

BALANCING SERVICE AND COSTS

IN A PROCUREMENT-DRIVEN TRAVEL PROGRAM



Over the past decade, procurement and finance increasingly have driven the processes, metrics and contracts for corporate managed travel services. As service delivery appears to be growing in importance within these programs:

- How is procurement balancing the demands from travelers and management for service against the focus on savings?
- Where does service come into play?
- What are the key metrics used to demonstrate the value of managed travel programs today?

The BTN Group and American Express Global Business Travel sought to answer these questions in a survey of corporate travel and procurement management executives conducted from August to September, 2015. Results appear to indicate that some companies are still struggling with how to best define savings, service and value and asking travelers less frequently than expected to evaluate services provided by preferred suppliers.

Savings have dominated the focus for most travel managers in recent years as companies sought to stretch travel dollars as far as possible during and after the last recession. But as more, and increasingly, younger travelers have hit the road, demands for service has intensified across the travel space. Yet, in the survey, corporate travel and procurement respondents clearly identified “savings” over “traveler satisfaction” as the most important factor to the value of their travel programs. This was especially true with a subset of respondents who reported to procurement.

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IMPORTANCE TO VALUE OF TRAVEL PROGRAM



Source: The BTN Group / American Express Global Business Travel survey of 234 corporate travel managers/buyers, procurement and other corporate executives conducted in August-September 2015

COST SAVINGS CONTINUES TO BE MOST IMPORTANT

Nearly 82 percent of all respondents ranked savings within the top two on a scale of five in importance to the value of their managed travel programs, while 74 percent ranked traveler satisfaction as such. Those reporting to procurement rated three categories as more important than all respondents: savings, year-over-year cost comparisons and benchmarks against like companies.

Despite the growing importance of service, it's clear that managed travel professionals are still focused on savings.

SERVICE DELIVERY IS BECOMING MORE IMPORTANT FOCUS

While they might value savings overall, more than one-third of all respondents said travel management service delivery was more important than costs, as compared to a year ago. Thirty-two percent said service delivery from their duty of care/traveler tracking provider was more important than the costs.

The majority of respondents rated service delivery as more, or somewhat more important than costs for Travel Management Companies (TMC) and duty of care providers, while 57 percent said so for online booking tools, 56 percent for hotels, 55 percent for airlines and 49 percent for both car rental and payment.

Across all supplier categories, fewer than 7 percent of all respondents said service was not as important as costs.

TRAVELERS TYPICALLY ASKED TO RATE SUPPLIERS ANNUALLY

If traveler satisfaction is so important, how frequently are travel managers asking travelers to rate preferred suppliers: only once a year on average for most supplier categories.

IMPORTANCE OF SERVICE DELIVERY VERSUS COSTS, AS COMPARED TO ONE YEAR AGO MORE / SOMEWHAT MORE IMPORTANT



Source: The BTN Group / American Express Global Business Travel survey of 234 corporate travel managers/buyers, procurement and other corporate executives conducted in August-September 2015

Those who reported to procurement were more likely to have policies in place about use of preferred suppliers than those who reported to other areas of the organization.

A handful of respondents said they ask for ratings after each trip about their preferred hotels, TMC, airlines, car rental, online booking, payment, limo/ground transport, or duty of care providers. More ask for satisfaction ratings monthly, quarterly or annually but the average across all respondents was annual.

Surprisingly, nearly 30 percent said they had never asked travelers to evaluate their TMCs and more than half acknowledged that they had never asked for such feedback on duty of care providers, a category of increased focus.

MANAGERS CLAIM BETTER THAN OK AVERAGE TRAVELER SATISFACTION

While they might not often ask travelers to rate preferred suppliers, respondents said their organizations' current average traveler satisfaction levels were better than "Just OK" in most supplier categories. On a scale of one to five where five is "excellent," car rental received the top ratings. The weighted average for online booking was slightly below average at 3.4, pulled down by the highest percentage at 12 percent of all respondents who said their travelers rated tools as unsatisfactory or below average.

TMCs had an average satisfaction rating of 3.66 as nearly half of all respondents rated traveler satisfaction as a four and nearly 20 percent rated it "excellent." On the other end of the spectrum, nearly 10 percent ranked services of their TMC in the lowest two categories that included "unsatisfactory."

