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Leakage: The Leverage Corporate Travel Managers Need To Tap

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Recently I was asked to participate in the Fall Advisory Council meeting of **Travel and Transport**. The company regularly picks up the tab to bring in its major clients -- corporate travel managers who work with companies that range from mid-sized domestic to large international conglomerates -- in an attempt to get a hands-on feel for what is on their minds.

I am a big fan of companies that do this.

But this year **T&T** had another reason to bring everyone together. And it was a pretty good reason.

The company has recently partnered up with one of its major international clients (which shall remain nameless) to assess the amount of "leakage" that the company was experiencing in the management of its corporate travel program.

For those of you unfamiliar with the term, "leakage" in this context refers to travel arrangements -- air, hotel, and car rental -- that are made by employees of a company ad hoc, without adhering to existing corporate travel agreements.

The reason for this test program?

It was **T&T's** belief that enough "leakage" could be identified and then controlled that the corporate travel budget of this company could be maintained at its current levels, without the corporate travel management policies having to be tightened further, i.e., forcing employees to fly coach on international flights, forcing them to lower-tier hotels, etc.

A couple of caveats.

One, the corporate travel policies of this particular company were already, in the words of one **T&T** executive, "very tight." Prior to the company experiencing a change of its CEO a number of years ago, this had not been the case.

But in the last couple of years contracts had been renegotiated, hard and fast guidelines implemented for employee travel purchases, and overall, the head of the company's corporate travel program felt that the program was now being run fairly efficiently.

The only problem? With a zero overhead growth budget mandate from above, the corporate travel department was faced with trying to reduce travel spending even further -- but how do you do this when demand from your employees for travel continues to grow? How do you do it when you know, if you try to push employees into travel situations that are unpleasant, that they will buck up against the changes and then attempt to circumvent them anyway they can?

Enter the folks at **T&T**, who proposed that the company agree to be a guinea pig for a new test program that would give the company "end to end" visibility in terms of its travel expenses.

Okay, I can hear the groans now. What is so special about this? Don't corporate travel managers get deluged with "reports" every month? If not *every week* on how much is being spent and where?

As Nancy Rissky, VP of Client Services with **T&T**, asked those in attendance, "Do you ever *read* these reports?"

But whether the reports are read or not, the bigger question is just exactly what data is in those reports -- and according to **T&T**, it's not enough.

As a result **T&T** sat down with their client, and their client's bank, to devise a new way of looking at the company's travel expenses. From "book to bill."

Another caveat. This process was made easier because this particular company has a strong corporate card T&E policy in place. Very few travel-related transactions (they think) are currently being made "off-card." Then again, that is another metric that will be looked at in the future -- and given the results of their first audits, it will certainly be interesting to see how much T&E *is* being booked using other credit cards.

But for now -- the assumption is that the bulk of the company's travel-related purchases are made using the company's designated corporate card. A card that is managed by **U.S. Bank**.

As a result, this made tracking the "book versus bill" transactions much easier.

T&T worked with client to set up a direct download from clients T&E expense reporting tool. These were then directly compared to those transactions that had been booked through **T&T** on behalf of the company.

The results were, as Nancy put it, "jaw-dropping."

I might add that the head of the corporate travel department of said company was in total agreement. She said that they had no idea so much business was being done outside of the company's established corporate travel guidelines.

I stress again that this company has in place one of the most comprehensive and stringent travel policies. The company culture is also one that stresses cost control. This is not a company that lets the travel department more or less continue to "do what it's done" primarily because in the big picture travel expenses represent such a small part of a company's overall expense total. Far from it.

In fact, travel-related expenses account for only about 1% of the company's total expenses. But that has not stopped the company from putting in place mandated policies. Of that 1% -- airlines make up about 34% of the total, with about 90% of that spent on a domestic basis.

So let's get to the good stuff.

