

A white paper
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Methodology

Independent market research firm Equation Research in May fielded an online survey of corporate travel decision-makers. Among 180 total respondents whose firms have a travel policy, 34 percent were travel managers, directors or supervisors; 7 percent were meeting planners, managers or supervisors; and 7 percent were C-level executives. Other respondents held a variety of titles including managers and directors. All indicated they were directly involved with their company's travel program.

More than 28 percent of respondents worked in procurement or expense management, while executive offices employed another 18 percent. Nearly one-quarter of respondents worked for manufacturing firms, followed by hospitality (7 percent), finance and banking (6 percent), medical/health/pharmaceutical (5 percent) and electronics/computers (5 percent). Respondents represented a balanced spread across spending levels, with 32 percent spending less than \$1 million on travel, 33 percent between \$1 million to \$12 million, 14 percent between \$12 million and \$30 million, and 17 percent spending more than \$30 million.

Policy and Policing

How Companies Control Travel Costs

Travel management is fundamentally about control. Who controls the decisions about where, how and whom to book? Who controls how travel is paid? Who controls whether travel happens at all? For companies that seek a high degree of influence over their travel dollars, the most obvious and effective mechanism for controlling these who's and why's is through travel policy. Travel policies are designed to outline the rules and guidelines within which travelers receive reimbursement for expenses related to travel on the company's behalf. They are the building blocks of any managed travel program and the one area in which a company has the most opportunity to imprint its own management style and corporate personality – not to mention its attitude toward employees.

A travel policy doesn't mean much if those employees do not comply with it. Backed by fresh research, this white paper explores the latest trends in travel policy compliance, including its benefits, the typical corporate experience and ways to improve it. We consider the preponderance of mandates, the importance of executive-level support and one of the newest ways to get travelers to buy into company objectives: giving them the tools to make their own reservations and take personal responsibility for their corporate travel choices

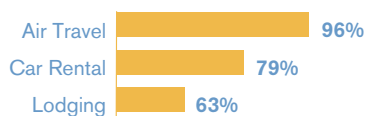
Although midsized companies may not be able to drive negotiated discounts as strongly as larger companies, adopting several best practices can mitigate price increases and uncover savings.

State of the Industry

One hundred eighty of 205 corporate professionals surveyed said their companies have a travel policy, including 96 percent of respondents from companies that have more than 500 employees. Most organizations that employ a travel policy do so in multiple areas, commonly including timing and method of travel arrangements, payment options, spending thresholds and choice of supplier products and services.

Among the primary reasons for seeking compliance to policy is to support negotiated supplier contracts. The purposes behind one recently updated policy created by a *Fortune* 100 company are to communicate to travelers which expenditures are reimbursable and, according to the policy, to "maximize the company's ability

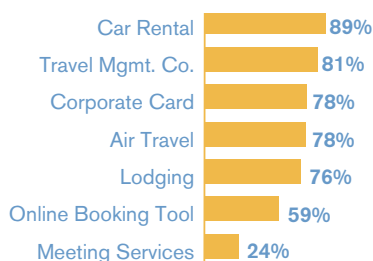
Companies With Policies on Selection of Service Classes



Percentage of Companies Whose Travelers Book the Required Class of Service, if Available, More Than 75% of the Time



Types of Vendors With Which Companies Have Preferred Relationships



to negotiate discounted rates with preferred suppliers and reduce expenses by utilizing the designated travel agency, the corporate charge card programs [and] all preferred vendors.”

More than 80 percent of companies polled have policies related to specific vendor categories such as travel management companies (travel agencies), corporate cards, airlines, hotels and car rental providers.

Despite long-term declines in average airfares, airline costs continue to represent the largest piece of the vast majority of travel and entertainment budgets. In addition to specifications related to preferred vendors, air travel policies often include general guidelines.

A few examples include:

- “Employees must use ‘advance ticket purchases’ whenever possible.”
- “Employees must travel via the most direct and economical means available.”
- “Employees must use non-refundable fares.”

Class-of-service policies in air travel also are common, typified by a length-of-flight threshold on the use of international premium-class. For example, “Employees may fly business class on international flights that exceed 8 hours in duration.” All such guidelines can, and in many cases do, vary depending on the traveler’s position in the corporate hierarchy.

Midsize companies that spend between \$1 million and \$12 million on travel are more likely than firms of other sizes to require travelers to buy tickets in advance, according to the research.

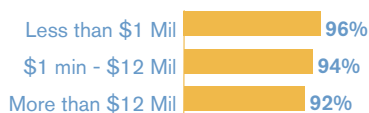
Benefits of Compliance

The benefits of compliance to travel policy in a corporate environment are significant. For example, Nikon Precision Inc. saw an 8 percent savings in its air travel budget thanks to improvements in policy compliance. This is the case for organizations of many stripes, including those that both do and do not have negotiated agreements which reduce the prices travelers pay in an otherwise unmanaged travel program. On an enterprise-wide basis, allowing travelers to buy however they want likely sacrifices savings. A typical travel policy element may require them to always book economy-class air travel for domestic trips, clearly saving company funds. Traveling in coach may be less comfortable and generate fewer frequent flyer points than flying first class, but it certainly helps companies avoid spending many times more than necessary for a flight. Similar scenarios apply to other travel products and services.

