Global Horizons: Consolidating a Travel Program

Benefits, Prerequisites and Keys to Success

a CWT white paper

A practical overview of travel program consolidation

Carlson Wagonlit Travel (CWT), a world leader in business travel management, has conducted in-depth research into travel program consolidation. The resulting report, *Global Horizons: Consolidating a Travel Program*, provides a practical overview aimed at helping companies evaluate the benefits, understand the prerequisites for achieving them and identify the keys to success in the consolidation process. This white paper presents the three main findings.

Unique research by the CWT Travel Management Institute

Global Horizons: Consolidating a Travel Program is part of a series of research initiatives carried out by the CWT Travel Management Institute into the eight levers of effective travel management.[1] It is unique for several reasons:

- The study incorporates a wide range of techniques: case studies of nine companies who have consolidated their travel program, calculation of real savings achieved by 30 companies through consolidation, a survey of more than 120 companies around the world, observation of airline and hotel pricing and discount policies, and interviews with suppliers and industry experts.

- The research is based on a broad sample of companies in terms of size, industry, travel spend and the region in which the head office is located.

- CWT investigates both regional and global consolidation and covers all components of a travel program

What is travel program consolidation?

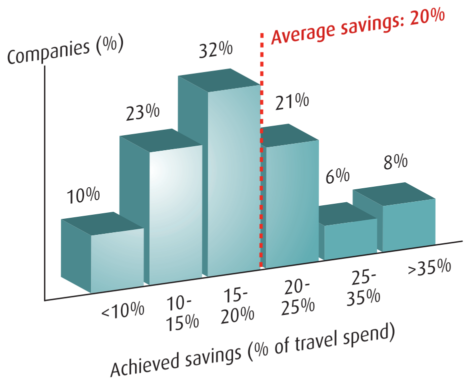
CWT defines travel program consolidation as the convergence process of all components of a managed travel program at a local, regional or global level. In practice, this means leveraging a company's total travel volume and concentrating sourcing with an optimal number of suppliers, as well as standardizing travel policy, processes and tools.

Key finding #1: Consolidation brings tangible benefits in terms of savings, service and security

20% average savings from consolidation

According to the survey, a company can save on average 20 percent of total travel spend by consolidating its travel program.

Double-digit savings for 90 percent of companies



The single-largest contributor to these savings is a standardized travel policy, which cuts 12 percent of total travel spend, followed by consolidated sourcing (7 percent), and standardized booking and fulfillment (1 percent).

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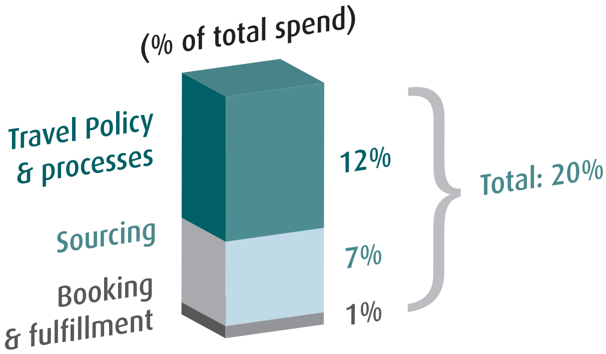
1. CWT has identified eight key levers to effective travel management: driving online adoption, capturing hotel spend, tackling meetings and conventions, continuing to optimize air spend, monitoring and addressing program compliance, further consolidating travel programs globally, enhancing high-touch services to travelers and addressing security issues, and managing travel through meaningful performance measurement reports.

■ ***12% average savings from standardized travel policy and processes***

Standardization of travel policy and processes enables travel managers to align travel rules and increase effectiveness by sharing best practices among business units in different regions. Savings total 12 percent of spend on average, and in some cases as much as 30 percent. To achieve this, companies standardize four main travel rules and processes: class/category rules, advance booking, alternative booking proposals and pre-trip approval.

Breakdown of total savings



■ ***7.5% average savings from air sourcing***

In the survey, companies declare average savings of 7.5 percent by consolidating air sourcing, as confirmed by 13 client data analyses. The different paths to consolidation – local to regional, regional to global, and local to global – offer similar benefits. At the basis are two main pricing principles:

1. ***Airlines reward larger volumes of business with additional price discounts.*** These come as back-end rebates on overall volume and/or up-front discounts on specific routes or airline networks.