After a review of only 3 weeks of data, **T&T** found 124 airline tickets that had been booked outside of **T&T**. This represents about 1/2 million dollars of travel. In only three weeks. Not only that, but 32% of the tickets had been purchased by employees who had done the same thing more than once during that single three-week period. Translation? This was not just a one-time thing.

On the hotel side, the numbers were even worse...or better...depending upon your point of view, as **T&T** discovered 3,000 hotel nights that had not been purchased through **T&T**. Or, about 52,000 on an annual basis.

As for rental cars? In three weeks there were 450 rental car days purchased outside the **T&T** program.

Yes, the exercise continues, and yes, it will be expanded, as I noted, to also look at those travel expenses that are not being made using the company's corporate card.

But the ramifications of these findings are obvious.

First, the assumption at this point is that overall, because the purchases are not being made at the company's negotiated rates, this "leakage" is costing the company money. Probably big money.

But no matter how high that figure may be -- and calculations of that number are going to be added to the mix at some point -- the bigger issue for a corporate travel manager is the resulting loss of leverage in negotiating with its contracted vendors, such as airlines. All of this travel being booked outside the company's travel policy is "off-contract." And in the case of this particular company, we're talking about a heck of a lot of leverage that's being lost when that company goes to talk turkey with its airline partners.

So why does this happen?

According to those in the session -- a couple of reasons. One is loyalty programs. Yes, that's right. Especially with hotels. Employees who belong to a certain frequent-flyer program or hotel loyalty program want those upgrades. They want those points. And this obsession can very often lead to "rogue" purchases.

Secondly -- and I found this to be very interesting -- more than one corporate travel manager, not just the manager of the company involved with the test program, cited **Southwest Airlines** as a thorn in their side in terms of employee compliance. Why? Because it appears to be the airline of choice when employees book reservations on their own. Why? Because as one manager put it, "Our employees are not aware of our contracted rates and airline agreements -- they simply go online and they think that **Southwest** has the lowest fares. So....they make the reservation."

That is worthy of a whole 'nother discussion. But not today.

The bottomline to this exercise?

When **T&T** and this particular company decided to try to pinpoint leakage from the company's established travel policies, it was "optimistically" hoped that at least \$5 million annually could be obtained in savings.

That number, as both sides now agree, looks very, very, very, low.

Interesting point concerning the employee doing the compliance work. Both **T&T** and the company agreed that this person needs to be much more than a usual "enforcer" accounting type. No, the person needs to know about travel, needs to understand the complexities involved, and needs to be able to communicate to employees in a way that is neither accusative nor condescending.

Abuse of other T&E spending? As was mentioned in the discussion, it's probably there as well, and at some point the company will now also use these direct feeds to cross-check with their own internal expense reports.

But for now, the emphasis is on airline tickets, hotel rooms, and rental cars.

How difficult was it to set up the direct feed from the expense reporting system to the company?
Not very. From start to finish it took about 3 weeks.

I found the numbers here staggering.

And hey, this small, relatively simple, exercise also points up another problem that only continues to grow. And that is: how do companies track all those fees that are being paid to the airlines?

Will the GDS companies step up and start offering travel management auditing such as this to corporations? Should airlines themselves step into the mix (I could argue a number of reasons why this would make sense) or are smaller companies such as **T&T** going to be the ones nimble enough to be able to step in and do the job most effectively?

This exercise shows that there are more effective ways to save money on "corporate travel" than the knee-jerk reactions that many companies have embraced over the last year or so, i.e., dramatically cutting back on all travel spending, and/or forcing employees to stay in second-tier hotels or fly at less opportune times.

It also shows that corporate travel managers have a method they can use that will not only make them a star in the eyes of top management because of the money saved, but which also gives them more leverage when its time to step up to the negotiating table with their various airline, hotel, and car rental vendors. Which in turn, should mean even more money saved.

Win-win.

~ -Holly Hegeman
Founder, CEO and Publisher
PlaneBusiness

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