Achieving high compliance supports the savings available through, and the integrity of, agreements negotiated with all sorts of travel vendors. These suppliers are not likely to maintain or increase such discounts if they do not observe a marked shift in business, and it is a rare case where a traveler voluntarily supports preferred corporate suppliers in the absence of a policy or guideline that not only informs them of the existence of such relationships, but also encourages or even requires them to use preferred vendors.

Compliance to policies specifying preferred vendors or methods of booking and payment also improves the scope and quality of data – the building block of any serious travel procurement program. It is only with data that

Firms that Monitor Travel Policy Compliance, by Travel Spend



Firing Repeat Offenders

Firms that Terminate Employees Who Repeatedly Violate Travel Policy, by Travel Spend



travel managers can evaluate their performance on the aforementioned supplier agreements. Travel purchasing and booking data also help organizations monitor their spending and establish budgets. Perhaps most importantly, booking data enable companies to find employees in the event of a crisis.

Meanwhile, relatively new regulations in the United States, particularly the Sarbanes-Oxley Act, mean publicly traded corporations need to be more buttoned-up than ever about who is getting reimbursed for what, and the reasons for large corporate travel expenditures. Policies that are well defined, communicated and followed also help protect corporate assets and ensure the most favorable tax treatment with regard to travel dollars.

Among the 180 respondents with a travel policy, 93 percent said their companies monitor employee compliance to travel policy, and one-third of the remainder said their companies are considering doing so. Perhaps a testament to the greater importance of every dollar in smaller environments, companies spending less than \$1 million on travel are slightly more likely than larger ones to monitor compliance.

Keys to Improving Compliance

A company's profile in terms of culture, size, industry, travel patterns and business objectives plays a significant role in the success of its travel policy program. Labor market dynamics also have an effect. How could a dot-com tech firm be strict with employees in the late 1990s when competitors were exuberantly tossing out previously unseen benefits? By contrast, a manufacturing company in a rural area where

there are few employment options may be heavy-handed with middle managers about staying in mid-scale hotels or booking compact cars.

Having taken into account these questions of management style and corporate culture, different kinds of companies can increase compliance to policy through a variety of means. The most simple of these is to enforce it.

According to the policy of the aforementioned *Fortune* 100 firm, "The company will reimburse employees for all reasonable and necessary expenses, when conducting company business. The company assumes no obligation to reimburse employees for expenses that are not in compliance with this policy, unless applicable law dictates otherwise. Employees who do not comply with this policy may be subject to delay, withholding or denial of reimbursement and/or disciplinary action up to and including termination of employment."

Termination is bold and can be risky. Not a single respondent to our survey indicated that their company terminates employees upon the first violation of travel policy. But more than half said violators are warned or reprimanded. About a quarter said managers are informed of violations, and 18 percent said violators are not reimbursed. Interestingly, 21 percent of respondents said no action is taken at all, showing that there is room for improvement in some organizations.

Things get uglier, of course, when travelers repeatedly violate company policy. Nine percent of respondents said such employees are fired, 44 percent said they are warned or reprimanded, 41 percent said their managers are informed and 36 percent said they are not reimbursed. The

Mandating Preferred Supplier Use

	Companies that mandate the use of preferred suppliers	Companies that plan to mandate in the next 12 months
Travel Mgmt. Co.	65%	5%
Payment Card	60%	6%
Car Rental	46%	9%
Online Booking System	37%	10%
Air Travel	33%	11%
Lodging	29%	10%
Meeting Providers	10%	13%

Online Booking and Compliance

Impact of online traveler self-booking programs on compliance and preferred vendor usage, based on company travel volumes

	< \$1 mil	\$1 mil to \$12 mil	>\$12 mil	Overall
Increased	65%	5%	57%	48%
Did not affect	45%	57%	39%	47%
Decreased	9%	3%	3%	5%

smallest companies are most likely to implement the ultimate punishment of termination, but companies that spend between \$1 million and \$12 million on travel are more likely than their peers to decline reimbursement to those employees who violate policy.

Meanwhile, enforcement itself can be facilitated by inserting certain mechanisms into the front-end of the travel booking process. But the practice of requiring pre-trip authorization, for example, has always been culture-specific. According to respondents, 49 percent of companies require pre-trip authorization while 51 percent do not. The practice is less common among firms with more than 1,000 employees and more than \$12 million in travel volume, at 38 percent and 30 percent, respectively.

Treating policies as mandates is another way to improve compliance, although the efficacy of this method is also highly dependent on company culture. Across the spectrum of supplier types, research shows that larger firms mandate more often than smaller ones.

The commonality of mandating suppliers or classes of service varies, but other types of mandates are more prevalent and are frequently driven by regulatory requirements, such as the minimum out-of-pocket cash expense for which a receipt is required or the personal payment of personal expenses incurred on a business trip. Companies also often require travelers to refuse to accept duplicative insurance coverage from car rental vendors or to select long-term parking at airports as opposed to the more expensive short-term options. Firms also are strict on safety and security-related measures like the use of safety belts when driving and avoiding booking too many executives on the same flight.

