

INSIGHTS

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Getting With the Program: How Companies Can Improve Travel Policy and Compliance

The latest in-depth research by the CWT Travel Management Institute reveals considerable scope for companies to improve their travel policy and traveler compliance. Doing so will help them realize double-digit savings.



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A corporate travel policy is the basic tool of travel management and sharpening that tool can have a major impact on how well the travel program performs, particularly in terms of savings. It is little wonder that travel managers are increasingly revising their policy and in particular, integrating key travel rules such as advance purchase of airfare. But precisely which policy items present the greatest savings opportunities? And how can companies maximize traveler compliance to realize those savings?

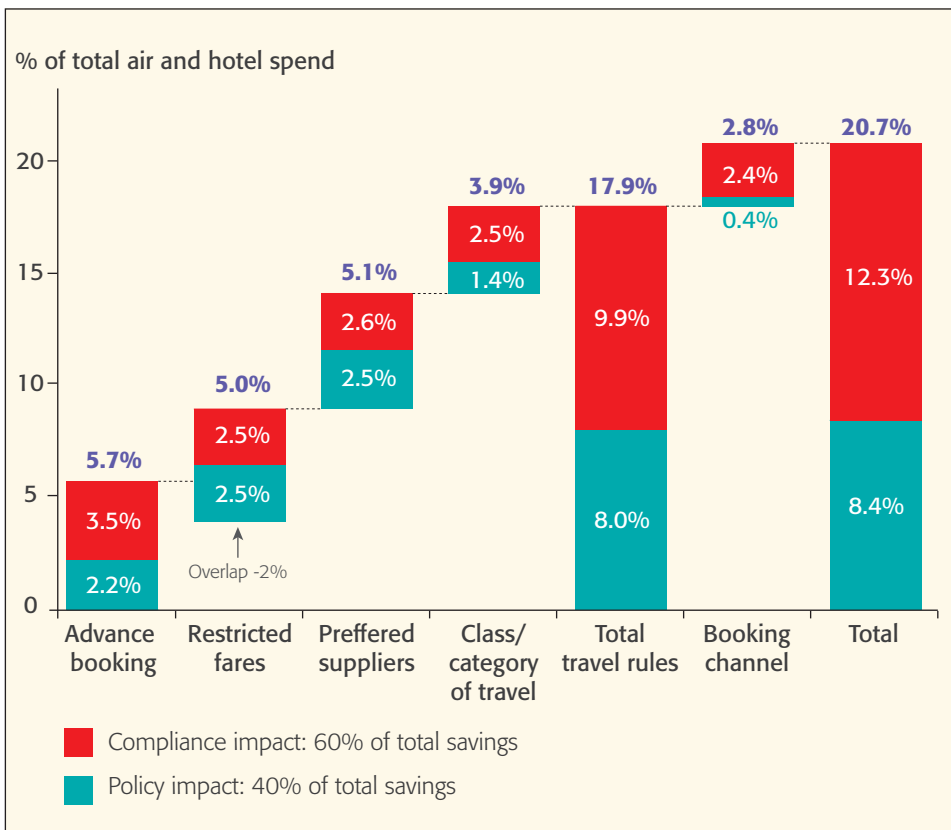
These are among the questions the CWT Travel Management Institute asked in its latest in-depth research, which focuses on travel policy and traveler compliance. Five key findings are detailed in a booklet which will be published this quarter and are summarized in this article.

Key finding 1: By optimizing travel policy and traveler compliance, companies can realistically save on average 20 percent of total travel spend

CWT calculated this savings potential by comparing the average market performance of clients with best practices observed on five main policy items. (See the sidebar on Page 15 for a summary of the methodology.) A typical spend ratio of 70 percent air and 30 percent hotel was used.

The results show that rules pertaining to travel class/category and preferred suppliers, which are typically the main focus of cost-saving efforts, are not the only source of significant savings. In fact, savings opportunities are spread over four key travel rules (advance air booking, restricted airfares, preferred suppliers and class/category of travel), as well as preferred booking channels. These savings come from a well designed travel policy that addresses these items and from increased traveler compliance, as shown in the chart below.

