

The Changing Role of Travel Management



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Executive Summary

Procurement or finance generalists need to understand some of the industry-specific metrics and business practices within the travel industry and go beyond a simple price evaluation of vendors' offerings.

The Sabre Travel Network and GetThere have contracted with PhoCusWright to create this white paper on the changing role of travel management. This paper discusses the evolving expectations of the corporate travel department and the implications of working with or moving the travel management function into the corporate procurement or finance organizations. The white paper also addresses the type of knowledge, experience and skill set needed by today's and tomorrow's corporate travel managers.

Some of the findings in this paper include:

- The influence of corporate procurement and finance continues to change the role of travel management. Travel departments need to translate cost savings and avoidance into standard finance measurements (earnings per share, EBITDA) to accurately reflect the value of these savings in corporate measurement terms.
- Travel departments should understand and integrate standard procurement metrics such as total cost of ownership (TCO), scorecards, service level agreements (SLAs) and benchmarking, and tailor these metrics to reflect corporate standards.

Technology evaluations need to take into account all automation involved with the travel process, including the choice of GDS, CBT, and business intelligence platform. They should also include analysis that demonstrates a clear return on investment (ROI).

- Though travel can be viewed as a commodity, it is still unlike any other commodity procured by corporations today. Travel's unique metrics and industry trends need to be understood by the procurement or finance generalist.
- There are pros and cons to outsourcing travel services. A company must take a sober look at outsourcing part or all of the travel management function. If no travel-specific expertise is retained by the company, procurement or finance generalists need to rely on suppliers and travel management companies (TMCs) to understand travel's unique terminology and business practices.
- Globalization is an important goal in developing a consistent travel commodity strategy. This may include embracing a global technology solution, such as a single global distribution system (GDS) or corporate booking tool (CBT).
- Traditional corporate travel managers need to become familiar with purchasing and finance practices and procedures and adapt these methodologies to travel management.
- Procurement or finance generalists need to understand some of the industry-specific metrics and business practices within the travel industry and go beyond a simple price evaluation of vendors' offerings.

Introduction

To remain competitive in the global marketplace, companies must control travel costs and standardize operations. This increased focus on cost controls is changing the role of travel management at many companies. Companies have moved away from looking at travel as a specialized skill and instead have started to bring procurement and finance disciplines to the internal travel organization. In some cases, this has resulted in the reorganization of travel under procurement or finance. At other companies, travel remains an independent department, but the influence of these two corporate disciplines on travel management practices continues to grow. At a minimum, travel management is a multidisciplinary function that requires a broad knowledge of finance and procurement practices and procedures, as well as travel technology trends.

Travel Management from a Historical Perspective

To better understand the factors impacting the travel management discipline, it is helpful to look at it from a historical perspective. Figure 1 illustrates the evolution of travel management within the context of airline deregulation and advances in technology.

The evolution of in-house travel expertise mirrors advancements in technology and changes in travel distribution. In the past 50 years, the corporate travel industry has gone from being a highly regulated industry (in the 1960s) to the deregulated competitive sourcing environment it is today. The travel management function came into its own in the 1990s as the combination of technology and the willingness of airlines to negotiate corporate discounts led to more sophisticated travel management techniques. As companies began to compete on a global basis and CBTs (in the 2000s) became the mainstream way to automate the reservation process, the influence of corporate procurement and finance increased.