2. ***Airlines offer lower prices and more aggressive volume-based discounts on flights departing outside their home markets.*** The CWT analysis shows that challengers typically propose 20 percent lower rates than the dominant airline. In addition, they tend to grant larger volume-based discounts – typically three times larger.

To make the most of these opportunities, companies reallocate traffic to airlines in a four-step process:

1. ***Tracking and consolidating data*** from around the world to identify significantly larger volumes of existing business enables clients to obtain better conditions with airlines.

2. ***Concentrating volume with a limited number of preferred suppliers*** drives larger volume-based discounts. The main way to do this is to allocate bi-directional traffic (originating on either side of common city-pairs) to a limited number of airlines. In addition, some companies are able to aggregate volume by setting up a hub system for long-haul flights (i.e., routing traffic through one main city). Combined, bi-directional traffic and the hub effect typically allow companies to allocate 45 percent more volume, on top of their home market business, to their preferred carriers.

3. ***Companies seize pricing opportunities*** proposed by challenger airlines to leverage lower prices and tactically challenge preferred airlines.

4. ***Companies must manage the trade-offs*** by weighing the benefits of allocating business to challengers against any potential erosion of back-end rebates from preferred airlines. They should also consider potential constraints on travelers when choosing suppliers.

■ ***6.5% average savings from hotel sourcing***

In the survey, companies declare average savings of 6.5 percent through consolidation of hotel sourcing and in some cases approximately 12 percent. These results are in line with the data from 15 client analyses.

As with air sourcing, a key driver is volume-based discounts. They are calculated, however, on the number of annual room nights per property, instead of on overall business granted to a chain, and vary widely depending on hotel category and market dynamics. First-category, luxury properties are more likely than standard-category hotels to grant volume-based discounts, and these tend to be larger (typically 12 percent compared to 4 percent when a company doubles the volumes allocated to a property). The frequency and size of discounts also vary with local supply and demand dynamics: cities where demand and room yield are falling offer the most opportunities for savings.

Best-performing companies make use of these volume-based discounts while taking advantage of dynamic pricing (i.e., the best available rate at any given time, sometimes lower than negotiated rates).

As with air sourcing, companies take four main steps to maximize savings on hotel spend:

1. ***Tracking and consolidating data,*** as a first step to accurately assessing overall volume and improving negotiating power.

2. ***Orchestrating negotiations with hotel chains and independent hotels.*** This is crucial, as half of most companies' global hotel budget is spent with independent properties.

3. ***Reducing the number of properties per city*** in order to increase bargaining power without jeopardizing the availability of suitable accommodations for travelers.

4. ***Concentrating business from around the world*** to increase the volume of annual room nights at selected properties. According to client data analysis, local to regional consolidation can lead to a 60 percent increase, while regional to global consolidation can add another 30 percent.

■ ***4.5% average savings from car sourcing***

For car sourcing, average savings reported by survey respondents amount to 4.5 percent of spend and can exceed 12 percent. These savings essentially come from volume-based discounts negotiated according to volume in each country rather than overall volume granted to the supplier.

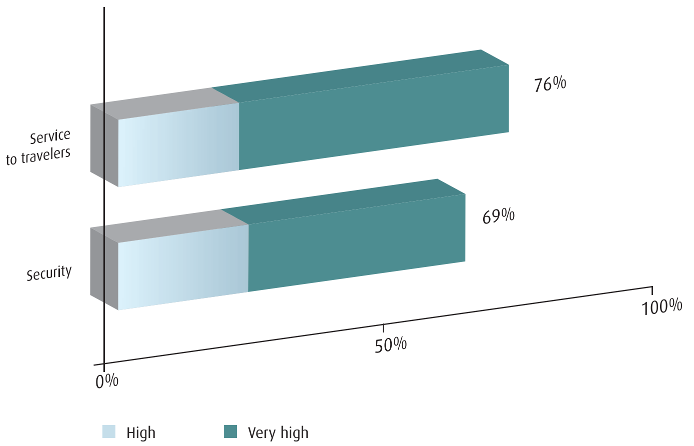
■ ***12% average savings from booking and fulfillment***

Companies declare 12 percent average savings on transaction costs, mainly from gains in productivity made through changes to the service configuration of the travel management company (TMC) and transaction processes (e.g., consolidating to one business travel center per country).