Perhaps no other method of improving traveler compliance to policy is more sensible or effective than executive-level support. Obtaining such support is perennially the most common piece of advice travel managers offer at industry forums and educational events. Eighty-one percent of respondents said C-level executives sign off on their companies' travel policies, but just 54 percent said such leaders personally send signed communications about such rules to travelers.

Online Traveler Self-Booking

Travelers typically comply in greater numbers to policies that steer them toward company-preferred corporate cards, travel management companies and expense reporting systems than they do to those promoting preferred airlines and car rental companies. This is partly because of the nature of those businesses: there are more alternatives to the company-preferred option among airlines and car rental firms than there are among expense systems. Also, companies traditionally are firmer on the use of their preferred card and TMC than other sectors because of the benefits to data collection.

But no categories are more challenging, on average, than lodging and online booking. There are many alternatives for lodging, and it is difficult for companies to argue against a traveler wanting to stay close to where his or her business meeting is. Still relatively new, online booking faces the obstacle of generational differences in comfort with technology. Members of older generations may prefer making a phone call, while younger employees may prefer their own favorite online booking site.

But all this is changing as managers increasingly focus on both of these sectors. Interestingly, addressing the two together may offer the best way to solve both. "In almost every case, the online booking tool has higher compliance to preferred hotel programs than telephonic agent-assisted reservations," said Jim Lee, executive director of the Travel Services Benchmarking Network, according to *Procurement.travel*. "This is reality, and in some cases, it can be very significant."

Although lodging may be a greater focus today, giving travelers supplier and service choices with online booking is an effective way to increase compliance to policy, particularly when it comes to air travel.

Traditionally, a traveler could blame an out-of-policy decision on an agent. Agents tended to be reluctant to restrict choices for business travelers while a computer is a bit more rigid. Most online systems today ask the traveler for the reason he or she is selecting an out-of-policy choice, if they do not preclude such options altogether.

In a more subtle way, online booking systems support policy by listing preferred options first and encouraging users to add an in-policy car rental or hotel room to an air booking. Online bookings themselves, of course, cost less than manually supported reservations, lending support to managed travel's typical overall goal of saving between 10 percent and 40 percent of travel spending.

Conclusion

To attain compliance to travel policy, companies should consider the following:

Communicate

Companies should clearly convey program specifics to travelers on preferred supplier policies, payment options, booking and reimbursement procedures, and key resources within the organization that can answer travel policy/procedure questions.

Enforce

Travel managers often say that policing company policy is one of the most challenging and frustrating parts of their jobs. But the benefits include savings obtained through agreements negotiated with travel vendors.

Enforcement can be facilitated by inserting certain mechanisms into the front-end of the travel booking process, such as the practice of requiring pre-trip authorization.

Treating policies as a company mandate is another way to improve compliance, although the efficacy of this method also is highly dependent on company culture.

Reinforce

Perhaps no other method of improving traveler compliance to policy is more sensible or effective than executive-level support. Obtaining such support is perennially the most common piece of advice travel managers offer at industry forums and educational events.

“Policy compliance can be a never-ending fight,” TRW Consulting’s Tom Wilkinson told *Management.travel*. “Travel managers have their hands full because they are charged with enforcing the rules, but don’t necessarily have the authority.”

Mandates and strong enforcement are indeed strong options, but just getting an executive to sign and deliver travel policies goes a very long way. Most successful travel programs have cited “clear and communicated” executive support as one of the most effective methods of driving compliance to travel policy.

Empower

Getting travelers to accept responsibility for their own decisions by putting online booking tools in their hands both empowers them and allows the company to better control the choices they make.

Such tools can actually work in concert with senior management, in that traveler choices are tracked through exception reporting – in which they are asked to indicate why they chose a non-compliant option – and supervisors can review that and make the appropriate adjustments in communications. Technology even allows this to happen before the trip is taken.

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Monitor

The majority of companies say they monitor employee compliance to travel policy. Perhaps a testament to the greater importance of every dollar in smaller environments, companies

spending less than \$1 million on travel are even more likely than larger ones to monitor compliance.

Consider the ramifications of non-compliance to travel policy

- Exception reports to senior management
- Informal warning/reprimand sent to traveler
- Formal warning, i.e., note sent to manager, supervisor, H.R., department head.
- Non-reimbursement of expenses
- Delayed reimbursement of expenses
- Require pre-trip approval for future bookings

According to Corporate Travel Directions president Ed O’Connor, “A high percentage of companies don’t include enforcement language in their policies. If you delay expense reimbursement somehow, or question the people when they go outside of a mandated policy, that works effectively. Even identifying when someone has gone out of policy may be all you need, because if travelers [at least] get hassled for non-compliance, it probably won’t happen again.”

The benefits of compliance to travel policy in a corporate environment are significant. The goal for a well-managed and enforced travel program should be savings of between 10 percent and 40 percent off the overall travel spend, and these savings drop right to the bottom line.

This is not only a matter of reducing the price of services and products purchased. It’s also about quality preferred travel vendor partnerships and support for employees as they take on business missions.



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