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## Stretching Travel Dollars in a Slowing Economy

### Key practices and techniques for cost-effective travel programming

In these days of national economic uncertainty, rising jet fuel costs that put tremendous financial pressure on airlines and the evolving landscape of travel technology, companies that spend between \$2 million and \$10 million on air travel each year are under even greater pressure to tighten travel management programs.

According to the annual business travel overview and forecast by the National Business Travel Association, travel expenses are set to rise 6 to 8 percent in 2008 (Fig. 1). In addition to rate increases, fuel surcharges are rising among air and car transportation providers and taxes and fees remain a hidden cost with hotels.

### Figure 1: Rising Costs

Business travel expenses are on the rise in 2008; now's the time to mine your travel program for additional savings.

#### Expected 2008 Rate Increases

Overall	6%-8%
Air	6%-10%
Hotel	5%-7%
Car rental	5%-7%

Source: NBTA Oct. 2007 survey of 215 travel buyers

Although midsize 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.

### Policy/Card/Agency

At the heart of a travel management program is a comprehensive policy. It is the framework to guide employee behavior and is unique according to the company's needs, internal culture and goals. Above all, a travel policy sets the preferred process of booking employee travel and specifies the penalties for failing to follow the guidelines.

Typical components of a successful policy include requiring travelers to book in certain classes of service, booking through approved channels and requiring advance purchases. Requiring travelers

to book through certain channels can provide the basic spending information needed to determine where savings could be achieved. Technology makes it possible to build in preferred airlines, hotels and ground transport providers, pre-trip approval and even spending limits for employees, so that a booking is right the first time even without the force of a policy mandate.

One key employee, ideally a travel manager or buyer, should be in charge of drafting the travel policy, while a committee of key personnel from finance, human resources, risk management, administration and representatives of departments that generate a high amount of travel should contribute recommendations to the policy writer.

## Figure 2: Executive Involvement

Getting support from senior management can increase compliance. Good news – most companies have gotten the message.

### Does a C-level executive sign off on policies?

	Yes	No
All firms (180 responding)	81%	19%
Firms with \$1-\$12 m in travel spend (62)	86%	14%

Source: Egencia/ProMedia.travel May 2007 survey of corporate travel decision makers

When the policy is ready to be implemented, a high-ranking executive such as the CEO or CFO should voice support for the document when communicating updates to employees (Fig. 2). Employees should also know what the company stands to gain in adopting the new policy, whether it is a goal of financial savings, safety and security, or simply better management. While every employee should be treated fairly, special policy considerations may need to be made for “road warriors” and for high-ranking executives.

Changing policies is also a way for companies to quickly adjust their spending according to the financial situation. Cadence Design Systems reduced transactions by 29 percent and saw average ticket prices drop by 25 percent after changing the travel policy to include a pre-trip approval process, according to *Business Travel News*. Fashion and apparel company Phillips-Van Heusen, with an annual air spend of less than \$10 million, saved \$1.3 million in transaction fees and cut airfares after changing its policy to require use of an online booking system for domestic travel, *BTN* reported.

Adopting centralized payment methods can also go a long way in building up useful data for a travel program. By requiring travelers to purchase travel and related services through a designated procurement card, expenditures are automatically consolidated, and the card provider can assist in working with vendors to compile a report of travel patterns and volume. Companies can choose

whether travelers should be billed individually, or whether expenses should be billed directly to the organization. Most companies choose to let employees be responsible, and liable, for their own billing, but the policy may be different for top executives. Note that in a global travel program, card policies may differ, as some countries such as China and Russia do not allow individual liability on corporate cards.

Choosing a travel agency (travel management company) or agencies is another key element of establishing a travel program. Some companies choose to have multiple agency providers and/or to rely heavily on an online self-service booking tool. Before selecting a provider of travel management services for your company, consider whether cost or service is more important; whether the program is regional, national or multinational; how travelers currently book travel for the company and what your company culture will support. For midsize companies, a large travel management company can provide the leveraging power of its entire client base when negotiating discounts, but a smaller agency may provide more in personal service and attention. As a rule, consider agencies with a volume of at least four to five times the size of your account.

