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EXECUTIVES

Post-Recession. Has the Travel Management Landscape Changed Permanently?

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Corporate travel has certainly changed over the past two years, but are these changes permanent? This **AirPlus International/ACTE** whitepaper examines the current travel management landscape, whether it will return to where it was before the recession started or if it will be forever changed. Further explored are the implications for travel managers today and in the future.

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Introduction

The recession has had a profound effect on corporate travel. According to figures quoted by interviewees in this white paper, companies are taking around 15–20% fewer trips, while the amount they spend on travel has fallen by anywhere between 25% and 40%.

Some quick conclusions can be drawn from these numbers. First, although trip volumes are falling partly because many business travelers have lost their jobs, that is not the whole explanation. There must also be fewer trips per employee. Next, if spending has fallen at almost twice the rate of trip numbers, then companies must be gaining much better control over their travel spending. Finally, if spending is down so drastically, then travel suppliers must be hurting.

So much is clear, but what is less clear is whether this is a temporary state of affairs. Looking beyond the recession, has the landscape of travel management changed for ever? Will lower trip numbers per employee, firmer control over spending and the crisis among suppliers be permanent? And if so, how should travel managers adapt to the new reality?

This white paper attempts to answer all of the above questions. To some, the questions may seem unnecessary, because after previous economic crises the corporate travel marketplace has more or less returned to where it was before the downturn started. However, many travel professionals believe this recession has been different and this time there will be no corrective swing of the pendulum. If that is true, then the need to look forward becomes critical so that travel managers can distinguish between the lasting changes and the merely cyclical changes. We aim to start that investigation here.

Executive Summary

Findings and Top Tips



Survey findings

No recovery in travel spending in 2010

A survey of 99 travel buyer members of ACTE conducted in September 2009 found that only 17% think they will spend more on travel in 2010 than they have in 2009. Almost half (47%) expect to spend the same but 36% believe they will spend even less.

Recovery by 2014 – perhaps

71% of the ACTE buyers believe spending in 2014 will surpass 2009 levels, although 17% expect it to be the same as 2009 and 12% think it will be less. However, the experts interviewed for this white paper are less sure and there are doubts whether spending will return to pre-recession levels (see below).

Extensive measures introduced to control spending
Around half of respondents have introduced or increased each of the following measures:

- > banning some or all travel; downgrading class of travel
- > requiring pre-trip approval
- > requiring advance booking
- > tougher enforcement of policy.

A much higher proportion (85%) have replaced some travel with virtual meeting alternatives.

Tougher controls retained so far

Four-fifths of respondents have not relaxed any of the restrictions they introduced earlier in the economic crisis. The only control which has been relaxed significantly is a total or partial ban on travel.

Controls will outlast the recession

In excess of 80% of buyers who have introduced each of the following restrictions expect to retain them even after the recession finishes:

- > replacing travel with virtual meeting alternatives
- > requiring pre-trip approval
- > requiring advance booking
- > tougher enforcement of policy.

Just under half (46%) expect to retain policy downgrades, while 37% will retain bans on some or all travel.

Cutbacks were justified

Only 12% believe their company has cut back too far on travel. A larger number (19%) think they did not cut back enough. Similarly, only 11% believe they have downgraded policy too far, whereas 14% feel they did not downgrade enough.

Buyers gain most negotiating traction with hotels
An overwhelming 88% of buyers believe the recession has created more favorable negotiating conditions with hotel suppliers. The figure falls to 63% for car rental and 57%, while among intermediaries there are more favorable conditions with TMCs for 50% and payment service providers for 31%.



Which changes to corporate travel will be permanent?

Volume

Trip numbers will not return to pre-recession levels in the next twelve months and although there is a general view that volumes will recover by 2014, it is not unanimous. A significant minority believes companies will never again spend as much on travel in the future as they did in the past. There is even stronger consensus that number of trips per employee and travel costs as a percentage of corporate revenues will never be as great again.

Control

Although there is divergence of opinion on trip volumes, there is almost universal agreement that businesses will not relinquish the tighter control they have gained over their travel programs during the recession. There will continue to be control over how much travelers spend on a trip, and also over whether they take the trip at all.

Virtual meetings

Businesses have stepped up their use of technological alternatives to travel, such as web conferencing and TelePresence, and these will not disappear. They have permanently replaced some meetings that would otherwise take place through face-to-face contact, predominantly for internal purposes.

Status of travel management

Travel management will continue to command its newly enhanced status within corporations. Senior managers have become more engaged because they now understand they play an important role in influencing traveler behavior, and that in turn traveler behavior is the key to controlling travel costs. Greater involvement from senior management is a mixed blessing for travel managers. While it secures backing for their strategies, it can sometimes lead to unhelpful interference.