Average satisfaction ratings for hotels, duty of care providers, airlines and payment were all greater than 3.5 but less than

3.8. The managed travel service ratings are in line with similar surveys, including a *Business Travel News* Traveler Service Quality report published October 27, 2014, in which travelers and travel managers said service levels overall in managed travel are decent, but they identified some areas for improvement.

MAJORITY HAVE PREFERRED PROVIDER POLICIES IN KEY CATEGORIES, EXCEPT FOR DUTY OF CARE, GROUND

Respondents also were asked to indicate whether their organizations had policies in place regarding use of preferred suppliers. Across all but two supplier categories, about 80 percent of respondents said they had such policies in place. Only 51 percent of respondents said they had duty of care/traveler tracking policies in place while just 41 percent had such policies about the use of limo/ground transportation providers.

HOW DOES PROCUREMENT DEMONSTRATE VALUE OF MANAGED TRAVEL PROGRAM?

The role that traveler satisfaction plays in the metrics procurement might use to demonstrate the value of the managed travel program appears to vary considerably.

When asked specifically how procurement demonstrates the value of managed travel, 31 percent of respondents said savings while only 12 percent said traveler satisfaction metrics. Another 31 percent rely on a variety of calculations that include a value formula, reports, key performance indicators, cost avoidance/savings or benchmarks to others. Of the remaining quarter, 11 percent said

HOW PROCUREMENT SHOWS VALUE OF MANAGED TRAVEL



Source: The BTN Group / American Express Global Business Travel survey of 234 corporate travel managers/buyers, procurement and other corporate executives conducted in August-September 2015

within their organizations procurement doesn't demonstrate the value of managed travel while 4 percent said they were working to define that. Others look at such factors as compliance to policies, impact on budgets, traveler productivity, contracts with suppliers, average trip costs and risk mitigation as part of such demonstrated value.

DEFINITION OF SAVINGS VARIES GREATLY

For managed travel veterans, procurement's increasing role within managed travel has been a learning experience. Procurement has had to learn not only key travel management terms, but identify the nuances and levers within each key supplier category that could really make an impact on a travel programs' bottom line. Traditional travel managers have been forced to learn a new vocabulary, as well as methods to measure success. In some instances, travel and procurement have had to devise new metrics, based on data the travel team can provide in formulas or terms that procurement can accept.

One of the most contentious areas has been on how to define savings. While some in procurement contend that savings

calculations should factor value received, purists define it as "year-over-year cost take out." For some, this has meant that in a two-year contract, only the first year of savings is calculated as savings. Cost avoidance and soft-dollar savings from upgrades or other value-added elements—long included in managed travel value metrics—most often are excluded from procurement savings calculations.

Asked how procurement defines savings in their organizations, survey respondents provided a wide range of responses. Nearly half (48 percent) of respondents cited cost-reduction formulas, whether they be year-over-year or period-over-period cost takes outs, dollars saved from negotiations or costs compared to non-contracted rates.

Nearly 30 percent of respondents said they defined savings differently, by such factors as cost avoidance, value received, happy travelers, time savings and even rebates.

Benchmarks are factored into savings calculations for 11 percent of respondents, whether that is simply competitive benchmarking, savings received about benchmark data from other companies and the travel management company or "beating indices showing increases."

About 8 percent of respondents said procurement doesn't define savings within their programs, while four percent said they were working on just such a definition.

POOR SERVICE PROMPTS SHIFT OF BUSINESS FOR MOST

In response to unsatisfactory service levels, 66 percent of respondents to the BTN Group / American Express Global Business Travel survey said they had shifted business to

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Internally, fewer than 40% of respondents said their organizations measured travel as a factor of expenses revenues or invested travel dollars.

other providers, while 37 percent said they issued a new request for information or proposals. Those who said they reported to procurement indicated a significantly higher propensity than those who reported to executive offices, administration, shared services, a CEO or human resources to shift business or issue new RFPs in response to unsatisfactory service levels.

Several who reported unsatisfactory service levels noted that they made providers aware of concerns and worked with them to improve service or “align visions” of what was expected.

COST PER TRIP MOST USED METRIC

What cost benchmarks are companies tracking on a regular basis to monitor the performance of their travel programs? Average cost per trip, according to 65 percent of respondents and especially with those who report to procurement. About 37 percent of respondents said they use average cost per trip by department or business unit, while 33 percent said they used average cost by destination, also a popular formula for procurement types.

