

Corporate Travel Management in Western Europe: Opportunities and Challenges



2013

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Corporate Travel Management in Western Europe: Opportunities and Challenges

Abstract

This White Paper reviews the results of an independent research study examining Corporate Travel Management in Western Europe, and was conducted by Hermes Management Consulting (Hermes) in 2012.

The research was commissioned by Amadeus in order to better understand how Corporations manage their travel activities and to identify saving opportunities for travel managers.

Eleven Corporations in Western Europe participated in the project and numerous executives and travellers from these companies were interviewed.

The data obtained helped researchers build a detailed view of their travel activities and offer recommendations on how corporations can better manage Travel & Entertainment (T&E) expenses to achieve cost savings targets.



Executive summary

In 2011, Business travel in Western Europe amounted to almost 200 billion €, concentrated in five countries: Germany, UK, France, Italy and Spain.

Due to the European slowdown, corporations' T&E budget has been limited and travel managers have focused on achieving cost efficiencies and savings. The latter has been made harder due to market conditions, in particular airline consolidation and profit reduction.

Eleven corporations in the UK, France, Belgium, Ireland and the Netherlands took part in the research study. Each corporation is part of a large European Group with a worldwide presence.

The project methodology entailed conducting a significant number of interviews with selected personnel in the corporations and completing information requests. The study analyses corporate travel management based on actual visits to corporations and includes an activity based costing (ABC). The results provide an in-depth description of the travel management process.

Some corporations assign travel management responsibilities to one single person, who in some cases also holds responsibility for other procurement activities. In other corporations, a travel team of up to 20 people is in charge of travel. The size of the travel team is relative to the tasks it is required to do within the TMC; from managing the whole process to acting only as a ticket issuer. **A travel team is usually more suited to corporations where bookings exceed 15,000 per year.**

The travel management process includes travel support activities such as: travel policy and procurement, trip planning and booking, expense claim management, administrating central billing, measurement and reporting.

Given the current market situation, T&E Policy is currently the key area for achieving cost savings. **Enforcing strict policy compliance allows corporations to save around 23% of their T&E costs.** It is important that travel managers enforce strict compliancy of the company's travel policy by implementing a whole programme (including communication, training, information and awareness sessions, feedback gathering) and subsequently monitoring the necessary KPIs. It is suggested that T&E Policies are effectively communicated to travellers, enforce the use of lowest fares and only allow business class for selected management tiers once trip approval is provided, giving clear visibility to supervisors.

Although procurement is no longer the main source of savings, travel managers still need to maximise discounts, especially for **air tickets, which account for a large part of total T&E expenditure**. Travel managers and teams should not dedicate too much time to this task, achieving a productive balance between the number of agreements, achieved discounts, and the time dedicated to obtaining them. Measuring discounts is not always easy, but the use of tools and systems should be maximised to have access to reliable data which can help negotiate and monitor agreements.

Considering that 92% of air tickets bookings are point to point or one way trips, using OBTs and low-cost carriers (LCCs) could be key drivers for reducing T&E costs.

Trip planning and booking have changed considerably over the last years, with the implementation of online booking tools (OBTs). **Although the arguments for and against the use of OBTs may be the same, the main reason for implementing an OBT is to enforce, control and monitor T&E Policy**. In order to have visibility on all bookings, an online request tool is recommended. Tailored to the needs of each corporation, these online request tools are used to access the OBT and are an effective way for travel managers to enforce travel policy and encourage early bookings. Once travel policy has been set up in the OBT, the use of the OBT for simple bookings should be made mandatory to increase adoption.

Given that 16% of employees spend 80% of T&E cost, training these “super users” on how to use the OBT would have a significant impact as higher adoption rates would reduce the average service fee. However, expectations for OBT savings should take into account that service fees only make up an average of 2% of total T&E expenditure.

Expense management accounts for 46% of total indirect costs. Any simplification of expense management would generate considerable savings for corporations. The use of mandatory corporate credit cards linked to expense systems is the easiest way to save time in expense reporting and improve efficiency.

The integration of back office, OBT and expense report systems would simplify the administration of the central billing function, achieving important time savings.

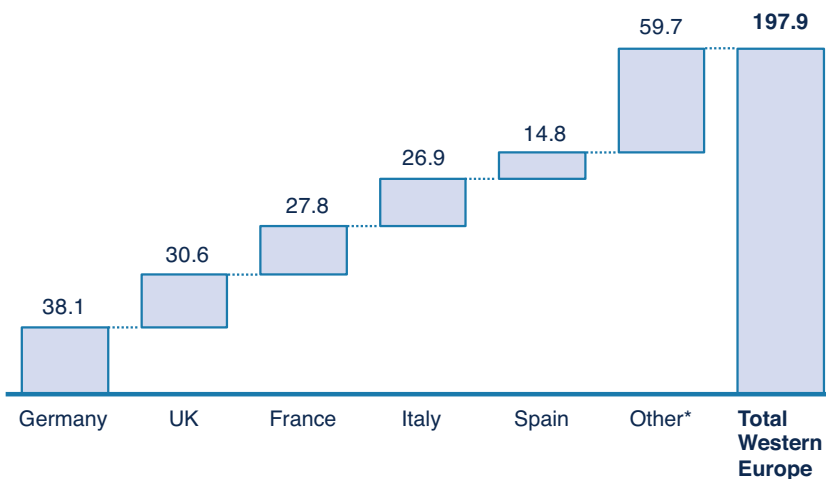
Measuring and reporting is essential to establishing the corporation's total travel activity and controlling the achievement of travel management's goals. Travellers' safety, T&E expenditure, policy compliance and procurement performance can only be analysed and improved with proper measurement. Therefore, relevant KPIs should be monitored, using available tools that provide reliable information (OBT, TMC, etc.).

Most travel managers do not have a clear strategy on how to achieve the expected savings. A lack of visibility of the whole picture of travel activity in corporations has made it difficult for travel managers to set, enforce and measure a T&E management strategy. Besides, in most corporations, travel managers are not empowered to implement potential improvements as their relationship with CFOs is not close enough. In the study results, travel managers describe each of the steps in the value chain and the necessary recommendations to achieve improvements in the management of T&E expenditure.

Market overview

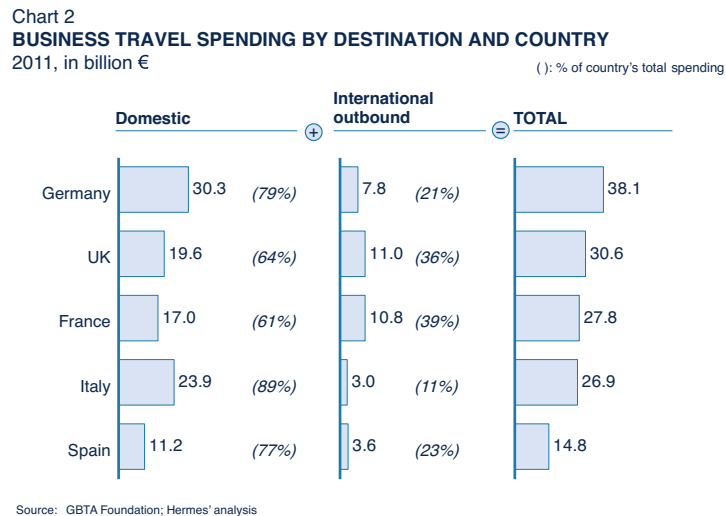
In 2011, business travel in Western Europe amounted to almost 198 billion €. Germany, UK, France, Italy and Spain, accounted for 70% of the total market (See chart 1).

