

Revving Up the ROI of T&E

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Abstract: Procurement practices have transformed the management of travel and entertainment expenses, but a severe change in market conditions requires an examination of the validity of traditional metrics. Original research, conducted by Business Travel News and sponsored by American Express, reveals how corporate procurement and travel professionals are applying procurement techniques to maximize the return on the travel investment.

The use of procurement practices to manage business travel spending has been getting a real test in the past 18 months as measurements at most companies show declines in such spending of some magnitude.

While a more methodical approach can alleviate the confusion generated by financial chaos, desperate times make it harder to deploy deliberate and discrete measurements.

Still, having metrics to evaluate in a time of change, even with a wild swing in the numbers, can help inform decision-making. In such times, however, historical data is less helpful as a guide and a gauge of performance than usual. Such times call for an increase in creativity, common sense and communications, not only internally with senior management and employees, but also externally with suppliers and other corporate travel buyers. Of course, communications alone cannot resolve every challenge facing corporate travel procurement executives as a result of the economic downturn, but it is essential for defining the problems and designing solutions. Increasingly travel procurement professionals are seeking to demonstrate company return on travel investments, ensuring that they are not undervalued.

One travel procurement tactic being deployed broadly today is demand management. The simplest form of demand management when it comes to travel is to stop traveling altogether. While that is not practical for sales activity or servicing clients, many companies have issued prohibitions on travel for internal meetings. As a result, many companies have implemented or increased their use of videoconferencing technology and of pre-trip notification or authorization processes. Another basic tactic is to renegotiate or re-bid supplier relationships. Many procurement-driven organizations already have contacted their suppliers to adjust pricing in light of changing market conditions.

Most companies, whether procurement is involved in travel or not, have tightened up travel policies, restricting classes of air and hotel services and toughening enforcement. Procurement tools, such as balanced scorecards that are composed of multiple key performance indicators, continue to be informative in a changing environment, but analyzing those measures requires a sliding scale in a time of flux.

Another important procurement practice to assess during a time of massive layoffs is

outsourcing, particularly when it comes to logistical rather than strategic functions. With corporate executives throttling back on spending like never before, procurement and travel organizations have been empowered if not ordered to “scrape under every rock,” as one travel procurement professional told Business Travel News.

Despite the game-changing aspects of the economic downturn, the mission of travel procurement remains the same: Define how to measure quality and costs while raising the former and reducing the latter. While more focus than ever is on numbers, the goal is qualitative as well as quantitative. Travel procurement professionals seek to provide intelligence about market conditions, including existing and potential supplier services and costs, for more informed and timely decisions.

While it is true that the periodic aggregation, quantification and analysis of performance and cost information that are hallmarks of procurement practices are easier for senior management to digest than less disciplined travel reporting, even travel buyers from companies without procurement organizations long have used many classic procurement techniques as part of their standard operating procedure. Such techniques include issuing requests for proposals, mandating the use of preferred suppliers and establishing service-level agreements, particularly with travel management companies. The growing influence of procurement executives on travel purchasing has prompted an increase in the use of service-level agreements and key performance indicators that populate balanced scorecards.

The annual Business Travel News examination of the application of procurement practices to travel management measures the expectations that travel and procurement professionals have about their companies' plans for travel and travel spending. To generate data for the BTN Procurement Practices survey, sponsored once again by American Express Business Travel, Business Travel News editors solicited responses from several thousand of its readers who are procurement and travel management practitioners, American Express clients and members of the Institute for Supply Management. BTN editors modified the questionnaires they previously devised to retain some consistency as well as to focus on demand management, performance measures and outsourcing practices.

Third-party research house Equation Research, headquartered in Boulder, Colo., hosted the online survey, tabulated the individual responses and provided BTN with aggregated data. Of the 241 respondents who completed last year's survey, 87 identified themselves as responsible for travel, 19 identified themselves as responsible for procurement and 135 said they were responsible for both travel and procurement.

Last year, we looked more closely at the role of procurement in supplier selection. Three answers each received slightly more than one-fourth of responses: all supplier selection is conducted by procurement, the travel team must follow procurement policy and that travel and procurement are teamed, with travel having the final decision-making authority. Only 12 percent said that when it comes to selecting suppliers, procurement and travel are teamed, with procurement having the final decision-making authority. The even smaller remainder said that all supplier selections require procurement signoff.

When it came to the reporting relationship between travel and procurement, the biggest single group, travel buyers who report directly to procurement, stayed constant at 42 percent. Also

relatively unchanged were the 30 percent of travel buyers who operated completely independently from procurement organizations and the 10 percent of buyers who report indirectly to procurement. Meanwhile, during the past three years there has been a decline in those buyers who team with procurement only during contracting to 17 percent. A plurality of firms, 40 percent, said they evaluate travel procurement savings on a quarterly basis, another one-third do so monthly and nearly one-quarter assess such savings annually.

The number of companies viewing travel as a commodity declined from two-thirds in 2007 to half in 2009, as travel and procurement managers observed the impact of a volatile economy on pricing. When looking at individual travel services, 44 percent of respondents said they saw rental cars as commodities last year, for the first time in three years, ahead of the 40 percent who saw hotels as such. More than one-third named airline seats and package shipping. The rest of the list included telecommunications, online booking, agency and chauffeured car service. While 14 percent said they view none of those as a commodity, 21 percent said they view all of them as such. Where companies stand regarding the importance of cost versus service did not significantly change last year, with more than half continuing to say the two are equal and only the slightest movement away from service and toward the cost side of the importance equation.

Despite a slight dip, more than 60 percent said their procurement organization was involved in decisions involving travel originating outside of the United States, the same as for U.S.-based travel. Only 10 percent said procurement was more involved in decisions involving travel originating outside of the United States than for U.S.-based travel. Meanwhile, last year for the first time, a majority of respondents defined their travel or procurement responsibility as global, rather than domestic, regional or multinational. Respondents indicated once again not only how important procurement and travel are to travel decision-making, but also how involved the finance department is involved in making such decisions.

When asking respondents which division in their company validates travel procurement savings, nearly 30 percent said finance and identical percentages said procurement and travel. Six percent said their travel management company does that. Nearly one-third of respondents said finance is the department that owns the travel policy, while only 18 percent named travel and 16 percent named procurement. Meanwhile, 12 percent cited human resources and 10 percent said it was shared resources. When it came to naming the department that sets yearly business unit budgets for travel, the majority—53 percent— said it was finance. Travel, procurement and human resources were named by 5 percent, 4 percent and 3 percent respectively, and 10 percent said it was shared resources.

In times such as these, companies should recognize the value of travel managers' market knowledge and relationships, as well as their policy and communications skills, like never before. The hold that finance has on travel also is likely to strengthen during these tough economic times, but the mark that procurement practices have made on the practice of travel management is indelible. A disciplined approach to measuring qualitative and quantitative external and internal performance, benchmarking to market conditions as well as year-over-year performance, managing demand and making strategic use of suppliers are not just good procurement practices, they are best practices in corporate travel management.