The Definitive Guide to

Spend Management.

airbase

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The road to spend management.

I started Airbase as a response to something I saw too much of while running my first company: well-educated, truly intelligent people sacrificing huge amounts of their time doing low-value work. My talented finance team got bogged down in the chaos of approvals, time-consuming expense management, and repetitive manual bookkeeping tasks. What's more, inefficient processes and inadequate tools meant that I was unable to get an on-demand, real-time view of what we were spending as a company.

As I learned more, I came to realize that the status quo for AP in small and midsize companies is broken; that the disparate systems for operating a business's transactions were relics of technical limitations that no longer existed. Using the design-thinking concepts that are central to our product design approach at Airbase, we have taken a holistic view to fix this broken process. First and foremost, and ongoing in this undertaking, was/is a deep understanding of our users' needs and how technology can best meet them.

Spend management is a different way of thinking about spending company money. It frees up time from manual tasks, and provides the tools for finance and accounting professionals to contribute insights, analysis, and strategic thinking; in short, making them more valuable to their companies. Spend management is an important innovation whose time has come.

Thejo Kote, Founder and CEO, Airbase

About Airbase.

Airbase is a cloud-based spend management platform that combines a comprehensive accounts payable system, a corporate card program, and employee expense reimbursement, into one system. Companies turn to Airbase for visibility and control over all non-payroll spend, and to automate accounting and operational processes for a faster time-to-close, and better management of budgets.

What is spend management?

Spend management is an important innovation in finance and accounting that represents a radical departure from the status quo. It handles the full lifecycle of every non-payroll dollar that leaves a company.

Benefits of spend management:

- Visibility and control over spend to reduce wasted spend and control budgets.
- Vastly improve the financial infrastructure and operations.
- More time for accounting teams to perform high-value work.
- Easier purchasing and compliance for employees.

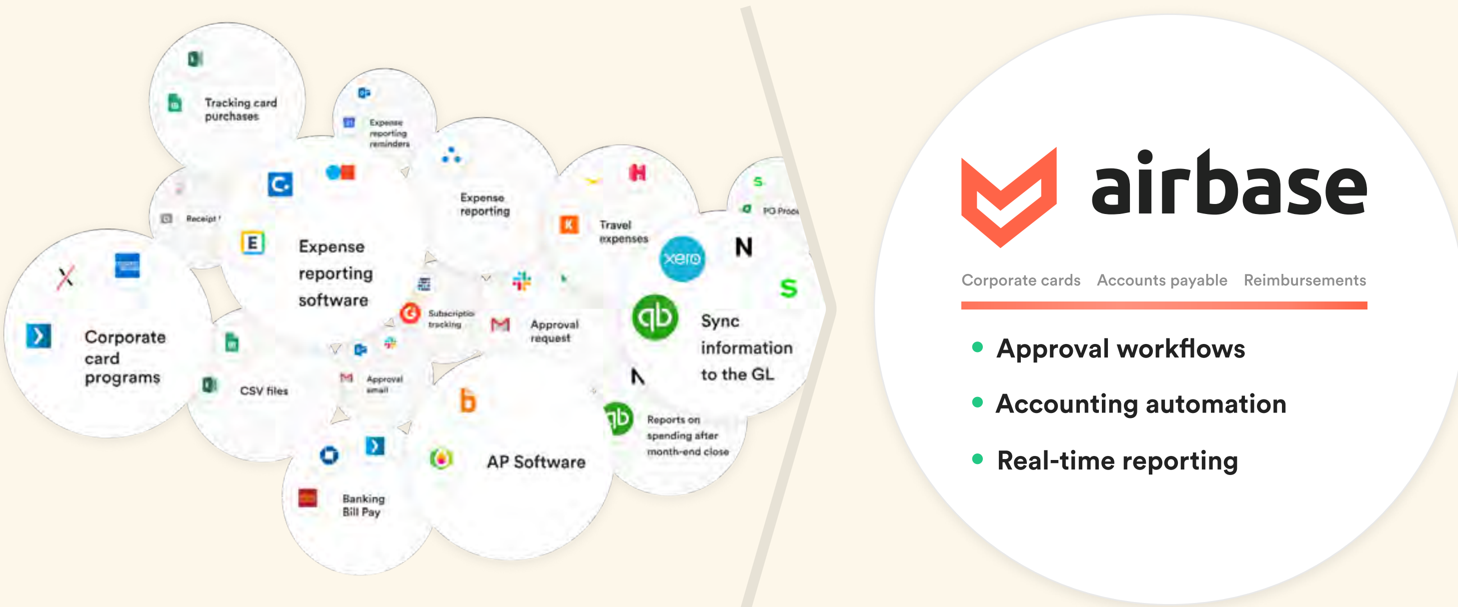
How does spend management work?

Spend management applies a base of three supporting pillars — approval workflows, accounting automation, and real-time reporting — to the three functional areas of company spend — accounts payable, corporate cards, and expense reimbursements.

What does a spend management system do?

- Consolidates the functionality of multiple payment, expense, and AP accounting solutions into one single source of truth for all non-payroll spend.
- Supports all payment types from one command and control center: physical corporate cards, virtual corporate cards, checks, ACH, employee expense reimbursements, and even vendor credits.
- Automates invoice handling, categorizations, amortizations, payment scheduling, and booking transactions to the GL to significantly cut the time-to-close.
- Streamlines and automates expense request and approval operations and processes to ensure compliance with spend policies to better control the budget.
- Captures data in real time for all non-payroll spend so that all stakeholders can see a full picture of up-to-the-minute spending for better decision-making.

Spend management replaces a messy tech stack with one consolidated platform.



> With the new tools coming out now, things can be automated more efficiently. And this frees up time for more analysis, more of the fun stuff, moving forward.*

Bill Losch, CFO

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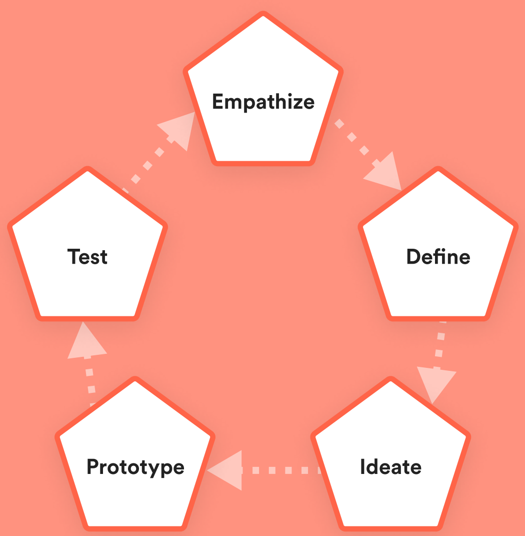
* Airbase hosts a regular speaker series called The Path to Becoming a CFO. Quotes in this guide are from those sessions — we invite you to read more in our ebook, The 21st-Century CFO.



Design thinking and holistic innovation.

Modern spend management has its roots in the technological advances of digital payment mechanisms. And, it has grown out of an approach to problem solving called design thinking.

Design thinking works to break with old patterns of thinking, called schemas, that bias solutions toward incrementalism.

At its core, design thinking revolves around developing a deep understanding of the people for whom we're designing products or services. In the case of spend management, that means considering several user types.

Who is spend management for?

- The employee, who needs to spend company money to be productive.
- The manager, who needs to control a budget.
- The accounting manager, who needs to execute payments and code everything to the GL.
- The controller, who must ensure the timely, accurate collection of data and the closing of the books.
- The CFO or CEO, who needs clean, timely data to make good decisions.

Modern companies have to deal with a proliferation of payment methods and card networks — ACH, check, SWIFT … Visa, Mastercard, Amex. It's been an unfortunate status quo that has led to the unnecessary predicament of siloed AP solutions, which modern spend management rectifies. These systems have been failing employees, managers, leaders — especially finance teams — for too long.

Thejo Kote, Founder and CEO, Airbase

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There's very little forgiveness in a finance job. It's one of those situations where the 80/20 rule doesn't apply. You can't get 80% of the analysis right or 80% of the accounting right if the 20% is completely off.