Chart 1
TOTAL WESTERN EUROPE BUSINESS TRAVEL SPEND BY COUNTRY
2011, in billion €



* Austria, Belgium, Denmark, Finland, Greece, Ireland, Netherlands, Norway, Portugal, Sweden and Switzerland
Source: GBTA Foundation

Business travel is concentrated in domestic travel. For most countries, domestic travel accounts for over 60% of the total business market (See chart 2).



In view of the recent economic downturn in Europe, corporations' T&E budget has been tightened and the focus on travel management has gained importance. Current priorities for travel managers are to seek cost efficiencies and pursue increased savings in the T&E budget.

Procurement has historically been the key priority for travel managers, and airline contracts now pose a particular challenge due to the dramatic reduction in air ticket discounts (falling from 8-10% to 2-5%). Airlines attribute this to a decline in profit margins and the increased cost in air travel (taxes, fuel, fees). Furthermore, there has been consolidation in the airline industry, between airlines and within the three major airline alliances.

With discounted fares no longer as readily available as they used to be, travel managers are left with less leverage to negotiate.

Both the economic downturn and advances in T&E management have made corporations more cautious in how and where they invest. Over recent years, most corporations have reviewed their processes for bookings, trip approval, expense claims and central billing, in order to make operations more efficient. New investments are also carefully scrutinised to ascertain if potential benefits outweigh the alternatives.

Travel managers utilise data from many different sources to measure and control performance. This includes data from: TMCs, corporate credit cards, travel suppliers, employee expense reports, and travel expense management companies. However, travel managers lack analytical tools, both in procurement and travel policy determination and implementation.

Travel management companies (TMCs) still play an important role for corporations as they are responsible for ticket issuing, modifications and cancellations. Travel managers generally agree on the value of the TMCs' experience, knowledge and market specialism.

*Industry trends**

The travel landscape is changing in line with the needs of the next generation of travellers - Generation Y and the Millennials - who have different travel behaviour and demands. While Baby-boomers and Generation X travellers were generally considered more loyal and compliant to company policy, Generation Y and Millennials travellers prefer to book travel on the device and channel of their choice. Also, as they are more likely to combine business and leisure travel, Generation Y and Millennials travellers would rather make their own decisions on how to fly and where to stay, within a set corporate budget.

Therefore, there has been a 'consumerisation' of business travel. Travellers want to manage business bookings the same way they do with their leisure trips.

Travel managers find it increasingly difficult to combine control of their travel program with the choices end-users expect. At the same time, end-users are becoming more demanding with OBTs in terms of features and ease-of-use, relative to those of Online Travel Agencies (OTAs). These attributes influence travel managers when selecting which travel providers to work with.

New solutions have emerged which enable bookings made outside the TMC agent or OBT, to be captured in the expense management and company reporting systems. Such integrated travel and expense products are useful for managing travel, increasing savings and maintaining control.

Technology is changing travel within corporations at many levels. Virtual meetings and related technology are becoming more commonplace: for example corporations are adopting teleconferencing as a way to reduce travel spend, increase worker productivity and assist them in achieving a healthier work/life balance.

Use of mobile technology for bookings is still not completely widespread, although its adoption rate has increased over recent years. New mobile applications are being used for approvals, requests, bookings and alerts. In order to meet the needs and preferences of the new generation of travellers, it is anticipated that mobile technology will undergo further advances.

*These trends are based on secondary research rather than on the results of the study



Business travellers are making more use of both business and non-business social media, relying on user-generated content (UGC) to:

- Get additional trip information and advice (Tripadvisor)
- Incorporate UGC content to determine the quality of preferred hotels (Tripadvisor or in-house app)
- Meet with colleagues and friends during trips (Triplt)
- Keep in touch with head-office during emergencies (Twitter, Facebook)

Market conditions are driving a change in the way travel managers' performance is measured: the focus is now more on their ability to keep travel within a set budget, rather than on negotiating percentage savings on supplier contracts.

T&E policy and compliance is gaining importance in travel management. It is becoming more common for corporations to have clear and specific rules which set out permitted expenses, the necessary approval requests, payment methods and expense reporting procedures.

'Gamification' of travel - a process in which corporations propose game play mechanics for a business task - is an attractive and friendly way to encourage T&E policy compliance. This is an area most travel managers have not given much attention to, since it still appears far-removed from their day-to-day reality. This does not mean it cannot gain importance in the near future.

Travel managers place considerable value on data tools which enable smarter travel and help anticipate traveller needs. In response, travel providers are working hard to consolidate data from multiple sources to fulfill the needs of corporations and travellers.



Study results

Travel management structures

A travel team is usually more cost effective in corporations when bookings are over 15,000 per year, taking into account travel consultants' average salaries, and assuming that all other costs are equivalent for each organisational structure.

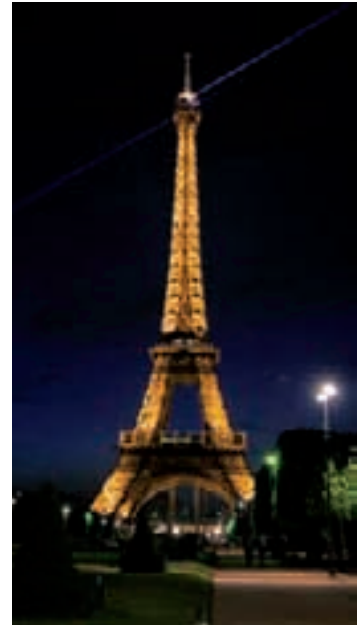
Travel management in corporations may come in the form of different organisational structures which are outlined below.

Travel managers are in charge of supervising the whole value chain and responding to corporations' travel needs. They are responsible for the fulfillment of support tasks in the chain, which include sourcing & procurement, measuring & reporting, IT, T&E policy and compliance.

In order to develop support activities, travel managers generally have a team of between 5 and 20 people. Depending on this structure, the travel value chain may be managed in different ways. The corporations visited during the study research fell into 3 types of organisational structure:

- In the first organisation type, the travel manager is in charge of travel and the fulfillment of other procurement tasks. The TMC has a strategic role and is in charge of most of the bookings, usually with implants in the corporations, and also offers a call center service and supplies the OBT.
- In the second organisation type, a travel team of between 2 and 5 people is in charge of travel. A travel manager supervises the team, which manages online and complex bookings. In this type of organisation, the TMC carries out some of the bookings and may offer a call center service and supply the OBT.
- In the third organisation type, an extended travel team of over 5 people manages travel and travel-related tasks. The team also controls specific activities: help desk or call center. The TMC is mainly a ticket issuer.

Even in cases where travel teams have sufficient resources, there are tasks that cannot be fulfilled by a travel team such as queries relating to offline bookings, ticket issuing, modifications and special requests.



