure 5: Average Number of Expense Reports Processed per Month



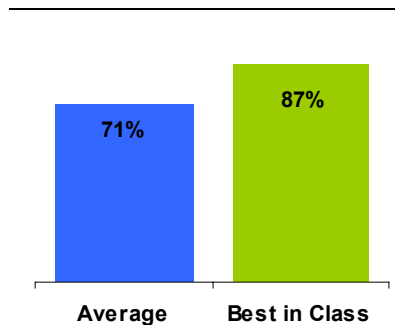
Source: AberdeenGroup, February 2007

| Case Study: Large Insurance Company |
|---|
| <p>Enterprise: Multi-billion dollar insurance company firm that spent nearly \$80 million in 2006 on Travel and Entertainment expenses; processes approximately 7,500 expense reports per month.</p> <p>Description: Expense reporting was run and analyzed through a homegrown, Excel-based system that gave the enterprise basic reporting capabilities.</p> <p>Results: The move to an On-Demand expense management solution in 2001 improved reporting and data collection abilities. The finance division was able to access to sufficient and timely data on T&E expenses and generate accurate and actionable reports.</p> <p>According to the VP of Finance, "We were able to reduce our costs by over 50% to approximately \$16 to process a single expense report, which involves auditing, IT generator, check printing, etc. To reduce this further, we encouraged direct deposits by paying those everyday as opposed to every other week for live checks."</p> |

T&E Policies & Programs

Over half of survey respondents have T&E policy compliance at the top of their minds and are concerned with improving this rate. On average, the rate of compliance among the survey base is 71%, with the Best in Class having a higher rate of 87% (Figure 6). The risk of lower compliance rates is that preferred supplier lists and spending limits become meaningless if employees feel they can spend out of policy with no adverse consequences. Whatever travel policy is put in place, measuring and monitoring policy effectiveness is crucial for maintaining cost reductions. If there is a lack of business and audit controls, it becomes difficult to track T&E policy compliance and overall corporate spend. Setting and clearly communicating spending

Figure 6: Rate of Compliance to T&E Policies



Source: AberdeenGroup, February 2007



guidelines, along with enforcing rules and disciplining non-compliant behavior, plays a key role in achieving more comprehensive control.

The level of auditing required depends on the controls and policies already in place. More auditing is not necessarily better auditing, as our research discovered that Best in Class enterprises audit, on average, 48% of expenses, which is approximately 20% more than what other enterprises audit.

“With an automated system our company is able to use audit ‘flags’, which allows us to audit specific expenses that go beyond the set limits. For example, any cell phone bill above \$100 raises a flag, as does any expense above \$1,500.”

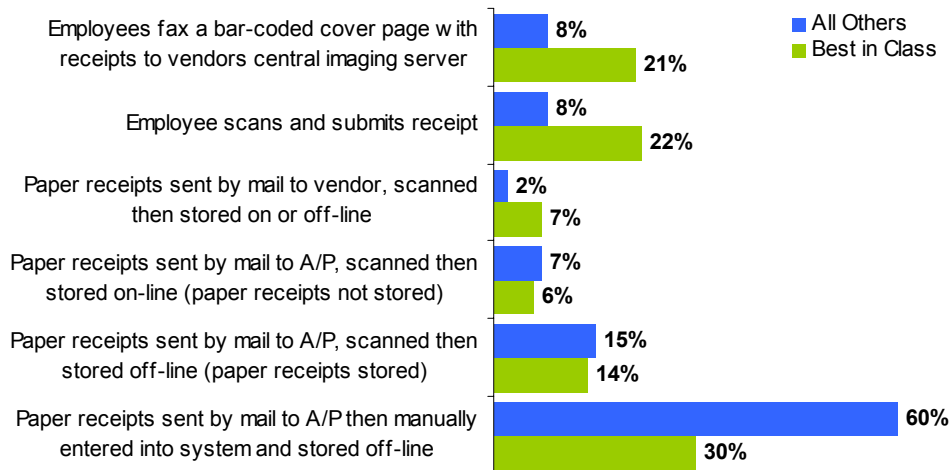
VP of Finance – Large Financial Services Company

Receipt Collection

When it comes to the collection of **receipts**, Best in Class enterprises make it easier for employees to submit their documents. As shown in Figure 7, a large percentage of Best in Class enterprises offer employees the ability to either fax a bar-coded cover page with receipts or scan and upload the receipts to an expense management system.

