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Procurement Category:
Travel

Your firm is wasting money on corporate travel—find out why

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Travel may not be the largest cost line item on your financial statements, but at approximately 1 percent of revenues for the average company, it is a significant area of spend. It is also one of the hardest cost areas to control and therefore an area of significant waste for most companies. What makes corporate travel spend so hard to manage?

It is fragmented: Thousands of travelers making hundreds of purchase decisions each year.

It requires expertise: Each travel category—airline tickets, cars, hotels and meetings—is a very different "market," requiring specific knowledge to get the best deals.

It's personal: Individual travelers have strong preferences—about where they sleep, which rewards programs they participate in or safety issues—that impact their travel purchase decisions.

It is not hard to see why travel is one of the areas prone to wasteful spending due to suboptimal purchase decisions, noncompliance with travel policies or both. The corollary is also true: by recognizing where and why wasteful travel expenses are occurring, companies can put a stop to the waste and drive significant hard-dollar savings for their businesses.

Six ways travel spend is being wasted:

1. Weak travel guidelines (or no visibility): Without a clear travel policy, no amount of negotiated savings will stop travel spend from spinning out of control. Having a policy without tracking and visibility can be just as damaging because inconsistent or unintelligent travel purchasing will quickly erode hard-won negotiated savings. A travel policy need not be prescriptive about every little detail, but it should provide a clear set of expectations for employee travel behavior and decision making, supported by visibility that allows managers to evaluate the decisions their teams are making and enforce compliance if necessary. Improving travel decision making with clear guidelines and visibility is one of the clearest ways to generate cost savings quickly, but it is harder to implement than it sounds because of the complexity of these challenges. Travel purchasing is distributed across thousands of buyers (travelers) and personal preferences trump corporate mandates in the absence of clear outcomes (e.g., choosing a non-approved provider will result in non-approval of expense report) or clear procedures for handling exceptions (e.g., a preferred choice can be overridden if client meeting and airline schedules are incompatible).

What makes a good travel policy?

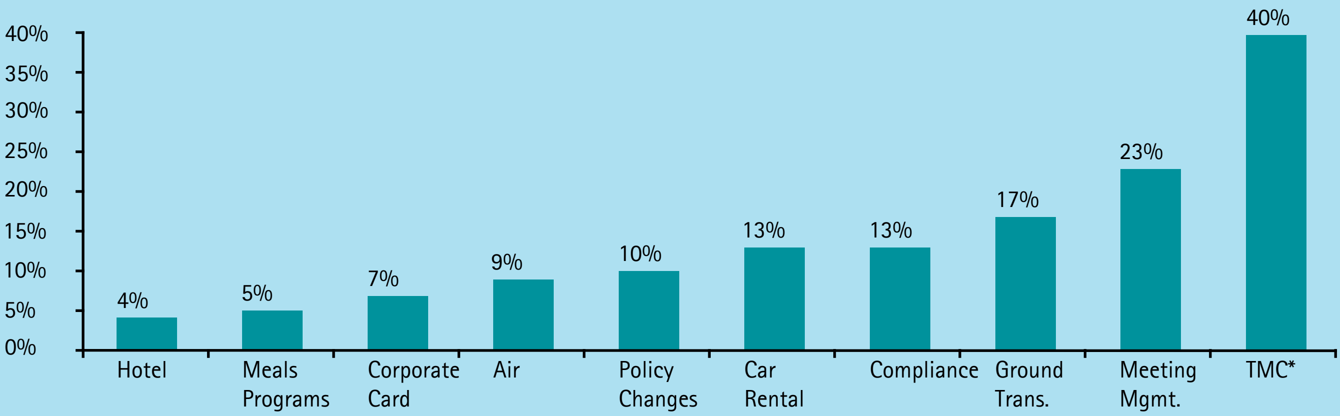
First, know your culture. Does your firm take a top-down approach to establishing policies and enforcing them? Or does your culture encourage entrepreneurial decision making at every level while providing the best information to enable the best decision making? Or are you somewhere in between? Regardless of the culture of your firm, your travel policy should be clear, current, well-communicated and address these key considerations:

- Guidelines for who travels and for what purposes (with allowances for management discretion)
- Minimum advance purchase requirements
- Class of service guidelines
- Preferred carriers and suppliers (make it clear to employees how the company benefits when travelers utilize preferred suppliers and incentivize compliance)
- Maximum spending limits by category and travel market (airfare, car and hotel by city)
- Procedures for handling exceptions (last-minute travel is sometimes unavoidable; preferred suppliers may be out of capacity)
- Reporting and compliance tracking

Policy changes and compliance improvements can cumulatively add up to more than 20 percent savings.