Travel management process

The study describes the travel management process with all the activities that corporations perform in order to fulfill their travel needs. The process identifies key activities that need to be considered when managing travel, including the challenges and opportunities at each stage. The whole travel process can be summarised and broken down into 6 steps:



1. **Travel policy & compliance** looks at all activities relating to the establishment of best policies in line with the corporation's business needs, enforcing compliancy and correcting any shortfalls.
2. **Sourcing & procurement** refers to the management of long-term agreements between corporations and their suppliers. This step includes negotiations with airlines, hotels, car rentals, TMCs and system suppliers.
3. **Trip planning & booking** is developed by travellers and travel arrangers for every trip. This step includes filling requests and obtaining approvals, to identifying travel needs, carrying out the booking and managing changes.
4. For **handling expense claims**, it is necessary to complete expense reports, which are to be controlled and approved before processing and reimbursement.
5. **Administrating central billing function** is related to travel accounting, which involves receiving travel expense invoices, settling and matching them.
6. In **measuring & reporting**, data from providers, the TMC, credit cards, expense reports and the OBT is collected and matched. Data is analysed and distributed to feed into travel policy compliance and leverage during procurement.

The study results describe the main findings and conclusions for these 6 steps and provide recommendations to Travel Managers in order to optimise each of these steps.

1. Travel Policy & Compliance

The companies with strict levels of T&E policy show lower direct costs (see Chart 4), but only 2 out of 11 corporations have a strict travel policy (see Chart 3).

Enforcing T&E policy compliance allows corporations to save around 23% of their T&E cost, but only 3 corporations measure the compliance of policy.

Several Travel Managers support a flexible travel policy mainly because of:

- the belief that a company's travel needs are unique and cannot be parameterised.
- travellers' loyalty towards frequent flyer programs. Travel Managers tend to consistently allow policy deviations based on preferred carriers.
- the fact that travel policy is not always related to spend efficiency by Travel Managers, who instead concentrate on procurement.



Chart 3
TRAVEL POLICY MAP

		Corporation									Total (%)
		A	B	C	D	E	F	G	H	I	
Business class	• Mandatory OBT	✓		✓			✓	✓	***	✓	55%
	• Pre-trip approval	***	***	✓		***	***	✓		***	44%
	• Hotel cap			✓	✓	✓		✓		✓	56%
	- Management	✓ >5hs		✓ >6hs	✓ >6hs		✓	***			56%
	- All		✓			✓ >5hs				✓ >4hs	33%
Credit card	- Corporate						✓				11%
	- Employee account			✓	✓	✓	✓	✓	✓		67%
Policy "strictness"		●	●	●	●	●	●	●	●	●	

* Not in every booking (i.e. only when out of policy)

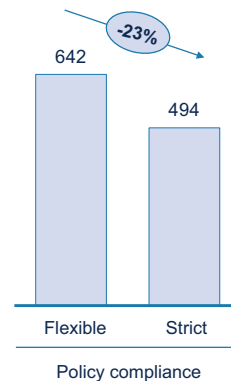
** Only first tier management are allowed to travel in business class

*** OBT used only for flights within Europe

**** No formal pre-trip approval stage (i.e. supervisors authorize booking via e-mail or phone call)

Source: Participating corporations; Hermes' analysis

Chart 4
POLICY COMPLIANCE AND DIRECT COSTS
In EUR per ticket



Source: Participating corporations; Hermes' analysis

There are several common elements around the travel policy definition and compliance process:

1. **Policy definition:** Travel managers agreed that T&E Policy rules should allow and ensure the fulfillment of business needs, at the lowest cost and without risking employees' security.
2. **Business class rules:** In most corporations, business class is permitted for management tiers, whenever a flight is longer than 5 or 6 hours.
3. **Pre-trip approval:** Most corporations do not have a formal pre-trip approval stage in which supervisors authorise bookings. Supervisors cannot guarantee that employees are selecting the best alternative, which in turn means potential savings are not achieved.
4. **Programming of the policy into the OBT:**
 - Travel policies are programmed into the OBT in 7 of 11 corporations interviewed.
 - The main reasons for not programming travel policy into the OBT relate to open travel policies, together with the lack of flexibility when displaying results filtered by travel policy.
5. **Compliance measurement:**
 - Only 3 corporations measure the compliance of policy, despite efforts to reduce T&E costs, put into place and enforce travel policies.
 - Enforcing T&E policy compliance allows corporations to save around 23% of their T&E cost.
 - Travel managers are generally unable to quantify policy savings. As a result, these do not usually enter into their personal objectives and they are not sufficiently encouraged to enforce their compliance.
 - Travel managers spend too much time contracting with suppliers/ following-up contracts, and too little time improving T&E policy compliance to generate savings. This is especially true when corporations have a single travel manager as opposed to a team.

Recommendations:

Establish and enforce a strict travel policy as it has a direct impact on travel costs

There are saving opportunities for several corporations once they implement a more thorough T&E Policy, without this affecting the employee experience. This could be a substantial saving, when compared to what is spent on TMCs' fees (2% of total direct costs).

A strict or flexible T&E Policy should be defined taking into account each corporation's business needs. Corporations with a strict policy will have a lower direct cost per ticket, but will require control mechanisms to monitor compliance. Necessary systems and resources should be available. Using an OBT, request tools and reporting solutions may be very helpful in implementing and fine-tuning T&E Policy.

OBT providers, TMCs and Travel Managers need to work together to define and implement the optimal T&E Policy for each corporation, bearing in mind the specific travel characteristics and needs of each, and demonstrating the ROI to senior management.

Establish and communicate a simple and clear T&E Policy

Travel Policy should be simple and clear for both travellers and bookers, and properly communicated to all stakeholders. Many corporations found it useful to publish the complete T&E Policy on the intranet, so that it was easily accessible to all employees to check on any points as required.

However, travellers who do have access to these documents find them long and sometimes complex. Having a summary of the key points of the T&E Policy could therefore be very helpful.

Properly programme the policy into the OBT

When T&E Policy is not implemented in the OBT, users can choose from all alternatives, and so exceptions to policy become frequent. Compliance is low and often hard to measure.

When T&E Policy is set in the OBT, with the proper level of enforcement, users are only able to choose from alternatives that fall within policy. T&E policy compliance tends to be higher and exceptions are registered, as well as requiring approval from supervisors.



Minimise policy exceptions

The level of lost savings is high in corporations that do not have close control over T&E Policy and exceptions are easily allowed.

It is recommended that a strict policy is in place to minimise exceptions and reject booking requests without the supervisor and travel team's approval. It is important to understand the real reasons for not selecting the lowest fare and ensure the most cost efficient choices are made.

Limit business class for management tiers

Some corporations have very flexible business class restrictions which have a high impact on raising the average cost per ticket.

Most corporations have a business policy which establishes an allowance for management tiers whenever the flight is over 5 - 6 hours. This is recommended for all corporations wishing to achieve higher savings.

Restrict internal meetings

Due to market restrictions, air fare discounts and discounted seats are no longer easy to negotiate, thus travelling has become more expensive. Coupled with this, several corporations need to reduce T&E expenditure given the recent economic downturn.

It is recommended that travelling for internal meetings is restricted, requiring special approval from supervisors. Electronic alternatives to travel, such as call and video conferencing, should be encouraged.

