

Buyers Seeking More Precise,

BY SETH HARRIS

While an increasing amount of procurement-oriented travel buyers are using service-level agreements in some of their supplier contracts, some buyers, as corporations increase scrutiny of T&E spending in the current economic environment, are reevaluating their SLAs to make them more stringent and including risk-reward criteria in the form of financial incentives for exceeding goals and penalties for shortfalls. In fact, about half of those who responded to *Business Travel News*' survey include financial incentives or penalties as part of their agreements.

Meanwhile, procurement's increasing influence over corporate travel management has brought forth further metric-based analysis for management and buying decisions, especially for air, car and hotel, where easily measured key performance indicators primarily focus on such price analysis as average cost per mile, average ticket price and average hotel room rate. However, measuring travel management company KPIs has proved more difficult, as they are more ambiguous, subjective and at times dependent on a firm's business practices and service needs.

While many agency SLAs don't carry financial incentives or penalties, they still are used because they set the framework for how the agency and corporation should perform during the contract term. "It's a guideline of how one operates a business together," said Ovation Travel Group executive vice president Michael Steiner. "It's a great tool to be able to sit down quarterly and review specifically how we are doing. It's good for the client and good for the service provider as well because it keeps everybody focused on that blueprint."

BAE Systems, which manages travel through its procurement organization, has SLAs in place for some travel suppliers but doesn't put much stock in them for its travel management com-

pany relationship, as changing business needs and patterns often render SLAs obsolete. "The SLAs just serve the purpose of being able to point a finger and that's not what it's about," said BAE Systems manager of travel administration Melissa Grimes. "Through partnership, we can achieve the goals without referring to arbitrary numbers. It has to be a win-win for both. American Express is given SLA standards in the marketplace, but what if the company is not a good partner and doesn't allow them to hire the staff needed to meet the SLA? You have to be in a place where you can help them be successful."

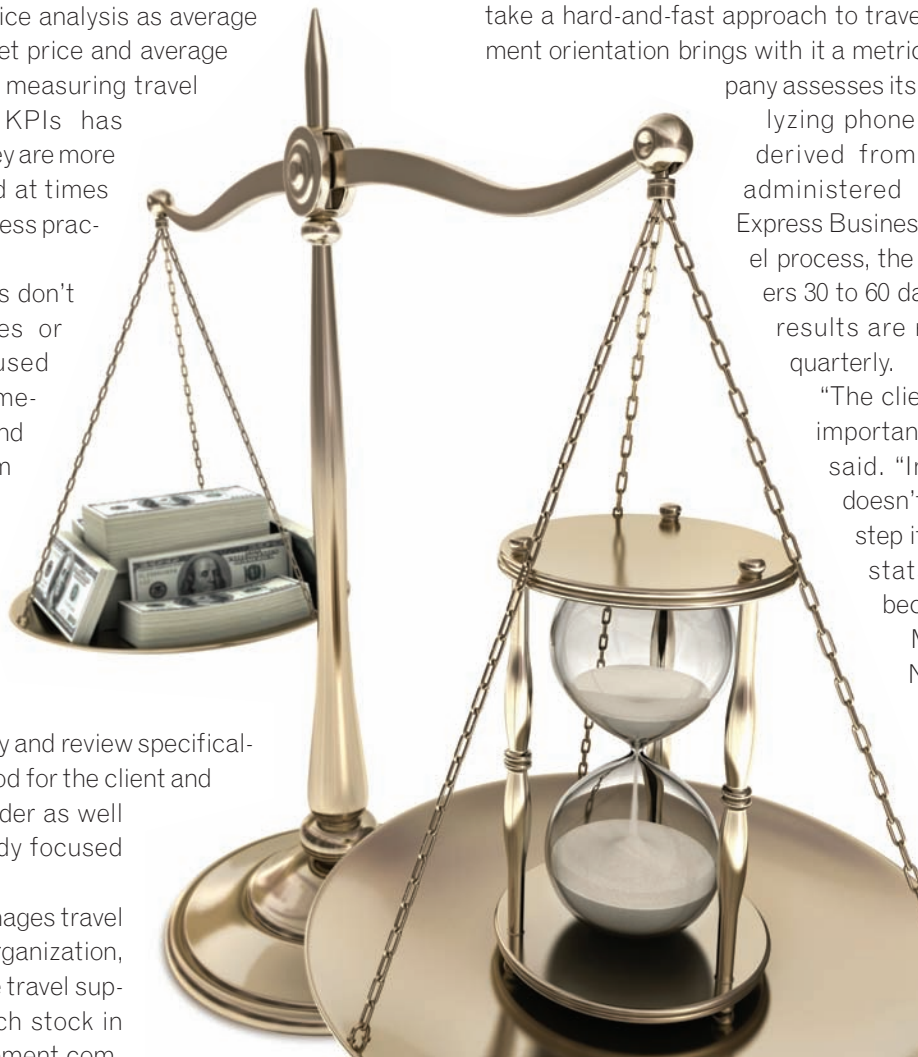
Buyers who do use agency SLAs often focus measurements on offline agent service metrics, which are seen by many as the bellwether of agency customer service. "It's the leading indicator and the canary-in-the-coal-mine sort of thing," said Tom Wilkinson, president of Pennington, N.J.-based TRW Travel Consulting. "If telephone stats are bad, the rest of the service is probably suffering."