While this exhibits a higher level of efficiency, there are still a large percentage of enterprises that send receipts by mail; these receipts are then manually entered into a system and stored offline for a defined period of time (Figure 7). It is important to note that there are additional costs associated with offline storage of receipts.

Figure 7: Methods of Submitting Expense Receipts



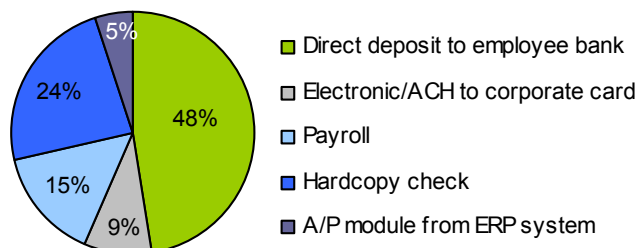
Source: AberdeenGroup, February 2007

Expense Reimbursements

The process of reimbursing employees is somewhat sensitive, as it deals with **employee satisfaction** (timeliness of reimbursement), as well as their own money in some cases. The time taken to reimburse an employee varies widely across enterprises, from a couple of days to a couple of months. Figure 8 shows the various methods that survey respondents use to reimburse employees, each of which has a different cost associated with it. For example, the average cost to reimburse an employee via direct deposit was **\$7 to \$10**. Whereas, using a hardcopy check the average cost is **\$10 to \$13**, which is approximately 30 to 40% higher.

With regards to the time taken to reimburse employees after an expense report has been submitted, Best in Class enterprises are able to complete this function within **6 or 7 days**, whereas all other enterprises take **10 to 12 days**.

Figure 8: Methods of Reimbursing Employees



Source: [AberdeenGroup](#), February 2007

“One of our accountants takes two (2) days a week, using Excel-based processes, to process expense reports, which we’re hoping to drastically reduce by automating, allowing us to better utilize that resource.”

Accountant – Mid-Sized Software Company



Chapter Three: Implications & Analysis

Key Takeaways

- At present, approximately a third of respondents are using an expense management system, however, about 45% are still using spreadsheets or simple homegrown systems
- Over the next year there is likely to be significant interest in expense management automation (includes end-to-end solution, ERP provider, expense management software or outsourcing).

Technology and Service Usage

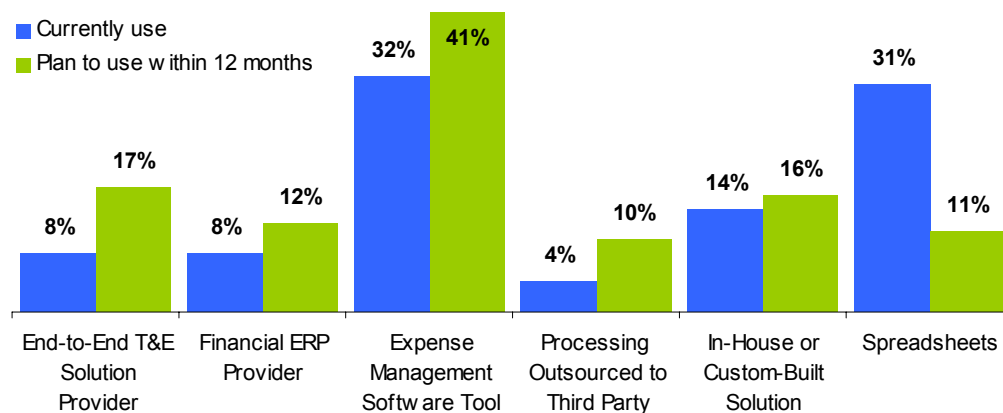
Technology/automation has long been part of the travel management space; corporations are increasingly using online booking tools to save on the front end, and they are looking to automate the back end as well, all in an effort to streamline processing, gain visibility over spending patterns, and increase control. By moving from a largely manual process to a system that feeds corporate card charges directly into an electronic template, companies are yielding all sorts of benefits for travelers, their managers, and the back office.