Companies can reduce total spend by 20 percent on average by improving performance on five main policy items



Source: CWT Travel Management Institute

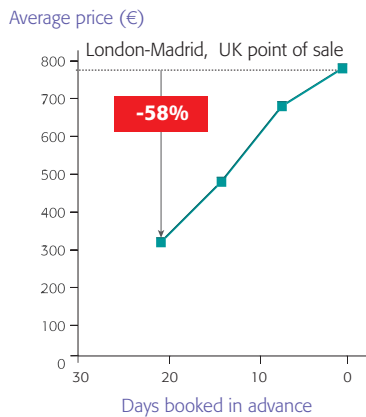
Note: Advance booking is generally required for restricted fares, explaining the overlap in savings potential between the two policy items.

Key finding 2: Four key travel rules provide significant savings opportunities

Analysis of CWT client transactions provides insights into the importance of each of the four key travel rules:

- **Advance air booking.** Booking two or three weeks in advance enables travelers to access significantly lower fares. Discounts can exceed 50 percent of the ticket price (as shown in the example below), especially on highly competitive routes or in economy class. In some extremely regulated markets such as India and China, however, there is no price advantage to booking in advance.

The earlier travelers book, the lower the fare



Source: CWT Travel Management Institute
Based on data from 2,311 CWT client transactions (January-March 2007)

- **Restricted airfares.** A company's use of restricted airfares usually brings savings, as the upfront discounts generally outweigh the cost of changes or cancellations made by travelers. (These typically represent 20-40 percent of all air bookings). As a result, companies can save on average 24 percent of the price of fully flexible tickets.
- **Preferred suppliers.** Companies that require travelers to use preferred suppliers can save an estimated 16 percent on hotel rates and 18 percent on airfares. These savings come from lower upfront prices and better back-end rebates, the latter based on a company's ability to deliver the volume agreed upon with suppliers.¹ For this reason, it can be more cost-effective to require travelers to systematically use a preferred airline rather than take a "best buy" approach (i.e., choosing the lowest available fare on the day, regardless of the airline).
- **Travel class/category.** In setting travel policy, companies aim to find the right balance between traveler comfort—in terms of seating classes or hotel categories—and savings. Some changes in the authorized comfort level can have a significant impact on savings: depending on a company's travel pattern, these can reach 30 percent of air spend and 20 percent of hotel spend.

Key finding 3: Companies need to focus on both policy and compliance to achieve their full savings potential

CWT estimates that 40 percent of potential savings can be realized through improvements to policy and 60 percent through increased compliance. To that end, companies still have considerable room to improve the content and wording of their travel policy and an even longer way to go to raise compliance among travelers. This 40/60 ratio applies to each of the four key travel rules, while the savings potential linked to the use of preferred booking channels mainly comes from improved compliance (discussed in key finding 4).

¹ This is explained in detail in the CWT research booklet *Global Horizons: Consolidating a Travel Program* (2007)

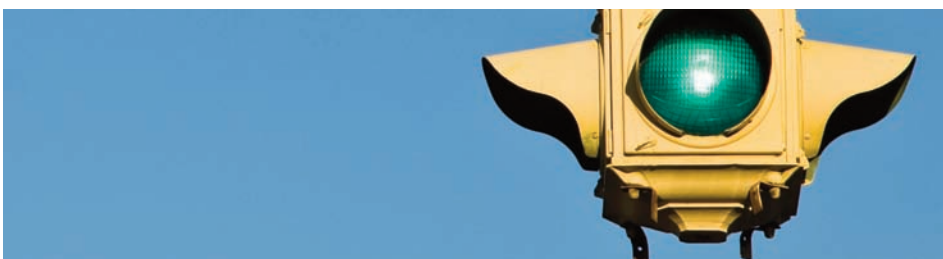
Currently, travel policies vary widely in terms of **coverage** (the key travel rules which are included) and **precision** (how clear and detailed instructions are for travelers):

- **Advance booking for airfares: well covered but not precise enough.** Companies generally recommend advance booking in their air travel policy but rarely specify a clear timeline.
- **Restricted fares: too often forgotten.** Only 4 percent of policies require travelers to use restricted fares, compared with 59 percent that recommend their use and 37 percent that do not mention them at all.
- **Preferred suppliers: well covered and precise.** Ninety percent of companies refer to preferred airlines and 89 percent mention preferred hotels. But there is considerable room for improvement. For example, only 29 percent of companies require travelers to always use preferred airlines, which appears to be the best strategy for savings.
- **Travel class/category: well covered and precise.** Ninety-nine percent of policies have class rules for air travel, mainly based on flight duration, but fine-tuning these rules can often bring further savings. For hotel bookings, the category is implicit in the choice of preferred properties, but policies often omit guidelines on what to do when properties are unavailable.

