

CFO



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Practical Processes: Five Smart Cost-Allocation Strategies

For professional service firm CFOs, finding the balance between cost allocation and time spent on cost-capture is often elusive. How can you be certain that your firm is properly and efficiently passing through costs on things like travel expenses, copies, and shipping?

Asking a partner to enter a 10-digit project code to send one document is a waste of staff time and money (either the client's or your firm's). Having a shipping system that stores client/matter codes and allows you to link the shipment to the correct client/matter is a cost recovery best practice.

It's a balancing act. Professional service firms want to capture every reasonable cost so it can be billed back to the right clients and projects. At the same time, firms seek to reduce the time that professionals are forced to spend on administrative tasks.

As professional service firms have evolved, many processes, including cost allocation, remain extremely manual and labor-intensive. Outdated billing and cost-allocation models can lead to increased opportunity for errors, as well as wasted time and distraction from higher-priority finance functions which can grow the firm's revenues. And the finance teams executing these manual tasks have also gotten much leaner to remain competitive.

It's not just the finance team's time being wasted. In a recent CFO Research study, more than two-thirds of senior finance executives (70%) say that their firms would benefit by reducing the amount of time professionals spend on administrative tasks. By improving expense allocation and getting this much-needed time back, you and your colleagues can focus on serving clients and growing your firm.



Five Strategies for Improving Cost Allocation

How can you ensure your cost-allocation processes are helping your firm flourish? Below are some best practices to consider.

Automate processes

Unlike a finance team manually tracking and allocating firm costs, automated processes can easily scale to handle the increased demands of a growing firm. Work with your vendor to incorporate more automation into your systems. While CFOs might initially associate automation with complex and expensive IT integration, many vendors offer advanced technology at little or no cost to the firm, helping you to better allocate costs. By streamlining allocation processes, you can consistently and efficiently allocate expenses through a customized, rule-based system.

Integrate systems

An error in migrating data from system to system can result in a variety of problems, including client invoices being lost or delayed. By integrating your allocation process with your current billing systems, document management software and computer networks, your firm can minimize the resources needed to assimilate data into your current systems. With the suite of IT services available to companies today, there is no excuse for continuing to support unlinked systems.

Reduce inefficiencies

If your firm waits to allocate costs after a project is over, you may find clients unwilling to pay costs “discovered” later. Unrecovered costs can drive up expenses (and drive down profitability) for your firm, as client-related expenditures migrate to your firm’s unallocated general and administrative (G&A) expenses. Make sure your firm is taking advantage of available tools to prevent history from repeating itself.



Make expenses accessible.

Professional staff often spends so much time meeting with clients or traveling that it can be a long time until they return to the office, going through a pile of travel receipts. Employee-incurred expenses represent a large portion of reimbursable costs. Consider adopting web-based exception editing for expenses. Unify your expense workflow and reduce invoice time by implementing a system that allows access, correction, and approval from anywhere at any time. The easier it is for your professionals to submit their project expenses and get them approved, the more costs will be correctly allocated and billed to a client/project.

Seek outside expertise.

Unfortunately, your cost accounting may be limited to the level of your current accounting function. Why not expand your firm's internal knowledge and resources with the outside expertise and tools that are widely available today? Talk with your current vendors about solutions they might have to help you reduce inefficiencies or better track and allocate costs to clients and projects. It may be time to seek a new vendor with professional services expertise and innovative solutions to meet your cost-allocation challenges.

Once you've evaluated the strategies and tools available to improve your firm's cost allocation, what should CFOs do next? With their insight into the firm's finances and strategic goals, CFOs should be leading improvements in cost-allocation strategies and processes. Finance chiefs must bring their firms into the future—reinforcing the notion that cost allocation requires thoughtful investment and improvement.

Constrained by current cost-allocation processes, many firms are wasting valuable time and allowing costly mistakes to continue unaddressed. To eliminate inefficiencies, talk with partners and vendors about how to address challenges through strategic planning and technology. There are tools and processes that can assist with cost allocation so that finance chiefs can focus on firm growth and strategy. It's time to begin...and time for the CFO to lead the way.

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