

Northeast Supply Chain Conference

# **Travel Management Strategies for Operational and Procurement Improvement**

# Opportunity

■ **Innovative companies are recognizing that a focused approach to travel management can provide significant benefits:**

- Cost Savings of 20% to 35% off current travel budget
- Enhanced services and schedule flexibility to travelers
- Improved operating controls/efficiencies and employee participation

. . . All without major capital investment

# Opportunity

- **These opportunities are available through an achievable now**
  - **Because:**
    - Travel represents significant and controllable expenditures
    - Action oriented information is readily available
    - Recent regulatory changes encourage opportunities
- . . . There is a window of opportunity

# Opportunity

Travel Represents significant and controllable expenditures

- **For most companies that level is**
  - The 3rd to 5th largest controllable cost
  - Averaging \$16,000 per frequent traveler
  - Highly sensitive to leverage advantage
- ... Yet this expenditure is rarely identified as a cost/service tactical opportunity

# Opportunity

Action oriented information is readily available

- **The travel industries have such extensive and compatible information**
  - Info and communication is the 3rd largest cost for airlines
  - 80% + of all travel agencies used the same accounting system
  - Reservation ticketing and receivables is a shared logical data base
  - . . . Yet, the impression is that knowledge is difficult to obtain

# Opportunity

Regulatory changes encourage opportunities

- **Deregulation has erased most real and perceived barriers:**
  - Open competition on routes and fares
  - Less regulatory economic intervention
  - Reduced antitrust immunity
- . . . Yet, the regulatory mentality still prevails in the industry and customers

# Benefits

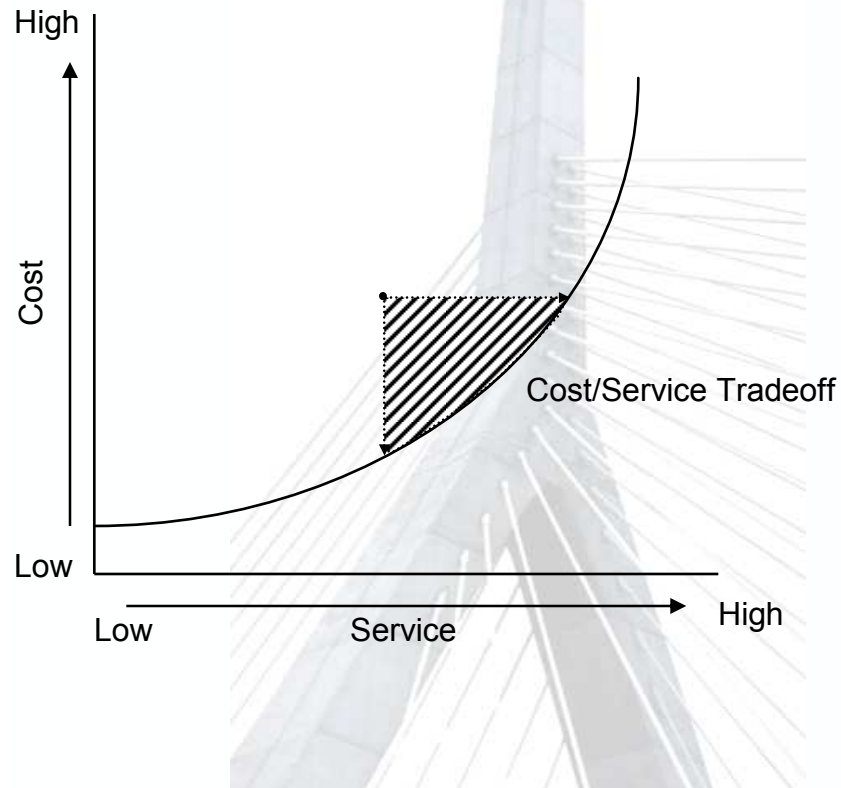
## ■ The potential for benefits for most companies are real and obtainable

- Cost reduction over actual budgets
  - Airfares 20% to 30%
  - Hotels 25% to 35%
  - Car rentals 15% to 25%
- Service improvements
  - Restrictions eased
  - Flexible schedules
  - Preferred service

. . . Plus operating and administrative efficiencies and controls

# Benefits

- . . . And these benefits do not require a negative tradeoff on service





# Benefits

- Experience indicates those benefits are available to a wide spectrum of industries.
- Successfully applied:

Industry	Travel Cost	Profits Realized
Defense	\$13.2 M	\$5.25M
Service	\$12.5M	\$4.7M
HQ & R/D	\$ 6.0M	\$2.3M
Manufacturing	\$ 4.6M	\$1.4M

- . . . It is not total absolute dollars but the small relative dollars which can be controlled?