Evolution of Corporate Travel Management

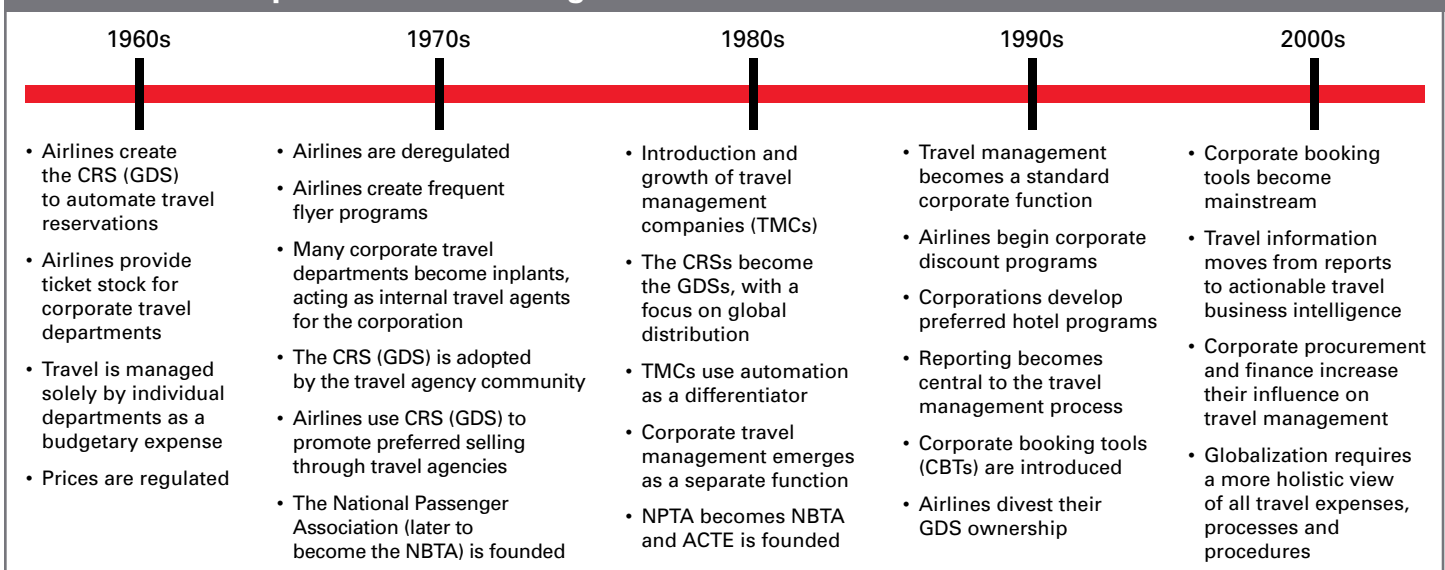


Figure 1

Impact of Corporate Procurement and Finance

So, is travel a commodity? Though it can be managed like a commodity in some ways, it has unique aspects that make its procurement unlike that of other services.

Travel management has always contained elements of the procurement and finance disciplines. As companies have taken a more global view of indirect purchasing expenses, the need for standardization and consolidation has become a priority. Application of interdepartmental best practices across the company is a governing theme for multinational corporations. Technology is also playing a role in this evolution, as companies embrace real-time business intelligence to identify opportunities for additional savings.

Classic travel managers, defined as employees who have been hired by the company based on their travel subject matter expertise, and procurement managers, who are closer to generalists in nature, often approach travel management from very different perspectives. Purchasing managers, for example, often view travel simply as an indirect expense, as they see air, car and hotel as commodity purchases. This “commodity” definition has some validity in the market, but best practice companies recognize the unique complexity of the travel industry. Strict adherence to a procurement mindset can also cause the purchasing generalist to miss subtle nuances in the travel market, such as changes in distribution economics and the shifting roles within the travel value chain.

Finance organizations have yet another take on travel management. The chief financial officer’s (CFO) mindset is to view expense control as a way to improve company performance, and from this perspective, travel is an important category to manage. In addition, finance generally

has direct input into corporate travel policy creation, a critical part of the travel management process.

Progressive travel departments recognize these trends and often work with the procurement and finance organizations as part of a multidisciplinary team. In many cases, companies have reorganized the internal travel management function so it is controlled by the procurement or finance organizations.

How does this shift in organizational structure change the role of travel management at the company? The most visible change involves the metrics used to track performance. Purchasing and finance have established methodologies, which use key performance indicators (KPIs) and service level agreements (SLAs) as measurements. These indices have also been adopted by travel management.

Is Travel a Commodity?

Much has been written about the classification of travel as a commodity. A common argument voiced in the travel trade press is that travel is unlike other commodity purchases, as it requires unique industry knowledge that is quite different than, for example, buying pencils. Travel suppliers such as airlines, hotels, and car rental companies have tried to differentiate their services so they will not be viewed as commodities. Classifying travel as a commodity implies that there is a common way to evaluate competing suppliers, as all vendors’ products are essentially the same. Though it can be debated that an airline seat is an airline seat regardless of the carrier, the underlying need to match an airline’s route network and service offering with a company’s specific travel

patterns is an important nuance that must be taken into account when evaluating airline proposals. The same is true for hotel or car rental negotiations, which often come down to choices about specific rental cities or hotel properties.

Travel service delivery does, however, share elements of commodity management with other services purchased by the corporation, such as benefits, legal services and contractor hiring. While these services — or any corporate expense that has a service element tied to performance — may be considered commodities, service level measurements play a key role in managing the associated expenses, and travel has service and cost elements similar to these other service categories. Therefore, standard procurement practices for managing service commodities can be used for travel management.

The difference between travel and other services purchased by the company is in the need for travel industry knowledge. Procurement generalists may feel comfortable negotiating airline or hotel contracts, but their lack of knowledge about the nuances of the ever-changing travel industry can result in ineffective negotiations and implementations. For example, prices and inventory levels

are constantly changing, and if a negotiated discount is only available with specific inventory, the discount can be nullified if the necessary inventory is not available on the key segments used by your corporation. In addition, the value chain conflict that has emerged between travel supply and distribution may be misunderstood. A newcomer to travel management may not fully understand the implications of sourcing directly from those in travel supply or indirectly from those in travel distribution. Similarly, the use of travel-specific metrics such as cost per mile (CPM) or average ticket price may not be easily understood by a procurement generalist — for instance, he or she may be perplexed as to why an airline seat on the same flight on the same day within the advance purchase and fare guidelines costs \$40 more today than yesterday. Without a deeper understanding of these types of issues, vendor negotiations may produce agreements that do not reflect best practices. So, is travel a commodity? Though it can be managed like a commodity in some ways, it has unique aspects that make its procurement unlike that of other services.

