

"Four Key Practices to Accurate Benchmarking"

White Paper

This White Paper contains information on benchmarking practices and is intended for corporate travel buyers currently using benchmarking as a tool to manage their travel program or considering introducing benchmarking into their travel program.

Disclaimer; this publication was written by Donald L. Swartz, Principal/Senior Consultant at Corporate Travel Buyer Resources (CTBR). CTBR is an independent travel consulting firm providing consulting services to national and multinational corporate travel buyers on the following topics;

- Travel program assessments and audits of national and global travel programs, including all service configuration platforms and front-to-end reservation/expense management processes.
- RFP projects and contract negotiations for TMC, online booking tool, airline, hotel, car rental and other travel suppliers/technology services.
- Developing and implementing actionable strategic sourcing solutions to produce measurable cost reductions for your corporate travel program.
- Consolidation of multiple travel programs due to a recent M&A or a company wide consolidation initiative.
- Travel policy and expense management.

CTBR does not sell or promote its own benchmark service but incorporates benchmarks and advises buyers on benchmark practices while performing services above, including;

- Project planning and preparation of benchmark studies.
- Developing benchmark metrics, formulas and mapping processes.
- Selection and negotiation of benchmark sources.
- Validation and auditing of benchmark databases.
- Analysis of benchmark results.

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Introduction

At first blush, benchmarking is no more than the comparison of measurements or practices from one group to another. However, true benchmarking is a skill requiring knowledge of the benchmark topic and modeling processes. Benchmark practices in the travel industry mirror the challenges and pitfalls of benchmarking in many other industries. For example, the majority of benchmark practices in the corporate travel industry are no more than flawed exercises in statistical averaging, laden with subjective and biased information. Consequently, most deliverable benchmark results are non-actionable or produce misleading “Red Flag” indicators.

Four Key Practices

There are four key practices that will upgrade benchmark studies at your corporate travel program;

I. Establish a defined objective

In other words, what are you hoping to gain from or do with the benchmark results? Generally, there should only be one of two different objectives for any benchmark study.

The first is to identify opportunities for improvement. This requires finding underperforming areas with the current program. This objective runs counterintuitive to many travel managers’ approach to benchmarking (especially random benchmarking) because the initial interest is to validate and report how well the program is performing. In an industry where self promotion of unsubstantiated and exaggerated claims are common, establishing a goal to search out less than stellar performances in your travel program is not always an inviting prospect. However, finding underperforming areas is critical to successful management, because it’s the key to adding new value. This objective is not restricted to financial performances or pricing but applies to all areas of your travel program. For example, traveler safety/security practices, expense management-processes, etc., can all uncover unnecessary risks or exposures to your company and offer opportunities for improvement.

The second objective is to validate the ROI and assumptions in a future project before committing to the project and establishing unrealistic expectations with senior management. An example where this may apply is if your company is exploring the return from expanding the travel program globally. The benchmark objective is to test the feasibility of this project by comparing your company profile and travel program against peers who have had both good and bad results to determine if this is a good strategy, including challenging ROI’s.

II. Align benchmarks to internal company goals or projects

In theory you can benchmark any process, practice, policy, and expense or service performance. However, successful benchmark practices *only* benchmark items specifically tied to internal goals or company projects. Randomly benchmarking statistics or performances of your travel program because some third party source (e.g., TMC, a travel publication or an association) offers a comparative benchmark is not benchmarking and typically not a good investment of your time. For example, randomly benchmarking your average ticket price (ATP) against a third party source, just because you’re curious, can produce misleading results because it does not reflect all of the factors that influence the benchmark. Consequently your rate could appear better than the benchmark while there are still opportunities for additional cost reductions that never get exposed and subsequently put into action. On the other hand, your rate could appear unfavorable to the benchmark for some very plausible reasons so your program is unfairly judged and you end up pursuing unobtainable cost reductions. Even if the benchmark results are accurate what are you going to do with an ATP comparison by itself? The same caution and logic should apply to randomly benchmarking average hotel and car rental rates, TMC fees, online adoption, negotiated air/hotel/car rates and all other areas of your travel program.

Restricting benchmarks to areas aligned with internal goals and projects will provide for better utilization of travel management resources and greatly increase the chances for actionable benchmark results. It also helps you establish better goals and projects for your travel program.

“EXAMPLE”

Sr. Management or a travel manager on its own initiative establishes a travel dep't goal to reduce the company's ATP. The typical benchmarking tasks associated with this goal is to compare last year's ATP with this year's and benchmark trends in this year's ATP internally and/or externally. In conjunction with this exercise the travel manager may increase communication of policy compliance, booking farther in advance, etc.

At the end of the day the benchmark is meaningless because too many other internal factors (usage control, travel destinations, department budgets, traveler purchasing habits, etc) and external factors (price of fuel, LCC competition, etc) had more impact on pricing than anything the travel manager or department could control. A better approach is to replace this goal with a two part project. The first project is to perform a strategic sourcing assessment of opportunities to reduce air ticket expenses. This would include an ATP benchmark study and an analysis of other controllable areas directly and indirectly related to ticket costs (e.g., policies, compliance, traveler behaviors, travel audits, preferred airline negotiations, nonrefundable ticket management, etc.). Side-by-side with this benchmark/analysis, an assessment is performed on the following areas;

- *usage habits and travel budgets.*
- *options and practices for alternative modes of transportation and communication.*
- *external market analysis.*

Once this first project is completed an educated business plan can be developed to establish accurate projections and measurable goals to reduce air ticket costs. Benchmarking for this second project consists of measuring actual performance against your projections.

