

Best Practices for Utility Expense Management

Maximizing Savings Potential, Efficiency and Property Value

Energy is your largest controllable operating expense, making the improved management of your energy expenses one of your most effective methods for reducing costs.

Why Utility Expense Management?

Most real estate companies use an accounts payable (AP) automation system to process their payables efficiently. Most of them have also discovered the painful truth that a “standard” payables approach is woefully lacking when it comes to their utility expenses—for a broad array of reasons. Processing utility bills is not as simple as writing a check when the invoice comes. You might have to track down missing bills, contact utility providers to resolve billing errors, manually enter data—and utility bills are uniquely complicated. Significant processing improvement opportunities often exist.

Processing Utility Bills Is Difficult

Utility bills are notorious for their short pay periods, high error rates and long processing times. Adding to these challenges, most internal AP staff simply don't have the in-depth experience and expertise needed to understand and reconcile complex, multi-level rate and tariff structures or to identify and resolve exceptions with utility providers, which often leads to overpayments and inaccurate data. The checks and balances required to ensure your bill is accurate and paid on time are a time-consuming and laborious task. It's no wonder that the industry average of late utility bill payments is between 10% and 35%. Unless you have a dedicated employee or team tracking your bills, it's inevitable that payments are missed along the way, late fees are incurred, and if it happens more than once, possible damage to your credit rating may result, which can lead to higher deposit fees.

Even if you successfully pay all your utility bills on time, you must also verify their accuracy. Billing errors are common. Recent industry surveys report that companies experience error rates of anywhere from 13% to 21% for utility bills. Interestingly, the difference is due to how diligently a bill is checked for errors. More thorough companies were on the high end: The more you look for errors on the bills, the more you find. Without a system that can validate and review every utility bill, many of those errors go undetected. How can you be sure you're paying the correct amount?

Realistically, this isn't the best use of your staff's time. That time would be far better spent creating value for the property, looking after tenants' needs and retention, and focusing on driving increased revenue, versus spending countless hours tracking, reviewing and processing utility bills.

Data Accuracy and Benchmarking Are Also Affected

Verifying the accuracy of your utility bills and paying them on time is only your first challenge. When you lack visibility into accurate consumption data, you also miss other significant opportunities.

Accurate data is critical for normalizing your data to benchmark and evaluate the energy performance of your buildings. Without this, you lose out on opportunities to compare building performance, further reduce costs, qualify for ENERGY STAR® and discounted green financing mortgage rates and leverage GRESB benefits which ultimately helps increase the value of your property and portfolio.

Data accuracy also helps identify and isolate systems issues, identify and resolve maintenance issues and safeguard capital equipment such as HVAC from premature wear before it becomes a costly problem or even damages your reputation. Data accuracy ultimately helps you quantify savings.

A Better Way

To help mitigate these risks, many real estate companies have discovered how to leverage efficiencies of scale by using a utility expense management (UEM) platform to validate, process and pay their utility bills. Effective UEM platforms don't just stop at easing the pains of utility bill processing; they also ensure accurate data capture that allows companies to benchmark their properties, secure financial incentives and accomplish their sustainability initiatives.

Although UEM platforms help create tremendous savings opportunities for real estate companies, only a small percentage of companies are leveraging a solution that could truly maximize their savings potential. While on-time bill payment and accurate data offer you an opportunity to increase savings, these can't be maximized unless your utility data can be connected easily with your real estate data in real time as well as accessible and fully transparent to all stakeholders. To accomplish this, a growing number of real estate companies have realized the powerful advantage of incorporating UEM into their property management platform to create a single solution for invoice tracking, payments, budgeting and reporting.

An Even Smarter Way—Integrated Data Efficiencies

What if you could improve the efficiency of your utility expense management and incorporate utility billing into your accounting processes? Think of the possibilities of a UEM system built into your property management platform. You'd have utility and real estate data all in one centralized database and all business processes carried out in a single system.