Despite these differences, applying purchasing and finance metrics to travel management is a trend gaining steam on a global basis. Is there an optimum way to insert purchasing disciplines such as strategic sourcing into the traditional travel

management function? The simple answer is yes. In fact, the move toward strategic sourcing has been a major trend in travel management since the mid-1990s. What is changing is the way traditional procurement metrics — Total Cost of Ownership (TCO), scorecards, KPIs, SLAs and benchmarking — are becoming standard parts of the travel management toolkit.

- **Total Cost of Ownership** — The TCO technique was originally developed in the 1980s by Garner, a technology research firm, and was used to measure the total cost of deploying personal computers. In the 1990s, the concept of TCO was embraced by corporate procurement and integrated into the Institute of Supply Management's certified purchasing manager accreditation process. TCO vendor evaluations operate on the basic idea that looking beyond price to understand the ancillary products or services connected with a given procurement enables an organization to measure the total cost of that procurement. Using TCO in service delivery commodities, then, allows procurement managers the ability to measure all factors associated with that service.
- **Scorecards** — One outgrowth of the move to TCO measurement is the development of scorecards to evaluate supplier performance. Scorecards combine quantitative measurements with qualitative evaluations to provide a numeric score for supplier ratings. This metric is particularly relevant for the measurement of services such as travel and often includes a survey element to measure employee satisfaction.
- **Service Level Agreements (SLAs)** — The majority of travel managers monitor and measure TMC performance as part of their core activities. As purchasing's influence on travel management has increased, the incorporation of SLAs into TMC contracts has become standard. These SLAs often reward the TMC for savings goals and operational performance. Some companies have implemented a "share the gain" concept, where the supplier shares in the financial savings.
- **Benchmarking** — Comparing a corporation's travel spend and policies with companies of similar size in the same industry is another procurement process adopted by travel management. In fact, benchmarking is a common technique used by procurement departments to measure the effectiveness of supplier contracts across all commodities.

Creating Procurement Metrics for Travel Management

Scorecards are currently being used by many organizations to measure supplier performance. Figure 2 illustrates a scorecard applied to the management of a TMC relationship.

In this example, three categories have been established to rate the TMC: implementation measurements, service indicators and fees and costs. Each of these categories is assigned a weight, and the total for all categories adds up 1.0. Each subcategory is assigned a portion of the category weight. Then each subcategory is rated on a scale of 1 to 5, with 1 representing low performance and 5 representing excellent performance. A weighted score is then calculated for each subcategory by multiplying the weight times the raw score. The last step is to add together

the totals for each subcategory, arriving at a score between 1 and 5 that represents the total cost associated with the TMC. In this case, the TCO number was 2.85 out of a possible 5.00. This example is intended only to demonstrate the concept — the key step is to define the category and subcategories and assign the appropriate weight.

The scorecard methodology allows the corporation flexibility in determining the measurements for each supplier and translates qualitative evaluations into a numeric score. Some companies tie supplier scorecard performance to the financial relationship with the supplier, rewarding high performance and penalizing low scores. Scorecards are generally an internal process driven by procurement, and thus many companies have standard templates that can be adapted to the travel program.

Scorecard Illustration for TMC			
CATEGORY	WEIGHT	RAW SCORE (1-5 high to low)	WEIGHTED SCORE (weight x raw score)
I. Implementation Measurements	0.35		
Low fare achievement	0.10	3	0.30
Policy compliance	0.15	2	0.30
Vendor negotiation support	0.10	2	0.20
Total Cost Management			0.80
II. Service Indicators	0.40		
Call center performance	0.10	2	0.20
Online booking adoption	0.15	4	0.60
Corporate systems integration	0.05	2	0.10
Global consolidation	0.10	4	0.40
Total Service Indicators			1.30
III. Fees and Cost Management	0.25		
Average transaction fee versus goal	0.15	2	0.30
Average airline ticket price	0.05	5	0.25
CPM target on top 10 city pairs	0.05	4	0.20
TOTAL Fee and Cost Management			0.75
TOTAL Cost of Ownership (TCO)	1.0		2.85

Figure 2

Outsourcing the Travel Management Function

Whether to a travel procurement professional from IBM or a seasoned manager from a TMC, outsourcing the travel management function to a third party has become a clear trend over the last five years. The growth and influence of procurement has been one factor driving this outsourcing trend, as procurement professionals look to outsource any function that is not core to the business. During the TMC or supplier selection and negotiation process, general procurement

managers become quite aware of the unique processes and systems related to travel management. Often, this experience leads the procurement group to decide to outsource the day-to-day travel management functions to a third party. One size does not fit all, though – the success of outsourcing the travel management function varies based on the level of maturity of the company’s travel program and its cultural attitude regarding outsourcing. Figure 3 describes some of the benefits and challenges of embracing an outsourced model for travel management.

