



CONVERGENCE OF TRAVEL AND PROCUREMENT

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PROCUREMENT COMES OF AGE

Cost cutting is no longer enough for procurement. Increasingly, companies expect chief procurement officers to create value through innovation, creative supply chain management, analysis and cost reduction, according to recent studies from Aberdeen Group, AMR, A.T. Kearney, Gartner, IBM and others. This means gaining control over the 20 percent of services spending that they have yet to effectively control, including travel.

But it also means that CPOs will have to "become business partners, not just buyers. To break out of the buyer mindset, procurement organizations will have to focus on a bigger picture: the overall objective of the business and how they can help their internal customers to meet these objectives," stated the IBM 2005 Chief Procurement Officer Survey. Analyzing survey results from 50 CPOs and 250 other C-level executives, along with 45 interviews of CPOs, IBM said such executives could achieve success by also focusing on:

- "Exploring new value frontiers: It's not just about price.
- Pulling suppliers inside: The best value chain wins.
- Pursuing low-cost sources.
- Conducting the ultimate talent search. CPOs must equip their teams with necessary skills and expertise to address all of these challenges and, perhaps more importantly, they must do so in record time."

Echoing this view in a report card on procurement's advancement within corporations from 2000 to 2005, Gartner analyst Andy Kyte wrote, "Cutting costs in a recession is not the hardest part. The game is about to get significantly tougher as cutting costs in an inflationary environment is 10 times tougher."

Basic strategic sourcing competencies are relatively mature, stated the IBM CPO survey. However, procurement is now looking for ways to add more value. Asked to evaluate the importance of procurement savings over the next three years, 64 percent of respondents ranked it as "much more important." Global procurement also is increasing in importance, "yet the average procurement team lacks the expertise required to establish and manage contracts in different countries—particularly emerging markets," stated the IBM survey.

AMR research analyst Mickey North Rizza noted, "Companies are struggling with poor procurement performance, including reactive transaction management, little or no cost reduction and supply contracts, compliance and control, a large and unwieldy supply base, and unreliable supply. Procurement transformation propels procurement to a strategic value-adding function that can make a difference to the company's bottom line."

TRANSFORMATION

The early stages of this transformation have rocked both procurement and travel management over the past five years. But by all accounts, this is just the start of dramatic change expected in procurement over the next decade. This transformation will require new definitions, metrics, tools and skills to help companies remain competitive in a new global marketplace.

As procurement executives continue to transform the practices, policies and tactics of all purchasing within their organizations, they remain stymied by travel and meetings. Though it may represent a company's second- or third-highest expense, travel and meeting purchasing is often an anomaly. It uses perplexing vernacular, technology and third-party providers, as well as reams of documentation. And there's no doubt that moving people is vastly more complex than moving goods. Likewise, travel and meeting professionals are confounded by the questions, tactics, technology, practices, terminology and measurements that procurement officials propose.

HISTORICAL PERSPECTIVE

Travel management and procurement have both evolved considerably over the past 30 years. Today, both are visible to the CEO and success, or failure, can impact the bottom line. A convergence is underway, as travel managers recognize that they can learn a trick or two from purchasing and purchasing professionals see that travel may not be just like any other commodity.

As a profession, purchasing can trace its roots to the 13th century, but it wasn't until 1915 that the association now known as the Institute of Supply Management was formed. "Yesterday's supply manager pushed paper in a reactive environment. Today's supply manager is being asked to take a proactive approach to contribute

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TRAVEL MANAGERS REPORTING TO PURCHASING/ PROCUREMENT

2006 **35.4%**
2004 **24.9%**
2002 **23.5%**

*Source: National Business Travel
Association post-convention surveys*

to the strategic direction of the organization. Supply management strategy is recognized as a strategic weapon equal in importance to other functional areas of the organization like marketing, finance and production," according to a forthcoming report from ISM.

By contrast, travel management is an infant. Travel management got its start in the 1960s, but the role then was processing or overseeing the paper-based booking transaction. Following airline deregulation in 1978, the role for a new manager began to emerge.

"The term 'corporate travel management' was rarely heard before the 1980s. Historically, travel was more likely to be considered a routine and unavoidable cost of doing business; like any other commodity, travel services were purchased at market rates ... but times have changed," wrote author Jeffrey Lang in the 1994 book "American Express Guide To Corporate Travel Management." Travel managers had begun negotiating contracts with airlines, writing corporate policy and learning about the myriad technologies that book, control, audit and manage travel spending.

Between 1984 and 1986, the vast majority of corporations issued their first written travel policies, according to Runzheimer International's annual surveys. Today, fewer than 6 percent of corporations surveyed lack such a basic control. Over 60 percent of companies report annual policy reviews and updates. Volatile pricing, competition and new technologies taught companies that travel was indeed a controllable expense—the third largest, American Express began reporting.