2. Sourcing & Procurement

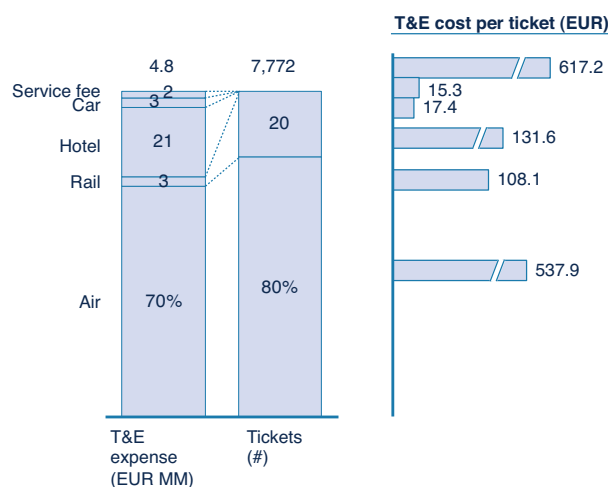
7 out of 11 corporations aim to reduce T&E direct costs by 25%, but 5 have consistently spent over and none have a clear strategy on how to accomplish this objective.

Air tickets account for 70% of total direct costs (see Chart 5), with 92% of bookings being simple point-to-point or one-way trips, ideal for an OBT. LCCs on average account for 18% of bookings, but this can vary from 0% to as much as 71.5%.

Negotiating agreements with a large number of hotels can achieve average discounts of 16%. Accommodation is the second largest T&E direct cost after air travel (see Chart 7). Corporations in the sample usually hold agreements with only a few airlines, rail and car rental companies.

Chart 5
T&E DIRECT COSTS PER TICKET

REDUCED SAMPLE



Note: Sample excludes corporation with largest number of tickets due to over representation of rail
Source: Participating corporations; Hermes' analysis

Procurement is the traditional activity developed by Travel management to help reduce costs. Although seven corporations have corporate guidelines to reduce T&E direct costs (by up to 25%), five corporations have consistently spent over and none of the companies have a clear strategy to achieve cost reduction.

Due to business demands, it is not possible to reduce the number of tickets. Therefore, travel managers need to reduce T&E costs through a lower average cost per ticket.

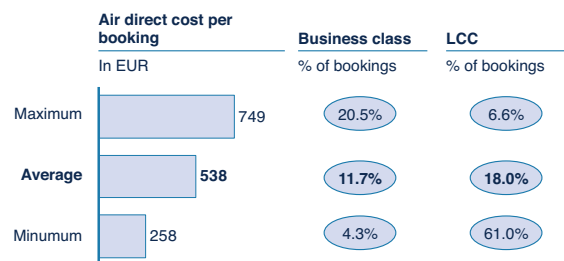
The key drivers to achieve efficiency and reduce T&E direct costs in the Sourcing & Procurement process are:

1. **Business class rules and carrier preference:** Negotiating and managing airline contracts is one of the most important procurement tasks as air travel accounts for the majority of a corporation's direct costs:
 - 80% of tickets include a flight and the average air ticket cost is 538 EUR.
 - 92% of bookings are simple point-to-point or one-way trips: 81% are domestic flights, 11% simple long haul and 8% multi-destination long haul trips.
 - Air travel costs vary by flight class, type of booking and T&E policy. There are considerable differences among corporations:
 - the % of business class travel in corporations ranges from 4.3% to 37.3% of air bookings and from 7.6% to 59.8% of total air expenditure.
 - the % of LCC travel ranges from 0.5% to 71.5% of air bookings and from 0.3% to 57.6% of total air expenditure.
 - Taking the average direct air cost of 538 EUR per booking, 11.7% comes from business class and 18% from LCC bookings (see Chart 6)

- The corporation with the lowest air cost per booking has an extremely high share of LCC bookings.
- The corporation with the highest air cost per booking has both a higher share of business class and a lower share of LCC bookings than the average.



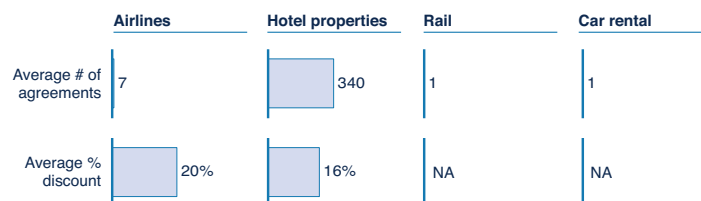
Chart 6
CORPORATIONS' AIR DIRECT COST PER BOOKING
2012



Source: Participating corporations; Hermes' analysis

2. Corporate agreements supported by tools and systems (OBT): corporations usually hold agreements with a few airlines, a very large number of hotels and just one rail and car rental company (see Chart 7):

Chart 7
AGREEMENTS AND CONDITIONS NEGOTIATED BY TRAVEL MANAGERS



Source: Hermes' analysis

- Hotels also make up an important part of direct costs. The corporations visited in the study research have similar hotel policies, so they tend to book hotels of a similar category. In this case, the cost per room varies across corporations due to the average number of nights booked. In addition, the cost per night may change due to a difference in negotiated rates.
- In most cases, the way corporations measure average discounts includes general market discounts, and not just rates negotiated by the company, so the comparison across corporations is not straightforward. Measuring discounts is not always easy, but the use of tools and systems should be maximised in order to have access to reliable data which can assist with negotiating and monitoring agreements. Efficient-boosting tools may help to reduce the time dedicated to this task. OBT is a key tool to support procurement efforts with hard data.

3. *Balanced effort and focus on relevant tasks:* Although procurement is a key task, Travel managers and teams should not dedicate too much time to it, as it will no longer generate major savings:

- Most of the time is spent in the procurement and monitoring of contracts. Furthermore, efforts to define and control whether agreed rates are being charged properly is extremely time consuming for Travel managers and teams.
- Due to market conditions, preferential terms in airline contracts have been reduced and Travel managers are finding it harder to achieve savings.
- Savings achieved from the discount percentage should be higher than the time dedicated establish such agreements.

Recommendations:

Sign global agreements with suppliers

Multinational corporations usually increase their purchasing power when negotiating global agreements. When the volume of bookings and expenditure is considerable, suppliers will be more interested in closing a favourable deal.

Global agreements can achieve substantial discounts: at least 16% for hotels and 20% for airlines.

Highlight preferred suppliers on the OBT

Travel managers need to identify the preferred suppliers for corporations and concentrate bookings and expenditure in these companies so as to increase the volume of activity, and achieve a better negotiating position.

In order to encourage the use of preferred airlines or hotels, it is suggested that they are highlighted in the OBT, and positioned among the first search results.

Use LCC for domestic flights

The share of LCC bookings has a high impact on the average air cost per ticket. Some corporations encourage the use of LCC for intra-European flights.

It is recommended that LCCs are included in the OBT and used for intra-European flights, when there is a price differential. This is especially recommended for corporations which do not have many procurement agreements with airlines.

3. Trip Planning & Trip Booking

Implementing the mandatory use of the corporate online booking tool allows corporations to achieve higher adoption rates - 80%, on average - (see Chart 9). This results in greater user satisfaction and can achieve savings of 5 - 8% on total T&E expenses.