On the back-end, it is clear that there is growing interest in automation tools (Figure 9). Currently, enterprises are mostly using either expense management software (32%) or more manual methods involving spreadsheets (31%). However, respondents have indicated that the usage of spreadsheets over the next year will drastically drop and be replaced by automated tools.

- *Approximately 70% of Best in Class enterprises are using one of the four automated methods for expense management (i.e., end-to-end solution, ERP provider, expense management software or outsourcing)*

Our survey results concluded that over the next year, more enterprises are planning to use expense management software (41%). Usage of an end-to-end solution (one that allows both travel-booking and expense-reporting within the same solution) seems to be on the rise as well.

Figure 9: Expense Management Technology/Service Usage



Source: AberdeenGroup, February 2007

Although there is only a small percentage of this sample size currently utilizing the **outsourcing** option, interest seems to be significantly growing in this area (from 4% to 10% usage). Outsourcing is essentially handing over the processing (and in some cases the reimbursement) of T&E expenses to a third party. For those enterprises not wanting the burden of managing T&E expenses, outsourcing is an attractive option.

Expense Management Automation Features

There are several capabilities that are available with the various expense management technologies or service types as shown below. The table shows capabilities/features that enterprises are currently using and additional that plan on using within a years time. For example, 41% currently using an On-Demand or Web-based application and over the next year 20% more are planning to adopt this model of delivery.

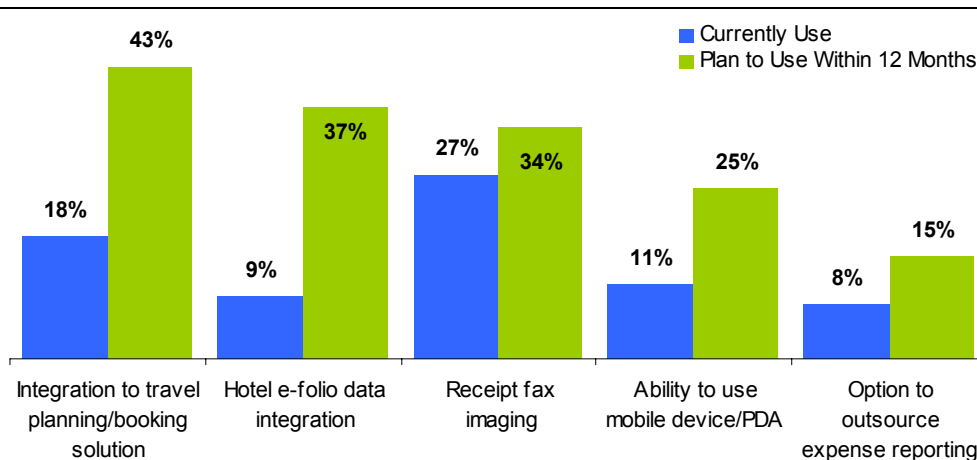
Table 2: Usage of Expense Management Features

| | Currently Use | Additional Planning to use in 1 yr |
|--|---------------|------------------------------------|
| On Demand solution (web-based application hosted by third party) | 41% | 20% |
| Integrated reimbursement (i.e., integration with payroll solution or A/P solution) | 43% | 32% |
| Reporting and analysis capabilities | 51% | 39% |
| Integration with financial systems | 53% | 34% |
| Direct deposits made to users | 60% | 19% |
| Off-line access | 31% | 22% |

Source: *AberdeenGroup*, February 2007

In addition, Figure 10 highlights five features that showed a marked increase in usage over the next year. At present, only 11% reported usage of a mobile device for expense management, however, an additional 25% plan to use this feature within 12 months.

