

Egencia Insights: Modern Travel Management

# The Procurement Pendulum

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- Over the past decade, procurement fundamentals have redefined travel management. As the industry refreshes its position on traveler satisfaction, however, travel management and procurement concepts find a new balance in best-in-class programs.

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Anyone keyed into the trends of corporate travel over the past decade has witnessed the transformation of travel management at the hands of procurement. Deep analysis of travel data, rigorous negotiation and contracting processes, and a keen focus on delivering savings have steered the industry away from relationship-based agreements with a focus on upgrades and rewards toward more sophisticated technology-driven practices and desire to cut costs. An understanding of key procurement concepts—requests for proposals, service level agreements, key performance indicators and the ability to systematically drive travelers to preferred suppliers—are practically a given for those entering the industry today.

engage procurement professionals who understand the personal side of travel and travel management pros who value the rigor of procurement processes.

This whitepaper will look at the current state of the procurement/travel management relationship, exploring the influence of procurement over travel and the renewed focus on ensuring traveler satisfaction—and how modern travel management/procurement are reshaping the practice yet again to drive value to the traveler and to the corporation.

### The Procurement Influence

According to BTN Group's fall 2010 "The Buyer" report, 31 percent of travel buyers report to procurement/purchasing/sourcing. And many of those who don't directly report into procurement find themselves working hand-in-hand with the company's procurement department on core functions for managing travel. (See sidebars, "Program Snapshot," for some samples of ways that travel and procurement fit together from an organizational standpoint.) Indeed, the same report showed a majority of travel programs are either managed by procurement or enlist their procurement counterparts to negotiate and finalize supplier contracts.

"What is typically missing from [traditional] travel management is the rigor and energy and focus that procurement brings," said Arvind Kumar, who in his role as Chief Procurement Officer/Americas and Global Procurement Relationship Officer/BPO for Capgemini, has oversight over travel. "We look at travel and manage the entire life cycle from a cost and compliance perspective."

The procurement influence brings several other components to the travel management table, from initial sourcing of suppliers through data analysis to managing the life cycle of supplier relationships. Procurement practices typically associated with travel include:

- Standardize supplier sourcing and the RFP process
- Consolidate suppliers to leverage negotiating power
- Establish service level agreements (SLAs) and key performance indicators (KPIs) with suppliers

## PROGRAM SNAPSHOT

### Procurement and Persuasion

Overseeing travel as part of the role of director of global procurement for Colliers International, Rudy Lim is charged with overall program management. The company does not have a travel manager per se, although there is a travel business lead who administers the day-to-day program. "From a procurement practices standpoint, you use the same skill set and methodology and concepts for travel as for any other category," said Lim, adding relationship management and contracting is also similar. However, he noted that "travel is very personal" and more consumer-driven than other categories. "We've softened the concept of mandatory and try to drive people to use the program because of good economics. We're looking for user behavior and trends to leverage for contracts and compliance."

Especially in a recessionary environment, the pendulum between service-oriented travel management and more savings-oriented procurement practices swung decidedly to the side of procurement. As the economy begins to recover and corporate travel volumes return to—or even exceed—peak rates of 2007 and 2008, the most progressive travel programs have discovered that a heightened awareness of traveler needs is critical to driving the right traveler behaviors and supporting the procurement constructs that now form the backbone of travel management.

"Travel and procurement have figured out a way to support each other, with a little give and take on both sides," said Greeley Koch, Director of Strategic Development for Acquis Consulting Group. Indeed, the most effective travel programs

- Negotiate and manage contracting
- Implement measures to improve data reporting and analytics of travel categories
- Monitor and measure supplier SLAs and KPIs
- Monitor, measure and encourage traveler compliance

As supplier relationships and contracting began the migration toward a procurement function, many travel managers bridled against the change in process and the move away from their more personalized approach to travel management. Resistance has dissolved, however, as procurement continues to deliver value to the organization.

“Procurement is not backing off. But they are evolving. There is an understanding that the ‘customer’ is the traveler.”

– Greeley Koch  
Director, Strategic Development  
Acquis Consulting Group

One travel manager for a company in the pharmaceutical industry spoke of the give and take in the procurement-travel management relationship, noting that each has its own role. For example, procurement will likely have early knowledge of corporate acquisitions or other changes that will require travel. The travel manager, on the other hand, will likely have closer contact with and a better understanding of travelers and their support needs.

Even for smaller companies, where the travel management function may not be dedicated or formally aligned with procurement, the individual tasked with managing travel spend must have a clear understanding of how supplier rationalization, service level agreements, accurate data and traveler compliance drive a quality program.

On the flip side, procurement must be keenly aware that, while travel can be

purchased as a commodity, it has its own unique parameters and challenges.

### Business Travel Is Personal

“Early conflicts between travel managers and procurement came from a procurement philosophy that hotels and air were commodities and everything revolved around cost,” said Koch. “But gradually procurement came to understand that travel involved services for employees that affected quality of life.”

Said Kumar: “Our goal is to manage the best value travel at the lowest cost possible, at the same time not compromising the satisfaction level of the traveler. Procurement must manage travel differently from other categories.”

