

## Creating a Managed Travel Program



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<i>The San Antonio, Texas, enterprise shows that it's possible to create a managed travel policy that optimizes return on investment, benefits employees and improves job satisfaction.</i>	

## ■ Introduction

From senior executives negotiating deals to technical-support staff visiting distant cities on short notice to solve clients' problems, travel is a vital part of a mid-sized company's success.

According to the U.S. Travel Association, U.S. companies spend nearly \$250 billion a year on transportation, lodging and related expenses.<sup>1</sup>

Travel spending pays off. According to a February 2011 study from American Express Global Travel and the Global Business Travel Association, in industries across the U.S. economy, every \$1 strategically invested in business travel results in an average \$20 in additional gross profit.<sup>2</sup>

Those costs and the value of man hours invested in trips make it imperative for companies to control expenses

and balance employees' travel needs with corporate goals and strategy.

A well-designed corporate travel program can provide such balance, and generate data that can help a company improve its operations.

This report looks at:

- The fiscal, operational and strategic benefits of managing travel
- Models for managed travel programs
- Challenges of implementing a managed travel program
- Best practices for running managed travel programs
- An example of a mid-sized company that's benefited from a managed travel program

<sup>1</sup> <http://bit.ly/o1HpDv>

<sup>2</sup> <http://bit.ly/pg8ZWO>

## ■ Why Manage Travel? Fiscal and Strategic Benefits

Even in an age of email, mobile phone texts and online videoconferencing, being in the right place at the right time can mean the difference between success and failure.

In a 2009 study by Oxford Economics USA, 500 corporate travelers estimated that 40 percent of their prospects became customers after an in-person meeting,

ees' professional development and 40 percent linked business travel to staff retention. (See *Case Study: USAA Saves Money, Increases Employee Satisfaction, on pg. 11.*)

As valuable as it is, business travel is also costly. Business travelers visiting U.S. cities, for example, spend an average of \$285 a day on hotels, meals and local

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compared to 16 percent who signed after electronic communication<sup>3</sup> (see Fig. 1). Once on board, 75 percent of customers either required in-person meetings or preferred them for doing business.

Business travel provides other important benefits. In the same Oxford Economics USA study, 66 percent of participants perceived travel as important to employ-

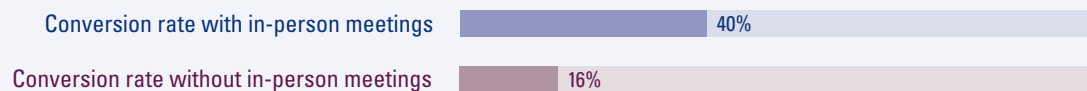
transportation, according to a 2011 cost benchmarking study by *Business Travel News*.<sup>4</sup> International travelers typically spend \$352 a day and costs in cities such as Geneva and Tokyo typically exceeding \$500, according to the trade publication's estimates.

Reducing those costs can give a company a significant competitive advantage, because business travel is

*Continued on next page*

### Fig. 1 – Business Travel Turns Prospects into Customers

Business travelers say face-to-face meetings are better for converting prospects into customers, supporting the need for companies to keep employees on the road.



Source: The Return on Investment of U.S. Business Travel, *U.S. Travel Association and Oxford Economics USA*

<sup>3</sup> <http://bit.ly/mQ3zEs>

<sup>4</sup> [http://bit.ly/p\)tbW1](http://bit.ly/p)tbW1)

## ■ Why Manage Travel? Fiscal and Strategic Benefits *(cont.)*

typically an enterprise's second or third largest controllable expense.<sup>5</sup> According to a 2010 study by the Global Business Travel Association Foundation, a North American company that spends \$1 million a year on domestic and international air travel could cut that by \$612,000 through a well-designed managed travel policy.<sup>6</sup>

Controlling travel costs, however, is more complex than cutting spending on other products and services,

personal comfort. While those amenities can make someone more productive and efficient, suppliers—airlines, hotels, car rental agencies—generally charge a premium for the convenience.

Companies can control costs, however, by carefully analyzing employees' travel needs, working out deals with vendors and setting policies that give weight to convenience, efficiency and cost.

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according to the GBTA Foundation study. Companies' travel needs, including where employees have to fly for business, can fluctuate as new opportunities or issues arise. That makes travel more difficult to commoditize. As a result, 91 percent of business travelers end up making their own arrangements, according to a recent survey by *Business Traveler Magazine Quarterly*.<sup>7</sup>

Implementing controls and monitoring travel policies have important ancillary benefits: Companies can use the data to uncover additional ways to cut costs. They also may be able to combine the data with other metrics to gain insight into their operations.