Alfred Lin, Senior Partner, Sequoia

SEQUOIA

Design thinking asks us to question everything: the problem, the assumptions, and the implications. So what is needed to be questioned about the way companies spend money? Pretty much everything.

Schemas — those old patterns of thinking — have been relied upon to develop countless accounting tools. Ultimately, they've all failed to create a fully integrated process.

Beyond incrementalism.

Finance teams have cobbled together these siloed solutions that result in extra (usually manual) work to reconcile and sync data. Employee expense reporting is one of those activities that is supported by several software solutions. None, however, bother to ask the question: "Do we even need this at all?" As a result, expense reporting remains a hassle for employees and accounting teams alike.

But with an integrated spend management solution, the need for creating and synthesizing expense reports evaporates. The data collected after the fact in an expense reporting model are instead captured by the very actions that go into making a purchase — as they are happening — and recorded to the GL in real time.

Incrementalism can be helpful to make improvements to existing tools, but when the whole process needs revamping, it's best to step back to tackle the problem in its entirety. Enter spend management.

How did spending become such a problem?

The growth of distributed spending.

The rise of card use, and the development of reimbursement tools over the past 25 years, has marked a change in company purchasing patterns. The shift from a centralized procurement model to one where spending is in the hands of individual employees is referred to as distributed spending.

Travel expenses have long been a substantial part of distributed spending, and the proliferation of SaaS products, and their subscription pricing model, has led to an acceleration of employee direct spending on the software.

This trend has helped teams be more productive. With more control of their resources and spending, they can apply their own expertise and familiarity with their needs, and are generally more efficient as a result.

The freedom that a corporate card provides eliminates a substantial amount of back-and-forth with the companies' AP teams. But tying card purchases to business operations has been a challenge.

Accommodating centralized spending.

In spite of the rise of direct purchasing by employees, centralized spending, especially for large purchases or ones that carry more complex contracting needs, is still something that accounting teams focus on. A modern spend management platform accommodates both centralized and decentralized spending using the same workflows and automation. When the system that handles purchases made directly by employees also handles an invoiced payment that requires AP to execute payment, there is continuity.

Decentralized vs. centralized.

In management terms, distributed spend is a ***decentralized*** practice, since purchases are made by individual employees without scrutiny by an intermediary (e.g., an IT or procurement team) before they're executed. This contrasts with ***centralized spending***, which is where an oversight intermediary has insight into spending, and therefore control, before it occurs or is committed to.

> Few AP solutions are equipped to handle many employees conducting their own purchases, and fewer still even consider globally distributed teams.

Thejo Kote, Founder and CEO, Airbase

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As with any decentralized decision-making practice, the efficiencies garnered by putting power directly into the hands of the employee need to be balanced against controls for policy and budget compliance. Yet the payment mechanisms for distributed spending mean that the accounting and finance teams are left in the dark until a credit card statement, expense reimbursement, or invoice is submitted. And, even once those documents are received, accounting resources must often undertake a sleuthing mission to find critical information:

- Who made the purchase?
- How should it be categorized?
- Who exactly is to be paid?
- What are the payment terms?
- Who approved the payment?

In short, the decentralized practice of distributed spend creates a wake of chaos for the accounting team.

The problem is multiplied as companies grow by adding new hires, each empowered to make their own purchases. The impact can be significant and even act as a constraint to a company's growth. Improving operational efficiency with automation tools allows finance and accounting teams to accommodate growth without having to add resources themselves.

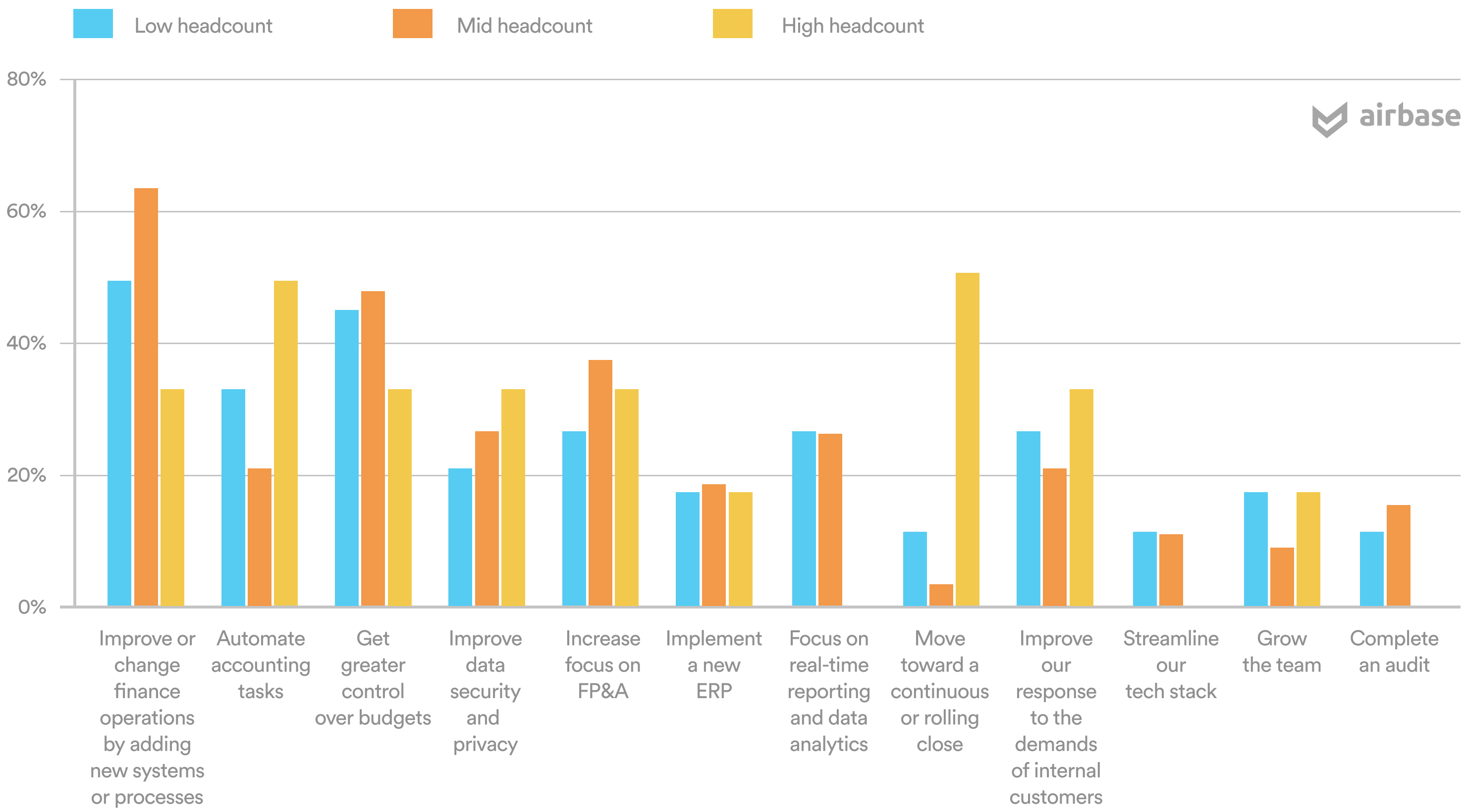
The growth of the distributed workforce.

The movement to remote work within SMBs made necessary by the pandemic lockdown is expected to become more permanent. Spend management offers the right mix of independence for employees and controls for management: the freedom that employees need to make purchases, balanced against the controls that management needs for budget discipline.

A priority for finance teams.

The various problems that spend management solves are recognized as ones that need addressing. When polled about their top priorities for 2021, 745 finance and accounting professionals ranked improving their teams' systems and processes as a top priority. It had the highest representation at 41% of respondents.*

2021 priorities by headcount size.



Top 3 priorities going into 2021 broken down by number of employees.
(Low headcount = 50–100; Mid headcount = 101–500; High headcount = 501–1,000)

* Source: The Airbase Annual Benchmark Survey of Finance Professionals.

Three functional areas of spend management.