Pros and Cons in Outsourcing the Travel Management Function	
Pros	Cons
By outsourcing the travel management function, travel industry expertise, which is not a core competency for companies, is shifted to an external subject matter expert.	If the TMC provides the travel manager, there could be concern about potential conflict of interest (“the fox watching the hen house”).
Outsourced functions do not require employee benefits.	If the travel manager is not an employee of the company, he or she may lack sensitivity to corporate goals and knowledge of internal business practices.
Outsourced travel management can be measured through SLAs to ensure performance standards.	Measurement of the travel manager’s performance is hampered by his or her lack of employee status; he or she is not part of the corporate review and compensation process.
Depending on a company’s size, outsourcing the travel management function may allow the sharing of a single head count across multiple corporate clients, reducing the expense of a head count.	Without internal travel management expertise, the evaluation of the travel manager’s performance may be difficult if it involves travel-specific measurements (e.g., cost per mile gains, the accuracy of benchmarking). Shared resources could result in potential conflicts regarding time allocation.
Outsourcing should reduce the cost of travel management services.	Depending on the scope of the outsourced travel manager, the positive economic benefit of outsourcing this position may be equivalent to the in-house model.
Expertise in vendor negotiations.	Vendor may not treat the outsourced travel manager as a true representative of the company — particularly if he or she is a TMC employee, as suppliers have separate agreements with the TMC that may conflict with the corporation’s negotiation goals.
Expertise in travel management operations.	If the outsourced travel manager is tasked with global consolidation, international offices may not accept instructions from a non-employee. There is potentially less control or visibility into how the travel program is configured when the program is outsourced.

Figure 3

Globalization

Procurement and finance managers are often tasked with creating and implementing a global commodity strategy. When it comes to travel management, globalization can be achieved through a variety of methods:

- **A Single Reservation Platform** — If the company selects a single global distribution platform, online and offline processes can be captured for better data analytics and booking processes can be standardized.
- **A Single Corporate Booking Tool** — With adoption of CBTs increasing worldwide, embracing a single CBT globally can help standardize the employee reservation processes.
- **A Single Form of Payment** — Many multinational companies have standardized, using a single charge card system to provide consolidated expense information.
- **A Single TMC or Consortium** — Creating a global contract with a single TMC or corporate agency consortium can help with data retrieval and enable common implementation of corporate travel policies.
- **A Single Electronic Expense Reporting System** — A common electronic expense reporting system can help companies standardize cash advances and reimbursements and aggregate global expense data.

- **The Implementation of Regional Call Centers** — A popular delivery configuration that has gained steam in the last four to five years is the implementation of regional call centers for consolidation of the reservations process for specific geographies (e.g., pan-European operations). Though staffed by TMC employees, these regional call centers are often created based on customer demand.

For a global consolidation or implementation plan to be successful, it is necessary to understand regional differences in travel booking and management behavior. For example, implementing a single global CBT is a valid objective for a global sourcing team, but care needs to be taken in geographies such as Asia, where labor costs are low, special fares are not stored in a central location and local business practices involve more human interaction in the travel planning process.

A particular challenge for many companies that seek global consolidation is the concept of micro-multinationals. These are global companies whose individual international offices are often small and lack significant volume with which to negotiate discounts and implement electronic solutions. Any global travel management strategy must consider the needs of these small offices and implement plans that meet local needs while taking advantage of aggregated volume.

Travel Management Skill Set

If the traditional travel manager is moving into procurement or finance, he or she needs to understand purchasing terminology, theory and implementation practices. On the opposite side, general procurement or finance managers need to understand the nuances and terminology of travel management, as well as its best practice trends.

There are two ways to look at the skill set needed for best-in-class travel management services. If the traditional travel manager is moving into procurement or finance, he or she needs to understand purchasing terminology, theory and implementation practices. On the opposite side, general procurement or finance managers need to understand the nuances and terminology of travel management, as well as its best practice trends.

- Knowledge, Experience and Skill Set Needed by Corporate Travel Managers Who Move Into Procurement or Finance**
 Purchasing is a well-defined discipline that has clear rules and practices. As corporate procurement becomes more actively involved with travel management, traditional corporate travel managers need to become versed in the procurement discipline. Regardless of the experience level of the travel manager, a move to work with or report to purchasing should motivate the individual to learn more about general purchasing techniques and practices. The Institute for Supply Management offers certification that addresses purchasing through its Certified Professional in Supply Management (CPSM) program, an option travel managers may consider. Particular focus should be on the metrics used by global commodity managers to measure supplier performance in areas outside of travel,

and implementation of SLAs or KPIs needs to follow the form and style of other commodities. Travel managers need to understand standard electronic bidding and/or request for proposal (RFP) processing and adapt travel bids to the corporate standard.

For travel managers who become part of the finance organization, measurements take on a different focus, as financial metrics are used to project profitability. Travel managers who work in finance need to become familiar with terminology – for example, EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). EBITDA is a measure of a company's operating cash flow based on data from the company's income statement. Another common finance measurement, particularly for public companies, is earnings per share. The term "earnings per share" (EPS) means total earnings divided by the number of shares outstanding. Best practice travel managers often use financial measurements as a way to translate travel program savings into standard corporate finance terms.