Figure 10: Increase in Usage of Five Specific Features



Source: *AberdeenGroup*, February 2007

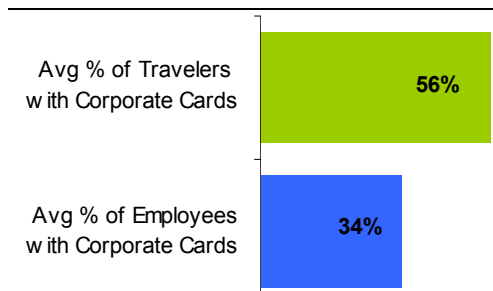


Corporate Cards

Although encouraging the usage of a corporate card is one of the top three priorities reported by respondents, there is a question of how many actually mandate usage. On average, Aberdeen research discovered that that **34%** of employees have corporate cards; however, for travelers this percentage is **56%**.

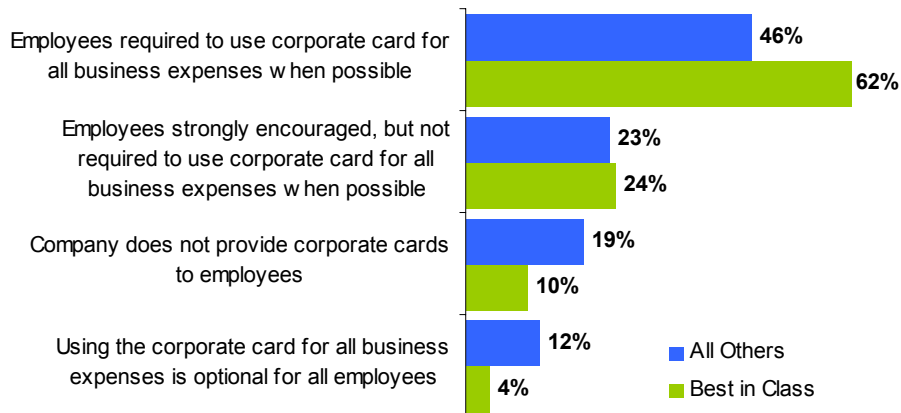
As shown in Figure 12, a much higher percentage of Best in Class enterprises are requiring the usage of a corporate card, which speaks to the higher level of performance they have been able to achieve.

Figure 11: Corporate Card Usage



Source: AberdeenGroup, February 2007

Figure 12: Usage of Corporate Cards



Source: AberdeenGroup, February 2007

Further exploring corporate cards, research has shown that approximately 43% require a receipt for all transactions on a corporate card, whereas another 44% have this requirement for transactions above \$25 (Figure 13). For the majority (73%), an approval from one level above the submitter is required; however, 23% reported two or more levels of approval (Figure 14).

Figure 13: Corporate Card Receipt Requirement

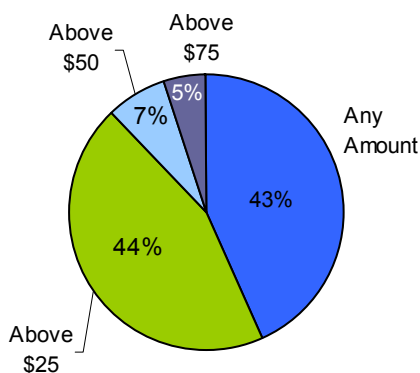
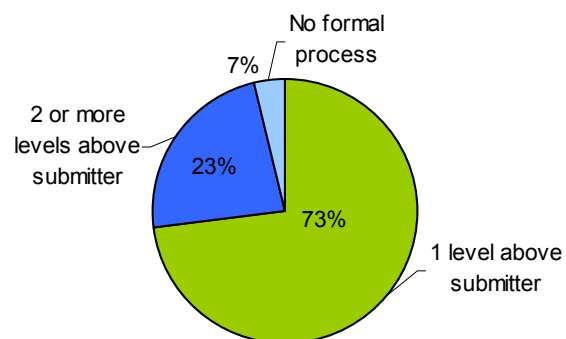