A spend management platform combines the following three functional areas into one unified system with consistent workflows to capture all non-payroll spend:

1. Accounts payable.
2. Corporate cards.
3. Employee expense reimbursement.

1. Accounts payable.

Accounts payable solutions have been available for decades and have focused on helping accounting teams automate the processing of invoices using checks, ACH, and wires. Companies like Bill.com have led the field and many of the GL systems have some AP functionality. The limited scope of these systems, however, reflects the type of incrementalism that design thinking shuns.

While legacy bill payment functionality is a vast improvement on manual processes, much of distributed spending occurs outside its bounds. The unfortunate result is that companies must run multiple systems for non-payroll spend — one for cards, one for invoices, and one for employee reimbursements — which creates the need for reconciliations, slows down month-end close, and makes it difficult to report on real-time spending. Accounts payable found in spend management solutions eliminates manual tasks that multiple systems create.

Vendor portals.

Vendor portals facilitate communication between users and their vendors. They provide a channel for POs and invoices, and they also can be customized to send alerts (e.g., with regard to missing documentation) to both parties. A vendor can use the portal to submit an invoice, provide account information, and track payments due to them. Spend management systems offer this functionality.

AP core functionality.

Spend management systems provide comprehensive accounts payable functionality found in bill payments products, and more.

- Handling traditional POs and invoices.
- Intelligently building invoices with context from emails.
- Bill creation from an invoice using OCR, or manually.
- Amortization schedule options.
- Vendor portals.
- Vendor credits.
- Scheduling payments via check, ACH, virtual card.
- International payments.
- Support for international subsidiaries.
- W-9 compliance settings.
- Auto-categorizations and invoice splitting by category.
- Direct syncing to a GL.
- Receipt compliance settings.
- Reporting of spend in real time by type, department, and individual.

The cashback hack.

Consolidating card spend within a broader AP payment system creates efficiencies for AP managers by giving them access to all payment types. Using virtual cards to make payments that would normally be paid by check or ACH, means companies earn cashback instead of paying fees. The earnings generated from his hack may even position AP as a profit center!

GL updates keep the ledger current.

When automation is applied to a full range of activities, including approval workflows, invoice handling, amortizations, and syncing all transactions to the GL, time is freed up from manual tasks. Because the GL is kept current, and captures centralized and decentralized spending, reporting is in real time, and supports better decision-making. Spend management platforms allow finance teams to move closer to the idea of a continuous, or rolling, close.

Invoice inbox.

When an invoice arrives in a finance team's inbox without any context, it places a burden on the team to track down information. A powerful tool, then, is the invoice inbox that automatically captures information about an invoice (e.g., the entire email thread connected to an invoice and any additional files that were shared, like W-9s) to provide holistic context for the creation of a corresponding bill. An invoice inbox serves as a helpful repository for teams to automatically route invoices for the same vendor for easy processing.

2. Corporate cards.

Corporate cards have been a staple of the business world for decades, and are widely used for distributed spending. These payment instruments have been evolving to overcome some of the risks and disadvantages inherent in their original design; their more modern capabilities include control settings and data transfer, making them an important functional area of a spend management platform.

Traditional cards.

AMEX pioneered, and has long dominated, the corporate card market by making something designed as a B2C product available to businesses. But these traditional cards fall short of meeting the needs of company spending.

Drawbacks of physical cards:

- Often shared, which can cause confusion about who used a card.
- Can be used for a variety of purposes and vendors, complicating reconciliation.
- Higher risk of fraud compared to other payment methods.
- Don't sync directly to the GL.

Despite these drawbacks, physical cards will remain as a preferred, or even necessary, payment method for the foreseeable future, such as when an employee pays for dinner on a business trip.

Card reward programs.

Most card programs offer some type of rewards or cashback. Rewards in the form of points or gifts were designed with consumers, not businesses, in mind. They are less valuable to companies and they run the risk of being revalued by the issuing company. The percentage of cashback can vary depending on the card program, ranging from 0.5% to 2% of purchases. The cashback can offset some or all of the cost of a spend management platform.

As previously discussed, it's difficult to get visibility into card usage (especially more traditional credit cards) until after a card statement is received, which makes it harder for companies to control their budget. The problems generated by card use has motivated innovations by card suppliers to better fit the modern company.

Controllable cards.

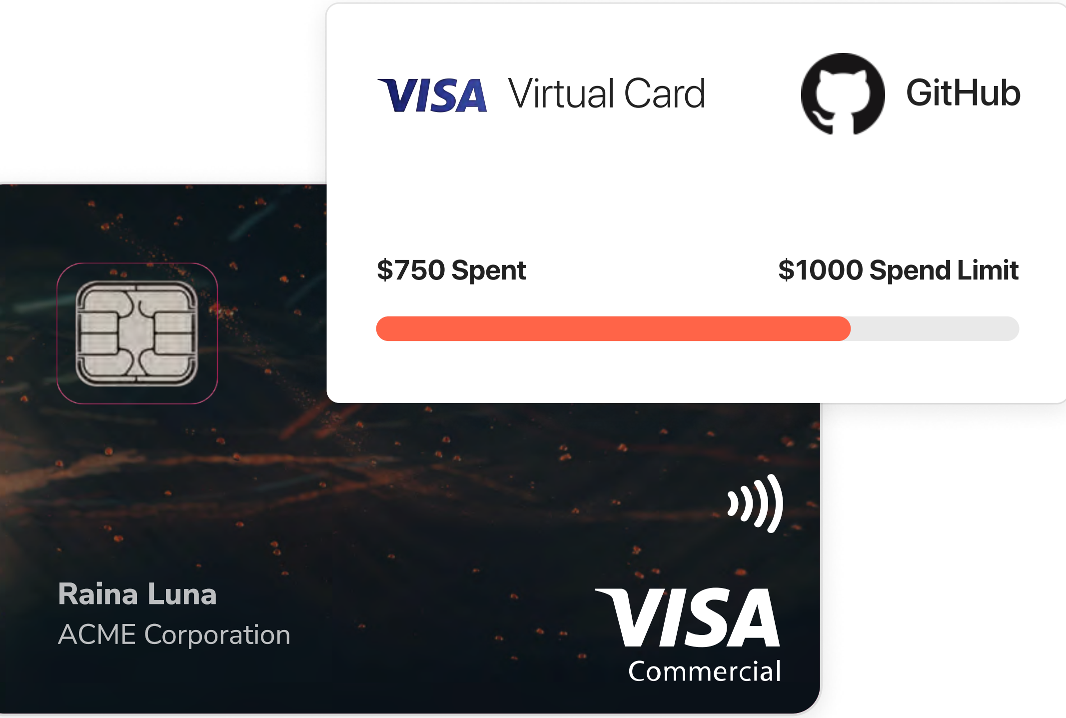
Spend management platforms, as well as some more niche modern payment solutions, have addressed the issues of traditional cards by connecting their proprietary cards to software that enables control settings and recordkeeping. The benefits of these controllable, software-powered cards are myriad. They are powerful payment devices that give managers insight into spending, and the means to influence it, before the end of the month.

Beyond simply saving administrative time, these cards also have powerful functionality for employees, such as the ability to request control setting changes, or the ability to lock a card when necessary.

But even these cards can be improved upon. Enter virtual cards.

Benefits of control features on cards:

- Better recordkeeping, with a digital audit trail of spending details.
- Greater control including:
  - Total spend limitations.
  - Vendor limitations.
  - Time limitations.
- Streamlined reconciliations because:
  - Transaction data is captured in an easy-to-manage space.
  - Auto-categorization technology can be told — or predict, in more advanced systems — how to categorize transaction for the GL.



Virtual cards.

Digital payment innovations have given rise to virtual cards. They allow the card user to generate a one-time card number to make a payment. They have several benefits over physical cards, supporting greater spending efficiency, and may eventually replace them altogether.

Virtual cards are easy for employees to use and, largely because they use pre-approval workflows, they help managers control their budget. After receiving approval for a purchase, a quick tap generates a card number, and a simple share sends card details to a vendor securely. They can be managed entirely from within a unified spend management platform and, helping to reduce fraud, can be generated uniquely for:

- Specific vendors.
- Specific initiatives.
- Specific employees.
- Specific departments.
- One-off purchases.
- Specific expiration dates.