Here is how travel savings can be integrated into these financial metrics. Calculation of EBITDA is pretty straightforward: revenue minus expenses (excluding tax, interest, depreciation, and amortization). Travel is not a component of earnings, but does represent a significant

corporate expense. If the travel manager can clearly document bottom-line travel savings, working with the financial organization to calculate the impact of these savings as part of the EBITDA calculation can help dramatize the impact of policy compliance. Illustrating the savings from the corporate travel program on a company's earnings per share involves the earnings component of the equation, and total earnings are impacted by variable costs. Translating the savings achieved through policy compliance can be illustrated by altering the earnings formula with and without the savings component, showing the impact on the EPS calculation. The travel department needs to work closely with finance to integrate the travel program savings into these corporate measures to illustrate their impact to senior management. Figure 4 summarizes these metrics and describes resources to develop them for your organization.

Travel costs are generally spread over multiple business units. Metrics that measure financial performance of these units naturally should contain a travel component. Of course, all departments have a budget as the primary measurement, but incorporating more travel-specific metrics (such as CPM, average ticket price, online adoption or average TMC service fee) within monthly or quarterly financial reviews can be very helpful in monitoring budgetary performance.

Finance and procurement professionals often work in a matrix management organization. In this type of organization, an individual may have two (or more) superiors. One manager may be focused on the overall job performance of the employee, while the other has responsibility for day-to-day operational tasks related to specific projects. In a travel management context, the manager may report to

Summary of Procurement and Financial Metrics		
Metric	Primary Use	Resource for Assistance
Scorecard Development	Evaluate suppliers and TMC on TCO, developing a single score reflecting performance	Internal procurement organizations, corporate travel colleagues, the TMC (for supplier evaluations only) or third-party consultants with strong procurement backgrounds
Earnings Per Share	Illustrate how savings achieved through negotiation and policy compliance impacts the bottom line	Internal finance organizations, corporate travel colleagues, or third-party consultants with strong finance backgrounds
EBITDA	Illustrate how savings achieved through negotiation and policy compliance impacts the corporate bottom line	Internal finance organizations, corporate travel colleagues, or third-party consultants with strong finance backgrounds

Figure 4

Travel is also unique as a commodity, as prices can change dramatically by the minute — both actual listed prices and inventory classifications.

Negotiations that solely focus on price can result in employee turmoil if general procurement or finance managers are not sensitive to the total cost of a travel deal.

finance for overall goal achievement and purchasing for supplier selection and management aspects of the job. Even if travel management is a stand-alone department not reporting to procurement or finance, travel managers need to integrate themselves into finance, procurement and administrative services to ensure that travel management priorities are met and understood by the broader corporate team that touches travel elements.

- **Knowledge, Experience and Skill Set Needed by Purchasing or Finance Managers with Travel Responsibility** Purchasing or finance professionals who are given travel management responsibility need to understand travel's unique challenges. No other corporate expense elicits such a strong emotional reaction by company employees; unhappy travelers can be very vocal and influential and thus impact the success of travel management objectives. Since C-level executives are often the most frequent travelers, issues involving their travel plans can impact the success of the overall program. In addition, the travel management discipline comes with its own specific set of technology issues (e.g., CBTs, reporting and analytics) and metrics (e.g., CPM, average ticket price, lowest logical fare).

Travel is also unique as a commodity, as prices can change dramatically by the minute — both actual listed prices and inventory classifications. Because airlines provide corporate discounts off published fares, in markets where published fares are rising, discounts could effectively be negated and thus must be constantly measured. With

airlines facing economic pressures due to the increasing cost of fuel, capacity is being cut significantly, eliminating the availability of lower fare inventory. Travel managers must manage not only suppliers, but also demand. By using powerful policy compliance tools, corporations can direct employee behavior through all steps of the travel process (e.g., shopping, booking, ticketing and consumption).

To better understand the nuances of the travel industry, general procurement or finance executives should seek out the counsel of other travel managers and become active in organizations such as the Association of Corporate Travel Executives (ACTE) and the National Business Travel Association (NBTA). Each of these organizations holds an annual conference where travel management-specific topics are discussed and networking allows for the exchange of best practices. Publications such as Business Travel News and Travel Procurement also provide valuable information on trends and best practices.

Negotiations that solely focus on price can result in employee turmoil if general procurement or finance managers are not sensitive to the total cost of a travel deal. Commodity categories such as hotels often cannot be simplified by selecting a single preferred supplier, as the hotel choices may differ based on the destination negotiated.

Social networking is another emerging communication trend that needs to be included in the travel management strategy, as this tool will be particularly important as the “Facebook generation” enters the marketplace.

An important skill for a travel manager, whether a generalist or specialist, is the ability to organize and lead cross-functional teams. This is particularly important for global consolidation efforts, in which representatives from multiple geographies and disciplines partner to select a travel service provider. Having a global outlook on travel is an important aspect of the evolving role of the internal corporate travel manager.

Regardless of the organizational setup, today’s travel manager needs to be able to translate travel metrics into corporate terms such as EPS or vendor scorecards. The most challenging aspect of this effort is taking the complexity of travel and translating it into terms other disciplines in the enterprise can understand and measure. Tying travel metrics to overall corporate performance can help garner senior management support and facilitate change management strategies at all levels of the organization. Creating this connection includes making precise ROI measurements and showing how travel expenses impact the cost of sales or how changes in policy can yield significant cost savings if implemented.