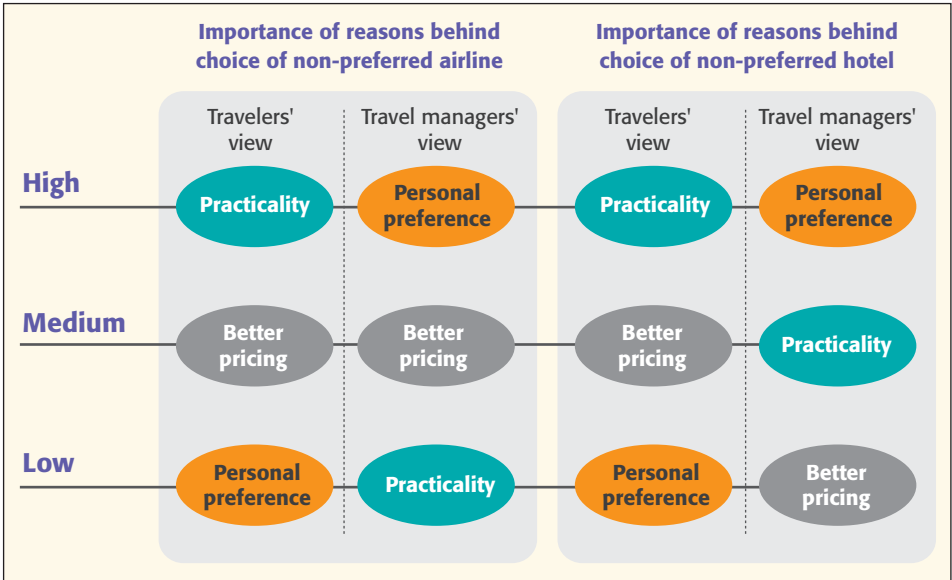
In addition to better defining their travel policy, companies have significant scope for improving compliance with the key rules, except class of air travel, which travelers generally respect. In fact, at least 45 percent of the transactions analyzed by CWT break one or more of the rules.

Non-compliance is a problem across the traveler population, although the majority of cases are linked to a small minority of frequent travelers. (In one company studied, 25 percent of all travelers—frequent travelers—make 60 percent of all late bookings.)

Although travel managers generally believe that personal preference is the main reason for non-compliance (i.e., travelers want to exploit a frequent flyer program or have the freedom to choose their hotel), the travelers themselves say that practicality and pricing come first, as shown in the chart below. This implies a problem of perception for both parties and/or a poor fit between travelers' needs and the travel policy, which companies should investigate further.



Travelers rate practicality and pricing before personal preference as reasons for non-compliance with travel rules



Source: CWT Travel Management Institute - Based on a survey of travel managers (50 responses) and travelers (4,879 responses) in 2007. Note: *Personal preference* includes use of frequent flyer card, comfort and overall preference. *Practicality* includes proximity of hotel to business destination, scheduling and flights availability.

Key finding 4: Companies can maximize benefits by requiring travelers to book through the travel management company

Research shows that booking through the travel management company offers tangible benefits in terms of savings, service and security.

- **Savings.** Prices obtained by booking through the TMC are significantly lower than those obtained through Web intermediaries. A 20 percent difference in hotel rates was observed in the CWT study, while a 15 percent difference in average air ticket prices was found by corporate travel consultancy Topaz International in a price benchmark published in 2007.² In addition, TMC agents can help companies maximize savings by promoting traveler compliance at the point of sale. For example, CWT reported 6-12 percent more compliance with preferred airlines and 15 percent more compliance with preferred hotels for travelers using the TMC instead of other channels. Online booking can further enhance savings, as explained in the CWT research booklet *Toward Excellence in Online Booking*.
- **Service and security.** Travel managers recognize the service and security benefits brought by booking through the TMC. The majority of those surveyed by CWT state that using alternative channels causes travelers to waste their own time and makes tracking less effective in the event of an emergency.

² Topaz International publishes regular comparative studies of corporate travel airfares booked by TMCs and those available on public Websites and airlines' own Websites.