Although Corporate Travel 100 company BAE Systems does not take a hard-and-fast approach to travel supplier SLAs, its procurement orientation brings with it a metric-oriented mindset. The com-

pany assesses its agency service levels by analyzing phone stats in concert with KPIs derived from internal traveler surveys administered by its agency, American Express Business Travel. As a part of the travel process, the surveys are issued to travelers 30 to 60 days after trip completion and results are reviewed with the supplier quarterly.

"The client survey to me is the most important KPI that we have," Grimes said. "In and of itself, looking at it doesn't tell you much, but when you step it up and put it with our phone stats, that's when the data becomes a lot more robust."

Midmarket travel spender National Semiconductor also manages travel through purchasing and applies similar agency measurement practices. Mark Vilcsek, senior purchasing manager of travel services, said he also gauges agency service-level metrics through internal traveler surveys, offline agent KPIs and general traveler feed-





Stringent SLAs, KPI Metrics

back to ensure subjective service-level analysis. Vilcsek, a longtime procurement-oriented buyer, uses a vendor scoring system of one to 10 and reviews high-volume contracts quarterly and lesser volume agreements annually.

While procurement's proliferation into corporate travel management has increased, the use of financial incentives and penalties for suppliers based on SLAs has remained consistent among survey respondents, with about half using neither. Consultant Wilkinson attributed some of the risk-reward non-use to the complexity of assessing a penalty or back-end rebate for vendor non-performance and reluctance to distribute financial incentives, even though buyers initially are keen on the idea.

"Ultimately, those discussions tend to bog down because the same financial procurement guy who really likes the idea of sticking it to a vendor who doesn't come through may not have the budget authority to write a check if the vendor beats their target," he said.

One SLA risk-reward method that is growing in use is the more partnership-oriented practice of gainsharing, in which suppliers receive a share of a corporation's savings to offset some of the cost and risks associated with providing customized services, technology, support staff and infrastructure, or as vice president of American Express advisory services Frank Schnur called it, "having some skin in the game in terms of driving results." Where contracts include more stringent SLAs, gainsharing can be an alternative to the procurement-driven all-or-nothing monetary rewards or penalties.

"The SLA should be a mutual incentive," said BlackRock vice president and global travel manager Maria McSorley, who reports through corporate finance. "It has to have a shared opportunity in order for it to be an incentive. If they help us reach our market-share agreements, that could represent a rebate to the agency or an area of opportunity for them to generate a little bit more revenue. If the agency, for example, helps us

achieve our goal of 70 percent online adoption, then we are going to share in the cost of the process improvement as well. It is not only beneficial to us because we have cut down the processing costs, but that also has a positive impact on the agency's actual fixed cost,

so it should lead to a process improvement."