Strategic planning

The recession has made travel management less reactive and more strategic. The shift will be permanent because companies are benefiting from it. There is more planning of costs in advance so budget holders can decide whether a trip should proceed or not.

Buying best-on-day versus contracted fares

More companies are turning their backs on negotiated deals, and it may be difficult to resume preferred supplier relationships once the market turns. Balancing the use of contracted versus spot rates is likely to become an increasing dilemma for travel managers.

Consolidation

Corporations have found it easier to impose their travel program across their business, for example by consolidation with the same travel management company or payment services provider. Once again, the clock will not be turned back on this trend because it is providing results.



85% have replaced some travel with virtual meeting alternatives.

How should travel managers adjust to the New Landscape?

Be self-critical

Be vigilant about whether tighter rules are hurting travelers or hurting the company (e.g., by suppressing travel which should take place because it would be productive). That means not only listening to travelers but being prepared to advise senior management that policies and procedures should be relaxed.

Lock in your gains

Tidy up changes you have made to your travel program to ensure they are robust and logical. The program will need to be impervious to criticism as the recession lifts and pressure grows to reverse it.

Keep communicating

You need to explain why controls introduced during the recession make just as much sense when the recession finishes.

Think strategically

Now that you command higher status internally, become more engaged politically and strategically – for example by ensuring your travel program ties into key corporate objectives like risk management.

Consider “why” as well as “how”

Becoming a more strategic thinker includes engaging more with the reasons for corporate travel. Investigate how your company can separate necessary trips from unnecessary ones.

Build best-on-day buying into the travel program

The reality that many bookings are now made through spot buying should be built into negotiated agreements with suppliers, and in the way TMCs are instructed to research trip itineraries.

Take the long-term view

Enjoy the buyer’s market with suppliers while you can but remember that it is not permanent. You will have to work with the same suppliers once the market turns.

Permanent Reduction

Have Companies Reduced Their Travel Permanently?

2009 versus 2008 – fewer trips, less spending per trip

It is almost universally the case that companies are traveling less in 2009 than in 2008 and that they are also paying less per trip.

Figures revealed by interviewees for this white paper are:
2009 v 2008 in percent

	Fall in transactions	Fall in spending
e.on	15	30
Merck	17	30
FCm Travel Solutions ¹	17	40
AirPlus International ²	17	26

¹ Based on spending of UK clients retained from 2008-2009

² Based on January-June air spending of German clients retained from 2008- 2009

Companies are traveling less partly for the simple reason that they have fewer employees but also because they are working harder to eliminate unnecessary trips. Spending is falling at an even faster rate because of downgraded policies and more cost-conscious buying decisions by travelers.

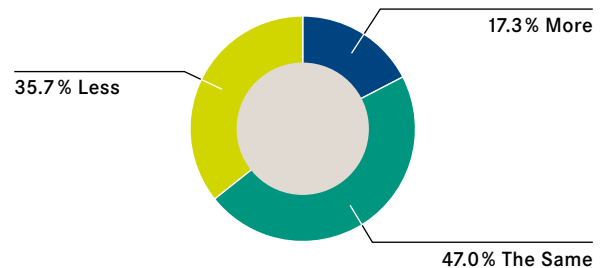
“We are seeing far fewer missed savings than a year ago,” says Alex Cousins, director of account management for the travel management company FCm Travel Solutions UK. “Until then, companies were relaxed about their travel spending because business was booming.”

A breakdown of the figures from AirPlus International indicates that larger companies, which tend to manage their travel programs much more actively, have been the most successful in cutting costs. AirPlus’s larger German clients (those spending more than €10 million annually) experienced a 10% fall in transactions but a 27% fall in spending, while small clients (spending less than €500,000) recorded a 12% fall in transactions and a 21% fall in spending.

2010 versus 2009 – little prospect of a quick recovery

In spite of improved economic news in many markets since late summer 2009, as well as signs of a halt in the slump in travel bookings, the outlook for corporate travel remains depressed. A survey of 99 ACTE buyer members polled exclusively for this white paper in September shows few hints of an imminent corporate travel revival. Only 17% believe they will spend more on travel in 2010 than in 2009, while 47% think it will remain flat and 36% expect it to fall further still.

Compared with what your organization has spent on travel in 2009, will your spend in 2010 be:



Travel managers and other experts interviewed for this white paper are a little more confident about next year than the survey respondents. They forecast flat or increased spending, led by countries where economies are recovering fastest. They already observe some growth in Asia and in sectors which have been hit less severely by the recession, including pharmaceuticals and chemicals.

One pharmaceuticals company which believes it will travel more is Merck. “We expect an increase next year,” says director of travel and fleet Christoph Carnier, who predicts a distinct upturn in the second half of the year. “Our 2010 spending will be at least the same as in 2008. My expectation is it will be difficult to get availability on some flights. Our average ticket price is already beginning to rise again in Germany.”