Debit vs. credit:

There are two types of corporate cards: prepaid debit cards and credit cards. The prepaid model is particularly attractive for funded startups and other cashflow-positive companies who do not rely on credit cards for short-term cash management. Debit cards can often carry a higher percentage of cashback. Spend management platforms accommodate both types of cards.

When a virtual card is created, the GL category for that purchase is specified and flows directly to the GL for automatic booking. Further still, virtual cards are tied to the full approval workflow, meaning a complete audit trail of approvals is available to ensure compliance with company policies.

For the accounts payable team, virtual cards are available as another payment type, like checks or ACH. Virtual cards are accepted by anyone who accepts credit cards. Having this payment type readily available to AP managers gives them an opportunity to earn (cashback) instead of pay (ACH fees or check costs).

For companies, virtual cards provide a level of efficiency, visibility, and control that is unobtainable with traditional payment types.

Modern cards are a software product.

Corporate cards are increasingly differentiated by their software, both for the power of the control settings and the ability to pull data from card use. While many cards offer approval-based activations and ***some*** control settings (e.g. size and maturity of payments), advanced versions of cards automate two time-consuming back-office processes: receipt compliance and card reconciliation.

Finance teams often find themselves having to enforce receipt compliance by chasing colleagues for documentation. A spend management platform automates this by sending out reminders for missing receipts and, if selected as a setting, freezes card use until receipts have all been properly attached per company policy. This shifts the enforcer role from being played by the finance team to being handled by the system.

Reconciling credit card statements has long been a dreaded task for finance and accounting teams. Assigning categories and, for a shared card, even determining who made a purchase, can be difficult. And syncing data to the GL by pulling CSV files creates the need for manual work.

The virtual cards on a spend management platform do not generate a card statement — instead, they create a full audit trail and sync directly to the GL. Such automation-derived efficiencies free up finance teams for more strategic work, and multiply the work capacity of any given team size.

Surprise benefit of visibility and control.

A healthy spend culture is a key benefit of a spend management system. Increased visibility of budgets leads to greater accountability and a shared sense of budget ownership. The right controls allow managers to empower their employees to make purchases when necessary. It eliminates awkward conversations about whether monies spent qualify as reimbursable expenses. It also provides, to both employees and managers, peace of mind that spending complies with approved policies.

3. Employee expense reimbursements.

Many companies allow, and even expect, their employees to use personal funds to purchase company related items and services. Using personal credit cards for travel, on-the-go expenses, or to purchase one's own software tools is commonplace in small to midsize companies. Employees then provide documentation in order to be reimbursed, and accounting departments must book the corresponding business expense, then make a non-taxable payment to the employee. Some companies make this payment through their payroll systems, which can create confusion for income being reported on a W-2.

Expense management software.

Expense management software, like Expensify and Concur, were built to handle reimbursements, which represents an important, but sub-section, of total non-payroll spend. These systems focus on expense reporting, which is notoriously cumbersome, both for employees inside and outside of the accounting team. These solutions have made the reporting of expenses easier for employees, and they have largely automated the workflow with smart rules that reflect company policies for approving employee spend. Some have advanced invoice ingestion capabilities, where OCR technology can read key details to automate inputting and avoid errors.

Still, accounting teams find themselves having to chase down receipts and transaction details to make sure that the entries are properly recorded. Delays in expense reporting can also force a restatement of the financials from one period to the next.

While spend management systems eliminate the need for expense reporting when using the platform's cards, companies still, on occasion, need to reimburse an employee for out-of-pocket expenses. Whether it's a matter of a time-to-time necessity of using personal funds, or that companies prefer to give their employees the option to use their personal cards to earn rewards on purchases, accommodating reimbursements is important. When part of a spend management system, the process for reimbursements conforms to the same request and approval workflows, accounting automation, and real-time reporting that apply to all non-payroll spend.

Handling reimbursements is another good example of the principles of design thinking at work. A spend management system is agnostic with respect to payment type, handling them all — personal cards or personal checks (via reimbursements), corporate cards, checks, ACH, and even vendor credits — all from one unified system. Including everything means that finance teams don't have to make adjustments to the books. The flexibility this offers a company is substantial: one system to give visibility and control over all non-payroll spend regardless of its origination.

Three supporting functions of spend management.

Three pillars of spend management support its three functional areas of accounts payable, corporate cards, and expense management:

1. Approval workflows.
2. Accounting automation.
3. Real-time reporting.

1. Approval workflows.

The idea of getting approval for spending company money before committing to a purchase is central to expense management, and spend management systems are built upon powerful approval processes. They enable companies to set up approvers, typically managers, to review committed spend (e.g., submitted invoices and employee expense reimbursements) as well as requested spend (e.g., purchase orders). When these settings are robust, they can handle more complex company approval policies and contingencies.

The process of requesting spend by employees should be intuitive and quick, no matter how elaborate the approval logic required for a particular purchase. Spend management systems are able to build sophisticated approval workflows, specifying who should be approvers and under what conditions. This is commonly used to establish second-in-line, or even third-in-line, approvers in the event that the main approver is unavailable. And, to identify categories or amounts of spend that require additional approvers.

Qualities of strong approval workflows:

- As simple or complex as required.
- Easy to navigate.
- Clear transparency for employees and managers.
- Consistent across all use cases (cards, purchase order requests, or employee reimbursements).
- Easily managed from within a single platform.
- Reflective of company policies.
- Flexible enough to change workflow parameters as circumstances change.
- Able to create and archive an audit trail of approvals tied to each transaction.
- Integrated with communication tools (e.g., Slack or email) to minimize time between request and approval, as well as time between follow-up communications.
- Able to avoid bottlenecks in productivity (e.g., setting up a replacement approver should the primary approver be unavailable).
- Able to construct an audit trail of the approval process, both for posterity and to identify where in the workflow an item needs to be addressed.

Spend management systems' radical contribution to non-payroll spend is to link approval processes to card spend. Wrapping the pre-approval process around spending using virtual cards means that the request and approvals are executed before a transaction occurs. Prior to spend management, card payments created a huge blind spot for finance and accounting teams.

The pre-approval process for virtual cards solves this problem. It gives visibility to budget owners, who serve as approvers, so they can control their budget. And, because the transaction syncs directly to the GL, accounting has the information it needs.

While these workflows help to protect companies' bottom lines, they also help to protect employees from inadvertently breaking company policy.

A strong request and approval workflow is a paramount capability of a fully integrated modern spend management system.

> The complexity of running organizations and the speed of decision-making have increased tremendously from a decade ago.

Robin Washington, Board Member, Alphabet, Honeywell, and Salesforce

Alphabet Honeywell salesforce

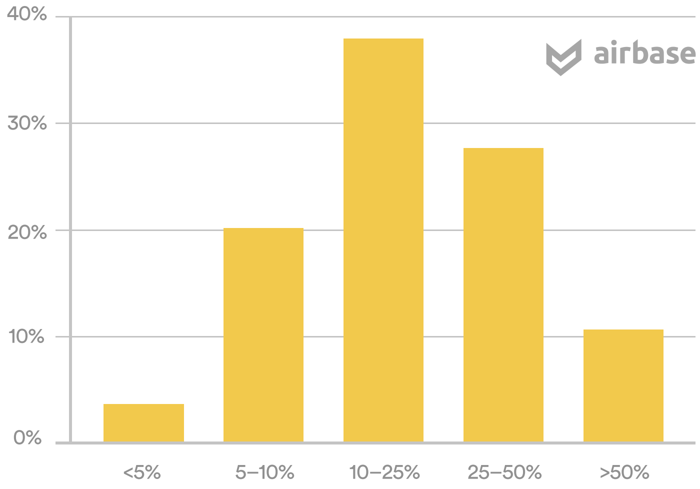
Benefits of strong approval workflows:

- Time savings.
- Increased visibility and control for budget owners.
- Compliance protections for employees.
- A better, healthier spend culture.
- Audit trails of approval.
- Flexible, adjustable budgeting.