It follows that most policies require travelers to book through the TMC (87 percent for air travel and 79 percent for hotels). Few companies, however, mandate the use of their online booking tool, with only 26 percent and 2 percent of those that have implemented a tool doing so for air and hotels respectively.

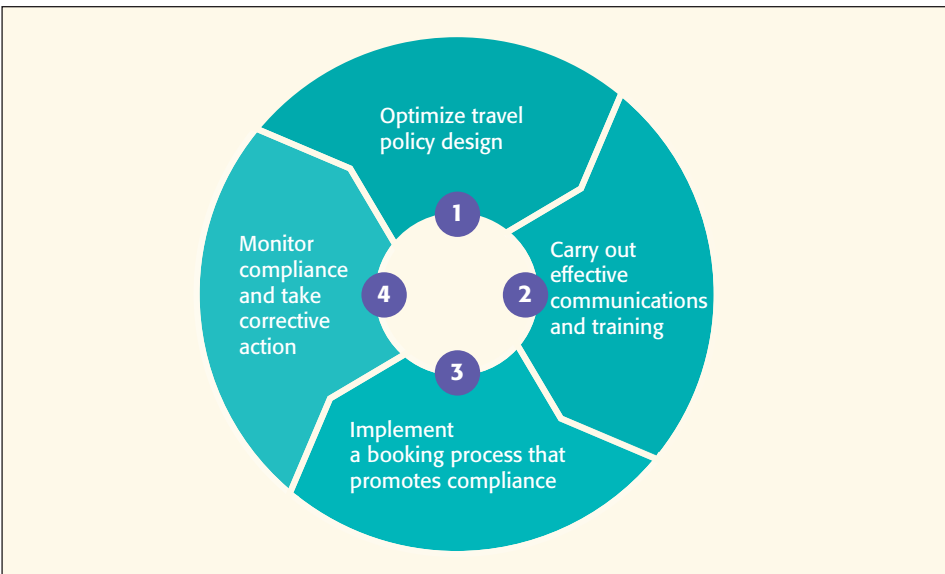
Traveler compliance with regard to authorized booking channels can be improved upon, especially among occasional travelers and a small proportion of frequent travelers. Alternative channels are currently in use for 2-20 percent of air transactions and 23-66 percent of hotel transactions, depending on the company.

Like non-compliance with travel rules, booking channel non-compliance is usually explained by travel managers as a question of personal preference, whereas travelers more often cite price, booking convenience or suitability of the offering.

Key finding 5: A four-step approach can help companies improve policy and compliance

The CWT analysis of best practices among clients suggests that a four-step approach can be the most effective for improving policy and compliance. This is a process of continuous improvement, as shown in the chart below.

A four-step approach to improving travel policy and compliance



Source: CWT Travel Management Institute

■ **Step 1: Optimize travel policy design.**

Each company needs to adapt its policy to the needs of its travelers, business and corporate culture. But it should also base its decisions on a solid understanding of how policy items affect savings, as well as a realistic appreciation of traveler compliance, as explained above. Once defined, the policy should be worded in clear, concise and practical terms to avoid any misunderstanding, particularly regarding mandates.

■ **Step 2: Carry out effective communications and training.**

The CWT research indicates travelers are insufficiently aware of their company's travel policy. Ensuring that all employees are well-informed and aware of the latest changes is a challenge, particularly as travel policies affect a large and diverse population and are subject to regular revision. Companies can rise to this challenge by communicating through top management, ensuring the policy document is easily accessible (e.g., via the corporate intranet) and conducting compulsory training for all travelers.