Better service and security through program consolidation

Out of the 107 companies surveyed, approximately three-quarters consider the positive impact program consolidation has on service and security to be *high* or *very high*. Indeed, a consolidated approach tends to bring more consistent quality of service, notably through standardized service level agreements and tools (e.g., a worldwide travel portal and online traveler profiles). In terms of security, a consolidated travel program can enhance traveler tracking and companies' responsiveness in the event of an emergency.

Proportion of respondents ranking as *high* or *very high* the positive impact of consolidation



Key finding #2: There are three prerequisites for return on investment: minimum travel spend of US$5 million, a suitable traffic pattern and an appropriate company culture

Nearly 60 percent of surveyed respondents have already appointed a global travel manager and a further 10 percent plan to do so – a clear indication that companies are increasingly consolidating their travel program. Not all companies, however, have the prerequisites for benefiting fully from consolidation.

Minimum travel spend of US$5 million

Companies all have something to gain from consolidation: they can improve service and security, while realizing savings from a standardized travel policy and more cost-effective booking and fulfillment. They can only benefit fully from consolided air and hotel sourcing, however, if their spend reaches minimum thresholds for each category (e.g., Asian airlines typically ask for a minimum of US$1 million for multinational contracts, compared to the US$3 million to US$5 million required by American and European airlines). In addition, savings increase with volumes (e.g., air savings vary from an average of 4.3 percent for less than US$10 million air spend to 9.8 percent for more than US$100 million).

Finally, companies must ensure that the potential benefits of program consolidation cover the initial outlay and ongoing costs, including a travel management team, consultancy, tool deployment and employee training. As a result, CWT estimates that the breakeven point for consolidation is a total travel spend of approximately US$5 million.

A suitable traffic pattern

To qualify for benefits at a regional or global level, companies need to have "demand overlap." In air sourcing, that means significant bi-directional traffic on common city pairs. In hotel sourcing, travelers from different locations spend a high number of nights in the same cities. High demand overlap enables companies to access savings by concentrating volume on a limited number of suppliers.

An appropriate company culture

The CWT study shows that the more centralized the organization, the more likely it is to have a global travel manager. When companies are less centralized, however, pressure on costs becomes the main driver for consolidation.

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Key finding #3: The keys to success are a comprehensive and balanced approach with solid foundations

A comprehensive approach

In the CWT case studies, what is striking is that all of the companies have consolidated most components of their travel program, including their TMC.

Strong foundations

Some components stand out as essential foundations for consolidation.

- ***Three critical components:*** data consolidation, travel policy standardization and performance monitoring. These are essential to developing an effective sourcing strategy and tracking progress.

- ***One key partner:*** a global TMC. A large majority of surveyed companies rate as *important* or *very important* the role played by a single or primary provider in their consolidation efforts (79 percent to 98 percent depending on the component). Indeed, they rely on their TMC for sourcing, security, streamlining of operations, change management and especially data. Most companies therefore consolidate their TMC as early as possible in the process, establishing a preferred partnership in key countries in less than two years.

- ***Project management fundamentals:*** support from top management, a project roadmap and an adequately staffed travel management team.

Striking the right balance

While companies approach program consolidation holistically, they need to define the right level of consolidation for each travel component. The CWT survey found that most components will be managed globally in two to three years, although a few components, such as pre-trip approval, advance booking and high-touch services, are likely to remain under local management. Indeed, while global consolidation makes sense for the majority of components, this is not the case for all. (See the chart below.)

A unique process for each company

The CWT case studies indicate that companies typically take at least three years to consolidate major components of their travel program over a geographical area representing at least three-quarters of their travel spend. The exact pace and path of consolidation, however, are influenced by each company's specific context and dynamics. Travel managers tend to take a pragmatic approach, moving forward according to the company's readiness for change and seizing tactical opportunities for consolidation. These may include a corporate priority on optimizing travel spend, organizational changes, and the roll-out of a regional or global TMC.

For more information about how CWT experts can help your company successfully consolidate its travel program, please contact your CWT sales or account manager or email: *globalhorizons@carlsonwagonlit.com*

The full report is available on *www.carlsonwagonlit.com*

Most program components will be consolidated globally in two to three years