

# Making The Most Of Business

BY DAVID MEYER

The true measure of a successful travel management program is its ability to properly support each business mission at the lowest appropriate cost. The mission of a strategic sourcing initiative is to establish quantitative assessments to both derive greater value and drive lower costs for a commodity. Combined, they can institute meaningful travel process improvements. Both start by determining how to measure quality as well as understanding the true nature of costs.

Proponents often laud procurement practices for the discipline they can bring to bear in assessing relationships with suppliers that sometimes are based on personal connections. While such relationships can yield additional service for corporate customers, they also can result in higher costs. Even in the best of times, CEOs and CFOs often see the mostly dispassionate procurement practices as a more professional approach to supplier management.

In the face of hard times, however, there is even more of a need for a methodical operating procedure. Rather than desperate measures, managing travel procurement in such an environment requires the deployment of deliberate and discrete metrics.

As cost pressures continue to mount, a growing number of companies are applying certain sourcing techniques to travel management practices and see-

ing positive results. The trend certainly has not been slowed by concerns about an uncertain economy that clearly places us in the cost-control portion of the business cycle. What's more, the periodic aggregation, quantification and summarization of performance and cost information that are hallmarks of procurement processes are presented in a language that senior manage-

ment understands.

More than merely a numbers game, the goal is a qualitative one: to provide intelligence about existing and potential travel supplier services and costs that contribute to more informed and timely decisions.

While some classic procurement techniques, such as issuing requests for proposals, mandating use of preferred suppliers and even establishing service-level agreements, particularly with travel management companies, long have been standard operating procedure for many

travel managers, other techniques, such as the use of key performance indicators, balanced scorecards and demand management practices, appear to be on the rise.

Procurement, purchasing and sourcing organizations certainly have been behind the adoption of these practices at many companies, but it is notable that they also are being deployed at companies in

ers of travel services, procurement managers recently have replaced business travel managers. In most cases, however, procurement managers respect the subject matter expertise that travel managers possess and seek to incorporate that knowledge into the process.

This study examines how and how much such practices are being applied to travel. It provides an understanding of the expectations travel and procurement practitioners have about travel and travel spending in the near term as well as their outlook on the relative importance of controlling costs versus ensuring a suitable level of service. It indicates that the stigma once ascribed to the word "commodity" no longer threatens travel managers because they have learned that a focus on service is so basic to the concept of strategic sourcing.

While building on the baseline of original research that we conducted last year, this year's study is an attempt to drill down even further to understand the use of specific contractual agreements that establish service levels and measurements of current and prospective travel supplier performance and traveler behavior.

About half of respondents said they use financial incentives or penalties in their service-level agreements, which they mainly have in their travel management company contracts.

Many companies are adopting key performance indicators for online booking adoption and





# Travel Metrics

behavioral and change management metrics, including use of advanced purchase, refundable tickets, lowest logical airfare, use of preferred suppliers and hotel room type and air and hotel class of service.

The study also examines other core procurement practices, including outsourcing and cost-avoidance metrics, and especially the application of such practices as demand management, the use of balanced scorecards and supplier mandates for both business travel and meetings management.

To generate data for the Procurement Practices Survey, sponsored by American Express Business Travel, *Business Travel News* editors solicited responses from several thousand procurement and travel buyers who are *Business Travel News* readers, American Express clients and members of the Institute for Supply Management. *BTN* editors devised an online questionnaire, hosted by third-party research house Equation

Research, headquartered in Boulder, Colo., which they invited buyers to fill out. Equation tabulated the individual responses and provided *Business Travel News* with aggregated data.

Of the 215 respondents who completed the survey in 2008, 74 identified themselves as responsible for travel, 17 identified themselves as responsible for procurement and 124 said that they were responsible for both travel and procurement.

Like last year, 60 percent of respondents, this year from 132 companies, said that their companies spent less than \$5 million in annual U.S. booked air volume in 2007, with 16 percent saying that they spent more than \$30 million in 2007 compared with 12 percent who spent that much during the previous year.