III. Develop standard metrics, formulas and a mapping process for your benchmarks.

This is a challenging practice in the travel industry with the lack of common standards to calculate ATP, TMC transaction fees, online adoption, market share, etc. Various interpretations and formulas from one buyer and travel supplier to another can create large disparities. Based on prior audits, I have discovered disparities of 2–40% for the exact same measurement. In addition, many of the metrics or formulas being passed off as “*Industry Standards*” originated from a travel supplier and are not always applicable to the buyer.

Very seldom will one metric be comprehensive enough for a successful benchmark study. Successful benchmark practitioners spend advance time determining what metrics need to be compared and then map all of the factors that can influence the benchmark. This practice will increase the accuracy of benchmark results and provide you with information on “*how*” and “*why*” you performed against the benchmark and a blueprint to repeat or improve upon your results going forward.

For benchmarks related to pricing, program costs and for most service performances (e.g., online adoption, SLA, market share, etc), the starting point is to establish a defined unit metric and formula that passes the following tests: (i) conclusive for the buyer's objective; (ii) easily replicated internally and externally; and, (iii) offers a universal application so it can be used for other related benchmarks or travel projects.

Using the ATP reference from the “*Example*” above, an ATP unit metric can be transaction based, segment based, include airline revenue only or the gross ticket value with all taxes and third party fees. It can be calculated by city pair, market pair and reported one-way or roundtrip. In most circumstances the unit metric for an ATP should be the net airline segment value (revenue earned or charged by carrier before taxes, airport or other third party fees), in a true O & D city pair market. The metric can be either one-way or roundtrip, depending on your preference. The benchmark should also include refunds (segments and revenue), exchange revenue and omit exchange segments as a unit count.

Once your metric(s) are established and tested, you then need to map internal and external factors that can influence your formula/metric, i.e.,

ATP - Internal Factors

- Usage control, volume and frequency
- Company budgets
- Travel policies
- Travel policy compliance
- Class of service (Coach, Bus or First)
- Advance purchase habits
- Other traveler habits
- Calculation of exchanges, refunds, split tickets, etc,
- Non-Refundable tickets and management
- Value of preferred airline contracts

ATP-External Factors

- Market changes (fuel prices, competition, etc)
- Competition from LCC markets
- Supply and capacity

Please note: External Benchmark studies of ATP, Average Room Rates (ARR), etc., should always be restricted to comparing exact city or market pairs against each other. Avoid benchmarks of group pricing markets (e.g., domestic, int'l, transpacific, transatlantic, trips under/over 1,500 miles, etc.) This common industry practice is one of the most flawed and misleading benchmark practices in the industry.

The next step is to separate the factors by controllable or uncontrollable and assign a statistical impact or weighted value to each factor. The statistical impact or weighted value may fluctuate by category and by company in the same benchmark study. This exercise helps you determine what additional analysis you will need to perform prior to and/or side-by-side with your benchmark metric(s) for an accurate benchmark study.

The mapping process is not restricted to financial or pricing performances and applies to all benchmarks. For example, if your benchmark study is related to a global travel project and your benchmark objective is to test the assumptions in your business plan - your metric is the ROI, as a dollar value or percentage to total spend and your mapping factors would look like this;

Global Program – Internal Factors

- Company precedents
- Maturity and/or status of travel program
- Org. structure of travel program & project resources
- # of locations by global region w/travel volume
- IT platforms
- IS platforms and data quality/integrity
- Timeline and competing projects
- Other

External Factors

- Language and currency
- Laws and Regulations
- Known and unknown market changes
- Other

IV. Qualify Benchmark Source

This is an important and often overlooked practice in the travel industry. Just because an entity offers a benchmark does not necessarily mean they are qualified to be promoting the benchmark. Corporate travel benchmark sources fall into one of four primary categories and should be carefully qualified before using;

1. External Benchmark Source, within industry

External benchmarking is comparing your metrics against a central database of other buyers and is valuable when a larger sampling or an external baseline of metrics and best practices is required. Just about every TMC, travel supplier, publication and association publishes and/or promotes benchmarks. In fact, the practice is so common the terms “benchmark” and “best practices” have become two of the most overused and abused terms in the travel industry. While some sources provide a valuable service for a specific benchmark, others do not because they recklessly promote benchmarks without experience or only promote a benchmark to satisfy an internal agenda. Due diligence to qualify a perspective external source includes;

Integrity of benchmark source

If the benchmark source is not a current provider, does the source offer competing services of any current provider (TMC, OBT, etc) related to the benchmark? If yes, information provided from this source has the potential of being biased and should probably not be used, unless carefully validated. If the source is a current provider - does the provider, based on your interpretation of the benchmark, have the potential to: (i) retain current business; (ii) gain new business (expand globally, etc); or, (iii) increase current pricing? If yes to any answer, it's probably best to find a different benchmark source or use a third party to validate the benchmark.