# Environment

## ■ Government

- Economic regs
- Tax implications
- Operational controls

## ■ Technology

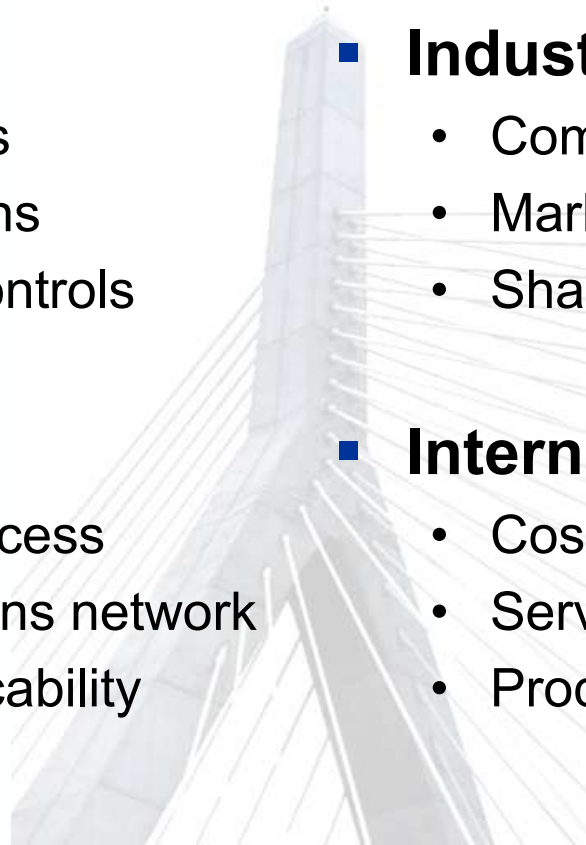
- Information access
- Communications network
- Process applicability

## ■ Industry

- Competitive turmoil
- Market distribution
- Shadow pricing

## ■ Internal

- Cost levels
- Service goals
- Process controls



# Environment

- **Despite the potential opportunities and success stories, why have few companies achieved these benefits?**
- **Because:**
  - Lack of realistic awareness of travel patterns and actual market pricing
  - Absence of direct negotiations with prime travel suppliers who represent over 75% of cost
  - No effective program to motivate employees to participate in travel opportunities

# Environment

Lack of awareness of travel patterns and actual market pricing

## ■ Travel patterns

- Who are the . . .
    - 2% of employees who account for 75% of budget
    - 20 top airline city pairs
    - 20 top city hotel and car rental location
  - What are your costs . . . by supplier
    - Airfares
    - Hotels
    - Car Rentals
- . . . What is the fair market price for those expenditures?

# Environment

Lack of awareness of travel patterns and actual market pricing

- **Actual market pricing**

- What is the “correct” fare for air travel Boston to Los Angeles?
- There are over 400 separate fares ranging from

Type	Price
First class	\$510 - \$925
Business class	\$156 - \$585
Full fare coach	\$270 - \$540
Discount Fare	\$ 79 - \$580

. . . Which fare should you, as a business traveler pay?

# Environment

- **The airline knows! Despite 400 plus fares and wide range in pricing and restrictions - there are only three important variables**
  - Per year
    1. Cost - it does not vary over 10%
    2. Revenue - it does not vary over 20%
    3. Average price - it does not vary over 25%
- **How else could an airline run its business?**

# Environment

- **Absence of direct negotiations with prime travel suppliers who represent over 75% of costs**



- Airfares are the largest and most critical travel expenditures



- And airlines receive the largest portion of the airfare

But few negotiate directly with airlines

# Environment

No Effective corporate program to motivate employees

- Employee selection alternatives not visible nor monitored
  - supplier promotions not used as incentives
  - Inability to quantify value added of travel opportunities
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- . . . **Finally, the industry has hindered action . . .**