Respondents with financial and strategic sourcing, procurement and purchasing manager titles made up 27 percent of the group. Those with travel manager titles accounted for about 22 percent of respondents. Owners, presi-

Respondent Responsibility		
	2008	2007
Travel	34%	26%
Procurement	8%	11%
Both travel and procurement	58%	63%

Procurement Organizations' Involvement In Decisions Involving Travel Originating Outside Of The United States	
	2008
Same as for U.S.-based travel	68%
Less involved than for U.S.-based travel	26%
More involved than for U.S.-based travel	6%

Respondent Company Travel Spending		
Annual U.S. booked air volume	2008	2007
\$60,000,000 or more	9%	7%
\$30,000,000 to \$59,999,999	7%	5%
\$10,000,000 to \$29,999,999	11%	17%
\$5,000,000 to \$9,999,999	11%	10%
\$1,000,000 to \$4,999,999	20%	13%
\$500,000 to \$999,999	6%	10%
\$250,000 to \$499,999	6%	12%
Under \$250,000	29%	25%

ents, partners, CEOs and COOs constituted 13 percent and vice presidents, general managers and directors were 11 percent of respondents. Another 9 percent of respondents had sales and marketing titles.

More than 40 percent of all respondents and more than half of those from companies that spent more than \$5 million on U.S. booked air tickets said that at their companies travel buyers report directly to procurement. Nearly one-third of respondents this year said that travel buyers were completely separate from procurement, up from nearly one-fourth last year, but less than one-fifth of those from companies that spent more than \$5 million had travel departments that operated independently from procurement.

Like last year, nearly half of respondents said that procurement had leadership of the overall program, including supplier selection, ongoing program management and supplier relation-

ship management, and 17 percent said that procurement is not involved in travel buying. Another 13 percent said procurement was an ongoing stakeholder as part of a broader team and the same number said procurement provides support to supplier selection during the request for information, request for proposals and contracting processes only.

Most respondents described procurement's participation in decisions involving travel originating outside of the United States as being the same as for U.S.-based travel. Only 6 percent said they were more involved than for U.S.-based travel and 26 percent said that they were less involved elsewhere than in the United States.

A plurality of respondents, 44 percent, this year and last year described the geographical scope of their responsibilities as global. The second-biggest group, the 33 percent who this year said they are responsible only domestically, shrank by 6

## Reporting Relationship Between Travel And Procurement

	2008		2007
	All respondents	More than \$5M	All respondents
Travel buyer(s) reports directly to procurement	41%	52%	43%
Travel buyer(s) reports indirectly to procurement	9%	8%	10%
Travel buyer(s) teamed with procurement only during contracting	19%	23%	24%
Travel buyer(s) completely separate from procurement	32%	18%	24%

percentage points from 2007. Those claiming a multinational scope grew by 7 percentage points to 16 percent.

Despite the growing influence of procurement, it is finance organizations that appear to dominate both policy- and budget-setting decisions. When it comes setting travel policy, nearly one-third of respondents said the finance department owned that decision. Only one-fifth said travel and only one-sixth said procurement had the authority. For budgets, nearly half cited finance.

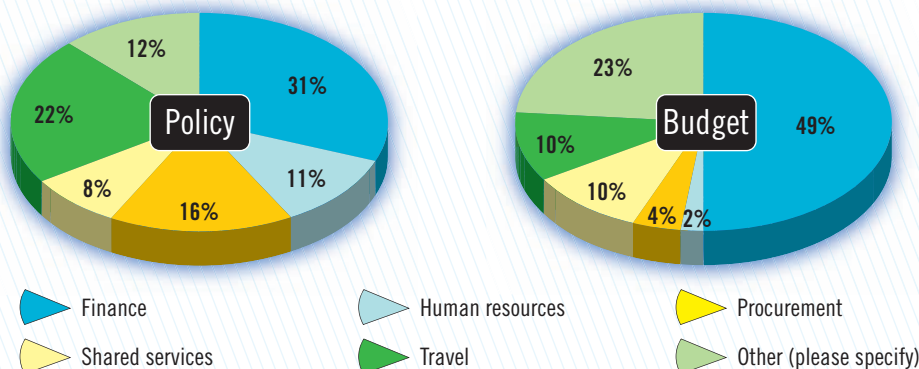
While finance may rule the purse, procurement practices clearly are driving travel supplier sourcing at a steadily growing number

of companies. The rigor with which procurement metrics and processes are applied can bring discipline and identify opportunities for travel savings and service improvement.

The experiences of the respondents to our survey and the participants in our roundtable discussion with four corporate executives focused on travel and procurement attest to the effectiveness of this approach on both a general and individual basis.

Hopefully these experiences, this research and our reporting will contribute insights that can provide new measures or the impetus to adopt established metrics that will help make the most of your business travel program. ■

## Finance Departments In 2008 Lead In Setting Travel Policy, Annual Budgets



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