There are many key criteria in evaluating the effectiveness of the travel management program. One of the most important is the quantification of costs versus quality. By understanding the trade-offs in supplier value, total cost versus benefit can be derived. Procurement professionals need to measure the impact of savings

in a quantified, reliable and meaningful manner. Comparing costs against industry averages, such as measuring supplier fees against an applicable purchasing price index, is one way to quantify the cost part of the equation. Sourcing of travel services can be standardized, with options for deeper strategic sourcing relationships if applicable.

Needed Skills for the Viability of Internal Travel Management in the Future

In a broad sense, travel is all about facilitating communication. Whether the conversation happens when a salesperson travels to a customer site or an employee attends a conference, the travel associated with these tasks is driven by the need to communicate. From this perspective, it is essential that travel managers understand emerging trends in communication as inclusive supplements to travel (if appropriate), such as video conferencing capabilities and mobile communication. By its nature, travel service delivery will evolve as communication evolves – so offering an employee the opportunity to use video conferencing instead of travel, for example, should be part of the planning process. Developing mobile strategies that aid the traveler while on the road can also lead to greater productivity and quicker resolution of service issues. Social networking is another emerging communication trend that needs to be included in the travel management strategy, as this tool will be particularly important as the “Facebook generation” enters the marketplace.

The Travel Management Decision-Making Process

Regardless of organization placement, a successful travel management decision-making process must involve a common set of key steps:

- **Gain C-Level Support** — Travel management initiatives can only be successful with the support of a C-level advocate. This advocate may be the CFO, chief procurement officer (CPO) or chief executive officer (CEO).
- **Develop Ties With Key Divisional and Departmental Stakeholders** — Travel costs impact every division and department. Developing relationships with key finance, administrative and procurement organizations within the company's hierarchy is an essential part of the travel management decision-making process.
- **Organize Cross-Functional Teams** — As previously stated, cross-functional teams are often the best method for garnering support from various corporate stakeholders and divisions. Often these teams are divided into two different groups:
 - **Steering Committee** — This committee sets the direction for the team and is the ultimate evaluator of the team's success. Team members on the steering committee should include at least one C-level executive, a representative from purchasing (if travel is not part of the purchasing department), a representative from the IT department (since travel solutions are often technical in nature) and region-specific executives.
 - **Working Group** — The role of the working group is to handle the day-to-day tasks associated with the particular travel management objective. If the task at hand is to select a global TMC, representatives need to include employees from large international locations as well as finance, procurement and IT representatives.

Evaluate Technology

Corporations need to have a more active role in choosing which GDS they will source....From a corporation's perspective, this may be one of the most overlooked opportunities to add value to the company's travel sourcing strategy.

Technology continues to be a major part of any travel management program. Whether travel management is the responsibility of the procurement or finance organization or is a stand-alone department, decisions regarding travel technology permeate the entire organization. Travel management needs to take the lead in technology procurement related to the travel process. Below are specific travel technologies and areas of focus for the travel management organization:

- **Choose a GDS**

The GDSs are at the heart of all online and offline reservations. Corporations need to have a more active role in choosing which GDS they will source, as all GDSs are not created equal and can differ with respect to their strengths in certain countries or regions. They may also differ in their abilities to repeatedly search for and return the lowest fares. Corporations may opt to select a single GDS for the company, providing a common platform for global consolidation of reservation activity and management information. From a corporation's perspective, this may be one of the most overlooked opportunities to add value to the company's travel sourcing strategy.

- **Select a Corporate Booking Tool**

Corporate travel managers need to compile a comprehensive list of functionalities that meet their organization's particular requirements when it comes to selecting a CBT. There is constant development of new

features by major vendors in the CBT space, but not all CBT features will be relevant to the organization's needs. For example, if a vendor boasts about rail capability but the corporation has historically done little rail travel, that feature should not be relevant to the selection. A primary consideration in the CBT evaluation should be based on the tool's flexibility and the ease with which the solution integrates with other corporate enterprise systems. Other considerations might be the reliability and stability of the technology, the vendor's service and support model and the user experience with the tool. The evaluation of the best vendor requires a deep understanding of the company's travel patterns, booking habits and cultural issues to ensure the selection process meets the needs of a broad variety of stakeholders.

- **Implement Business Intelligence**

Travel management information systems are evolving from simple reporting products to solutions that encompass true business intelligence. At the heart of this change is the identification of actionable intelligence. There are a variety of sources for this information, but the guiding principle of a true business intelligence solution is that the company should focus on the areas where traveler behavioral change can elicit concrete savings opportunities.