Despite these benefits, only 5 out of 11 corporations enforce mandatory use of the online booking tool (see Chart 9), even though all corporations (11 out of 11) have implemented one (see Chart 8).

The main reason for purchasing an OBT is to control and monitor T&E policy. However, travel managers expressed similar reasons for and against using the OBT, and received different levels of set-up and training support (see Chart 10).

Training OBT super-users (16% of total travellers) would allow corporations to better manage 80% of total T&E budget (see Chart 12).

The findings regarding the Trip Planning and Trip Booking process are highlighted below:

1. **Extensive adoption of systems:** During recent years, trip planning and booking have changed considerably due to the implementation of systems (see Chart 8), comprising:
 - **GDS:** corporations have the GDS that is used by the TMCs.
 - **OBT:** offered either by the TMC or the OBT supplier
 - Travellers or bookers who use the OBT to carry out trip planning and booking are supported, at some level, by the TMC
 - **Online Request systems:** several corporations chose systems developed in-house:
 - Access to OBTs is through these tools
 - Travel Managers recognise the importance of the OBT to independently measure and record both online and offline bookings
 - **Mobile Solutions:** are not used extensively, only by three corporations, mainly for approvals.



Chart 8
BOOKING SYSTEMS MAP

	Corporation								
	A	B	C	D	E	F	G	H	I
• GDS	Amadeus	Sabre	Amadeus	Amadeus	Galileo	Amadeus	Amadeus	Sabre	Amadeus
• Online request	Skyweb	N/A	Ulysse	Resafast	N/A	Skyweb	N/A	N/A	Yes
• OBT	AeTM/ Clickbook ²	AeTM	AeTM	KDS	AeTM	AeTM	KDS ³	AeTM	AeTM
• Mobile solutions ¹	✓	✓	✗	✗	✗	✓	✓	✗	✗

¹ Mobile solutions include features for alerts and notifications, and booking for only one of the corporations

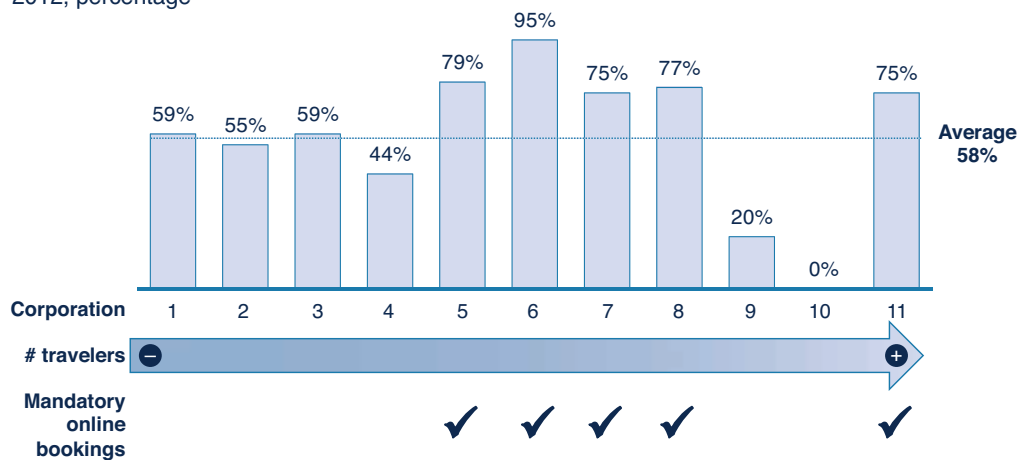
² Concur

³ Linked with HRS for hotels' bookings

Source: Participating corporations; Hermes' analysis

2. Different approaches to mandatory online bookings: Online booking adoption rate averages at 58%, with a range between 0% and 95% (see Chart 9). Corporations with mandatory online bookings have the highest adoption rates.

Chart 9
ONLINE BOOKING TOOL ADOPTION RATE BY CORPORATION
2012, percentage



Source: Participating corporations; Hermes' analysis

- Travel managers value OBT as a means to control and enforce T&E policy compliance. When T&E policy is implemented within the tool, 'out-of policy' alternatives cannot be booked. The OBT incorporates the necessary data to follow compliancy.
- Despite these benefits, Travel Managers state similar reasons for and against the use of an OBT, as outlined in the ranking in Chart 10.

Chart 10
MAIN STATED REASONS FOR AND AGAINST THE USE OF AN OBT

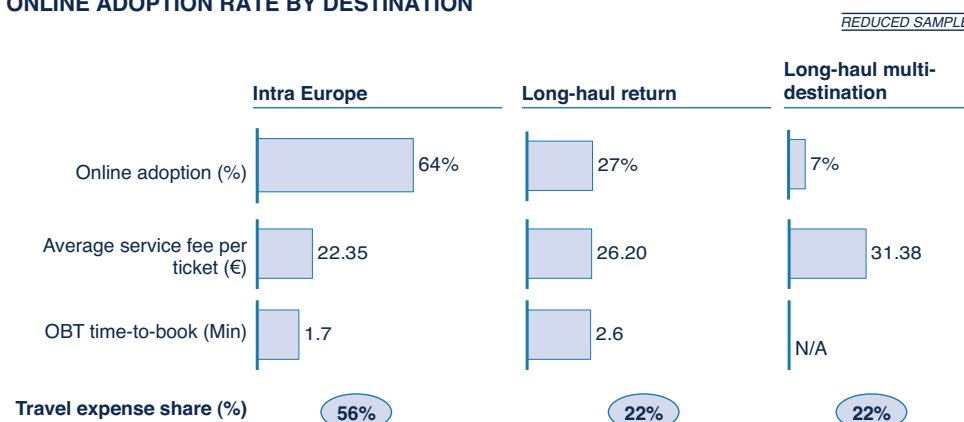
Reasons for implementing an OBT	Reasons for not using an OBT
<ol style="list-style-type: none"> 1. "Helps to reduce the average transaction fee as it is cheaper than doing it offline" 2. "Being important for most corporations to reduce the average ticket, it provides the necessary information to negotiate better deals with suppliers (airlines, hotels, etc.)" 3. "It gives more autonomy for the employees, reducing administrative burden for them" 4. "Gives more alternatives than what most TMCs are used to offer" 5. "Allows to increase T&E policy compliance by including it in the tool" 6. "Favors a better control on expenses as it is possible to link with reporting and expense tools" 7. "Improves safety and security as employees can quickly be located" 8. "Supplies updated information from travelers' profiles for HR" 	<ol style="list-style-type: none"> 1. "OBT does not show all the existing options" 2. "Offline booking gives a better control of savings and compliance" 3. "OBT does not give the same level of reporting and reviewing of compliance than when doing it offline" 4. "OBT does not allow to compare different conditions (specially for air tickets) " 5. "Travelers waste their time when booking online by themselves" 6. "OBT is not as good as the agent and it is not as easy as other solutions" 7. "Best alternatives appear in airlines or hotels' webpages" 8. "Complex trips cannot be done online" 9. "Modifications to issued tickets cannot be done online" 10. "There is not such a difference between TMCs' offline and low touched fees" 11. "It is better to get the decision of an expert"

Note: Reasons ranked by importance
Source: Hermes' analysis

3. Difficulty to achieve higher adoption rates in trips other than Intra-Europe:

- Most corporations encourage online bookings for one-way and round trip flights within Europe; some corporations make it mandatory for these kinds of flights.
- Although the adoption rate is low for long-haul itineraries, even for simple ones (see Chart 11), the average time-to-book for simple long-haul bookings is only 1 minute more than for intra-European flights.