2. Accounting automation.

The automation of accounting work was one of the earliest applications of modern technology. Yet manual work persists for accounting professionals, arguably becoming even more burdensome in recent decades, with rising expectations for up-to-the-minute data for decision-making. An astonishing 38% of survey respondents report that a quarter or more of their time is spent on manual work! Much of the manual work that accountants are saddled with has evolved into reconciling information across multiple systems and coding it to the GL.

Time spent on manual tasks.



*Our survey asked respondents to indicate the amount of time their teams spent on manual tasks.**

The holistic approach to spend management solutions is a consolidated one, designed to eliminate the need for cross-system reconciliations. The benefits of automation are clear: it reduces human error, allows companies to act more quickly, and frees up time for higher-value work for finance and accounting teams. And automation will continue to evolve, especially with the assistance of machine learning and deeper integrations.

* Source: The Airbase Annual Benchmark Survey of Finance Professionals.

Automation is built into several components of spend management systems including:

- **Accounting processes:** Basic AP features, such as bill amortization, payment scheduling, and payment execution, are fully automated as part of the core functionality of modern spend management systems, with others added in.
- **Approval workflows and receipt compliance:** These are automations of operational workflows and are essential to ensuring adherence to policy and forming a clear, reliable audit trail.
- **Auto-categorization for GLs:** Using machine learning to improve its performance, auto-categorization frees up substantial time for accounting teams.
- **OCR:** This is used to extract data from physical documents so that manual inputs are not needed.
- **Compliance tracking:** Additional oversight to ensure adherence to company policy.
- **Invoice management:** Automatic routing of emails to an invoice inbox saves time and administrative work. An invoice inbox provides context for purchases, and can further automate the content of the inbox by using technology to scan emails to add in snippets of information found there.
- **PO creation:** When a customer requests a purchase order, the system should be able to generate one and match it against the invoice(s).
- **Alerts and reminders:** Fraud, missing W-9s, approval request, subscriptions already being paid for by a company, and more.

3. Real-time reporting.

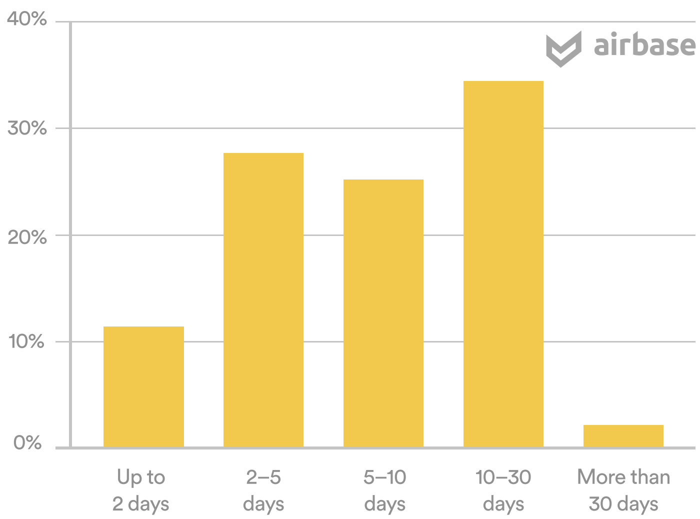
The opportunity for real-time data is a significant benefit of this automation, dramatically increasing visibility of spend and creating actionable insights in real time.

One of the greatest practices enabled by this is a continuous, or rolling, close: a company's books updated and balanced as transactions occur. At face value, this turns an activity that can take several days, or weeks, into a manageable daily task. But this also has far-reaching implications across an organization, helping leadership move away from thinking in terms of month-end, or year-end, and supporting a more agile approach to planning and forecasting.

Benefits of real-time data and visibility:

- Strategies for budget recasting derived from customizable reports.
- Reduced duplicate costs that might not have been detected.
- Increased fraud prevention.
- Operations assisted by real-time data and KPIs.

Days it takes finance/accounting teams for month-end close.



*61% spend more than a week on their month-end close, with 18% spending most of the month.**

* Source: The Airbase Annual Benchmark Survey of Finance Professionals.

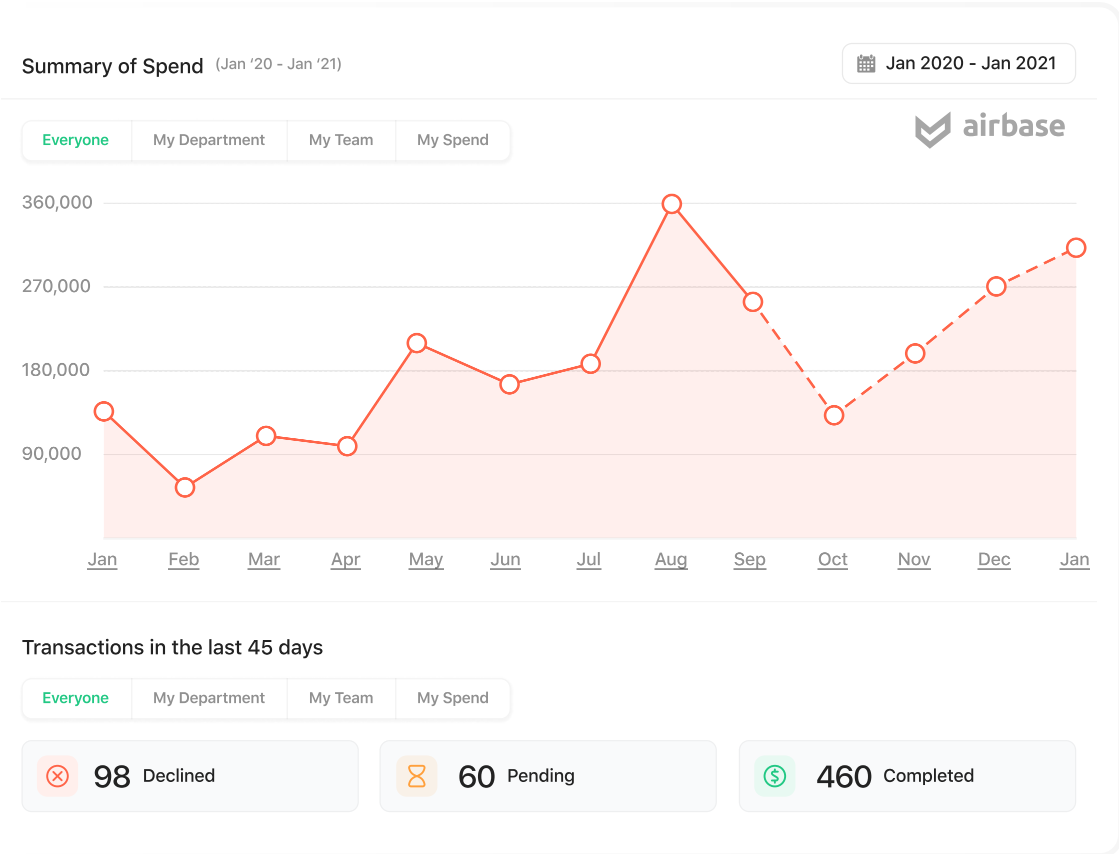
Ultimately, real-time reporting empowers budget owners to better stay on top of KPIs and budgets, finance teams to better understand and construct key metrics, and leadership to make better strategic decisions about the future instead of reacting to the past. This is all possible because, on a spend management platform, data is captured from events as they happen throughout the entire workflow. More importantly, they capture this for all aspects of non-payroll spend so that the data provides a complete picture.

The consolidation of all spend data means that the GL can be synced regularly and that stakeholders are, again, not restricted by the end of the month for insights.

The records that are created and captured at each step in the process form an important audit trail. Clamoring for documentation to satisfy an audit can take days, or even weeks. When compiled as part of the process, there is no need to recreate events; instead, a simple report can be called.

> The role of the CFO and of finance has clearly shifted. Now data is much more widely available. Your job isn't actually calculating a number anymore. The job is about defining the right metrics for success, and making sure that the organization can manage to them.

Kate Bueker, CFO, HubSpot



Integrations.

Given the connected dynamic between a spend management system and the entirety of a company's operations, any good spend management solution must necessarily work smoothly with other tools.

Moreover, spend management takes advantage of the ever-widening opportunities for software integrations to expand its capabilities by connecting to other platforms and systems.