"The average American company's travel and entertainment budget worked out to about \$900 per employee in 1982; by 1992 the cost of business travel averaged \$3,113 per employee, a 246 percent increase," according to the Amex book. American Express reported in 2005 that T&E comprised 15 percent of all indirect operating expenses, double the figure from the 1999 Amex study.

To control costs, travel managers honed their skills in policy writing, supplier selection, negotiation and supplier management. In the past decade, they have also found new success with online booking, data integration and other tools that allow them to control buying at the point of sale and reduce transaction costs.

CONVERGENCE

On parallel paths, procurement and travel management have long strived for respect that is commensurate with their contributions to the bottom line. As they seek senior-level support for policies and purchasing mandates, both positions have evolved from tactical, transaction-based responsibilities to more strategic, contractual roles. This evolution is accelerating.

Recent studies have highlighted the marked shift of travel managers reporting to procurement over the past couple of years. By all projections, that shift is expected to intensify as procurement oversees both corporate travel and meetings at the majority of corporations.

The size of the expense—combined with opportunities to more effectively manage it using tighter policies, better controls, automation and improved reporting—for several years has fueled increasing CEO, CPO and CFO interest in travel. Globalization, privacy and such other reporting requirements as those prompted by Sarbanes-Oxley also are focusing more attention on the policies, processes and strategies employed.

Under SOX, senior executives and auditors must verify that adequate processes are in place to safeguard company assets. Point of sale decision-making on travel quickly became a concern. In response, companies have been strengthening policies, mandating use of online booking solutions and corporate cards, and biasing booking displays to preferred vendors. Adequate process for T&E requires visibility, control and fraud prevention, said Concur Technologies CFO John Adair.

The cost of compliance to audit multiple—if not dozens—of T&E policies led to policy standardization at many companies. More recent guidance to public companies on the reporting of executive perks is also prompting new policies, procedures and audits of travel, including corporate aircraft and spouse travel.

In its Travel & Entertainment Expense Management report in August, Aberdeen found that 20 percent of T&E spend is out of policy, according to 296 respondents to a survey. Another challenge is lack of visibility into spend as 40 percent of those surveyed "use systems and processes that are only moderately automated and that vary throughout the company."

WHAT'S SO DIFFERENT ABOUT TRAVEL?

Some contend that travel is just like buying packaging, raw materials or any other specialty. But while travel services may comprise just one commodity category, it can involve hundreds of contracts. Like other service categories, travel is complex in that it is difficult to control, considered personal by employees and can quickly impact sales and productivity. Switching suppliers takes time, pricing can be mysterious, distribution is fragmented and comparisons are tough.

"No other expense category has these combined characteristics," according to TRX Travel Analytics founder Scott Gillespie.

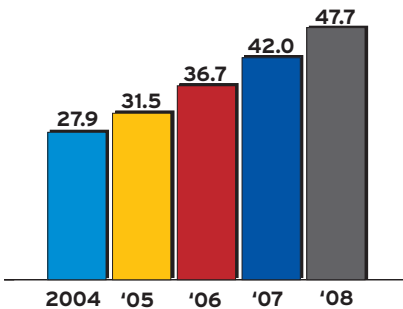
"Travel is like no other expense category when it comes to procurement discipline," the Aberdeen Group stated in its 2004 travel category spend management report, "Beyond Convenience and Safety: Making Visibility Payoff."

"The internal and external forces that impact travel management are emotional, economic, and political, making traditional purchasing procedures ineffective. As a result, travel expenditures have been difficult to control and optimize. Yet companies report that they see them as the second-largest controllable expense after salary and benefits today. Not surprisingly, greater than two-thirds of the companies that Aberdeen surveyed reported that their travel programs have seen an increase in cost management emphasis over the past two years. Although conven-

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ONLINE PENETRATION (%) OF U.S. CORPORATE TRAVEL MARKET



Note: included revenue U.S.-based suppliers (air, car, hotel) generated through online channels from corporate travelers governed by a corporate travel policy

Source: PhoCusWright

ience and safety had driven travel programs in the past, these factors are no longer the main impetuses of improvement."

Aberdeen's benchmark study revealed the top three drivers that now influence organizations to consider changes in the travel program:

1. The availability of better data on travel expenditures and supplier utilization.
2. Business executive pressure for further cost reductions.
3. The availability of benchmark information on travel service prices.

"With the emergence of business travel management as a strategic corporate function, business travel and its components are responsible for key missions through the entire corporate structure, contributing value to all elements of a company's productivity and financial performance," the report noted.