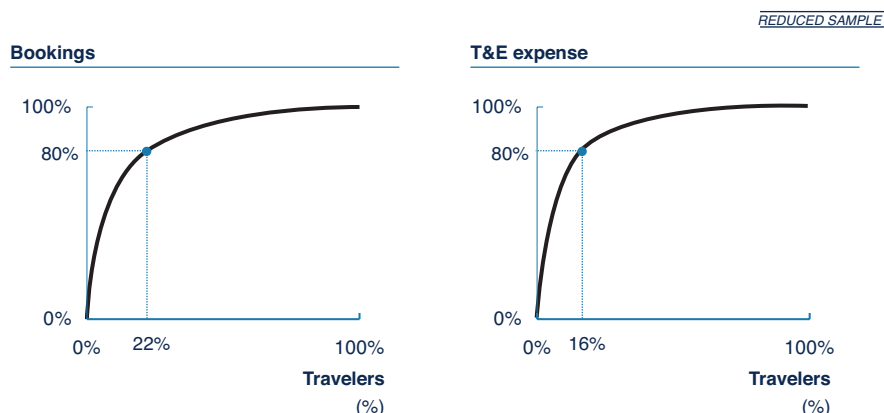
Chart 11
ONLINE ADOPTION RATE BY DESTINATION



Note: Reduced sample excludes corporation with 0% adoption rate due to incomplete information
Source: Participating corporations; Hermes' analysis

4. **High concentration of T&E expenses to prioritise savings efforts:** Bookings and expenses are highly concentrated as 22% of travellers account for 80% of total bookings, and 16% of travellers account for 80% of the total T&E budget (see Chart 12). Therefore, the training of OBT 'super-users' is essential.

Chart 12
CONCENTRATION OF BOOKINGS AND T&E EXPENSE
2011



Source: Participating corporations; Hermes' analysis

Recommendations:

Integrate tools

82% of indirect labour costs are spent on the trip booking, processing and handling traveller expense claims.

There should be more emphasis on integrating the different tools to reduce duplicate data entry, and a simplified user interface which would eliminate redundant options in the booking process.

Promote multi-destination trips

Due to market conditions, air fare discounts and discounted seats are difficult to obtain, thus travelling has become more expensive.

It is recommended that multi-destination trips are planned, so as to include several visits or meetings in one trip (less time spent travelling and better use of travel spend).

Enforce early bookings

Although travel demands may often be unpredictable, travel managers agree on the convenience of advanced bookings due to fare volatility.

Travel managers should enforce an early booking policy. Last minute bookings should only be allowed when business needs justify it. For this type of booking, an approval procedure is strongly recommended.

Establish a formal pre-trip approval

In most corporations, supervisors do not have much control over employees' bookings. They generally do not have visibility on travel alternatives or whether lowest fares are being refused. In many cases they do not know about the booking until the ticket is already issued. Supervisors' approval is not formally required in order to complete the booking.

It is recommended that corporations consider introducing a formal pre-trip approval stage so that supervisors receive information on the booking before it is completed. This should be the case not only for exceptional requests, but for all bookings.

Define mandatory online booking for simple flights and limit offline booking for complex flights

In some corporations, intercontinental flight bookings, even simple ones, are not permitted online. In these cases, corporations incur TMC offline service fees, which are always more expensive.

Although there is agreement among Travel Managers that complex international trips should be made offline, it is recommended that all simple flight bookings are processed online.

Multi-destination flights are complex to book and involve a high average ticket cost. If they were to be booked online, it would be extremely time consuming for users and could incur risk (with potentially expensive mistakes for corporations).

TMCs' experience in handling these sort of bookings justifies paying higher service fees. It is recommended that complex flights are always booked offline.

Implement an online request tool

Currently, some corporations do not have visibility of offline bookings, which can only be measured through TMC reports.

It is recommended that corporations implement centralised online request systems, which consist of an interface for both online and offline bookings, linked with the OBT and the TMC.

Include rail content within the OBT

In several corporations rail bookings cannot be made through the OBT as content is not available. In other corporations, rail can be booked online, although content is usually quite limited.

It is recommended that rail content be included in the OBT, and extended to corporations that have incomplete content (with few rail companies).

Identify and train users constantly

The time required to book through the OBT is considerably lower when users are trained on the tool. In these cases, booking a simple trip does not usually take more than 5 minutes.

Regular training for travellers and bookers, including highlighting OBT tips and updated features, is recommended. This practice is especially important for heavy users.

Lower ratio of bookers/travellers

The estimated average indirect cost per booking is greater in corporations which have a high ratio of bookers/travellers. In these cases, bookers or PAs assist travellers in the core booking process (and in expense claims in very few cases).

The ratio of bookers/travellers could be reduced by training travellers in the use of the OBT, thereby improving the tool's efficiency.



4. Handling of Expense Claims

Handling expense claims is an extremely time consuming task and accounts for 46% of total indirect costs (see Chart 13), when carried out by travellers, rather than by their assistants. This task could be simplified if the use of corporate credit cards was extended.

The findings regarding the Handling of Expense Claims process are highlighted below:

1. Time-consuming and costly procedure:

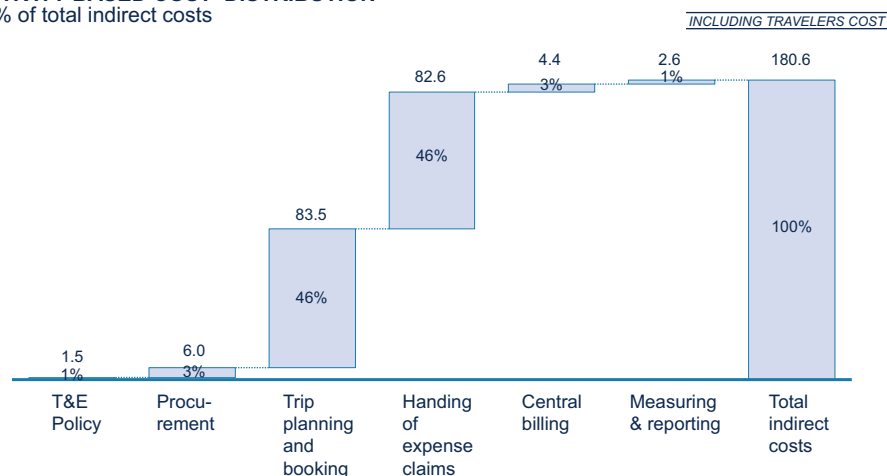
• Time-consuming:

- Handling of expense claims takes a huge amount of time.
- In many cases, corporations ask travellers for an excessive level of detail and require that all tickets are scanned.
- Uploading corporate credit card expenses into the reporting system would simplify the task for users, but not every corporation supplies credit cards to their travellers.

• Costly:

- The total indirect cost per trip when taking into account traveller salaries is around 180 EUR. Travel expense handling accounts for 46% of total indirect costs (see Chart 13).
- The handling of expense claims is more expensive when carried out by travellers rather than by assistants.
- Most travellers complete their own expense reports; personal assistants seldom process them.