Three factors which could affect corporate travel recovery

The macro-economic view from Frank Fischer, chief investment officer of investment management company Shareholder Value

Debt

Fischer is not convinced that recent favorable news on growth in the equities markets and the GDP of some economies spells the start of sustained recovery. He believes most improvements to date can be attributed to \$7 trillion of economic stimulus by national governments. “The question is what comes after that?” says Fischer. “The level of debt in the US, which is the world’s biggest consumer market, is huge. Getting things going again could

take a long time. We may move along at a lower level for years because it will take a long time to clear the financial problems off the balance sheet.”

Globalization

Globalization has arguably been the engine of business travel growth over the past two decades. Fischer has mixed feelings about whether this will be sustained. “The growth rate of globalization is not going to continue,” he says. “One major effect of the recession has been on the perception of India and China, which have realized that they cannot depend on selling to wealthy nations and cannot control this trade to the same extent as their internal markets.”

However, although Fischer thinks the growth of globalization will slow, he does not believe it will halt or retreat, because Western companies will continue to source from cheaper markets. There will also continue to be opportunities in those markets as their populations become more prosperous consumers and adopt Western diets and other habits.

Risk management: expansion or cost-containment?

“Cost-consciousness is here to stay,” says Fischer. “A lot of companies tried to grow too fast through mergers and acquisitions which made them highly leveraged. However, now is a good time to buy because stock prices are lower, especially for companies which have been prudent and can raise funding from banks after proving they can be trusted.”

2014 versus 2009 – higher volumes, but maybe not as high as 2008

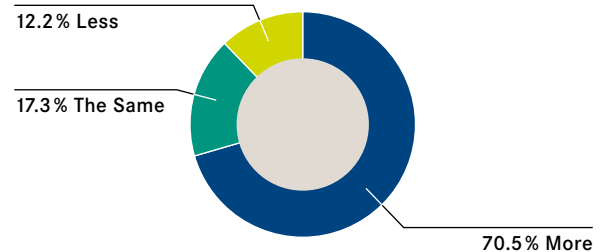
In previous recessions, there has always been an assumption that the downturn was merely delaying an inexorable upward trajectory in business travel growth. This time is different. Although a sizeable majority of ACTE travel buyers (71%) believe they will spend more in five years' time than they do now, 17% think their spending will be unchanged and 12% expect it will actually fall.

Perhaps an even more pertinent question would have been whether buyers think their company will spend more in 2014 than they did in 2008, when levels of travel hit historic highs before the recession struck. Opinion among experts interviewed for this white paper is mixed on this question, but the consensus seems to be that it will be many years before companies return to traveling as heavily as in the pre-recession era, if at all.

One person who disagrees with this thesis is Christoph Carnier. "We will definitely travel much more than today because we are entering new markets," he says. "We will employ more people around the world and therefore travel will increase."

David Radcliffe, chief executive of the global travel management company HRG, agrees. "I am not a believer that travel will shrink forever," he says. "There will always be a need to meet face to face, and merger and acquisitions activity will push up. What we will see is a continuation of the disciplines around travel, especially the requirement to justify travel and the mandating of travel policy."

Compared with what your organization has spent on travel in 2009, what do you foresee your company's spend will be in 2014:



Radcliffe believes control will be retained because the current recession is entirely different in nature from other post-war economic downturns. "It has been driven by the fundamental economics that also drive a corporation: the ability to borrow and the ability to drive investment," he says. "The recession has taken away the ability of companies to spend and that has caused them to change the way they work."

There is widespread agreement with Radcliffe among the other interviewees that companies will not relinquish the improved disciplines they have introduced into their travel programs. Where there is less agreement is whether these newly gained controls will remain so tight that travel volumes will not recover. "Compared to today, yes, there will be more travel, but perhaps not as much as before the recession," says Huub Smeets, president and founding partner of the travel management consultancy Simacon.

Similarly, AirPlus International, sponsor of this white paper, is building its projections on the assumption that corporations have permanently readjusted their attitudes towards travel and that this has removed at least four or five years of growth.

Even if volumes do eventually return, what at least seems likely is that travel as a proportion of corporate revenue will never resume its previous levels. This is the view of Anja Schaper, global travel manager of e.on, and also of the head of strategy and planning for general procurement at EADS. “We expect EADS to expand worldwide but we are looking to keep a cap on travel so it does not grow at the same pace as the expansion of the business,” he says.

Case-study: e.on – no turning back the clock

Assuming there are no major structural changes to its business, e.on global travel manager Anja Schaper forecasts her company will further optimize its travel program to spend roughly the same or even less on travel in 2014 compared with 2009. However, on one point Schaper is certain. “The number of trips per employee will not go up,” she says. “We used to have a lot of internal travel but many of those meetings are now done by telephone or TelePresence. Cost-consciousness was very strongly requested by our management and we will continue to keep down internal trips.”