Indeed, the concept of courting travelers with program benefits—as opposed to policing them via program rules—has filtered back through the travel management space. More difficult travel conditions, consumer technology habits and even a pending migration of business traveler behaviors away from program guidelines has forced the managed travel industry to reconsider some of the harder-edged policies that procurement might apply to other purchasing categories.

BTN Group’s October 2011 “Connecting With Managed Travelers” report showed that, for air and hotel categories, average traveler compliance rates were below 70 percent and that more travelers were going outside of policy when it came to accessing such travel add-ons as in-room Internet services at hotels or GPS devices in rental cars, even if they knew the extras would not be reimbursed.

Common wisdom among travel buyers interviewed in that report was that a new generation of travelers demanded a more personalized approach to travel that includes services that better support their travel needs as well as more agility to ensure they are productive and their business goals are accomplished while on the road. If that means access to priority boarding, upgraded status in order to access airline lounges or better added-value items (Internet service, access to fitness rooms, free parking, etc.) when it comes to hotel contracts, procurement-driven negotiations and

## The Cycle of Negotiations

**While there are no hard and fast rules about when and how often supplier contract negotiations should take place, for most companies, they follow a similar pattern.**

- **Hotels:** Typically the most frequent of negotiations, hotel contracting takes place on an annual basis, usually in the fall. Hotel rates are the most variable of the major supplier categories and subject to fluctuation depending on overall economic conditions. When business needs change, with the opening of a new business site for example, additional contracts are added on an ad hoc basis.
- **Airlines:** The most complex of agreements, airline contracts may be with one airline carrier or extend to their joint ventures, alliances or other partnerships. New developments in data sharing and data release agreements have added further complexities to the RFP process. Negotiations take place at any time during the year, and are usually for a two-year term.
- **Car Rental:** As pricing for car rentals remains relatively stable with little fluctuation, contracts are often for a two- or three-year period, and may include renewal provisions. Negotiations take place throughout the year.
- **TMCs and Online Booking Tools:** Contracts typically run for three to five years, ensuring a consistent booking experience for travelers. Negotiations take place as needed, at any time of the year.

## PROGRAM SNAPSHOT

### Building Bridges

When Arvind Kumar took over the role of chief procurement officer three years ago, the corporate travel program, with a volume in excess of \$100 million, became part of his oversight. After a few years, he now says he considers travel a core area for him. While he is adamant about the value of rigorous procurement strategies and processes, he is also cognizant of the importance of traveler satisfaction. “We take a holistic approach and are the bridge-builders between finance, the different business operations, the end user traveler and the suppliers. We have to take everyone into account to manage in an ecosystem that is cohesive and brings the best value.”

contracting need to deliver that value to the traveler.

That said, “Procurement is not backing off,” said Koch. “But they are evolving. There’s an understanding that the ‘customer’ is the traveler and that they need to support those travelers.”

Ensuring satisfaction levels isn’t just about being good to travelers; it’s a fundamental part of ensuring compliance to policy. Said Kumar: “What does good policy and good compliance mean? It’s finding a way to ensure the right solutions so the traveler wants to accept the policies and use the preferred suppliers.”

#### Data Drives Decisions

Best-in-class programs use both a qualitative and quantitative approach to travel data to create policies and negotiate the supplier deals that will make travelers want to comply with travel guidelines. On the qualitative side, travel managers need to survey their travelers, aggregate complaints and comments and consistently monitor traveler feedback through various communication channels to understand what is important to their travel populations and how policy or suppliers may be falling short.

From a traditional procurement perspective, data reporting also reveals a host of traveler compliance and supplier issues that can be used to inform policy refinement and supplier selection. This data comes from multiple sources—the travel management company/online booking tool, corporate card (if one is used), and ultimately expense reports. Individual suppliers can also provide data to corporations, but often these reports are used as a secondary source.

“We use the data to uncover trends and user behavior,” said Rudy Lim, Director of Global Procurement for Colliers International, who took on travel for the first time when he joined the company three years ago. He added that the data is critical not only for identifying rogue booking behaviors but also for informing the best negotiation strategies to use with suppliers.

For example, if the data shows most travelers are using Airline A, it might not be worth the time, effort and frustration to try to get them to use Airline B, even if Airline B is willing to negotiate a better deal from a cost standpoint. Instead, procurement and travel management could go to Airline A and try to negotiate a similar deal with them based on current and potential volume and aligning with already existing user behavior.

“Travel is very personal and it’s not driven simply by price,” said Lim. “It’s driven by many factors—and our general travel population will let us know what’s important to them and what the trends are, if we’re willing to listen.”

#### Adaptability Takes The Lead

Best-in-class travel programs have adapted procurement fundamentals not only to serve organizational goals but also to support travelers with the right products and services while on the road. While the use of standardized processes and the acquisition and parsing of data continue to be the signature of a well-managed program, the revitalized concept of traveler satisfaction has once again emerged as a primary decision driver.

That said, old-school ideas about traveler needs are not likely to win over today’s travelers. Satisfying a new generation of travelers may require a more personalized policy, enhanced value-added benefits negotiated with suppliers, more agile desk-top and mobile technologies—and more communication about how all of these program details ultimately benefit them.

In this fast changing environment, adaptability has become the new keyword for both travel management and procurement—both in their willingness to work together and in creating a modern travel program that will support traveler goals and achieve bottom-line results.

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