Potential future integrations:

- Cash management software.
- Travel management software.
- SaaS management software.
- Any new meaningful software in the digital transaction space.

General ledger integrations.

The central integration for spend management is to GL platforms, whether powerful ERPs or simpler GL systems.

It allows users to build rules to automatically categorize transactions as they happen — corporate card purchases, invoices, ACH payments, expense reports — that then seamlessly sync to a GL. Airbase, for example, has specifically partnered with Intuit QuickBooks, Oracle NetSuite, Xero, and Sage Intacct, to build deep integrations.

It's easy enough for most software to digest CSV uploads that have been exported from third-party tools, but that's a superficial level of cooperative design. Deep integration means seamless communication without the need for added steps. It means employing the best tools of the partnering software, like NetSuite's powerful amortization templates that let AP set up non-standard payment flows.

Other significant integrations.

Beyond accounting software, spend management also integrates with communication software, like email and Slack, to facilitate a smooth and rapid back-and-forth of approval workflows. When a request to make a purchase is routed to the appropriate approvers, they receive both an email and a Slack message, where they can approve or reject a request without having to break from their environment to log in to the spend management system. Full Slack integration also means being able to ask questions and add approvers from within Slack.

Other integrations that contribute to the efficiency and comprehensiveness of spend management include human resource information systems (HRIS), like Rippling, Gusto, and BambooHR, for the easy provisioning and deprovisioning of employees. This keeps the spend management system safe, secure, and up to date, so that employees who need to make purchases or issue approvals can do so, and those that no longer have authority are removed.

Integrations with security software also help a spend management platform provide the most up-to-date protections, like those offered by Okta authentication software. And, of course, spend management integrates with digital wallets, like Apple Pay and Google Pay, so that cards can be made more secure and payments can be contactless.

Integrations offer an efficient way for spend management to fulfill its promise of a single platform to manage all non-payroll spend. They will continue to extend the functionality, and the quality of spend management software, by linking it to adjacent products.

Evaluating the ROI on spend management.

A good spend management platform is a sophisticated piece of software that is relied upon to make secure, accurate, timely payments to vendors, and to efficiently, and faithfully, update the GL. As such, the fees for this type of tool can be assessed based on the considerable value that it creates for a company.

Fees will vary by provider, and the level of functionality purchased. Some providers have a tiered pricing system based on features, while others charge a per-seat fee. Some offer their software for free but return little or no cashback on card purchases. Beyond the utility value, it's possible to calculate the return on the investment of any platform fees, and to do so it's helpful to break out the various places where money can be saved, and where it can be earned, by switching to a spend management system.

> The finance role has become much more data driven. The expectation now is that you need to be strategic in driving your business.

Mike Dinsdale, former CFO,
Gusto, DoorDash, and DocuSign

gusto DOORDASH DocuSign

Replace several software tools with one.

Spend management adopters commonly save by removing software that is supplanted by a spend management platform, like Expensify or Bill.com.

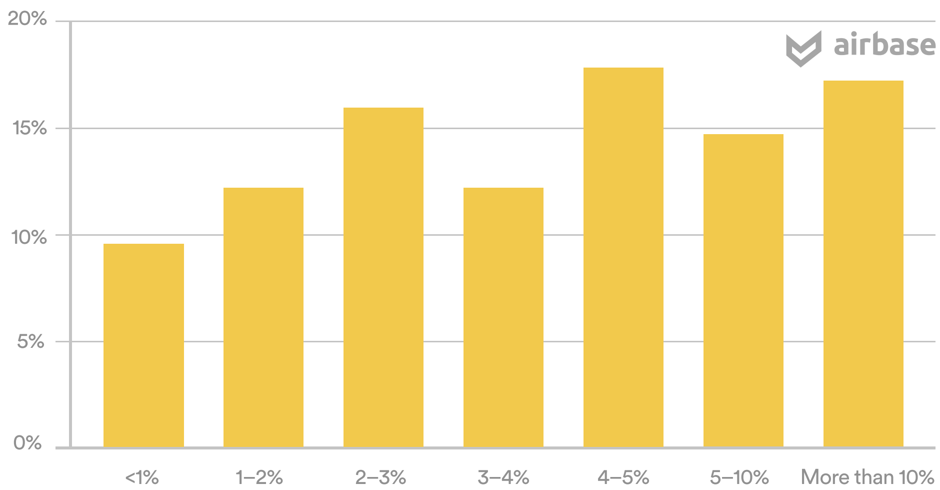
Time savings from automating workflows can be translated to a monetary value. Spend management saves time for:

- Employees and leadership, who no longer have to submit expense reports.
- Accounting managers, who no longer have to chase down those reports.
- Budget owners, who have an easier time tracking expenses against their budgets.
- Accounting teams, who save time on, or no longer need to, complete repetitive tasks:
    - Coding transactions.
    - Correcting errors in categorizations.
    - Reconciling across platforms.
    - Reconciling bank and credit card statements.
    - Having to pull interim reports of spending for department heads or other leadership.

One of the largest contributors to the ROI of a spend management system is the money saved on wasted spending; money that, with true visibility and control, the company would not have spent. This includes:

- Purchases that would not have been approved if such approval was required before a charge was made.
- Zombie spend, which is when recurring charges continue even when a service or product is no longer needed, like a subscription paid for an employee who has left the company, or for software that is no longer necessary.
- Duplicate spending.
- Missed price breaks.
- Elimination of fraud and the time that it takes to address it.

Estimated savings.



*745 finance professionals were asked to estimate how much could be saved on wasted spend if they had full control over it before it occurred. Almost one in five indicated that their companies could save 10% or more.**

* Source: The Airbase Annual Benchmark Survey of Finance Professionals.

Beyond saving... making money.

In addition to saving money, time, and wasted spend, a spend management platform can generate additional revenue for a company. When payment types are consolidated onto a single platform, it's easy to substitute one payment type for another. By switching from an expensive one, like checks or ACH, to virtual cards, a company will earn cashback. This type of shift means that the accounting team can save on fees charged for other payment types and generate revenue — we refer to this as monetizing your AP.

Considering intangibles in ROI.

We include our ROI model at the end of this book for more details on the savings, and the income that can be earned.

There are also intangible benefits that are important to consider. Chief among these is the development of a spend culture where all employees have greater accountability to the budget.

Other intangibles referenced here include making finance teams more valuable to their companies by freeing up time from repetitive manual labor for higher-value analytical and strategic work. Taken together, the benefits of an efficient finance infrastructure offered by a spend management platform typically far exceed the subscription costs paid.

The broader spend ecosystem.

The hallmark spend management concepts of visibility, control, and accounting automation are increasingly incorporated into other payment tools and accounting platforms offered in the market. While these incremental solutions do not cover a full spectrum spend management solution, we see a trend toward convergence of spend management functionality by these companies as they build out their systems.

Cards.

Many of the new innovative corporate card companies, like Ramp and Brex, have added some control and automation features into their cards. Their business model hinges on the interchange fees associated with the flow of money, and the control software they offer supports the safe and efficient use of those cards to encourage transaction volume. This sector is expected to continue to add accounting automation features as they venture deeper into the spend management space. But despite providing some of the benefits found in a spend management system, they are currently only partial solutions.

Purchase order systems.

Individual PO systems, too, are beginning to incorporate some of the features of spend management. Companies like Procurify have implemented facets of vendor management and leverage their data, but they still neglect all parts of spend derived from cards.

U.S. companies within the spend ecosystem.*

Spend Management Platforms
- Airbase
- Coupa
- Teampay

Bill Payments
- Bill.com
- Certify
- Stampli

Corporate Cards
- AMEX
- Brex
- Divvy
- Emburse
- Ramp
- SVB

Expense Management
- Abacus
- Certify
- Divvy
- Expensify
- Nexonia
- SAP Concur
- Tallie

General Ledgers
- Oracle NetSuite
- QuickBooks
- Sage Intacct
- SAP Concur
- Xero

SaaS Management
- Blissfully
- Cleanshelf
- G2 Track
- Intello
- Zylo

Travel Management
- Certify
- TravelBank
- TripActions

Purchase Orders
- Certify
- NetSuite's PO module
- Precoro
- Procurify

* Some companies elect to use broader communication tools, like email or Slack, for handling employee expense reimbursement and purchase orders.