“We have not suffered from the recession as much as some industries but we see the need to be aware of cost. You have to ask the question: has all travel activity in the past been necessary, and to be honest it probably has not, or at least the number of travelers per meeting have often been higher than necessary. I am absolutely convinced that we will not see trips per employee return to previous levels.”

Re-evaluating the purpose of travel

Schaper has asked a crucial question: is all travel activity necessary? This begs additional important questions: how can companies decide whether a trip is necessary? And will making these decisions, or more likely providing the tools to make such decisions, be the central task of travel management in future?

Volker Huber, senior vice president for global sales & solutions with AirPlus, believes this will be the case. “Companies are looking at why they travel,” he says. “Travel management is no longer just buying a ticket. It now starts with ‘should we buy a ticket?’.”

Whether such a question can be answered in a formulaic, perhaps even automated, process is another matter. This would require inputting of data on the likely return on investment to be gained from a trip, and although research is under way in this area, it remains an infant science.

Many factors must be weighed in the judgment of whether the investment in a trip can be justified, but at least the introduction of pre-trip approval systems is forcing assessments of some kind, even if highly subjective, to take place. Merck's Christoph Carnier thinks ROI evaluation will remain a low-tech process. "For me, the best way is the old-fashioned one, which is for an employee to speak to their superior," he says. Carnier points out that not all trips produce an immediately quantifiable benefit. Instead, they could be about building relationships. Decision-making on points as fine as this must be done on a case-by-case basis.

Providing virtual alternatives

Perhaps a more answerable question than whether a trip is worthwhile is whether it can be substituted by cheaper virtual alternatives, like video-conferencing. As will be seen in the next section, virtual communication appears finally to have become accepted in many companies as a permanent replacement for a portion of their travel.

If that is the case, then the next five years could see more businesses taking greater steps towards managing travel and its alternatives in an integrated manner. e.on's Schaper believes travel managers will evolve into mobility managers for precisely this reason. "They will have a broader picture of being mobile," she says. "Is mobility always to travel, or is it to bring your ideas and concepts across?" Mobility management could be about balancing the communication requirement with the cost-effectiveness of different ways to meet that requirement.





Controls

Which Controls Will Be Retained?

One of the main goals of this white paper is to understand in detail:

- how companies tried to reduce travel costs when the recession began
- whether they have subsequently relaxed those controls
- whether they will retain the controls after the recession ends

The answers show that most companies used several different methods to bring down costs. According to FCM Travel Solutions, corporate clients have never previously placed so much emphasis on

comprehensively reviewing all aspects of their travel activity. The survey also shows that very few companies have relaxed the controls they imposed. A high percentage also intend to retain the measures in the long term.

Generally, each cost-cutting measure suggested in the survey has been adopted by half of respondents (switching from air to rail is a special case because it only applies in limited markets). The one measure which stands out much more than any of the others is replacing travel with virtual alternatives. No fewer than 85% say they have done this in their organization.

ACTE buyer members were quizzed on seven different cost-reducing measures with respect to three questions:

in percent

	Which of the following measures has your organization introduced / increased use of since the recession began?	Have any of the measures you selected been subsequently relaxed?	Which measures that you selected do you expect to retain into the future beyond the end of the recession?
Banning some or all travel	49	13	18
Downgrading class of travel / hotel accommodation	50	5	23
Replacing some travel with virtual meetings (e.g. TelePresence, Web streaming, telephone conferencing)	85	8	72
Pre-trip approval	48	1	39
Advance booking	51	5	43
Tougher enforcement of policy (e.g. refusing non-allowable expenses)	55	5	46
Switching from air to rail for financial reasons	12	0	9
None of the measures has been relaxed	n/a	80	n/a
I do not expect us to retain any of these measures	n/a	n/a	5

What measures have companies taken since the recession began?

Restricting some or all travel

At the height of the economic crisis in Q4 2008 and Q1 2009, some companies imposed a total travel ban, but expert interviewees say no businesses have continued with this emergency measure. Instead, they are turning the screw on trip numbers more intelligently. In part, this is through policy changes, such as banning certain types of internal travel or limiting the number of employees allowed on a trip. Another route is through process changes such as introducing pre-trip approval (see below).

However, as well as managers refusing trips, there is substantial anecdotal evidence that employees are also requesting fewer trips. Reasons include not wishing to seek approval from senior managers (as high as CEO level in the most extreme cases) and not wishing to travel in lower classes.