The key to managing corporate travel, consultant Gillespie said, is learning what balance senior management wants between cost savings and traveler satisfaction.

STRATEGIC PROCUREMENT

One of the problems that Education Management Corporation vice president of procurement Dr. Soheila Lunney quickly identified after her hiring was that the company's best interests were second to the traveler's. Prior to procurement's involvement in travel management, Lunney said, the program also suffered from an outdated travel program, high transaction costs, limited reporting, unused ticket losses and a lack of dedicated manpower to manage travel services.

In the progression to strategic procurement, Lunney conducted a spend analysis, consolidated the supplier base, developed commodity strategies and began strategic travel sourcing.

Travel management has been undergoing a dramatic transformation of its own. Over the past decade, corporate travel managers and management companies rescripted financing of their programs as airlines removed commissions—and some rebates—paid to those distribution channels. While tumultuous, the changes produced much-needed pricing transparency. Another major distribution financing change is underway now, although the cost implications remain fuzzy for most.

Automation is helping corporations drive processing costs out of their T&E management—anywhere from \$20 to \$40 per booking and per expense report, according to supplier estimates. The march toward online travel bookings has helped corporations slash millions of dollars in booking fees, as they shifted the process to travelers and automated solutions that apply policy, preferred vendors and other preferencing at the point of sale. As a bonus, managers also found that when given the choice, travelers booked lower fares.

To gather better data on travel expenditures, increasing numbers of corporations are adopting automated expense reporting solutions. These solutions integrate with corporate payment tools to pre-fill and organize expense reports for travelers.

PROCUREMENT REPORT CARD 2000-2005

Visibility of Procurement	A
Cost Reduction	B+
Spend Analysis	C
Workload Planning	C-
Contract Management	D
Procurement Governance Model	D-
Customer Service	Fail

Source: Gartner Global 2000 Enterprise Procurement Report Card, April, 2006

But managers are still struggling with communicating policies, driving further savings and securing accurate, timely data on all expenditures. Some are looking at a new breed of portals that combine traveler communications with expense, booking and other tools. Such portals also can drive much-needed clarity on spend and policy violations for business-unit or financial managers responsible for a travel budget.

They also are working on new metrics to measure not only the rise in costs, but their ability to control the increases. Much of the travel management reporting of the past decade has focused on metrics that travel management cannot adequately control. Working with internal teams, or suppliers, travel and procurement executives are devising new metrics that reflect industry increases, as well as their own means to control them. Benchmarks—against other divisions, competitors or simply other companies with similar travel strategies—are the latest ways that corporations are trying to paint a more accurate picture of their performance.

EXPANDING RESPONSIBILITIES

Managers also are looking outside the bounds of their traditional responsibilities—into such issues as parking, spouse travel, meetings, meals and even mobile phone use—to craft more effective policies and metrics to control such expenses. Some also are taking a more proactive role in distribution decisions since facing new costs based on how each airline ticket is booked.

Meeting management is a hot area of policy development and procurement structure for many corporations that have identified millions of dollars in category spend. By applying policy and a little technology, corporations can quickly pro-

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— ABERDEEN GROUP



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duce visibility into this expense and the savings necessary to drive even deeper penetration. Such technology is also instrumental to providing an audit trail to prove the existence of adequate internal controls for SOX compliance. Such controls include new policies and procedures to detail a minimum number of bids and how a corporation evaluates and contracts meetings.

In a report card on enterprise procurement's progress from 2000 to 2005, Gartner's Kyte graded procurement's visibility an A; however, he labeled customer service a failure. "If there is one thing that you need to do in procurement organizations around the world, it is to transform the culture from a policing culture to a service culture," said Kyte.

Travel and meeting management have focused on service since their inception.

CONCLUSION

While travel itself has unique characteristics, managing and buying it are undeniably on a path that adopts strategic procurement methodologies. Smart companies are employing the best of both disciplines, recognizing their importance to the overall business mission and elevating the status of travel procurement professionals.

World-class procurement executives build organizations that have a much more strategic staffing mix than typical companies, with 63 percent fewer clerical staff and 31 percent more professionals, according to new research from advisory firm The Hackett Group. As a result, these organizations have fully-loaded wage rates that are 41 percent higher than typical companies.

"To do this, world-class procurement executives need more skilled and qualified employees," according to Hackett Senior Business Advisor Pierre Mitchell. "This is why they pay higher wage rates and invest aggressively in talent-management strategies designed to retain and develop their staff. The training pays off as well, because employees at world-class procurement organizations have higher degrees of competence in the key skills required to undertake processes such as pricing and cost analysis, sourcing and supplier management. The superior performance metrics of world-class procurement organizations directly correlate to these investments." ■

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