Integrity of benchmark metrics

Does the benchmark metrics align with your internal metrics and formulas? Remember the ATP example above, be sure you're making an apples-to-apples comparison. If it's not a 100% match find a different source.

Integrity of benchmark database

What is the size and sampling of the benchmark database? Your program should typically not represent more than 10% of the total database (total dollar volume and number of participants in the database). Your travel volume should also be within 50% of the average size/volume of other participants in the database (smaller average variances will be required for some metrics). If the external source does not offer a good sampling of data you will be better off finding an alternative source.

Another important integrity criterion is the validation of data in the benchmark. Just because, on paper, the benchmark metrics and formulas align with your specifications does not guarantee information from other buyers followed the same process. I have been involved with benchmark projects where very specific unit metrics and formulas are established but the data from multiple participants is still corrupt (either a misinterpretation by the participant or they unknowingly submitted corrupted data from a third party source). The best way to evaluate this quality issue is to assess how the source approaches the collection of your data. Does the source just collect your data in good faith or does it validate and spot audit your data before including in the database and/or allowing you to benchmark against the database? Data that does not go through a validation process has no more value than general, unscientific polling data and should not be used.

Validation is not restricted to statistical metrics but all collected information. For example, I have been involved with benchmark studies of travel policy mandate practices where a group of participants submitted responses that they had mandates in one or more targeted policy areas. A spot audit later discovered that while several of these participants clearly had mandates in writing, the mandates were not being enforced or used company wide. This information, in its original presented form, created misleading baselines in the final benchmark results.

Pricing Analysis – Does it have a cost?

Providing accurate benchmarks is an expensive service. Always challenge sources who want to provide free benchmarks, even if a current provider. As a general rule, sources promoting free benchmarks have data integrity challenges, hidden agendas or conflicts in providing the benchmark to your company in the first place.

2. External Benchmark Source, outside of industry

This source is usually one of two different entities: (i) a professional benchmark firm that specializes in benchmarking of business measurements, not just travel; or (ii) a professional business services firm specializing in consulting or outsourcing related to human resources, strategic sourcing, purchasing (BPO), etc., and recently added T & E to their portfolio of services, due to the overlap with their core service.

Utilizing this source is common for a larger company benchmark study encompassing more than just your travel program and T & E expenses. This source is also a good resource when you need to benchmark against a specific business sector or competitors. Due diligence for this source is identical to above. In addition, it's important to qualify this source's travel industry expertise. As a general rule, this source has a good understanding of professional benchmark practices and of their core business service, but has limited travel industry expertise. Consequently, you end up paying large sums of money as they try to learn the travel industry or you receive benchmarks and advice that are not accurate or actionable.

3. Peer-to-Peer Benchmark Source

This involves benchmarking directly with one or more buyers in a small closed environment and is valuable when a larger external source is not an available option and for benchmarks requiring a small targeted comparison. Peer-to-peer benchmarking still requires qualifying the source. Just because the peer is a known colleague, friend or local business does not automatically qualify them as a good peer-to-peer benchmark partner. Due diligence required includes;

Integrity of Benchmarking Source

Is the peer(s) participating in the benchmark study for a bona fide company project or goal? If not, the peer may be approaching this as a random benchmark exercise so they may not timely deliver the same quality of information for a successful and accurate benchmark study.

Integrity of data

Do the peer's metrics, formulas and mapping processes align with your programs? Are you permitted to validate their submitted information? If you can't validate the information find another source.

Professionalism, Prior experience and Resources

Do you have a business plan with processes, timelines and roles agreed to in writing by all parties? Does the peer have the time and resources to participate in the benchmark? Have they participated in prior benchmarks? Positive answers to all of these questions are important to a timely and accurate benchmark study.

4. Internal Benchmark Source

The final and best source is your own company. This includes benchmarking by dep't, division or business unit and by quarter or annual trends of company wide performances. Internal benchmarking should be the starting point for 99.9% of all corporate travel benchmark studies (before considering peer-to-peer or an external source). This will help you test your metrics, formulas, mapping processes, project goals/objectives, and address any integrity issues upfront. Don't assume all parties, even internally, are using the same data and information processes. In addition, internal benchmarking will help you quickly identify any low hanging fruit or troubling trends for immediate improvement to your program.

Summary

In review, benchmarking can be a valuable tool to managing a corporate travel program, including;

- i. Identification of actionable and measurable improvements for your company.
- ii. Increased productivity of travel manager resources.
- iii. Increased credibility with senior management by reporting factual information.

However, inaccurate or random benchmarks are a colossal waste of time producing misleading results and integrity issues for both you and your corporate travel program. If you're unable to invest the time and resources required for a successful benchmark analysis you will be better off skipping the process altogether, because no benchmarks are better than inaccurate and misleading benchmarks.

For more information on benchmarking or other solutions to corporate travel program challenges, you can contact Donald L. Swartz at 561.694.6743 or dswartz@ctbrtravel.com