Both these reasons may explain recent analysis by AirPlus of flight bookings by its German customers. It shows long-haul, and therefore more expensive, flights as a proportion of total bookings fell from 12.5% to 10.8% in the first half of 2009, and international European flights fell from 36.2% to 33.3%, whereas domestic flights rose from 51.3% to 55.9%.

Case-study: Merck

Merck attributes its 17% drop in transactions this year to a combination of managers refusing trips more often and travelers becoming more self-disciplined. “Everyone has been asked to think twice about whether their trip is necessary,” says director of travel

and fleet Christoph Carnier. “The biggest potential cost savings lie in finding which trips are not necessary. We ask questions like: ‘Do four people have to travel to the same meeting? Wouldn’t two or three be sufficient?’ or ‘Do we need an on-site meeting for this topic? Couldn’t we use a conference call instead?’.”

There has been a big drop in the number of colleagues going on the same trip and Merck has also attacked costs by introducing a policy that flights more than €200 (long-haul €300) more expensive than the lowest available fare require written approval.

Downgrading

Exactly half of survey respondents have downgraded class of travel and/or accommodation for their travelers. This finding is supported by AirPlus’s transaction figures, which show that the percentage of tickets booked by high-spending German clients in business class almost halved between the first halves of 2008 and 2009, down from 18.1% to 10.7%. From 2007 to 2009, the number of bookings on low-cost carriers by high spenders shot up from 19% to 28%.

Travel managers have had to take care to ensure that downgrading is meaningful rather than symbolic, especially as higher-class travel is occasionally cheaper than lower-grade alternatives. For example, Merck has attacked hotel costs by reducing the maximum permitted daily rate, not by creating rules on which standard of accommodation may be used.

Some companies, especially in continental Europe, have downgraded travel but found a quid pro quo to keep travelers happy. “They are telling travelers to fly at the back, for example, but allowing them one additional night at the destination to recover after a



long-haul trip,” says Volker Huber of AirPlus. “The trade-off helps with workers’ councils but still works out cheaper for the company.”

Virtual meetings

An overwhelming 85% of respondents have replaced some of their travel with virtual conferencing. Not all of this is cutting-edge technology, such as web conferencing, TelePresence or even more conventional video-conferencing, although all three travel managers interviewed for this white paper say their companies are using these tools. In many cases a business may simply be using telephone conferencing. However, the economic downturn has helped prove to companies that they can substitute virtual alternatives for some of their travel.

Case-study – e.on

e.on believes 10% of its drop in travel transactions over the past year can be accounted for by virtual conferencing substitutes. It has installed TelePresence rooms in all its major locations, replacing many board and project meetings. It is also conducting much of its training online using WebEx.

Pre-trip approval

Almost half the ACTE respondents (48%) have introduced or increased their use of pre-trip approval. The surge in popularity of this method can be attributed not only to the recession but to improvements in the automation of approval processes, especially in workflow.

Advance purchase

Once again, transaction figures from AirPlus confirm the survey findings of a swing towards more advance bookings. Among high-spending AirPlus clients, the

average number of days that flights were booked in advance in business class jumped from 5.7 to 7.8 in the first half of 2009. However, for economy class the figure fell from 13.5 to 13.4, although this was after two years of growth.

Another noteworthy point in the AirPlus figures is that across all booking classes the average number of days booked in advance by higher spenders was 12.9, whereas for lower spenders it was 18.1 days. It suggests that this is one respect in which managed travel programs lag behind smaller, less managed ones. One solution, advocated by Huub Smeets of Simacon, is for companies to mandate how far in advance travelers should book their flights and then to publish a list of departments which violate the mandate most frequently.

Tougher enforcement of policy

According to the ACTE buyer survey, this has been the biggest change to travel programs, other than the introduction of virtual conferencing. Over the past year policies have been strengthened from recommendations to mandates, and companies are applying tougher sanctions against those who violate policy.

Communication is also being stepped up, with CEOs and CFOs visibly endorsing policy and more naming and shaming of those who break rules.

Shifting from air to rail for financial reasons

This appears to be a trend particular to Germany. “We have changed our travel policy to train-only for domestic trips,” says Merck’s Christoph Carnier. “There is no benefit to flying unless you are meeting at the airport. Rail is normally cheaper and carbon emissions are lower.”

However, rail is not necessarily the cheaper alternative everywhere. Average rail ticket prices in the UK have fallen sharply in the UK over the past 18 months thanks to the introduction of low-price one-way advance fares and greater use of online rail booking tools, yet at the higher end of the fare range rail compares less well, especially for those obliged to book at short notice. “We are seeing a slight return to air on UK domestic routes,” says HRG chief executive David Radcliffe. “Fully flexible first-class rail travel has become more expensive than flying.”

Booking online

One response not covered in the survey is moving online, but there have been several reports that clients who previously resisted have finally succumbed to the promise of lower process costs and ticket prices. FCm Travel Solutions UK has experienced a 150% increase in conversions to online in 2009.