A more holistic solution with data in one system provides more visibility into your energy costs, less chance for data entry errors or data corruption and streamlined payable workflows. Having all data available in real time and closely integrated makes data transfers and additional reconciliation unnecessary. When utility bills are tied to existing tenant and property records, accountants can instantly view lease information, tenant status, occupancy projections and building improvements without leaving the system, enabling smarter and more accurate business decisions. Budget preparation cycles can be shortened from weeks to days. A single solution creates efficiencies that benefit employees across your organization, including your property managers, technicians, accountants, energy managers, executives and investors. Beyond those operational efficiencies is the additional energy cost savings inherent to having that data visibility.

Save Time and Money by Creating Automatic Work Orders

Suppose a validation reveals that a unit is leaking water. If you lack a single integrated system, you must rely on specific staff members to identify maintenance issues. However, with a unified system, the validation can trigger an exception and automatically notify a technician via your property management platform to respond to the issue with an automated work order, saving you time, increasing your efficiency and improving response times. Similarly, exceptions can relay actionable insights to designated staff members to alert them to issues that may become problematic in the future.

Reduce Processing Times by Improving Financial Management

An integrated platform approach also creates many benefits for your finance department. Invoices can be received electronically via web and electronic data interchange, which reduces errors and payment cycle times. With payables automatically mapped to your general ledger accounts for accurate payables creation, there's no need to review each payable manually before posting the batch, and batches can be posted automatically. A real-time, full subledger is maintained at all times. External file uploads and funding requests become obsolete and eliminate any potential data corruption associated with uploading external files. Your treasurer can easily make payments directly from your property management platform using appropriate property bank accounts with visibility into the full cash flow and automatic bank reconciliation. All your invoice images are available electronically in your single system, attached to their payable records and instantly retrievable from a single location.

Enhance Data Visibility to Increase Building Performance and Value

By consolidating cost and consumption data in a single system, executives and investors have instant visibility into building performance. Real-time and portfolio-wide reports can be generated that include operational costs across properties. Energy managers can easily normalize line item data by weather, location, calendar date, square footage, occupancy and other property attributes defined in your property management platform, allowing you to benchmark your properties and more easily secure sustainability designations such as ENERGY STAR scores and the corresponding green financing benefits. By centralizing cost and consumption data, energy managers can easily push data to ENERGY STAR® Portfolio Manager® and share the scores with the executive team. It also becomes easier for executives to present scores to investors and prove operational savings, which helps increase the underlying value of your buildings.

What to Look for in a UEM Provider

Although operational costs and internal efficiency are largely determined by the extent to which your UEM platform is tied to your property management platform, considering the capabilities of your UEM provider is paramount. You should be looking for a responsive partner, expert in utility billing industry issues and day-to-day challenges, who also understands your business rules and has the expertise to handle a wide variety of exceptions.

Start with These Questions

- What types of bills do they track and validate and what level of detail do they capture?
- Do their validations include normalized metrics like cost/use per day compared to historical data?
- Will they resolve validation flags or simply alert your staff to these problems?
- Will they commit to a response turnaround time for questions and requests?
- Will they work as your advocate with the utility provider to resolve issues and obtain any credits or reimbursements due to you?

There are many factors to consider when deciding on a provider, but by far the most important is how closely their solution ties to your property management platform. Utility expense management is too closely tied to the rest of your operations to be handled in a separate system. As platforms become more sophisticated and strive to connect your departments and automate your business processes, it becomes increasingly important to manage all your operations in a single system to ensure accuracy and seamless workflows to fully maximize efficiencies and savings. As technology continues to evolve, this will play an ever-increasing role in defining the overall efficiency of an organization.

A successful relationship requires your utility expense management provider to act as your partner with a full, paperless utility invoice management service that saves you money and time by helping you gain control over your utility payables, simplifying sustainability reporting and augmenting utility budgeting.

Streamlining AP efficiencies for UEM with visibility and complete data transparency is critical to maximizing accounting resources and ensuring you're not paying more than you should to your utility providers. Gaining and maintaining a competitive advantage means leveraging these processes at an even higher level and maximizing those efficiencies across your business.

For more information, visit Yardi.com/UEM or call us at 1-800-866-1144.

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