Transition to Electronic Expense Management

MIDEA STATISTICS

TOTAL REVENUE
US$12.5 billion (2009)

NUMBER OF EMPLOYEES
150,000

NUMBER OF CARDHOLDERS

PRODUCTS AND SERVICES USED
Visa-branded China Merchants Bank Corporate Card

Midea traditionally used existing cash reserves for cash advances related to T&E expenses. This resulted in increased pressure on the company’s liquidity position. The launch of the Visa-branded China Merchants Bank Corporate Card brought Midea a step closer to an electronic expense management system with higher visibility in T&E expenditure.

COMPANY PROFILE

A national conglomerate reaching out to the world
Midea was founded in 1968 and has become a renowned conglomerate that deals with the manufacturing of household appliances as well as other areas of business such as logistics. Midea plays its role as one of China’s largest manufacturing and export sites of major household appliances. The organization has four main industry groups under the umbrella:

- Midea Air-conditioning & Refrigeration Group
- Midea Appliance Components Group
- Living Appliances Group
- Real Estate Unit

Midea’s manufacturing sites are situated across China, Vietnam and Belarus. More than 30 branches\(^1\) are strategically set up in major overseas markets which resulted in creating Midea’s strong marketing network.

The group aims to maximize its integrated business values and further improve its corporate structure and management system. Midea’s goal is to become one of the world’s top three major household appliance manufacturing group by 2015.

\(^1\) Company Website, as at July 2010
CHALLENGE

Improve cash flow position in company operations through the creation of an electronic expense management system

The pressure of dipping into cash reserves was a key reason to launch the corporate card in Midea. Historically, Midea managed T&E expenditure by providing employees with cash advances. However, cash reduced liquidity and is extremely vulnerable to abuse. On an average, RMB 2–4 million worth of cash reserves were prepared monthly for employees in each Midea group for business trips, resulting in liquidity pressures in Midea.¹

Employees would also have to submit all receipts to the headquarters for validation before reimbursements of any form would take place. The entire process was untimely and complex, thus reducing efficiency and visibility on T&E expenditure. Midea needed to implement a robust T&E spend management framework to increase the operational workflow efficiency.

PROGRAM GOALS

Improve cash flow situation by introducing a corporate card program that integrates the existing system with a proprietary ERP system

Midea’s goal was to implement a financial program that is able to help manage cash flow fluctuations to better leverage market conditions. The criterions for the program were:

• Reduce utilization of cash reserves
• Reduce fraudulent activities

¹ As reported by Midea at July 2010
• Increase transparency of T&E expenditure
• Increase efficiency on the reimbursement process

VENDOR SELECTION

Visa has a very large network of merchants both in China and overseas. Alongside China Merchants Bank which holds a strong reputation in corporate banking, the two entities create perfect synergies that are aligned with Midea’s selection criteria for the inclusion of corporate cards.

PROGRAM ROLLOUT

A structured rollout of program implementation:

Integration of the Corporate Card Program with the Expense Management System
Midea Living Appliances Group designed a proprietary system to primarily cater to their expense management needs. The interface allows employees to submit their claims online as well as track and manage the allocated budget by designated authorities.

Training
Card administrators were selected from each Midea group and assigned responsibility of managing all corporate card related matters. China Merchants Bank conducted 4–5 training sessions for these administrators over a period of 6 months covering topics like procedures for card application, card usage, payment and several others. Besides the standpoint of security, reward points can be accumulated on the corporate card to encourage employees to transfer all existing expenditure to the corporate card.

Customization
Corporate cards are issued to individuals in the line of sales, employees who frequently travel or employees who are in client facing role. Initially, employees were not allowed to use the corporate card for cash withdrawals and expenditure on personal items. However, cardholders are now allowed to withdraw cash as well as use the card for personal expenditures by requesting prior approval from the card administrator.

PROGRAM BENEFITS

Increased visibility of card transaction values and volumes
The implementation of the expense management system has increased the visibility on all T&E related transaction values and volumes. A pre-set spending limit is set in place to properly regulate all T&E expenditures by employees. This allows the spending behavior of cardholders to be easily identified and analyzed. The increase in T&E expenditure visibility allows the management to properly monitor and improve on budget management. This resulted in the increase in compliance and has reduced fraudulent activities.

Increased visibility on the compliance level of T&E policies
Following the launch of the Visa-branded China Merchants Bank Corporate Card, the finance department has reported higher accuracy levels while validating transaction amounts and achieved approximately 30% in workload reduction. Cardholders are also made aware of the management’s visibility on the compliance level. As such, fraudulent activities made are monitored and can be traced back to the source.

“Before the launch of corporate card, Midea was practicing slightly complicated reimbursement procedures.”

Mr. Wu Ye, Vice President, Chief Financial Officer, Midea Living Appliances Group
Effective liquidity management
In 2008, Midea introduced the Visa-branded China Merchants Bank Corporate Card to its employees. Since then, the usage of cash reserves has decreased significantly and currently cash reserves utilization for T&E expenses is nearly down to zero. The use of corporate cards improved the cash flow of the company, and subsequently decreases the administrative cost associated with it. The ability to streamline the entire process resulted in better cash and liquidity management in the organization. This allowed the organization to be more sustainable and responsive to market conditions.

Shorter reimbursement cycle
Applying for cash advances for T&E expenditure is no longer in practice. Employees now only need to log into the expense management system and submit an application before travelling and will subsequently begin travelling upon approval from the respective team leader. Credit card transaction slips have to be submitted alongside a transaction record to the finance department within a week after the trip. Staff members in the finance department spend less time verifying transaction slips due to the higher credibility of credit card transactions versus manually generated receipts. The entire reimbursement process has been effectively shortened to one to two days. A shorter and more efficient reimbursement process substantially reduced work redundancy and resulted in more time being spent on quality work by both the management and employees.

CRITICAL SUCCESS FACTORS

Company policies
Midea’s management encourages the use of Visa-branded China Merchants Bank Corporate Card among its employees who need to spend on T&E as it saves time for both employees and management in the overall reimbursement process. Currently, all affiliates under Midea Living Appliances Group are using the Visa-branded China Merchants Bank Card.

Expense management system
The expense management system developed is able to support the tracking of expenses based on spending activity captured by corporate card. The ability to review and approve expenses submitted by employees in a timely manner is an advantage by only integrating the corporate card with the current expense management system.

By combining the speed of rolling out the program, alongside the distribution of cards and implementation of the expense management system, Midea was able to ensure the success of the corporate card program. Since the launch of corporate card program, the usage of cash reserves in T&E reimbursement has reduced to almost 0%.