HOTEL RATE COMPARISONS

Respondents indicated efforts underway to improve compliance to preferred agreements, especially in the area of hotel. To monitor hotel rate comparisons, buyers overwhelmingly (70 percent) benchmark against year-over-year company data, followed by TMC data, a benchmark group of like companies and other third-party data.

BRINGING SERVICE INTO FOCUS: KEY LEARNINGS

Survey respondents detailed numerous ways to define savings and the value of their procurement-driven efforts. But only 12 percent of respondents said they were currently factoring traveler satisfaction into their value equations for managed travel.

- If service delivery is indeed a factor of growing importance, more organizations must define or redefine the value of managed travel with metrics that include traveler satisfaction.
- As procurement and travel management executives work to define these key metrics, it's critical to incorporate more frequent traveler service feedback evaluations.

While some are capturing traveler feedback, an alarming number of respondents said they are garnering traveler feedback, some alarming percentages said they had “never” asked travelers to evaluate preferred providers.

- At minimum, such feedback should be gathered annually and factored into contract negotiations and supplier measurements.

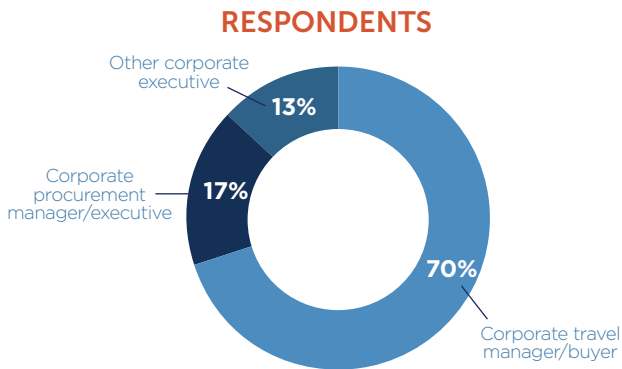
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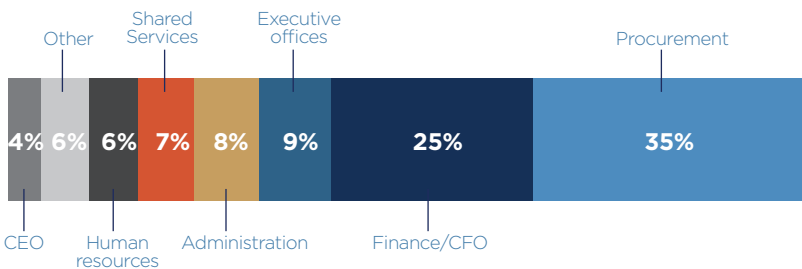
ABOUT PARTICIPANTS/METHODOLOGY

More than 90 percent of survey respondents had formal travel policies and at least 80 percent had preferred supplier policies in place.

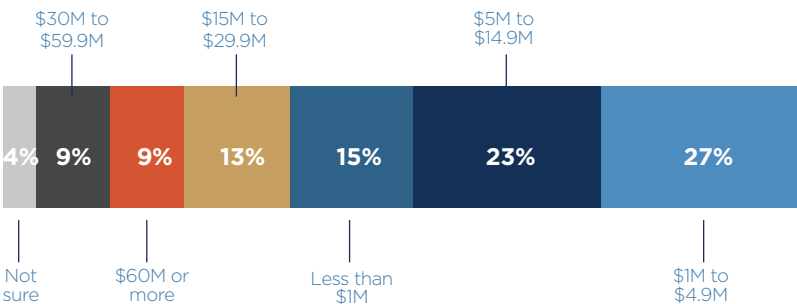
The online survey was conducted in August-September 2015 by The BTN Group and completed by 234 travel buyers, who identified themselves as:



WHERE TRAVEL FUNCTION REPORTS



ORGANIZATIONAL SIZE 2014 U.S.-BOOKED AIR SPEND



Source: The BTN Group / American Express Global Business Travel survey of 234 corporate travel managers/buyers, procurement and other corporate executives conducted in August-September 2015 in the United States

MEASURING AND FACTORING DEFECTS

Respondents also said they are both measuring and factoring into performance agreements various service defects or areas of traveler friction. Topping both lists were lowest rate not booked by the TMC, followed by online booking tool outage, reserved rental car not available, flight cancellations, flight delays and hotel walks/rooms not available.

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*American Express Global Business Travel Internal Reporting, 2014

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