Figure 14: Corporate Card Approval Workflow



Source: AberdeenGroup, February 2007

| Case Study: Large Financial Company |
|--|
| <p>Enterprise: Multi-billion dollar enterprise that specializes in loan plans. Processes approximately 3,000 expense reports per month.</p> <p>Description: Expenses were managed through a manual and paper-based system that resulted in numerous instances of non-compliant expenses.</p> <p>Results: With control and compliance their biggest challenges, this enterprise implemented a new expense management solution that linked directly with their ERP system, a move that significantly improved their compliance issues and allowed the procurement team to analyze key data for use in negotiations with travel suppliers.</p> <p>Corporate cards also helped to improve compliance, according to the Director of Corporate Procurement, "We made it a requirement that anyone spending more than \$600 a year on travel must use a corporate card."</p> |

Competitive Framework

As shown in Table 3, benchmark participants fell into one of three categories — Laggard, Industry Average, or Best in Class — based on their characteristics in four key categories: (1) process (policies and processes around expense management); (2) organization (alignment and structure around expense reporting, approval and management); (3) knowledge (visibility into T&E expense data and compliance); and (4) technology (level of expense management automation and integration across the enterprise).

Table 3: Expense Management Competitive Framework

| | Laggards | Industry Average | Best in Class |
|---------------------|---|---|--|
| Process | <p>Processes and policies undefined and inconsistent</p> <p>Processed largely determined by individual approver</p> | <p>Partially automated expense reporting processes that varies between business units or regions.</p> <p>Policy enforced reactively</p> | <p>Clearly defined and communicated corporate policies</p> <p>Preventative rather detective monitoring and enforcement of policy</p> |
| Organization | <p>No formal organization, responsibilities are fragmented</p> | <p>Multiple organizations responsible for expense management – HR, Finance or Managers</p> | <p>T&E expense processing and data collection takes place centrally</p> <p>Policy management and communication also central</p> |



| | Laggards | Industry Average | Best in Class |
|--------------------|---|--|--|
| Knowledge | Limited visibility into T&E expenses Limited ability to perform reporting and analysis on expenses | Improved visibility into expenses across the company, disparate sources used company-wide High-level data collected Ad hoc usage of corporate card | Complete visibility into company-wide T&E expenses Detailed data aggregated and collected for reporting as well as negotiations with suppliers Corporate card strongly encourage or required |
| Technology | Little, if any, automation Mostly limited to MS Word/Excel for expense reporting and processing | Partial automation that may be disparate through out the company, with only a few processes that are automated | Majority use some type of expense management automation Integrated with financial/ERP systems Automated feed from corporate card |
| Performance | Less than 55% of expenses compliant with policies | Approximately 75% of expenses compliant with policies | 83% of T&E expenses compliant to policies |

Source: AberdeenGroup, February 2007

Chapter Four: Recommendations for Action

Key Takeaways

- Centralize the management of T&E expenses.
- Ensure that T&E policies are well-communicated, closely monitored, and updated regularly.
- Promote the usage of corporate card and integrate them with expense management software.

At a high level, the basics of processing expense reports are fairly standard – employees create and submit expense reports with appropriate documentation, which then have to be approved by the right authorities; in some cases, they go through an auditing process before the employee is reimbursed. It is important to note that the data that can be gathered during this entire process is useful in many aspects.

Recommendations for Action

1. *Centralize the management of T&E expenses.*

A central organization that oversees T&E expenses and related processes makes not only the collection of data easier, but also the monitoring of compliance and communication of policy updates more effective. In many cases, the processing of data takes place in various parts of the enterprise and the extent to which this effort can be aggregated, the better the intelligence and visibility.

2. *Ensure that T&E policies are well-communicated, closely monitored, and updated regularly.*

Where the biggest enterprise challenge is the lack of policy compliance, the first step should be to make sure that employees are aware of company policies and they are updated every time there is a change. While distributing hardcopy policy manuals via intranet posting or email has some level of effectiveness; communication of policy at the point of purchase, is significantly more effective.