Chart 13
ACTIVITY BASED COST DISTRIBUTION
In % of total indirect costs



Source: Participating Corporations; Hermes' analysis

2. **Extensive use of Expense Claims systems:** All Corporations use an Expense Reporting system, but only 5 out of 9 integrate this into a Back Office system. iExpense is the most commonly used expense claims system in the study sample (see Chart 14).

Chart 14
**EXPENSE REPORT AND BACK OFFICE
SYSTEMS MAP**

Corporation	Expense Report	Back Office
A	iExpense*	Oracle
B	BrandOcean	
C	PeopleSoft*	
D	iExpense*	Oracle
E	Concur	SAP
F	iExpense*	Oracle
G	Notilus	
H	Concur	SAP
I	Notilus**	

* Oracle

** Only for sales representatives

Source: Participating corporations; Hermes' analysis

Recommendations:

Enforce mandatory use of corporate credit cards

Corporate credit cards linked to an expense system makes reporting more efficient. Travellers do not need to input all their expenses as they are directly imported from the credit card.

In some corporations, the use of corporate credit cards is not mandatory. Introducing the mandatory use of corporate credit cards is recommended in order to reduce the time dedicated to expense claims.

Lower level of detail in expense reporting

In many cases, corporations ask travellers for a very detailed expense report, including scanned attachments of every receipt (even bus or taxi tickets which represent very low expenses). For frequent travellers, this is a cumbersome process.

Time savings could be achieved with a reduction in the level of detail and scanned receipts.

Integrate expense management in your systems

Expense reporting is one of the most time consuming activities, when it involves traveller input.

Any information that could automatically be exported into the expense reporting system would reduce the amount of time travellers spend on expense claims. It is recommended that credit cards, OBTs and expense claim systems are linked so that travellers are not required to manually input that data.



5. Administrating Central Billing Function

Invoice reconciliation and billing is both time consuming and costly, due to the lack of centralisation, systems integration and advanced statistical control procedures. Only 5 out of 11 corporations in the sample reconcile invoices with booking information; thus, many corporations do not have a thorough control over expenses.

Some opportunities were found in the analysis of the Administrating Central Billing Function process:

- 1. Taking advantage of shared service capabilities:** Many corporations consolidate central billing for different country units into a shared centre, usually housed at a single location in countries with low labour costs. Thus, most of them rely on shared services for administrating this activity as well.
- 2. Systems integration for invoice reconciliation:**
 - Performing invoice reconciliation with booking information is a time consuming activity for corporations.
 - Integrating OBT, expense and accounting systems is a top priority for Finance departments

Recommendations:

Implement shared service centers

Central billing is a standardised administrative activity that may even be developed by a third party. For Global Corporations, the volume of activity justifies having a shared service centre to administer central billing.

Enforce use of tools for invoice reconciliation

Some information has to be processed in different activities and at different stages of the travel process. A system that could simplify the flow of information between travellers, bookers, finance and travel consultants, would achieve important time savings.

Expense reporting, OBT and back office systems are not fully integrated in corporations. We recommend introducing tools for invoice reconciliation, so as to simplify information exchange across the travel process.

Complete random sampling of invoices

Controlling invoices is time consuming for the finance department, which has to process several expense claims and tickets. As in other activities, initiatives to ease this workload could have an important impact.

Therefore, we recommend considering random sampling of invoices for expense claim control, so as to reduce the number of tickets processed.

6. Measuring and Reporting

In many corporations, the lack of records to control T&E policy compliance limits travel managers' ability to plan, propose new strategies or quantify policy savings. This makes it difficult to ascertain their accountability in reaching savings objectives.

The findings regarding the Measuring and Reporting process are highlighted below:

1. OBTs are preferred to facilitate monitoring and control:

- Measuring and reporting involves collecting data from suppliers, TMC, credit cards, expense reports, OBT and other systems.
- In order to obtain a complete picture of corporations' travel activity, travel managers agreed on the need to have reliable data on total bookings and T&E expenditure.
- In order to do so, travel managers prefer online booking tools over TMCs.
- Travel managers require the convergence of online and offline bookings into one accessible reporting solution in order to have all the necessary information to track travellers.

2. Key tool for contract negotiation and control: Information is essential in order to measure the performance of travel management and quantify savings:

- Travel managers use information to negotiate with suppliers. With full visibility of all travel activity in the corporation, it is easier to negotiate better agreements with airlines, hotels, car rentals, system suppliers, etc.

- Relevant information is required to monitor contracts and ensure that agreements are honoured and discounts achieved. Travel managers would benefit from improved reporting methods to demonstrate the return on investment of the policies and strategies they have implemented.

Recommendations:

Measure relevant KPIs

Many corporations are currently not following important KPIs such as savings, share of business class, share of flexible bookings, share of agreements and advanced booking behaviour.

It is important to measure and report all these indicators, in order to improve T&E management. The latter is key in corporations with a strict T&E policy.

When travel is managed by a single person (Procurement or Travel manager), the support of the TMC in measuring and reporting is essential. When travel is managed by a travel team, having the appropriate systems in place can be very helpful.



Overall conclusions

Improvements in the management of T&E expenditure may help to reduce both direct and indirect costs, whilst ensuring the fulfillment of business needs. Indeed with the current travel market situation, T&E Policy has become the major source of savings and focus for travel managers.

In this context, 7 out of 11 travel managers visited aim to reduce T&E costs by 25%, but most of them do not have a clear strategy on how to do this. Not having clear visibility of the whole picture of travel activity in corporations has made it difficult for travel managers to set, enforce and measure a T&E management strategy.

As major savings can be achieved from implementing a T&E Policy, this must be properly set, communicated and controlled. It is essential that relevant KPIs are measured in order to ensure compliance, estimate savings and define any necessary corrective action.

As previously stated, 22% of employees account for 80% of all bookings, so T&E policy will have an impact on a reduced number of travellers. These travellers should be completely familiar with the policy and trained in all relevant systems (online request, OBT, expense report, etc.) to increase efficiency.

Service fees account for only 2% of total T&E expenditure. Therefore, it is important to understand that, although average service fees will decrease with higher adoption rates, the main impact OBTs will have on savings will relate to T&E policy compliance and potential savings on other direct and indirect costs.

In most corporations, the relationship between Travel management and the CFO is distant and contact infrequent. Although travel accounts for a considerable share of a corporation's expenses, CFOs rarely follow up on travel management saving initiatives, and in most cases, are not aware of the defined strategy. Closer coordination between the CFO and travel manager will result in a more successful travel strategy and empower travel managers to implement potential travel saving initiatives.

Appendix

Methodology

For the project, (a) corporations were selected to take part in the study and (b) Hermes conducted an ABC Activity Based Costing (ABC) workflow.

How was this done?

The sample was selected on the basis of a balanced mix of large European corporations (in terms of location, industry, automation, travel organisation, OBT and GDS supplier), in order to produce results that represent realistic conditions in the market place.

Hermes then developed an ABC workflow that included a comparative analysis of processes, tools, T&E policies and performance indicators across corporations. In addition, it included an estimation of ABC for the study sample and a comprehensive analysis of the cost per activity within each corporation. This provided relevant information about the corporations' processes and efficiency.