Have companies relaxed measures introduced during the recession?

No – or, at least, very little. In the ACTE buyer survey, 27% of those who introduced bans on travel have now relaxed them, but the percentages of those who have relaxed any other controls are all in single figures. In part, as will be discussed later, this is because they may never let go of the changes even when the economy improves, but it also reflects substantial concerns in the corporate world that, in spite of promising indicators, it may yet be some time before the recession ends.

Upgrading

However, a faint breeze of change is in the air, according to Michael Fuerer, Germany country manager for AirPlus. He has noted that companies are at least thinking about what comes next and

how, for example, that may affect policy on class of travel. “Not many companies have relaxed their policies, but discussions from before the recession about traveler health and safety are returning,” says Fuerer. “For example, how healthy is it to fly inter-continental in economy and then go straight into your first meeting? Companies are talking about possible upgrades.”

Alex Cousins at FCM is already seeing this happen in a limited way. “Some companies that downgraded to premium economy on long-haul routes have gone back to business class but are raising the minimum duration of the trip from six hours to eight,” she says. “They found the policy downgrade was not always helpful because not every airline has premium economy and discounted fares in business class are often lower.”

Pre-trip approval

Only 1% of survey respondents have removed any pre-trip approval processes, but Huub Smeets of Simacon says he has seen some clients do exactly this. “Pre-trip approval has value but it can be an administrative burden,” he says. “Perhaps they should rely instead on post-trip management information, highlighting employees who spend heavily.”

Will the measures be retained once the recession ends?

Generally, yes. If the ACTE survey responses to this question are considered as a percentage of those who introduced or increased the controls in the first place, then more than 80% believe they will retain virtual meeting alternatives, pre-trip approval, advance booking and tougher enforcement of policy. Using rail instead of air (for financial reasons) is not far behind at 75%.

There is far less certainty about whether downgrading of policy will be permanent – only 46% of those who have downgraded think it will stay – and still fewer (37%) expect to retain full or partial travel bans. That means only 18% of all respondents have introduced full or partial bans and also believe they will keep them.

It is also the overwhelming view among the white paper interviewees that most controls will stay. “They will remain in place because there is big savings potential and it has not caused a lot of hassle for travelers,” says e.on’s Anja Schaper, speaking for many. “The balance between service, comfort and cost is still okay, so there is no need to take the changes back. For example, our travelers can still fly business class in long haul but on flights in Europe it is no pain for them to sit in economy.”

Downgrading

In line with Schaper’s remarks, many experts think companies which have downgraded from business class for long-haul flights may return to the front, albeit for a smaller proportion of trips (e.g. for senior executives only, or for flights over eight hours). They also expect airlines to make attractive offers to win back premium passengers, and some airlines have said they are reviewing whether to repackage their business cabins minus some of the luxury trappings for a lower price.

On short-haul routes, however, there is a firm expectation that travelers will not return to business class.

Virtual alternatives

With 85% of respondents saying they have replaced some travel with virtual alternatives and 85% of that group saying the substitution is permanent, it is clear the age of the virtual meeting has finally arrived.

There is no suggestion that technology will replace all

face-to-face meetings, especially those with clients and sales prospects. However, the replacement of a growing proportion of internal meetings in particular is inevitable, helped along by falling technology prices and improving bandwidth. Merck estimates it can replace 10-15% of its travel in this way.

Pre-trip approval

Although 81% of the ACTE buyer respondents who have introduced pre-trip approval expect to keep it in place, there are some dissenting voices. Approval can be problematic, especially if it delays the booking of a fare that becomes more expensive closer to departure. Furthermore, as business activity starts to pick up again, the pressure to give travelers the autonomy and flexibility to set their own agendas will increase.

Advance booking

It is for similar reasons that AirPlus’s Fuerer has some doubts about the overwhelming majority view that advance booking policies will be retained. “When more travel is allowed, advance booking will not be so easy,” he says. “At the moment, employees are representing not only themselves but also the agendas of colleagues when they travel, and that requires more planning. If sales people are seeing only their own customers, there will inevitably be more short-term meetings.”

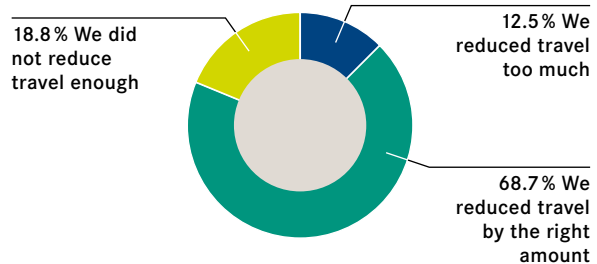
Rail

The expectation is that rail will continue to win market share from air across Europe. In some countries, price will be a driver, but the developing high-speed network also means that taking the train is often faster, more comfortable and more productive, as well as greener.