3. *Promote the usage of corporate card and integrate them with expense management software.*

A corporate card is effective in capturing a higher percentage of spending data, and depending on the corporate card provider, there is access to fairly-detailed data (e.g., line-item charges for hotels). This type of data, when integrated with an expense management system, can pre-populate reports, making the process simpler and quicker for employees.

4. *Utilize technology, such as web-based (On-Demand submission, approval and reporting tools to simplify expense management and move away from using paper-based methods.*

Expense management solutions can enable a far simpler and easier process for the employees submitting expense reports as well as those approving, auditing and reimbursing them. There are certainly cost savings associated with processing



expense reports using a more automated system rather than a manual one. However, there additional and potentially larger opportunities that can be acted upon with the data collected.

5. *Aggregate and utilize T&E expense data to qualify for supplier discounts and to negotiate supplier contracts.*

This is one of the key benefits of having visibility into spending on various T&E categories. It allows procurement departments to approach various travel suppliers with data to justify price reductions and/or more favorably structured contracts.

6. *Move towards direct deposit for all employee reimbursements.*

With this method, once expenses are approved through the system, the direct deposit is made soon after, which allows for faster reimbursement to the employee, and costs less.

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Vishal Patel,
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Vishal Patel focuses on the use of technology in the global supply management arena. With the rise of globalization, outsourcing, and regulations Patel is researching the role software solutions play in making processes such as contract management, strategic sourcing, and overall supply management more efficient and value-adding in this ever-changing environment. Additionally, he had certain expertise in spend categories such as T&E and Print.

Patel has a manufacturing and operations background, largely in the consumer products industry. He worked previously in an operations and finance role focusing on strategic sourcing and procurement as well as overseeing supplier contracts both locally and internationally. He brings a combination of analytical abilities, hands-on experience, and a global perspective to Aberdeen.

Patel holds an MBA from Babson College and a B.S. in Finance and International Business from Penn State University.



Appendix A: Research Methodology

During January and February 2007, Aberdeen Group gathered research data from 377 enterprises across a wide range of industries and other demographics.

Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on specific strategies, experiences and results.

The study aimed to identify the goals and initiatives around contract management on the sell-side and present them in a framework that allows for a competitive comparison with other enterprises.

Responding enterprises included the following:

- **Job function:** The research sample included respondents with the following job functions: Finance (34%), Procurement (24%), Sales and Marketing (12%), Business Process Management (10%), IT (9%), and other (11%).
- **Job title:** The research sample included respondents with the following job titles: Senior management (CEO, COO, President) (15%), CFO (4%), CPO (2%), vice president (10%), controller (3%), director (18%), manager (40%).
- **Industry:** The research sample included respondents from financial services/banking (21%), high-tech (15%), life sciences and health care (12%), retail, wholesales and distribution (12%), telecom equipment & services (9%), construction/architecture/engineering (7%), transportation/logistics (6%), public sector (5%),
- **Geography:** 73% of the research respondents were from North America, 16% were from Asia-Pacific and 10% from Europe.
- **Company size:** 46% of respondents were from large enterprises (annual revenues above US\$1 billion); 34% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 20% of respondents were from small businesses (annual revenues of \$50 million or less).

Solution providers recognized as sponsors of this report were solicited after the fact and had no substantive influence on the research results. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

Table 4: PACE Framework

| PACE Key |
|--|
| <p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p><i>Pressures</i> — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p><i>Actions</i> — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product/service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p><i>Capabilities</i> — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing)</p> <p><i>Enablers</i> — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p> |

Table 5: Relationship Between PACE and Competitive Framework

| PACE and Competitive Framework – How They Interact |
|--|
| <p>Aberdeen research indicates that companies that identify the most impactful pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute.</p> |



Appendix B: **Related Aberdeen Research & Tools**

Related Aberdeen research that forms a companion or reference to this report include:

- [*2006 T&E Expense Management Report*](#), August 2006
- [*Category Spend Management: Travel*](#), June 2004
- [*The CPO's Strategic Agenda: Managing People, Managing Spend*](#), November 2006

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

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February 2007*

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