## Procurement – Travel Category 101

**Overview.** This document contains basic industry and category information that every procurement and sourcing manager should understand when assigned to manage or reduce costs in the corporate travel category.

**Industry Dynamics - Procurement Challenges**

- Where your company travels (specific markets) will have a larger impact on the total cost of travel and program savings than any action by the procurement department.
- Where and how you travel will trump volume in importance during many supplier negotiations.
- Base market pricing for most individual trip components (air, rail, lodging, etc.) can fluctuate by 10 – 40% on any given day for the same item.
- 60 – 90% of most travel supplier agreements (pricing and SLAs) become outdated in under nine months.

**Market Intelligence**

- In no other industry or category is there such an abundance of free market intelligence from business associations and industry vendors, including pricing and savings benchmarks and other best practices.
- In no other industry or category is the integrity of market intelligence so poor and misleading for the buyer.

**Managed Travel Program.** A managed travel program is the only proven action to control total costs.
A managed travel program consists of the following five components,

i. Travel Policy - company guidelines on who, when, where and how to travel
ii. Standard processes and sources for planning, procuring and expensing travel
iii. Front to-end reporting and monitoring of travel activity and expenses
iv. Risk Management – duty of care, fraud prevention, etc.
v. Direct supplier negotiated discounts (air, hotel, car, etc.)

**Managed Travel Program - Savings**. Companies who deploy a managed program strategy will save 10 – 30% in total travel costs compared to companies with similar travel patterns and spend and who do not deploy a managed travel program.

- Savings will fluctuate by component year-over-year, and seasonally.
- During the first year of deploying an original managed travel program 25%+ of reported savings can be true incremental cost savings, while the remaining savings are cost avoidances.
- After the first year of deploying an original managed travel program 90%+ of reported savings are cost avoidances.

**Negotiated New Savings.** Securing new cost reductions greater than 8% in direct travel spend is typically unrealistic for an existing managed program unless components of your current program are underperforming or you control usage on the front end (reduce volume of trips). While best practitioners of existing managed programs know you seldom hit a home run by renegotiating an individual supplier/vendor or component, they also know doing nothing creates greater consequences because long term in the corporate travel industry, from a market pricing or sourcing perspective, is 6 - 9 months. Best practice is to regularly assess and update all areas of the managed program. This approach helps to capture new or short term savings opportunities and other cost avoidances to counter internal or external changes that quickly dilute original savings in your managed program.

**Cost of Managed Travel Program.** The cost to maintain a managed travel program can quickly escalate and dilute your ROI. The average cost is 3 - 8% of your travel spend or 15 – 40% of your managed program savings. Related costs include;

1. <u>Internal Salary/Administrative Expenses</u> – represents travel manager and other internal resource allocations in the travel department, internal procurement/sourcing resource allocations to negotiate or manage supplier RFPs, and other internal IT and AP departments who support the managed program. This cost is rarely tracked or measured as a separate expense, but will range from 1 – 4% of your travel spend.
2. <u>Other Vendor Fees</u> – includes any direct vendor costs other than your TMC (e.g., Duty of Care, Technology and other program vendor services contracted directly with a third party). This cost can average between 0.25% - 2% of your travel spend.
3. <u>TMC Fees</u> – typically 1% - 5% of your travel spend, depending on if you source reservation and ticketing services and/or other program management support services.

Most companies errantly focus only on their TMC cost. However, companies with the lowest TMC costs typically have the highest costs in the other two categories, or the smallest overall program savings.

 

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**ROI - Managed Program**: KPI's for an existing managed travel program should include,

- Total program savings compared to travel spend.
- Total cost of maintaining your managed program compared to travel spend and/or program savings.

**Role of TMC in Managed Program.** Your TMC is a vendor providing services in support of the components in your managed travel program. Any service promoted by a TMC can be performed internally by your company or through another third party vendor (non-TMC vendor). The decision to contract with a TMC is a commitment to a managed program and also a business decision that the TMC is the best source to provide the service. At least 90% of the savings reported by your TMC are managed program savings directly related to your internal policies, processes and sourcing practices. You should obtain the same savings from any other qualified TMC offering similar services. Less than 10% of the savings (typically 0%) are unique to your TMC. This statement is not to downgrade the role of your TMC, but stating a fact - a TMC does not buy and resell travel, but provides services in support of your managed program. Related KPI's for assessing your TMC as a vendor of your managed program should include;

- Are you currently sourcing the right services and level of support with your TMC?
- Is your TMC providing all the services contracted and in compliance of SLAs?
- Is your TMC's net cost competitive with other market or sourcing options? The net cost equals your total TMC charges, minus any proprietary savings developed exclusively by your TMC, if applicable.