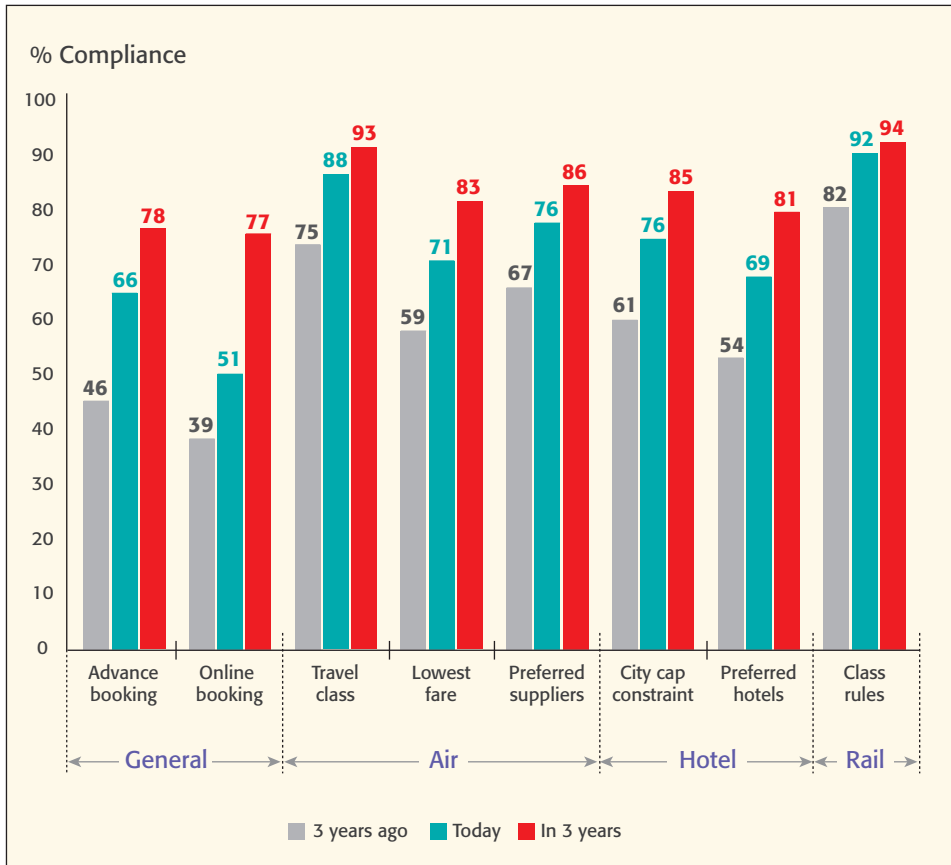


■ **Step 3: Implement a booking process that promotes compliance.** The booking process plays a key role in promoting compliance. TMC agents should be instructed to inform the traveler if his or her request breaks a travel rule or be authorized to refuse the request. In addition, online booking tools can be set up to clearly identify valid options and prevent bookings that do not meet authorized criteria. To deal effectively with exceptions, companies can fine-tune their pre-trip approval and post-trip control procedures.

■ **Step 4: Monitor compliance and take corrective action.** Travel managers are almost unanimous that reporting is valuable for managing compliance. Among the most useful indicators are: overall air booking compliance, compliance with each of the key travel rules, lists of non-compliant travelers, missed savings opportunities through non-compliance and online adoption. Based on this information, companies may decide to focus on changing traveler behavior and/or updating the travel program.

Travel managers are confident that compliance can be improved: according to the CWT survey, they already report progress compared to three years ago and have the goal of further raising compliance over the next three years, as shown in the chart below.

Estimated levels of compliance with travel rules



Source: CWT Travel Management Institute - Based on a survey of travel managers (2007)

Travel managers are clearly motivated to identify the major policy and compliance issues that affect their travel program, understand industry best practices and effectively adapt them to meet their company's needs. They may find that a little change can go a long way. ■

For more information on how CWT experts can help your company optimize travel policy and traveler compliance, please contact your CWT sales or program manager or email: tmi@carlsonwagonlit.fr. The full report will soon be available on www.carlsonwagonlit.com.

Actionable insights

The CWT Travel Management Institute designed its latest research to provide an in-depth understanding of policy and compliance issues, with actionable insights into how companies can best address them.

The research has two main features:

- **A range of research techniques:** CWT conducted benchmarks of corporate travel policies and hotel pricing per booking channel, surveys of travel managers and travelers, analyses of client transactions and credit card transaction data, and case studies.
- **A broad sample:** the study involved 87 companies in Europe, North America and Asia Pacific with diverse profiles in terms of industry and travel spend.

This is the latest in a series of in-depth studies into the eight key levers that CWT has identified for effective travel management.³

³ The eight levers to effective travel management are: provide the right services and assistance to travelers, and optimize transaction processing; tackle hotel spend in a disciplined and professional manner; continue to drive air and ground transportation savings; increase policy compliance and optimize demand management; further consolidate travel programs; address security needs and corporate social responsibility; integrate meetings and events into the travel program to control and optimize the related spend; and develop executive dashboards and actionable performance measures.