Employee expense management.

Expense management solutions are also beginning to incorporate broader spend management concepts, with companies like Expensify adding a corporate card program to their offerings. Currently, their card workflows are not quite full solutions, requiring users to collect receipts from card activity for the details needed to build GL entries. Comprehensive spend management solutions, on the other hand, can communicate card transactions directly to the GL with the help of predetermined and machine-learning-assisted categorization rules.

Travel management.

Travel management solutions occupy a particular niche in this ecosystem, providing unique tools such as policy controls for specific travel accommodations on a per-employee basis. Understandably, though, the utility of these solutions is limited to specific types of expenses. The products from companies like TripActions and TravelBank can make a lot of sense for customers who care about optimizing their employee travel arrangements, but since these tools aren't also AP systems, companies still need to employ additional software.

General ledgers.

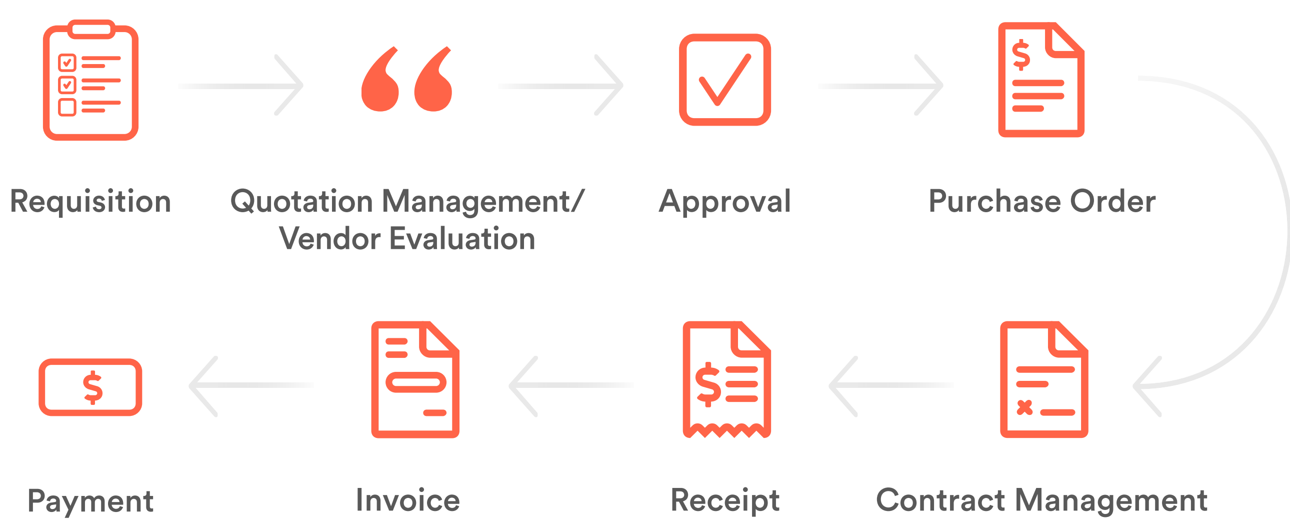
The dominant GL and ERP software platforms have some AP functionality but, as of now, these are seen to be less valuable than purpose-built bill payment software. Accounting platforms have generally recognized that it is better to allow specialized accounting software to build on top of their platforms to give their users a better experience.

Procure-to-pay (P2P).

Manufacturing companies, and those with a large inventory needs, require a centralized spending system to help manage the procurement process. Spend management systems borrow many of the workflows from P2P systems, though they typically don't accommodate the same level of vendor management and price evaluation — there's a notable exception by enterprise-level spend management platforms, like Coupa, that offer broader P2P functionality.

While spend management offers a partial solution, it's not designed to replace this highly-centralized vendor evaluation, contracting, fulfillment and spending process. Similarly, if the robust vendor management that P2P systems offer is not required, then a spend management system could well be the right fit for a company seeking the type of control that a centralized system provides.

Procure-to-pay process.



Spend management platforms.

The few spend management solutions available offer a range of functionality that address the varied needs of companies depending on size and complexity. Coupa, for instance, offers powerful enterprise-level software, and yet it's generally seen to be too expensive and over-engineered by small to midsize businesses. Very small businesses (up to 50 employees) often rely on the low cost Divvy platform to cover basic spend management needs.

As companies grow, they need an easy-to-use but comprehensive system to meet the growing complexity of their operations. There are a few options, like Airbase, that are unified, deeply integrated platforms. Since this is an emerging sector, the small field of competitors have not settled into a standardized set of features and functionality. The vendor questionnaire at the end of this document can help you with your due diligence as you compare options.

Conclusion.

Spend management is the next wave approach to accounting automation. It automates not only the accounting tasks, but also the operational workflows associated with managing a company's spend.

Accounts payable represents one of the more demanding areas for an accounting team. And distributed spending has made it increasingly complicated: more and more employees are committing their companies to purchases for which the accounting team must pay and book corresponding entries to the GL.

> Accounting and finance have gone from quarterly reporting to monthly reporting to, now, analyzing daily figures on our dashboard. We're now reacting more than planning. Our purpose is the same: to make better decisions. But we can't do it the old way.

Jim Cook, CFO, Orbital Insight, Co-founder, Netflix

Orbital Insight   NETFLIX

Spend management is a holistic approach to solving the risks and inefficiencies associated with non-payroll spend. Because it communicates directly with a company's GL, and because it is connected to every dollar spent, spend management lets businesses do things that current financial stacks make impossible. It's expected to continue to add functionality and broaden its utility through integrations with adjacent software. The resulting time, along with its tools, make accounting and finance resources much more valuable to their companies.

Are you ready to learn more about spend management? Check out our website, or see our guide for questions to ask a vendor on page 35.

Where do we go from here?

We've identified the industry trends that have shaped the burgeoning sector of spend management, but what will the landscape look like as it, and technology, continue to advance? Here's what we think you can expect from spend management in the coming years as it evolves:

- **Ever-improving user experience for accountants:** Design thinking expects continual iteration and improvement based on user experience and needs. That will include things like expanded mobile apps support, increased opportunities for customizations, and greater levels of machine learning to improve data management.
- **Proprietary budgeting and FP&A tools:** Spend management is ultimately about being able to control spending against a budget. Greater integration into budgeting and planning systems will add another layer of visibility and control in the spend management process. When integrated with forecasting tools, spend management can be used to quickly and easily implement budget changes as market conditions change.
- **Greater integration with cash management tools:** Accounts payable is an important lever to optimize working capital. Expanding spend management to include cash management tools will support this goal.
- **Proprietary risk management tools:** Managing the risks associated with making payments will increasingly be available from within a spend management platform. This includes operational risks (vendor risk management, third-party risk management, information risk management), and financial risks (FX, interest rate, concentration risk, liquidity risk).

> Those that are always forward-leaning tend to prosper, at least in my assessment.

Mark Hawkins, former President and CFO, Salesforce

- **SaaS management:** Given the prevalence of SaaS subscriptions in the business world, we expect to see an increase in the specific tools to manage all of a company's disparate subscriptions.
- **Contract and vendor management tools:** Vendor management capabilities will expand. Spend management systems will increasingly provide easy access to price comparisons for various vendors based on real-time published prices. They will alert companies to bundling options that may impact amounts currently being paid. They will also connect to contracting platforms for ease of initiating contracts and managing their provisions.
- **Both sides of the balance sheet:** The largest bill payments platforms already handle both AP and AR. As spend management platforms continue to evolve, many will add or integrate with accounts receivable systems. This will help with cashflow management.
- **Faster payment processing:** Largely a leap forward on the backend of things, we expect improvements in technology to further reduce the amount of time it takes for financial institutions to verify transactions, both ones using ACH and ones using cards.

What can be accomplished with spend management?