Measuring the Return on Technology Investment

As with any corporate technology purchase, selecting the right GDS, CBT and business intelligence platform must balance these three needs:

- **Improve Travel Efficiency**
Automation and sophisticated analytics are not solutions, but facilitators of improved processes. To calculate the ROI for any travel-oriented technology purchase, the corporate travel team needs to accurately measure the cost of current processes and the additional productivity savings possible by automating the process.
- **Drive Greater Travel Cost Reduction**
Monitoring travel policy compliance is still the cornerstone of an effective travel cost reduction strategy. Measuring the impact of technology in driving greater compliance is a common way to calculate a return on investment. Automation brings consistency to the reservation and data analysis process with the ultimate goal of implementing actions to change traveler behavior and drive greater cost reductions.
- **Drive Greater Travel Cost Avoidance**
Technology brings visibility at the individual transaction level, enabling the corporation to monitor the value of each trip. Providing greater insight into the purpose of the trip can help the corporation identify unnecessary trips and thus avoid travel costs. With technology such as video conferencing, corporations can help impact travel demand by avoiding unnecessary trips.

Other Impacts on the Changing Role of Corporate Travel Management

- **Integration of Internal Policies and Procedures**

With the greater influence of procurement and finance, the internal travel management organization has the opportunity to blend travel policy with overall goals of these departments. By embracing established purchasing metrics such as scorecards to measure usage of preferred suppliers, the travel management program can be better integrated into the firm's overall supplier management strategy. Working with the finance organization allows the distribution of compliance-monitoring responsibility to individual divisions and departments that have the ability to impact the employee's actual travel planning and booking behavior.
- **TMC Relationships**

Corporate relationships with TMCs are also evolving with this shift in roles. As subject matter expertise decreases at companies and more purchasing or finance generalists assume travel management roles, TMCs may need to spend a greater amount of time consulting corporate customers on travel industry changes and practices. As the name implies, travel management companies should be considered experts in controlling travel expenses for their corporate customers. For some companies, outsourcing more of the travel management role to the TMC is also a viable option.
- **Supplier Negotiations and Management**

The increased reliance on procurement metrics impacts the way supplier contracts are negotiated and managed. Metrics such as KPIs for an airline or hotel supplier can encompass both the negotiated price and actual service performance of the vendor, and sometimes these metrics are even written into the agreement. When renegotiating contracts with travel suppliers, the TCO of the relationship can be measured to better understand the true value of a given negotiated discount.
- **Automation Vendor Evaluation and Selection**

The concept of TCO originated in the technology selection and implementation process; therefore, it is logical to use this measurement when evaluating travel-specific technology. CBT usage or the value of business intelligence platforms needs to be monitored on an ongoing basis. This evaluation should embrace the TCO concept to avoid measuring the value of these technologies on a single criterion, such as adoption. Yes, CBT adoption is a valid measurement, but additional costs incurred by the TMC or additional time wasted by senior company employees should be part of a more holistic view of the technology investment.

Summary and Recommendations

Travel management within the organization is an evolving process, and the increased influence of procurement and finance can be traced back to the 1990s. Different geographies, industries and sizes of companies are changing at different speeds. Because the process is in flux, it is essential that travel managers evaluate the current and near-term impacts of these corporate influences and plot strategies to integrate current travel management practices with these two established disciplines.

Technology continues to be a catalyst for change. Travel managers need to be vigilant about the emergence of new employee touchpoints, such as mobile technology, to be sure a corporation-wide strategy is embraced. Development of tools such as business intelligence platforms are often driven by corporate needs. With travel management becoming more integrated with purchasing and finance, travel

managers need to push vendors to embrace more traditional purchasing or financial measurements as part of their requirements.

The following is a guide to help evaluate travel management’s role with respect to the increasingly important influence of procurement and finance (Figure 5).

Step One: Define the Role of Travel Management Within the Procurement or Finance Context

This step involves understanding the standard metrics used by purchasing for supplier management. Particular focus should be on how other services are purchased and monitored. Has the company implemented a common scorecard process for food, janitorial, landscaping or other service-oriented functions? How can travel services be integrated with standard finance measurements used to track company performance?