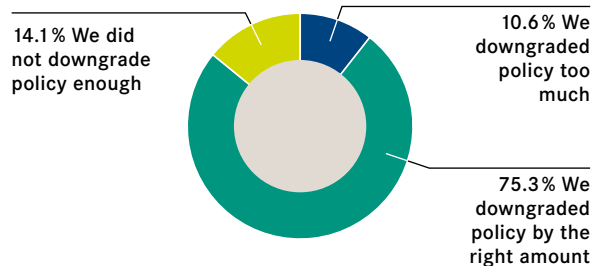
Have companies cut back on travel too much?

Corporate travel is not a cost; it is an investment. Therefore, companies which cut back on travel too much are arguably failing to invest in their business. This has clearly been a potential risk during the economic downturn, but only 12% of the ACTE buyer members surveyed for this white paper believe they have reduced travel too much. A larger proportion, 19%, think they didn’t cut travel enough, while 69% think they got it right.

Looking at the amount of travel that has been reduced at your company do you think:



Looking at the extent to which travel policy has been downgraded at your company (e.g., moving from business class to economy), do you think:



Among those who believe they cut travel too much, the main adverse consequence they note is damage to corporate communications, cohesion and morale. Other consequences are damage to new business sales, research and development, efficiency and productivity.

Survey respondents were also asked whether they had downgraded policy too far. The results were similar, with 11% saying they had downgraded too far but a slightly larger number, 14%, saying they had not downgraded enough. For those who reckoned they had downgraded too much, the main damage was once again to morale but also to the comfort and convenience of travelers.

Travel management, not travel bans

For travel managers, perhaps the key point is that if they can use sensible policy and process controls to rationalize the travel program, then there will be no need for fluctuating, indiscriminate cuts to budgets. The travel program can then be seen as the guardian of travel, not its enemy, because there is unanimous agreement among interviewees that complete travel bans, even for internal travel, will cut off the life-blood of a corporation.

More subtly, AirPlus's Michael Fuerer warns that even reducing the number of colleagues on a trip can damage productivity. "If one employee is traveling with a basket of topics on behalf of colleagues, he or she cannot talk as convincingly or in as much depth," he says.

Downgrading too far

Although only a handful of survey respondents believe they are guilty of this, there are risks in cutting policy too far. "Sending someone from Europe to Australia in economy class makes them weigh up whether they should go. Maybe they won't even though it would be

good for the business," says Alex Cousins of FCm. "There have been some kneejerk reactions, but we are now seeing customers producing more rounded policies."

The same is also true for hotel selections. Downgrading to a moderate or budget hotel is often a reasonable option, but, as Huub Smeets of Simacon points out, it could be counter-productive if security is inadequate or there is no wi-fi connection, or if the accommodation is in a remote location requiring expensive taxi transfers. He warns against being 'penny wise, pound foolish'.

Tactical restrictions

With regard to travel bans, Smeets believes it is much better if travel managers take a strategic role and give line managers the tools to decide on a case-by-case basis whether to refuse trips. "You have to show what a trip would cost if it were booked five or ten days in advance and give that to budget holders so they look at the business need and decide whether it is worth the cost," he says.

If they are to take this view, then they need to be constantly vigilant to ensure their travel program remains balanced between cost-consciousness and service. "Travel managers need to be close to their internal customers to facilitate efficient options for communication, with travel still one important choice" says an EADS representative.

Volker Huber of AirPlus agrees there will be some re-calibration. "Rules will stay but some rules which travelers complain about will be lifted," he says.

Evolution

The Change Process

From process management to strategic demand management

The aircraft manufacturer Airbus introduced a radical efficiency program in 2006 in response to financial challenges in its business. As might be expected for a transnational company, travel was one of the major costs targeted for savings.

Airbus completely re-thought its travel program, putting in place many of the measures that other companies have only adopted in the past twelve months. It means that Airbus offers an excellent insight into how a restructured program looks three years after its introduction. Airbus today is a company whose travel management focus is on demand management, keeping costs down by managing travelers before they travel and re-thinking whether they should be traveling at all.

“We have seen a fundamental change,” says the head of strategy and planning for general procurement at EADS, the parent company of Airbus, which has in recent months merged its travel program with that of its subsidiary. “In the past, we focused on optimizing, streamlining and automating the travel process, focusing on what is happening pre-trip is key for us now. We understand we need to be active before or at the point of decision in terms of demand management and trip alternatives.”