- Analysis of total non-payroll spend with real-time data.
- Empowered employees who can easily acquire what they need, while limiting errors, abuse, and fraud.
- Elimination of the need for things like expense reports and reconciliations.
- Ability to rapidly deploy mid-year budget changes by adjusting approval policies and spending limits.
- Healthy spend culture, leading to greater accountability and productivity.

If you'd like to see firsthand what a strong spend management solution can do, please feel free to request a demo from Airbase.

Spend management vendor questionnaire.

As you evaluate spend management solutions, here are some questions you should consider asking potential vendors.

1. Please describe how your solution manages each of the main areas of spend management:
   - **i.** Accounts payable automation ____________________
   - **ii.** Corporate cards ____________________
   - **iii.** Employee expense reimbursement ____________________

2. What are the options provided with your corporate card program? ____________________
   - **i.** Do you provide both pre-funded and credit options? ____________________
   - **ii.** Are the physical cards within your program policy and limit controlled? ____________________
   - **iii.** Can this be applied at the individual card level and changed at any time? ____________________
   - **iv.** Do your cards integrate with Apple Pay and Google Pay digital wallets? ____________________
   - **v.** Can multiple virtual cards be set up for a vendor to allow tracking of spend by vendor and program/project? ____________________
   - **vi.** Can an expiry date be set for virtual cards? How is expiry handled? Is there notification before a card is set to expire so action can be taken? ____________________
   - **vii.** How are cards handled when an employee leaves the company? Can card ownership be changed? ____________________
   - **viii.** Can virtual cards be used by the AP team to pay invoices and avoid ACH or check fees? ____________________
   - **ix.** What level of cashback benefit does your card program provide? ____________________

3. How is spend policy setting and enforcement managed in your solution? Does the same policy setting apply to all types of spend? ______

    i. Can simple approval policies be set to ensure all expenditures are pre-approved? ______
    ii. Is there an ability to customize and create complex workflows to accomplish approvals that match company and departmental policy? ______
    iii. Can approval workflows be customized to manage both serial and parallel approvals? ______
    iv. Can approvals be sent to groups of users and allow any one of those users to approve the expenditure? ______
    v. Can approval workflows include different conditions based on GL tags and categories? ______
    vi. Can approvals be done in the tools people commonly use, such as a mobile application and Slack? ______

4. How are expenses categorized and matched to the GL? ______

    i. Can employees categorize expenses when they request the spend? ______
    ii. Will employees see a list of all GL categories, or can that be limited to categories that are appropriate for their role? ______
    iii. Can GL categories have simplified names so employees are able to determine where to allocate the expense? ______

5. How are receipts for expenses handled? ______

    i. Can employees attach receipts at any time, and through a mobile app? ______
    ii. Is there flexibility to make receipts optional or mandatory? What options are available? ______
    iii. Are there automatic reminders to employees to ensure receipts are provided? ______

6. What type of assistance is provided with purchase orders, invoices and bill payments? ________
   i. Can invoices be sent in through email and automatically processed? ________
   ii. Is there OCR capability for ingesting invoices? ________
   iii. How are vendors added into the system and W-9's captured? ________
   iv. Do you have a vendor portal for partners and, if so, how does it work? ________
   v. Can bill payments be scheduled so they are paid on a designated date? ________
   vi. Can payments be amortized automatically within the system, or must that be done within the GL? ________

7. What level of integration is provided with my GL? ________
   i. Does your system fully integrate with the GL our company uses? Are transactions automatically synchronized into the GL, or is there a manual reconciliation process required? ________
   ii. Are transactions auto-categorized? How does the system help with this? Does it have machine-learning capabilities to help in this area? ________
   iii. How long does month-end processing take and what is involved? ________

8. What type of reporting and real-time visibility is available? ________
   i. Can spend owners see all their spend by vendor? ________
   ii. Can spend owners see their budget and spend levels for ongoing tracking? ________
   iii. How do you help with identifying and avoiding duplicate spend? ________
   iv. Are there dashboards and reports that can show real-time or near real-time spend, or is reporting required to be done within the GL? ________
   v. How do you help with 1099s? ________

9. What security measures are in place within your organization and system? ____________

    i. Are you SOC-1 and SOC-2 compliant? ____________

    ii. How do you manage fraud detection and prevention? ____________

    iii. Is there an audit trail of all financial actions? Can this be used in the event of an external audit? ____________

10. What do you provide to help my teams learn the system and start using it quickly? ____________

    i. Is your onboarding guided or self-service? ____________

    ii. How long does onboarding take? ____________

    iii. How much and what type of assistance do you provide for the finance and accounting team? ____________

    iv. Do you provide assistance with spend owner or employee training? ____________

    v. Is there an additional fee for onboarding or training? ____________

11. What type of ongoing support or assistance do you provide? ____________

    i. How do I find help and request support for issues? ____________

    ii. Are there additional fees associated with support? ____________

ROI.

Below is an example worksheet to calculate the ROI on a spend management platform. The example shows a 100-person company with $3 million of annual non-payroll spend. If you are interested in access to the model to run your own numbers, please contact Airbase.

airbase

Company top line

Total headcount	100
Annual non-payroll spend	$3,000,000

Spend management costs

Software costs

- **Expense management software**

Number of seats	25
Cost per seat/month	**$9.00**
Reduction in seats with Airbase	100%

- **Bill payment software**

Number of seats	10
Cost per seat/month	**$69.00**
Number of payments/month	40
Cost per payment (est. average of ACH and check fees)	$1.09

Airbase replaces expense management software and bill payment or AP software with a single platform. This example assumes a number of seats based on a conservative estimate. Your actual numbers will vary depending on the software you use and the number of seats or subscriptions your company pays for.

People costs

- **Time freed up for accounting team**

Hours saved per month	20
Average annual salary + benefits	**$100,000**

- **Time savings for team members**

Hours saved per month	2
Number of team members impacted	10
Average annual salary + benefits	**$125,000**

The number of hours saved each month is based on conservative estimates from customer experience. Your number of hours saved may vary and the assumed fully loaded salary will need to be adjusted to reflect local market salaries.

Spend management credits/savings

- **Corporate card cashback**

Annual corporate card spend (25%)	$750,000
% cashback from existing card	1.50%
Wasted spend due to lack of visibility and control	2.00%
Annual invoice payments moved to virtual cards (assumes 20%)	$450,000
Personal card use diverted to virtual cards	$18,750

Wasted spend by not having visibility and control is estimated to be between 1% and 20% with the average being 6% in our survey of 745 finance professionals.* We use 2% here as a conservative estimate. You may estimate that number to be higher or lower.

We estimate that you are getting 1.5% cashback from your existing card although, for many card programs, amounts are lower so your ROI would improve.

* Source: The Airbase Annual Benchmark Survey of Finance Professionals.

The summary table below compares a hypothetical company's current estimated spend management costs to what they would be if using Airbase. In the case shown, the ROI is $80,534, which is the expected savings of switching from current practices using a spend management system.

Comparing current spend management costs to Airbase	Current estimated spend management costs	Estimated cost plus (savings) using Airbase
Tools		
Expense management software (est.)	$2,700	$0
Bill payment software (est.)	$8,803	$0
Airbase software (est.)	$0	$25,000
People costs		
Accounting (internal and/or external)	$12,000	$0
Team cost	$15,000	$0
Other cost/savings		
Cashback from corporate cards	-$11,250	-$11,250
Wasted spend due to a lack of control and visibility	$60,000	$0
Additional cashback from moving ACH + check payments + some personal cards to virtual cards		-$7,031
	Without Airbase	**With Airbase**
Total cost of non-payroll spend	$87,253	$6,719
Total annual ROI from Airbase		**$80,534**

Based on our built-in assumptions, we estimate the ROI for a variety of company sizes and amounts of spend in the table below.

Annual non-payroll spend	Number of employees						
	150	200	300	400	500	750	1,000
$3,000,000	$93,524	$106,514	$132,494	$158,474	$262,394	$249,404	$314,354
$5,000,000	$128,560	$141,550	$167,530	$193,510	$219,490	$284,440	$349,390
$8,000,000	$181,114	$194,104	$220,084	$246,064	$272,044	$336,944	$401,944
$10,000,000	$238,150	$251,140	$227,120	$303,100	$329,080	$394,030	$458,980