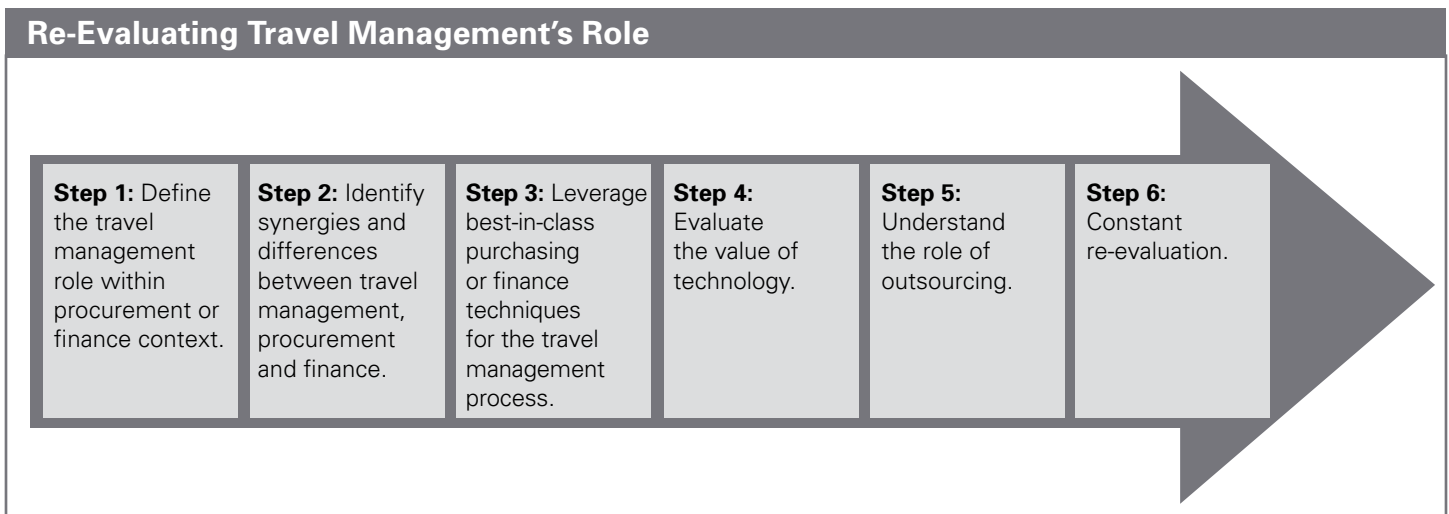


Figure 5

Traditional procurement is a highly organized and controlled process. This was true during the days when a purchase order was manually created, and is true now with various purchasing modules offered by enterprise resource planning (ERP) vendors....

Step Two: Identify Synergies and Differences Between Travel Management, Procurement and Finance

There are many similarities between the procurement of travel services and other corporate purchasing activities. Where synergies exist, the internal travel management organization needs to adopt standard RFP practices and supplier management techniques. Travel also has some unique measurements (e.g., CPM, average ticket cost). The purchasing or finance generalist needs to understand these travel-specific measurements and practices. This education can come from the internal travel organization or from working with the TMC or travel technology provider.

Step Three: Leverage Best-in-Class Purchasing or Finance Techniques for the Travel Management Process

This step should embrace standard purchasing metrics such as KPIs and TCO for the travel management process. Benchmarking should mirror the methodology used by other global commodity managers. Cost savings or avoidance needs to be translated into standard financial metrics such as EPS or EBITDA.

Step Four: Evaluate the Value of Technology

Traditional procurement is a highly organized and controlled process. This was true during the days when a purchase order was manually created, and is true now with various purchasing modules offered by enterprise resource planning

(ERP) vendors such as Oracle or specialized electronic purchasing systems such as Ariba. Technology plays an equally important role in the travel management process. Corporations need to control all aspects of technology associated with the travel process, including the GDS platform selection, CBT evaluation and decision support alternatives.

Step Five: Understand the Role of Outsourcing

Internal travel departments need to take a sober look at what services can be outsourced. In some cases, companies have opted to retain a lead corporate travel manager for the headquarter location but outsource the day-to-day travel management functions to a third-party provider (e.g., IBM or the TMC). In other cases, the company may opt to outsource the entire travel management function. In such instances, procurement or finance generalists need to understand the particular nuances of travel supplier management and ensure that KPIs are established to reflect accurate measurements for this expanded role.

Step Six: Constant Re-Evaluation

Whether the decision is made to outsource some or all travel management functions or to embrace standard metrics to measure a supplier's true TCO, the travel management process needs to be constantly reviewed and re-evaluated. As technology drives new opportunities and thus new travel business practices, the internal travel management organization — whether independent, part of procurement, responsible to finance or outsourced to a third party — needs to ensure that corporate policies and processes reflect these changes.

Glossary of Terms

Average Ticket Price — The average airline ticket price between an origin and destination frequently used by the corporation.

Benchmarking — Comparing organizational metrics with companies of similar size, industry and corporate culture.

BI (Business Intelligence) — A broad category of applications and technologies used for gathering, sorting, analyzing and providing access to data to help businesses make better decisions.

CBTs (Corporate Booking Tools) — Applications that automate online business travel bookings and automatically enforce corporate travel policies at the point of sale.

CPM (Cost Per Mile) — A measurement that compares the cost of the ticket against the miles accrued on the trip. CPM can be used to determine the value of negotiated rates for short- and long-range flights.

C-Level — The senior management of a company, including the chief executive officer (CEO), the chief operating officer (COO), the chief financial officer (CFO), the chief marketing officer (CMO) and the chief procurement officer (CPO).

GDSs (Global Distribution Systems) — The primary platforms for travel reservations. GDSs aggregate travel content from multiple sources and power online and offline bookings.

EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) — A measurement that serves as an indication of the company's overall performance.

KPIs (Key Performance Indicators) — Quantifiable measurements, agreed to beforehand, that reflect the critical success factors of an organization.

ROI (Return on Investment) — Profit (or loss) on an investment.

TCO (Total Cost of Ownership) — A measure of the value of a product or service that factors in all costs, both direct and indirect, associated with the product or service.

TMCs (Travel Management Companies) — Travel agencies that specialize in corporate travel management.

Scorecards — Quantitative measurements that translate vendor performance into numeric scores that encompass the TCO.

SLAs (Service Level Agreements) — Agreements that describe the minimum performance criteria a provider promises to meet while delivering a service.

Strategic Sourcing — The process of identifying suppliers that could provide needed products or services for the acquiring organization.