# Environment

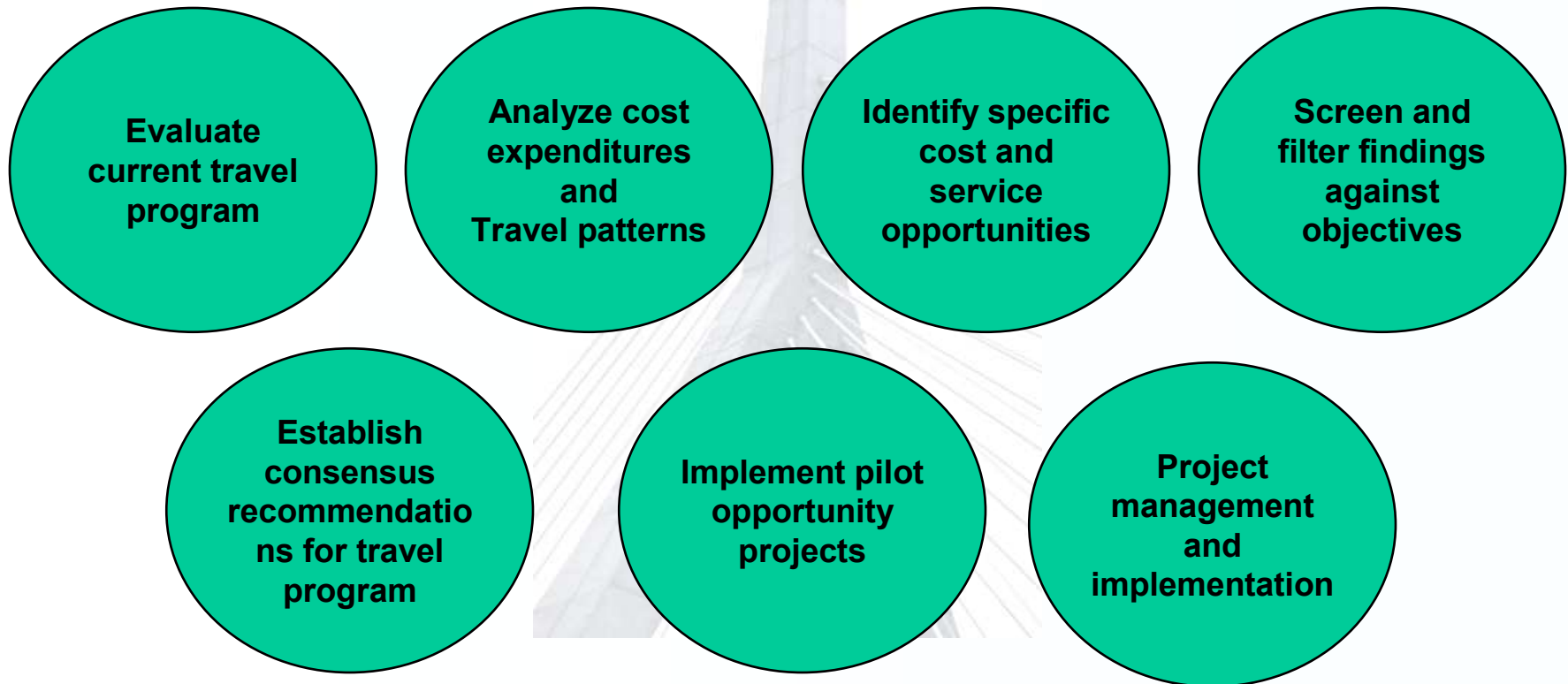
- **Uniquely, two aspects of industry marketing have diffused a focused approach:**
    - Shadow pricing - the illusion of competitive prices - with the reality that real prices have increased since 1992
    - Agency dominance - the accepted rationale that only a travel agency can negotiate directly and effectively with prime suppliers
- . . . that illusion and rationale are correct

# Approach

- **Working directly with prime suppliers and controlling travel agencies has allowed companies to identify and realize travel potentials.**
- **That approach includes three distinctive phases**
  - Phase I - Evaluation
  - Phase II - Improvement planning
  - Phase III - Implementation
- **Specifically, you should. . .**

# Workplan

**This approach involves seven work plan tasks that will allow you to target immediate areas of opportunity**



# Workplan

- **Task 1 - Evaluate your current travel program**
  - Profile your operational and contractual relationships with airlines and travel agencies in order to assess immediate improvement as well as to identify potential barriers to improvement
  - Assemble data on your cost expenditures and travel patterns needed for comparison against our models of industry fares and route structures
  - Review your current travel policies and procedures to better understand your culture, priorities and travel management controls and communications

# Workplan

- **Task 2 - Analyze your cost expenditures and travel patterns**
  - Analyze your air route patterns against our models of industry routes and volume balances (e.g., for which city pairs does United have passenger volume imbalances) to develop a high correlation of “fit” between your travel patterns and specific air carriers
  - Analyze your airfares for major legs, hotel costs for major cities, and car rentals for major volume areas. Compare these against our industry baselines, identifying the fair market price and your positive and negative variances against that standard