"Managed travel is all about knowing your needs," says Bill Grimes, a one-time Amway contract travel manager and former corporate travel consultant. "If you have good information, you can make good decisions and negotiate commitments with vendors that make sense economically," Grimes says. "You can create a system that is easy and efficient for your employees to use."

“Managed travel is all about knowing your needs.”

Bill Grimes, former corporate travel consultant

That creates a potential problem, since travelers tend to choose flights, hotel rooms and rental cars based upon

<sup>5</sup> <http://bit.ly/nV4GrJ>

<sup>6</sup> <http://bit.ly/ojPM6n>

<sup>7</sup> <http://bit.ly/of00Mm>

## ■ Models for Managed Travel Programs

Thousands of mid-sized and larger companies run managed travel programs, but not all programs are the same. In a 2007 article for *Fast Company*, Owen Wild, director of marketing for the Miami-based travel management technology firm Amadeus North America, divided programs into two main categories:

- **Lightly managed programs.** These programs keep policies simple and apply minimal, one-size-fits-all rules to all departments and business units. A lightly-managed travel program is easier to administer and allows employees more freedom of choice, convenience and flexibility. In exchange, companies cede much of their ability to find cost savings and gather useful data.

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- **Heavily managed programs.** Companies that take this route gather extensive data, tailor rules to specific traveler groups and carefully monitor compliance. Such programs aim to save on travel costs and optimize travel ROI. They also tend to limit travelers' choices by guiding them to preferred suppliers, and impose other rules to lower rates and maximize purchasing power. Corporate travelers sometimes chafe against such rules and restrictions as frustratingly complicated, over-bureaucratic and a hindrance to accomplishing work goals.<sup>8</sup>

According to travel industry estimates, about 150 U.S. companies operate in-house, full-service travel agencies. Such agencies issue tickets and perform other functions normally handled by outside contractors, with the aim of capturing commissions and rebates normally paid to travel agents.

Kathy Hall-Zientek, chairperson of the Corporate Travel Department Association, cautions that handling travel completely in-house is a complex undertaking that requires a skilled travel industry professional with extensive experience to navigate the complexities of booking tickets and obtaining the best fares. For most companies, it makes more sense to create a travel policy and monitor compliance.

Companies also have the option of using an outside firm to help manage their travel. American Express Business Travel, a division of American Express Company, provides companies of all sizes with a range of services, including travel management consulting, strategic sourcing, supplier negotiation support and global online and offline customer service. American Express also provides access to an online community that harnesses the collective intelligence of the business travel industry to offer guidance on best practices, current research and developments in the travel industry.

<sup>8</sup> <http://bit.ly/p8xdHK>

## ■ Challenges of Implementing a Managed Travel Program

Controlling travel expenses is important, but a mid-sized company's biggest concern should be the value travel is creating, says Tom Lehman, a business strategy consultant with offices in Minneapolis and Alexandria, Virginia. "You need to look not just at cost, but at outcomes," Lehman says. "Otherwise, you end up making rules that favor routine, low-cost travel and hinder the opportunity trips that are more expensive but generate high value."

For that reason travel management should be flexible and respond to business needs. To be most effective, travel managers need to do more than enforce rules about how much travelers can spend on dinner. Ideally, they work closely with department managers, providing them with data to analyze staff travel and evaluate the role it plays in relationships with clients.

*“The key issue is not whether it's too expensive to fly to Chicago, but what's the most cost-effective, time-effective way for a staffer to manage the relationship.”*

Tom Lehman, business strategy consultant

"The key issue is not whether it's too expensive to fly to Chicago, but what's the most cost-effective, time-effective way for a staffer to manage the relationship" with a customer, Lehman says. "You want to provide them with information that helps them to make those decisions. Travel policies ought to be the mechanism that helps you implement a travel decision, rather than setting up restrictions that make the decision for you" whether or not you can travel.

To achieve that sort of flexible, value-oriented travel management program, Lehman and his colleague John Niles, a Seattle business communications consultant, advise taking a methodical, data-driven approach to crafting travel policies and setting up oversight and advisory mechanisms. Their recommendations:

- **Gather data.** Conduct a travel value assessment (TVA), an in-depth look at selected departments or operating units for two to four months to create profiles of current travel use. This process can also identify how record-keeping can be improved to generate better data.
- **Analyze results.** Once data on two or more departments or business units is available, compare them to see how travel contributes to key business processes and functions. Integrate travel data with performance metrics to reveal the value-to-cost ratio of various travel expenditures, and find ways to customize trip requirements to match purposes and expected outcomes and generate maximum value from travel spending.
- **Create and implement travel management policies and tools.** In addition to general guidelines, Lehman and Niles recommend using relationship budgeting, where travel managers work with department managers to figure out what contacts are needed to maintain and improve relationships with external and internal clients, then allocate resources accordingly. For example, if videoconferencing is used during the early stages of the sales process, the savings can be applied to high-value travel for closing deals or capitalizing on unexpected opportunities.