2. Focusing too much on the big-ticket items: Air travel may be the largest travel line item, so it may seem reasonable for management to focus on air travel as the priority or cost savings, but that may not be the best strategy. Focusing on more visible categories like air—with discount potential tied to travel patterns and airline pricing decisions that change hourly—can leave a lot of money on the table, while less obvious or visible areas can yield much larger savings of 20 percent to 40 percent. For example, travel agency fees usually represent about five percent of travel and expense spend, but few firms target agency fees as a source of savings, perhaps because they fear that negotiating agency fees will impact customer service, or that agency fees are nonnegotiable since they are tied to corporate credit card providers. Both of these concerns are invalid and, based on our benchmarks and past experience, savings of up to 40 percent are possible. Other less visible but high potential savings areas include corporate meetings (20 percent or more) and ground transportation (15 percent or more). Policy and compliance (discussed above) also have broad impact and can each drive savings of 10 percent or more.

Average Incremental Savings Achieved



* Travel Management Company

Source: Accenture benchmark data based on analysis of more than 300 projects and more than $1 billion in travel spend

3. Planes, hotels and automobiles—assuming certain common fees are nonnegotiable: In negotiating deals for large categories like air travel, lodging and car rentals, most firms put all their focus into negotiating the headline rate (i.e., the lowest daily car rental rate, the lowest hotel room rate). The big mistake here is assuming that most other items are nonnegotiable. As a result, you might be wasting money by overpaying ancillary fees that are inflating total costs and eroding the well-negotiated savings on the headline rate. What opportunities are you ignoring? In the case of air travel, these include baggage fees, premium lounge access and preferred seating. With rental cars, missed opportunities may include city surcharges, recovery fees and fuel purchase options. And with hotels, fees for Wi-Fi Internet access and fitness center access may also be overlooked. These fees can be negotiated but most firms do not take the time to do so. As a result, they waste significant travel dollars by focusing on the headline rates rather than the total costs.

4. Taking rebates instead of signing bonuses: Many volume purchase agreements for travel categories include rebates at the end of the period based on travel volume or spend levels. Rebates are good, but they require that you fulfill promised spend levels that may be challenging to meet if business conditions change. On the other hand, upfront bonuses or discounts, given at the time expenses are incurred, are far better. Aside from the time value of money, there is an additional cash flow benefit to an upfront signing bonus, not to mention that a rebate on already spent money does not account for the taxes paid when the money was spent.

5. Ignoring mistakes made in planning corporate meetings and events: The management of company meetings and events presents a whole new realm of potential travel spend management nightmares. Mistakes range from poor site selection to lack of integrated planning (considering the interplay of travel time/cost, scheduling and required amenities) to poor logic to poor negotiation. Optimal meeting planning requires an integrated approach. This means thinking about the most efficient meeting locations (least travel required for most attendees and travel accessibility), managing the agenda to minimize the number of lodging nights required, and taking a total cost of ownership approach to balance facility costs and services with lodging and other travel costs. With a large enough room block, meeting and facility costs can potentially be negotiated for next to nothing. We typically see savings of 20 percent or more when firms apply a holistic approach to meeting planning.

6. Turning a blind eye for fear of upsetting the executive suite: Even if solid policies and compliance programs are established and well-negotiated travel contracts put in place, double standards and inconsistent behavior from the C-suite can undo all of the productive work. Consider the message that extravagant dinners and bookings at five-star or high profile properties send to direct reports, who are staying down the street at a low-end hotel and flying home with a two-hour layover while the boss flies home direct in first class. Visibility, compliance, fairness and transparency should be hallmarks of an effective travel management program with policies that are enforceable and reasonable. Further, these policies should support executive efficiency and effectiveness without leading to extravagance.

Conclusion

Corporate travel is a substantial expense area, but most firms fail to realize how much travel waste is costing them because they ignore these six key areas. However, at one percent of revenue for most companies, travel expense is significant. Effectively managing this expense can drive results straight to the bottom line, and support continuous improvement and sustainable results. An optimized travel management program based on reducing travel waste rather than simply limiting travel is a real win for the corporation, its employees and often, its clients.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 293,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become highperformance businesses and governments. The company generated net revenues of US$28.6 billion for the fiscal year ended Aug. 31, 2013. Its home page is www.accenture.com.

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