# Workplan

- **Task 3 - Identify specific costs and service opportunities**
  - Identify routes and air carriers where your travel patterns best balance an airline's imbalance on particular route segments and project a target pricing structure for those segments
  - Identify by specific supplier (airlines, hotels, agencies, and car renters) situations where our analysis indicates either a payment above fair market and/or where changes to the relationship (either shifting vendor and/or volume) will result in cost improvements
  - Identify initial considerations and techniques for enhancing employee participation in new travel programs

# Workplan

- **Task 4 - Screen and filter findings against your objectives in a working session**
  - Document improvement potentials, quantitative cost/benefit analysis results, and initial resource requirements statements
  - Screen and prioritize the potential based on your assessment of congruence with the company, organizational workloads, risk analysis, and value of benefits
  - Review your proposed changes to the operational process and supplier relationships which would enhance the effectiveness and efficiencies of your travel management program - including employee controls and motivations

# Workplan

- **Task 5 - Establish consensus recommendations for an overall travel program to achieve these opportunities**
  - Develop individual action plans, including resource requirements and implementation schedules for each approved opportunity
  - Develop the negotiation process, structure, techniques, and strategies that will allow you to negotiate from a position of power and knowledge



# Trends

- **Suppliers - airlines, hotels, and car rental**
  - Fixed contracts and special rates
  - Long-term relationship = market share
  - Shadow pricing and public announcements
  - Mergers and acquisitions = reshuffling
  - Information technology dominant
- **--- Cost = Service = Price**

# Trends

## ■ Agents

- Mega agency
- Difficult positioning
- Contractual relationship
- Financial options
  - Rebate
  - Cost sharing
  - Transaction pricing
- Fearful of suppliers and users

## ■ --- Must change focus

# Trends

## ■ Users

- Fuller and simpler support
- Consolidation of volume and vendors
- Information and process sensitive
- Formal and process sensitive
- Formal relationship and mutual risks/rewards
- Travel as a business objective

## ■ --- Recognition of opportunities and risks

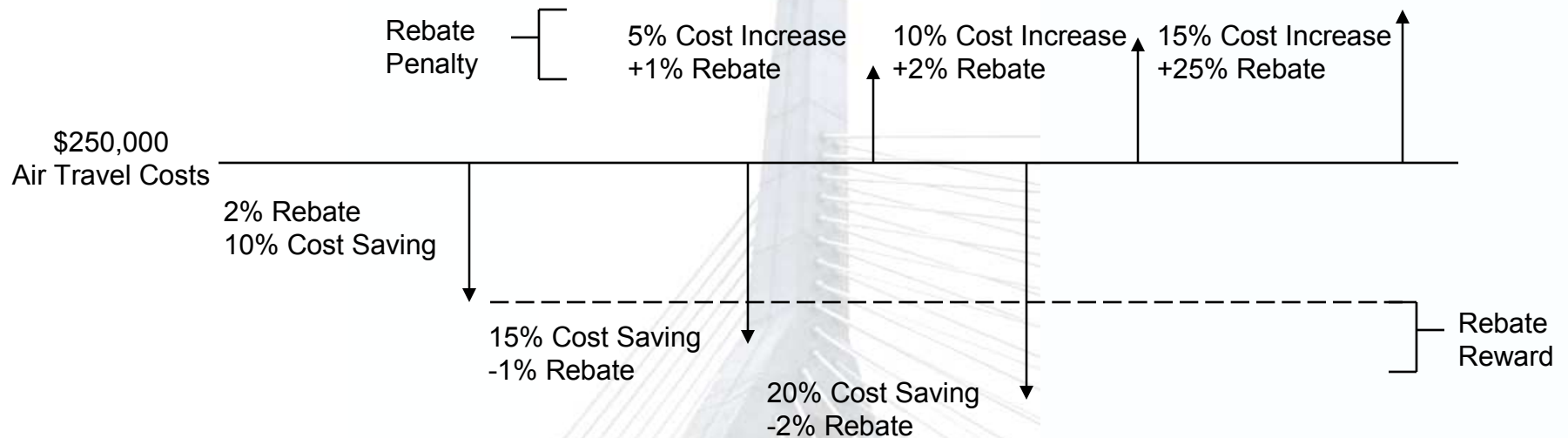
# Trends

- How effectively has your travel management program responded to industry changes
  - Agency structures/rebating
  - Discounts
  - Preferred services