## ■ Best Practices for Managed Travel Programs

Here are some additional best practices for managed travel identified by the National Business Travel Association and other experts.

**Travel management company consolidation.** Require that trip arrangements be made through a designated travel management company or companies. Such consolidation provides corporate travel managers with an efficient way to capture travel data for analysis and enforce travel policy compliance.

**Online tools.** Online booking systems are an invaluable part of state-of-the-art travel management, because they provide an easy and efficient way to collect and

track travel data. For example, about 71 percent of companies in the GBTA survey require the use of a preferred car rental agency.

**Advance purchase.** Most companies expect employees to book trips in advance whenever possible. Imposing a hard-and-fast rule is difficult, however, because unexpected opportunities or problems sometimes require trips on short notice.

**Pre-trip approvals.** More than half of companies in the GBTA survey require that managers approve employees' travel requests.

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track travel data. Lehman and Niles recommend sharing the data with department and business unit managers so they can compare costs with expected and actual results from trips.

**Lowest logical fares.** Most corporate managed travel programs require travelers to accept lower fare options whenever practical. A well-crafted lowest logical fare (LLF) policy will include a number of variables, such as setting time windows around a requested time, mandating less-expensive non-refundable fares when available, using flights with connections if they don't result in excessive travel times, and using alternate airports if they are reasonably close to a requested destination.

**Preferred vendors.** Companies may be able to negotiate discounts from airlines, hotels and car rental agen-

**Compliance mechanisms.** Most travel managers require travel management companies to generate reports whenever travelers have violated travel policies, such as refusing to book at the lowest available fare or using a non-preferred vendor. To make rules work, track violations and share problems with an employee's manager.

**Policy review.** Regularly reevaluate travel policies based on business needs, feedback from internal clients and metrics generated from analyzing travel data. Strive to continuously improve policies to boost value. To that end, the Global Business Travel Association Foundation offers a Managed Travel Index benchmarking tool that allows companies to measure their performance anonymously against nearly 250 other participants in six key areas: finance, administration, sourcing, technology, quality and compliance.<sup>9</sup>

<sup>9</sup> <http://bit.ly/qwBVlp>

## ■ Conclusion

Since travel remains an important part of doing business, travel management programs are essential for companies that want to control expenses and optimize the return on their travel spending.

Managed travel programs can take different forms, from lightly-managed plans that apply minimal rules across the entire corporate structure, to heavily-managed ones with nuanced rules for different business units.

To create an effective travel program, companies should collect data on current travel use and expenditures in at least two business units in order to project their overall

needs and learn how to achieve efficiencies and savings. Armed with those insights, companies can craft travel policies and put in place oversight mechanisms that enforce compliance while accommodating unexpected business needs and opportunities.

Best practices in travel management programs include consolidating outside travel management contractors, using online booking tools, requiring pre-travel approvals and guiding travelers to book early, opting for the lowest logical fares and using preferred suppliers. Companies also should review travel policies frequently to optimize their value.



## Case Study: USAA Saves Money, Increases Employee Satisfaction

It's possible to craft a travel policy that optimizes return on investment, benefits employees and improves job satisfaction.

USAA is a prime example of a business that's done all three.

USAA is a \$17.9 billion provider of insurance, investments and financial services for members of the U.S. military, veterans and their families. The San Antonio,

To cut costs, USAA aggressively negotiates with air travel suppliers. The business also encourages employees to use preferred suppliers by providing them with an easy-to-use online booking tool that also enables it to track compliance data.

USAA's travel management program is so effective that it received a 2011 best practices award from Runzheimer International, the Waterford, Illinois, mobile workforce consultancy. USAA received the honor

**USAA scrutinizes crime statistics of hotels on its preferred supplier list and issues warnings or removes properties with crime rates that exceed what it deems to be tolerable levels.**

Texas, company's travel management program emphasizes cost savings and providing a high quality of service, according to corporate spokesman Clayton Allen.

USAA's program specifically focuses on travelers' safety, so much so that the company scrutinizes crime statistics of hotels on its preferred supplier list and issues warnings or removes properties with crime rates that exceed what it deems to be tolerable levels.

for saving 6 percent on its total airline spend compared with published domestic rates, as well as receiving a 95 percent employee satisfaction rating with the program. In the same time period, USAA employees booked 75 percent of their travel through the company's online tool, and used preferred airlines 64 percent of the time.<sup>10</sup>

<sup>10</sup> <http://bit.ly/rud7Pz>



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