ABC workflow was carried out in three steps:

1) Information request

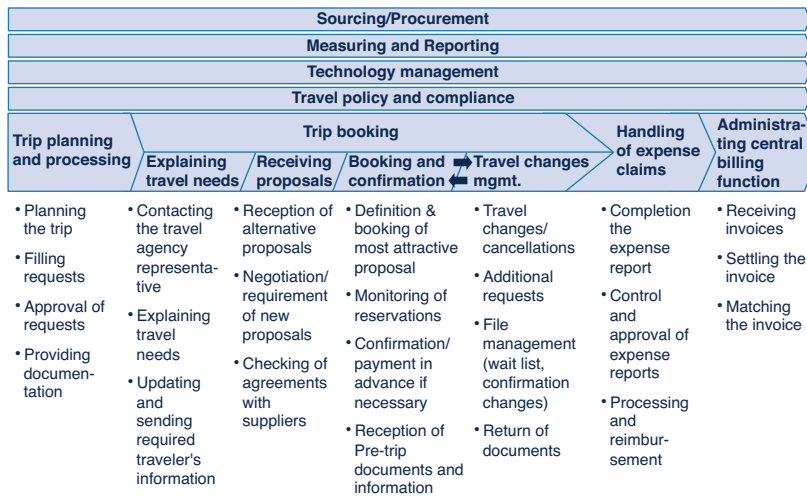
A detailed and thorough questionnaire was sent to each corporation, requesting information on the number of bookings, tickets, travellers, breakdown of costs, organisational chart, T&E Policy, OBT adoption rate and other relevant, measurable KPIs.

2) Process analysis

This step consisted of an in-depth assessment of each corporation's business processes. Interviews with Travel managers, travel teams, travellers, bookers and other key people involved in the T&E management process were carried out, in order to understand the key activities performed within each corporation and identify the resources used in each.

The processes were documented and analysed for each agency at two levels: Level 1 provided a description of the main processes used by the corporations while, at Level 2, these core processes were divided into sub-processes. For example, "Trip booking" (a Level 1 activity) included the following Level 2 activities: "Explaining travel needs", "Receiving proposals", "Booking and confirmation" and "Travel changes management" In addition, each Level 2 activity had a Level 3 description of each sub activity.

Chart 15
OVERVIEW OF ACTIVITIES AND PROCESSES
Level 1 activities



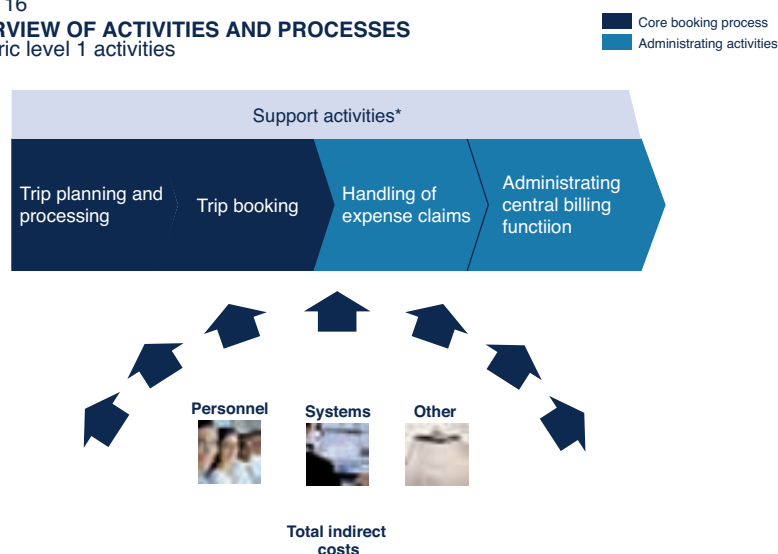
Source: Hermes' analysis

3) Cost allocation

An activity-based costing methodology was used to determine the cost of each activity during the process, and to establish the differences between corporations. Labour and other costs such as systems were included in the analyses.

To estimate activity based costing, an analysis of the cost structure was conducted. Labour and other accounts were allocated to each activity (Chart 16), analysing the time spent per activity and per employee, taking into account the amount of resources (cost driver) used for each and then allocated to issued tickets.

Chart 16
OVERVIEW OF ACTIVITIES AND PROCESSES
Generic level 1 activities



* Support activities include Sourcing/Procurement, Measuring and reporting, Technology management and Travel policy & compliance
Source: Hermes' analysis

In the ABC study, costs were presented in EUR (Euros) per ticket. A ticket unit includes a combination of all services provided by the travel agencies and represents the average transaction per customer (including an airline or rail ticket and any other additional products). By using this method, the study provides simple, standardised results and allows for comparison among corporations.

Overview of participants

Eleven corporations participated in this study. Each of them has, on average, a booking volume of 8 thousand tickets per year.

Each of the corporations is part of a large European group, with a worldwide presence, in which traveling is essential for business development.

AeTM and other SBT users carry out their activities in different industries (see Chart 17), and were selected in order to investigate a wide range of business models and identify the differences and common trends in T&E management.

Chart 17
SAMPLE OF VISITED CORPORATIONS

Corporation	Region	Industry	AeTM
Corporation 1*	UK	Publishing	✓
Corporation 2	UK	Advertising	✓
Corporation 3**	UK	Food	✓
Corporation 4**	Ireland	Food	✓
Corporation 5	France	Telecom.	✓
Corporation 6*	France	Advertising	
Corporation 7	France	Pharmaceutical	✓
Corporation 8	France	IT	
Corporation 9	Benelux	Chemical	✓
Corporation 10*	Benelux	Publishing	✓
Corporation 11**	Benelux	Food	✓

* Corporations belong to the same group but T&E Management is not centralized, having each of them independent structures. Therefore, these corporations have been considered individually for every analysis

** Corporations belong to the same group and T&E Management is centralized offering shared services. Therefore, these corporations have been aggregated for analysis of General process and activities, Travel structure and Travel Policy. For all other analysis, they were considered individually

Source: Participating Corporations; Hermes' analysis

About Hermes Management Consulting

Hermes Management Consulting (Hermes) is a Latin American consulting firm specialising in strategy, organisation, operations and valuation studies. Hermes was founded in late 1994 by Osvaldo Gallo and Hernán Goyanes. Both founders are former senior members of McKinsey & Company, and have worked extensively for leading companies in Europe and Latin America.

Hermes has been very active in sector analyses, company valuations, mergers, corporate strategy and business plan development, as well as the identification and implementation of operational improvements. These projects have focused on the payment systems, supermarket, retail, consumer goods, health care, energy, logistics, apparel, telecommunications, tourism, entertainment and real estate sectors. Not only does Hermes have extensive experience in these sectors, it has also helped assess a variety of acquisition opportunities in numerous other industries.

Hermes has carried out strategy, organisation, operational improvements and valuation projects, in Argentina, Brazil, Colombia, Costa Rica, Chile, Dominican Republic Ecuador, France, Guatemala, Italy, Malaysia, Mexico, Paraguay, Peru, Poland, Saudi Arabia, Spain, United States of America, Uruguay, United Kingdom and Venezuela.

To learn more about Hermes Management Consulting please visit their website at <http://www.hermesmc.com.ar>

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