# Measuring the Performance of Your Travel Agency

## Pegging Cost-Savings to Rebates

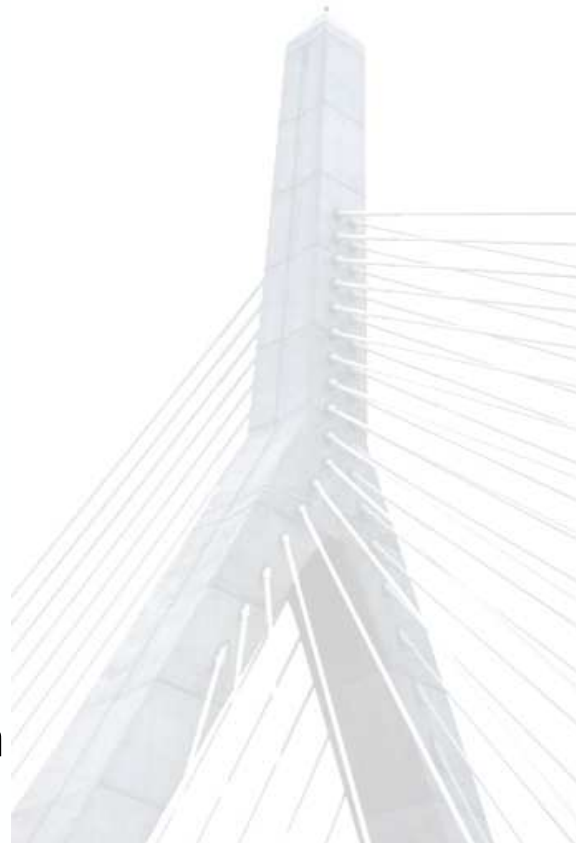


- If the agency saves you an additional 5% of total travel costs over and above their contractual obligation, the rebate is lowered by 1%
- If the agency fails to perform to their contractual obligation, your rebate is increases by 1% for each 5% in increased costs

# Travel Quiz - How Do You Score?

## A. Profile

- 1. Scope
- 2. Organization
- 3. Prime Locations
- 4. Agencies
- 5. Patterns
- 6. Travelers
- 7. Supplies
- 8. Information
- 9. Communication
- 10. Controls



0 to 5

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**Subtotal**

(max 50)

**Total**

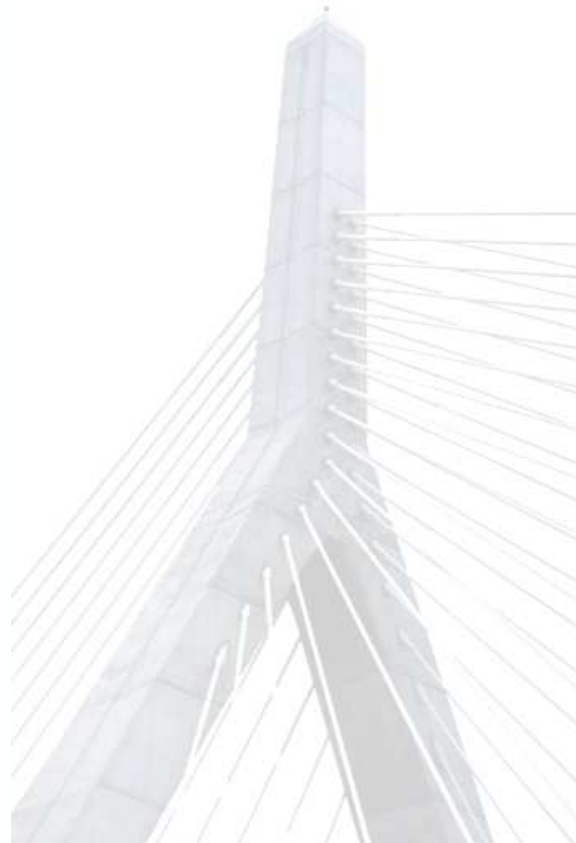
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Points: 0-None; 1-Poor; 2-Inadequate; 3-Fair; 4-Good; 5-Excellent

# Travel Quiz - How Do You Score?

## B. Performance

- 1. Responsibility
- 2. Policies
- 3. Data Base
- 4. Goals
- 5. Leverage
- 6. Vendors
- 7. Systems
- 8. Service
- 9. Exclusivity
- 10. Compliance



0 to 5

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**Subtotal**

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(max 50)

**Total**

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(max 50)

Points: 0-None; 1-Poor; 2-Inadequate; 3-Fair; 4-Good; 5-Excellent