McSorley plans to bring SLAs back to the forefront of BlackRock's travel supplier contracts and include stronger guidelines to reduce ambiguity and to align SLAs with department-level goals for accurate program

Use Of Service-Level Agreements For Travel Suppliers

	2008		2007
	All respondents	More than \$5M	All respondents
Yes, for all travel suppliers	12%	23%	13%
Yes, but not for all	42%	65%	41%
No	46%	12%	46%

Use Of Volume And/Or Marketshare Commitments In Service-Level Agreements, 2008

	2008		2007
	All respondents	More than \$5M	All respondents
Yes, volume commitments	13%	12%	13%
Yes, marketshare commitments	6%	8%	13%
Yes, both	34%	29%	27%
No, neither	47%	51%	47%

Use Of Financial Incentives Or Penalties To Suppliers Based On Service-Level Agreements

	2008		2007
	All respondents	More than \$5M	All respondents
Yes, incentives only	8%	7%	7%
Yes, penalties only	17%	12%	20%
Yes, both	26%	19%	23%
No, neither	49%	62%	50%



measurement. At the preset, BlackRock issues internal traveler surveys to benchmark its customer service levels. In one SLA, if the TMC falls below a certain service level, it has a 30-day window for improvement before a "financial implication" is assessed. "As people become more focused on the T&E spend, especially procurement, every agreement has a service-level agreement with some sort of financial impact," McSorley said. "We've got that mentality coming through and wanting to apply the same rules to a TMC agreement."

Offline service-level measurements still may be agency KPIs at some companies, but online booking growth has brought a shift in some of the focus on how to evaluate a travel program. According to Carlson Wagonlit Travel senior director of global accounts for North America Peggy Temkin, online KPIs at the top of management reports include online and offline transaction fees and average ticket prices, adoption rates on eligible transactions and touchless transaction rates.

"Buyers still focus on percent of calls answered within X amount of seconds or average speed of answer, but the focus on online has gone up, so much more is around these other metrics," said Temkin.

Amex's Schnur said newer KPIs focus on behavioral and change management, which can garner additional cost savings or avoidance outside of traditional measures. "They now look at use of advance purchase, refundable tickets, lowest logical airfare, use of preferred suppliers," he said. "They look at the type of room people stayed in and the

class of air and hotel service."

Deloitte tracks such internal KPIs as booked class of service, refundable versus nonrefundable ticket use and missed savings from not booking the lowest negotiated airfare within a two-hour window.

"We are trying to move the behavior within a KPI that we're shooting for, whether it's booking in the right preferred hotel or the right room class within the hotel," said Mike McMahon, Deloitte chief procurement officer and director of national services. "The supply side is what they are doing and the demand side is how our behavior feeds into that. We like to get a complete picture."

Management reporting also is growing in scrutiny as companies become more global, data becomes more diverse and corporations require accurate and timely reports. Bill Davidson, manager of corporate travel and meeting services for Austin, Texas-based Sematech, has moved away from measuring customer service levels and using agency SLAs because service is consistently high. Instead, he tracks timeliness of reports and accuracy of billing and invoices.

"A critical one for us is an agency report we use to reconcile our expense card, because we direct bill all of our airfares to a central card," Davidson said. "That has to be absolutely timely in order for us to make payment on time to our merchants."

Sematech, which houses travel operations outside of purchasing, does not use financial incentives or penalties for its management reports, which have become a consistent measure-

ment for Davidson.

"It hasn't been without some hiccups, but we have finally been able to get it to where our timeliness matches our needs for the cycle of our billings," he said. "It's working really well, but we do continue to measure it all the

time because if we can't get our reconciliation reports on time, we don't make payments on time and that reflects on us. If I'm not getting executive data on a timely basis and it's not included in my reports every month, now it's coming on me." ■

Use Of Key Performance Indicators To Measure Travel Supplier Effectiveness

	2008		2007
	All respondents	More than \$5M	All respondents
Yes, for all suppliers	13%	22%	15%
Yes, for some suppliers	26%	45%	27%
No	71%	34%	59%

Number Of KPIs Companies Track For Specific Suppliers, 2008

	Airline	Hotel	Car Rental
None	3%	8%	8%
1 to 3	40%	25%	53%
4 to 5	33%	34%	25%
6 to 12	19%	17%	8%
13 to 24	2%	4%	2%
25 or more	2%	11%	2%

Frequency Of KPI Reviews

	2008		2007
	All respondents	More than \$5M	All respondents
Anytime	6%	0%	3%
Weekly	5%	7%	2%
Monthly	22%	27%	23%
Quarterly	43%	42%	54%
Annually	19%	16%	12%
Other	5%	7%	4%