



Lever Five: Further consolidate travel programs

As companies expand their business activities around the world, they are increasingly consolidating their travel program. This means converging virtually all components on a local, regional or global basis. To that end, they are leveraging total travel volume and concentrating sourcing with an optimal number of suppliers, as well as standardizing their travel policy, processes and tools. They are also working with one travel management company in all regions of the world to accompany them in this effort. The benefits can be measured in terms of savings that average 20 percent of total travel spend, as well as enhanced service and security.⁸

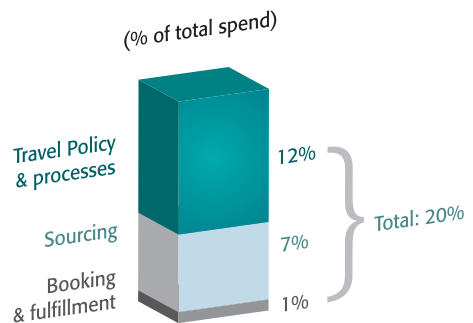
Companies typically take at least three years to consolidate major components of their travel program over a geographical area representing at least three-quarters of their total travel spend. The pace at which they work and the path they take are often determined by their specific financial situation, readiness for change, corporate culture and/or organizational structure. The primary benefits of consolidation are the result of certain key initiatives:

- **Companies reallocate marketshare to air suppliers to earn volume-based discounts.** Doing so involves a four-pronged approach:
 - ▣ **Consolidate air data.** Tracking and consolidating data from around the world enables companies to identify larger volumes of business with each airline for significant front- and/or back-end discounts.
 - ▣ **Work with a limited number of preferred suppliers.** This increases the volume allocated to each airline and the resulting discounts. To this end, companies select a limited number of preferred airlines that

together will maximize coverage of city pairs while minimizing supplier overlap. On an international level, these companies leverage bi-directional traffic (i.e., originating on either side of common city pairs) with a single airline.

Figure 11: Savings of 20% mainly come from standardization of travel policy and processes, and concentration of sourcing

Breakdown of total savings



Source: CWT Travel Management Institute, based on 49 respondents

⁸Global Horizons: Consolidating a Travel Program, CWT Travel Management Institute (2007)

Some companies also aggregate volume by setting up a hub system for long-haul flights, sending traffic through specific destinations whenever possible.

- ▶ **Seize pricing opportunities proposed by challenger airlines.** The advantages of doing so are two-fold. In addition to leveraging lower prices, terms with preferred airlines can be more easily challenged. Companies allocating more volume to challengers must consider, however, that this may erode back-end rebates from preferred airlines.
- ▶ **Manage the trade-offs.** Reallocating market share results in two main trade-offs. First, preferred suppliers may reduce front- and/or back-end rebates if volume thresholds are not met. Therefore, companies must strike a balance between the volumes allocated to each supplier on each route, taking rebate thresholds into account. Second, companies must balance market share reallocation targets with traveler needs and preferences, including scheduling, direct versus connecting flights and membership in frequent flyer programs.
- **Companies consolidate their hotel sourcing.** Volume-based discounts also drive hotel savings. Unlike air sourcing, however, discounts are not based on total volume allocated to a particular chain of hotels, but on the number of room nights booked annually at each property. The frequency and size of discounts often depend on local supply and demand dynamics, as well as the hotel category. Luxury hotels tend to offer larger, more frequent volume-based discounts than standard-category properties. Successful consolidation of hotel sourcing focuses on four main initiatives:
 - ▶ **Track and consolidate data.** Hotel spend data for each market should come from a variety of sources: travel management companies, credit card providers, expense management tools and hotel suppliers.
 - ▶ **Orchestrate negotiations.** Requests for proposal in all targeted geographical zones should include hotel chains and independent properties. When working with hotel chains, companies should streamline RFP distribution and collection through a single point of contact, even though pricing decisions will take place mainly at a property level. Building strong relationships on a local level is essential for better negotiations with hotel chains and independent properties alike.
 - ▶ **Reduce the number of local suppliers.** Given the importance of volume, it is advantageous for companies to rationalize the number of preferred hotels in each city. The aim is to increase bargaining power per property without compromising the availability of well-located, suitable accommodations for travelers.
 - ▶ **Concentrate business from outside the home market.** Increasing room nights and volume-based discounts per property can be achieved by pooling business from incoming countries and regions to preferred hotels.

- **Companies consolidate their car sourcing.** Volume-based discounts apply to rental car sourcing as well. While car rental companies offer global service contracts to corporate clients, they negotiate rates mainly at a local level. Furthermore, in light of the limited number of global leaders in the industry, most companies allocate more than three-quarters of their car spend to the handful of contractors operating worldwide.
 - **Companies take a comprehensive approach.** In addition to their sourcing, successful companies consolidate most of the other aspects of their travel program, including their travel management company, service level agreements, tools and processes.
 - **Establishing solid foundations is essential.** Several building blocks must be put in place for consolidation to succeed:
 - **Three critical components.** The first two steps travel managers tend to take are data consolidation and travel policy standardization. As already discussed, data consolidation is essential to developing a sourcing strategy. Clearly defining and enforcing the rules travelers must comply with is equally important for realizing travel management objectives. The third critical component for success is global performance monitoring. A standardized travel program scorecard tracks several indicators, including average ticket price and room rate, service level agreements, online adoption, air and hotel non-compliance, and savings on full versus negotiated airfares.
 - **A global travel management company.** Having one travel management partner around the world plays a key role in consolidating data, standardizing travel policy, monitoring performance, optimizing supplier sourcing, streamlining operations, managing change, and enhancing service and security. Consequently, companies tend to select a primary travel management company early in the consolidation process. They also build partnerships with global credit card providers to track card data and offer complementary services such as insurance to travelers.
 - **Project management fundamentals.** Consolidation is a complex exercise. Therefore, the fundamental rules of project management must be applied from the start. Support from top management is crucial for mobilizing resources in different countries, cooperating effectively with business unit managers in a decentralized environment and overcoming local resistance to change. A project roadmap with clear objectives and milestones is also needed. In addition, adequately staffed travel management teams at the regional level are often appointed to support the global travel manager.
 - **Consolidation is a balancing act.** While companies approach consolidation in a comprehensive manner, they need to look at travel program components individually to define the appropriate level of consolidation, be it global, regional or local.
 - **Global consolidation** makes sense for a majority of program components: data consolidation, sourcing, travel policy, supplier service level agreements, key performance indicators and security.
 - Some components are not suitable for global standardization and are best **managed locally**. This is the case for
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high-touch services, which are culturally specific. This is also true for pre-trip approval, which is widely practiced in Europe, but tends to be replaced by post-trip audits in some countries, including the United States. Expense management is often handled on a local level as well.

- Other components require a more **regional approach**. Suppliers' offerings, for example, are not always available on a global level. Notably, no single online booking tool currently works best in every market, given limited technical features in some countries. Consequently, many countries take a best-in-market approach.

Full program consolidation is an ongoing process that requires constant fine-tuning and continuous improvement. Companies must also make a continuous investment in their program to maximize effectiveness. Therefore, potential benefits must cover not only the initial outlay but ongoing costs.