### Figure 3: Policy Techniques

When it comes to policy, companies increasingly direct employees through channels they can monitor. Requiring pre-trip authorization and mandating online booking can mitigate costs.

Mandate use of preferred TMC	76%
Require pre-trip authorization	57%
Mandate online booking	47%

Source: Egencia/ProMedia.travel May 2007 survey of corporate travel decision makers at 62 firms spending \$1 m to \$12 m on travel annually

### Best Practices

The greatest travel policy means nothing if employees do not adhere to it, so establishing a compliance goal of at least 80 percent is important to drive traveler behavior. Companies that have managed to reach the highest adoption of their travel policies have done so by establishing strong mandates (Fig. 3) with the threat of non-reimbursement, or by using technology to make it easy for travelers to use the approved process. Travel managers can preload their lists of preferred hotel properties, pre-trip approval processes and available fare classes – and require specific forms of payment – into an easy-to-use booking tool available to employees. Out-of-policy exceptions can be identified as they occur.

A pre-trip authorization process can help to reduce unnecessary travel and save money. Approval levels should be set according to the level of spend, with escalating approval requirements for higher-priced trips. Advance booking requirements should be set at least for seven days and ideally for 14 days to take advantage of lower airfares. Last-minute bookings should require a separate approval process or be flagged for review by management.

Other savings should be built into your policy to take advantage of supplier discounts. Company travelers should use non-refundable tickets unless

their travel plans are likely to change often and require greater flexibility. Travelers should also be required to report their unused nonrefundable tickets, which can often be reused after paying a change fee. Most companies also require employees to travel in economy class, unless the traveler is a top-level executive or the flight time exceeds six hours. A policy can state that the fare booked must be the “lowest available fare” without specifying a certain amount.

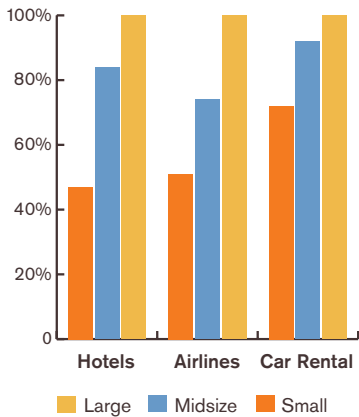
For hotels, travelers should be required to funnel bookings through the approved system or agency. This helps track volume with preferred providers, as bookings made independently by travelers will not be captured even if they are made at a preferred property. It also ensures that travelers receive negotiated rates and whatever value-added perks have been promised to your company.

When traveling to a city where the company doesn't have a preferred hotel provider, travelers should be given limits on appropriate spend levels in the form of a maximum per diem for hotel, food and ground transportation. Establish your company's per diem using historical hotel spend data, industry benchmarks provided by consulting firms or agencies or published indices prepared by the federal government.

**Figure 4: Who's Got What?**

Small companies grapple with negotiating power when establishing preferred supplier relationships.

**Does your company have preferred...**



Source: Egencia/ProMedia.travel May 2007 survey of 180 corporate travel decision makers at small (under \$1 m in annual travel spend), midsize (\$1 m - \$12 m) and large (\$12 m or more) firms.

Having travelers book online themselves provides the lowest transaction fees for business travel. More than 77 percent of U.S. corporations are using an online booking tool, according to NBTA, and 36 percent more companies will mandate their use in 2008 than did in 2007.

The technology used should be customizable to fit with other systems used by your company, and provide the ability to extend the process overseas if needed.

Above all, your travel services provider should have a key focus on data, as knowing and understanding your spend is key to managing your travel program. Require regular reports from the provider with a breakdown of expenditures by type and location, with historical data to show trends.

