

# Savings on Demand: Principles of Demand Management

An introduction to the principle areas to address when using demand management to optimize your travel program

Demand management is the implementation of systemic controls affecting the quantity, frequency and specifications of travel to control costs and eliminate unnecessary consumption without compromising business objectives. Putting these principles into practice will improve a company's ability to identify and enable the meetings, whether by travel or virtually, that are needed to deliver corporate objectives. Travel is an important means of creating or reinforcing professional relationships and developing business activity. Sometimes, however, the communication and interaction that drive results can be achieved as effectively through travel alternatives.

Understanding the purpose of business trips is at the root of demand management. Once the objectives are clear, managers can ask the right questions to determine which travel products are best suited, the number of travelers needed to achieve the business objectives, and the appropriate frequency of travel.

Controlling costs is different from indiscriminately cutting costs. To reduce costs by reducing travel can lead to lost revenue. In a recent survey of senior management by the Harvard Business School, "Half (52%) said that restrictions on the number of flights they take for business would hurt their business. And a majority (78%) said that investing in maintaining current climate relations is most important in driving the future growth of business."<sup>1</sup>

Managers should address the six key areas that constitute demand management to optimize their travel program without compromising business objectives.

## Consolidate and track travel data

Common management wisdom says "if you can't measure it, you can't manage it." Therefore, data capture is fundamental to demand management and sound decision making.

Timely and accurate reporting are a prerequisite to productive supplier negotiations. Quality reports not only identify total spend but the most frequently visited destinations, individual travelers, and patterns of booking and demand, all of which are vital to strategic sourcing.

Data can be consolidated from multiple sources, including the travel management company and credit card providers. Although consolidating data obtained in different formats can be challenging, it is an effective way to monitor progress and exploit opportunities that will result in reaching established goals.

Good data will track key performance indicators and enable companies to take corrective action that will support their demand management strategy.

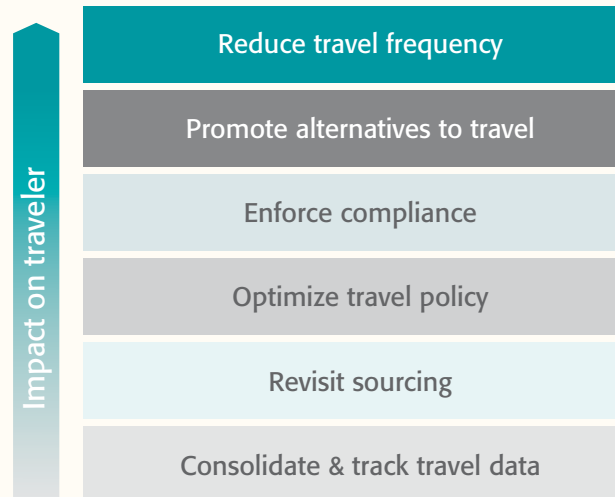
Key performance indicators, for example, might identify a prospective increase—or decrease—in volumes to strategic destinations, which could impact negotiations.



<sup>1</sup>"Managing Across Distance in Today's Economic Climate: The Value of Face-to-Face Communication," *Harvard Business Review*, 2009

## Options for controlling travel costs

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### Revisit sourcing

A comprehensive sourcing strategy is vital to good demand management and enables companies to get the best price for specified products and services, resulting in bottom-line savings and/or cost avoidance.

Companies tend to negotiate with suppliers once a year for air, hotel and car. Identifying what to buy affects sourcing. Here are some examples of the potential to modify what is being purchased and from whom:

#### ■ Category shifts

Rail has become a viable alternative to air for an increasing amount of domestic and short-haul business travel. As rail companies progressively equip their fleet with business traveler essentials such as power sources for laptops and WiFi and as they incorporate more high-speed routes, rail travel will continue to grow.

Corporate housing such as serviced apartments, rather than hotels, for longer trips and rail transfers between airports and city centers rather than taxis, are other products that may provide an adequate substitute at a lower cost.

#### ■ Re-evaluate partnerships

The number of preferred partners and the services provided should be reviewed regularly. There should be an adequate number of suppliers to meet travelers' diversified needs while not so many as to impede the ability to achieve the volumes that could drive savings in negotiations.

### Optimize travel policy

A travel policy must be clearly written and widely communicated to travelers and travel arrangers so they know who the company's preferred suppliers are and where to find and book preferred rates.

■ **Use of preferred booking channels** – using corporate online booking tool or TMC travel counselors ensures access to the appropriate content at the right price. As more mainstream business travel content comes from suppliers without a GDS presence, using preferred booking channels becomes increasingly important.

■ **Time of booking** – Surveys repeatedly demonstrate that the further out from date of travel the booking, the greater the savings there are to be made.

- **Kind of ticket** – Downgrading the class of travel became a common and quick response to the economic downturn, but class of travel is not the only variable to consider. Five or six years ago, it was commonplace to purchase fully flexible tickets for business travelers. The recent trend is for managers to consider restricted tickets that are either non reimbursable or modifiable, where you pay a fee to change a booking.