**Supplier Management**

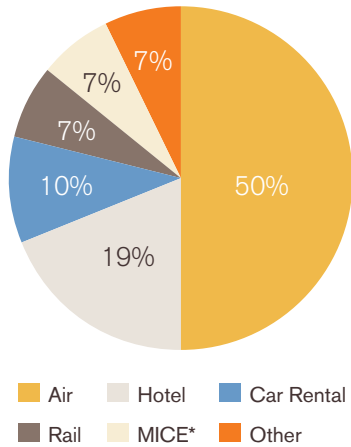
Small- and midsize companies have to work hard to optimize their supplier programs (Fig. 4). Consolidating travel volume with as few providers as possible can help to provide percentage discounts, as long as you can show control over employee behavior. However, when fare discounts dry up, many travel managers find success in negotiating value-added services such as free Internet services, airport lounge use, earned tickets and upgrades.

Airlines generally require a corporate air spend of at least \$300,000 to negotiate a preferred rate. When providing the volume data to carriers during negotiations, give them aggregate data, not a breakdown of each provider the company has used. Provide data on your most frequently flown city pairs, and average ticket prices paid on those routes. If your company does business internationally, determine which airline alliance would best serve your needs. Unless you have tight control over traveler behavior, avoid dollar-volume or segment goals that your company might have trouble reaching. Market share goals are a better fit for most companies as they can still be reached if travel declines. On top of the preferred rate, push the airline for perks such as priority in rebooking when a flight is canceled, airport lounge use, higher status in frequent flier programs, upgrades and fee waivers.

For hotels, discounts through volume-based negotiations are usually greater at individual properties than when negotiating chain-wide deals, but if your company's travel needs take employees across a wide area, then it makes sense to negotiate with a larger hotel company.

**Figure 5: Breaking it Down**

Air, hotel still biggest pieces of T&E pie



\*Meetings, incentives, conferences and events

Source: AirPlus International 2007 survey of 1,000 travel managers.

Make sure the chain has properties in the areas where you expect your company to have significant volume, and that the hotel company has several brands of different tiers to consolidate spending at upscale properties with economy brands. Make sure you have an auditing system in place to check whether your employees are getting the agreed-upon discount. Perks that can be negotiated include free Internet service, breakfast, room upgrades, last room availability and business services.

While the greatest portion of your travel spend will be with air and hotel providers (Fig. 5), secondary travel services are also worthy of negotiation. When choosing your preferred hotel properties, assess what requirements you will have for groups and meetings travel. While the volume projections may be harder to determine for meetings, savings can be generated by selecting transient properties that have the resources to host events. Additional discounts can then be obtained when negotiating room blocks, or value adds such as free use of boardroom space can be obtained. For car and ground transportation providers, negotiated corporate rates can be made with

volume commitments, and value adds such as free GPS service, insurance discounts or upgrades can be worked out. As with any travel provider you use, ensure that they will be able to expand services as your needs grow.

## Demand Management

Sometimes the best way to save money on travel is to just stay home, and innovations in remote conferencing tools are making it easier to replace unnecessary trips with virtual meetings. Even if travel is required, holding some meetings via videoconferencing can reduce the length of a trip, or number of trips needed. While teleconferencing has been on the decline, Web conferencing service companies have mushroomed as the technology improves and videoconferencing providers are also finding growth through state-of-the-art technology such as telepresence.

## Conclusion

Midsized companies are at a greater risk in turbulent economic times. They are the first to feel rate increases and the first to be abandoned by travel providers when financially squeezed. But with a solid travel management program and the right service providers, midsized companies can mitigate rising rates and demonstrate that their travel business is just as important as that of larger companies. It's all about control, and showing that your company can drive travelers to a few preferred providers can help your travel program to weather the storm.

No matter how big the organization, travel management provides exceptional benefits through controlling the procurement process. Travel is considered the second-largest controllable expense for most companies, so even these simple choices in your travel program can generate big savings.



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