Wendy Wilmoth, who is responsible for procurement of travel and logistics services worldwide at telecommunications giant Alcatel-Lucent, says, “Our experience shows that it’s rare to change a trip. People used to worry about asking the boss to purchase a second ticket, but we know that those tickets [fully flexible] cost so much more that it’s worth losing a couple of [restricted] tickets.”

She also points out that procurement must monitor volumes to ensure that they do not fall below contractual terms, which would jeopardize negotiated fares and benefits. “We have to watch carefully. If we go below a certain volume, we could lose certain negotiation benefits.” For some companies for example, this might mean lounge access for those traveling on economy tickets.

### Enforce compliance

A good travel policy is an invaluable aid to good demand management, but there is no benefit if that policy is not clearly communicated and designed to maximize compliance.

For example, particular heed should be paid to policy wording. “Must” is a stronger directive than “should.” If advance booking is a route the company wishes to follow, the policy needs to be specific as to how many days out the booking must be made before the traveler is non-compliant. For example, the company could stipulate that all trips must be booked at least 14 days in advance.

Wendy Wilmoth says that at Alcatel-Lucent, “The objective [of the policy] is to help the traveler to make the trip as cost effectively as possible. Everyone travels economy regardless of the length of the trip or seniority.”

The only way that someone at Alcatel-Lucent is allowed to book a class of travel other than economy is by derogation, (i.e., the request must go to a member of the 15-person global management team, comprising the firm’s C-level, for approval). “That stops a lot of requests,” says Wendy Wilmoth.

Having said that the objective must be compliance to the travel policy, there is definitely an increase in “hybrid” policies. In such cases, companies are negotiating with suppliers such as airlines but allowing their travelers to book with a non-preferred airline if there’s a best buy on a particular day that is cheaper. Often, however, companies establish parameters. For example, accepted practice allows travelers to choose a hotel outside the program only when the price difference is at least 20% lower.

### Questions travel managers should ask when thinking about demand management:

- What is the purpose of the trip?
- Is the trip in line with business objectives?
- Is the trip necessary?
- What is the added value of this trip?
- Who needs to travel to reach our objectives?
- Can we cut down on the number of travelers and still meet our objectives?
- Could these objectives be met by a virtual meeting?
- How will return on investment be measured?
- How can we integrate demand management into our travel policy, approval processes, performance measurements and at the point of sale?

## Promote alternatives to travel

Identifying the purpose of a trip is vital to answering the question of whether the business objective can be met through a virtual meeting.

The choice is no longer between a trip and a conference call. Virtual meetings now encompass web conferencing, webcasts, videoconferencing and telepresence, all of which are now much improved and more accessible options.

It might be trite to say “there is no substitute for travel,” but that doesn’t mean it’s not a truism. Although tools such as videoconferencing allow us to see expressions on faces rather than just hear voices, it is still not a physical meeting with all the chemistry and connectivity that such a meeting encompasses.

In addition, virtual meetings by their very nature are strictly limited in time. The meeting begins and ends at an agreed time and cannot go beyond. Furthermore, videoconferencing does not allow for an extension of the relationship the way a physical meeting can; from a chat over coffee before or a cocktail after, meetings enable incidental conversation from which new ideas and connections might emerge.

On the other hand, one of the advantages of virtual meetings is that they are recorded so the content is more completely captured. Documentation of a physical meeting is often more casual.

Making use of virtual meetings as an alternative to travel is still in its infancy; only experience will enable companies to find the best mix between the two that suits them.

### Virtual meetings as a travel alternative

**Web conferencing:** live meetings, trainings or presentations in which all participants are connected via the Internet.

**Webcast/webinar:** a web meeting in which typically it is speaker to audience with limited audience participation or with participation at a set time such as a question and answer session at the end.

**Videoconferencing:** a set of interactive telecommunication technologies which allow two or more locations to interact simultaneously via two-way video and audio transmissions. Participants will typically be located in conference rooms with video cameras, monitors and audio systems.

**Telepresence:** state-of-the-art and fully immersive, using studio-quality audio and lighting, large screen/life-sized monitors, and boardroom quality furnishings in specially built rooms.

## Reduce travel frequency

Duane Futch, vice president of GetThere and Sabre travel procurement strategy, says, “To drive cost-efficient behavior, you must first of all look at why the traveler is traveling.” Always remember that the trip is not the objective. It is the enabler.

To reduce travel is the most extreme demand management option. If this becomes necessary, the objective should be to cut the travel that is aligned with the lowest priorities of the company. For example, client meetings or any travel whose aim is to generate revenue are likely to have higher priority than travel for routine internal meetings.

Demand management should not be limited to tough economic times. Used effectively, it can help companies tailor their travel program to their business needs in any economic climate. Demand management also helps companies achieve non-financial corporate objectives such as reduced carbon emissions or better work-life balance, which can be particularly important for attracting and retaining talented people. ■