“Travel management as it is today is finished from our perspective. Our processes are sound and stable, so our core activity has become helping customers meet their need to communicate. The process can be managed by external partners; we are transforming our internal competencies to greater consideration of smart procurement, strategic supplier development and change management. We are offering our internal

customers integrated solutions, asking the questions: do you travel or do you use a webcast? If you do travel, how do you do it intelligently? Should there be two people on the trip instead of four?” Airbus says.

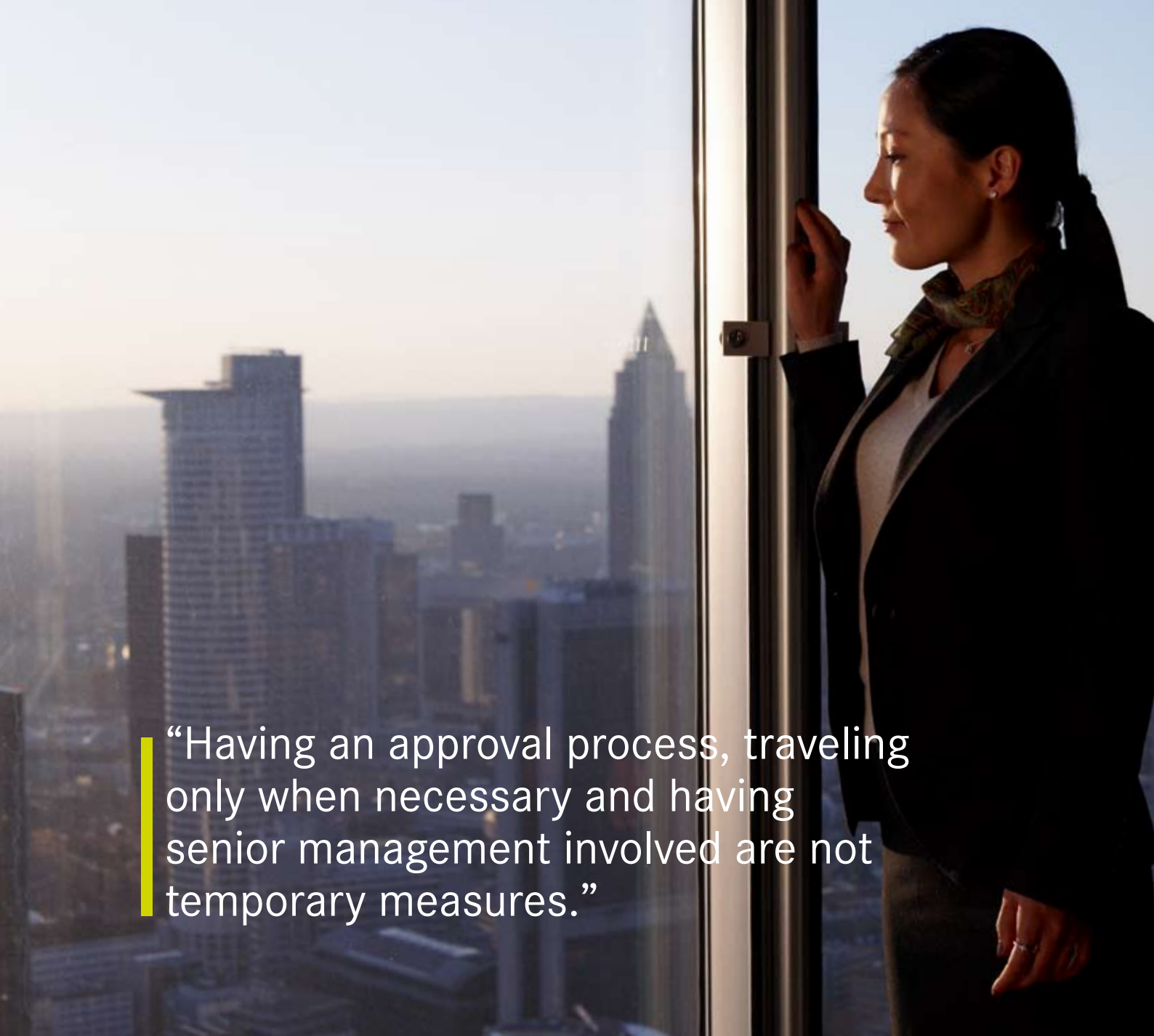
Among the numerous ways in which EADS/Airbus practices demand management are the following:

Strategic data

Thanks to good compliance and excellent data feeds from, among others, AirPlus International, Airbus has high visibility of its travel spending, enabling it to maintain a large set of incisive key performance indicators. Many of these KPIs, such as percentage of trips booked online and average number of days before departure, are aimed at keeping down average trip costs, but there is also a set of strategic KPIs provided to senior managers to help them decide whether they should approve trips. The senior management KPIs track spending against agreed travel budgets and forecast whether the budgets will be exceeded. Departments can then place restrictions on travel to fall in line with budgets.

Pre-trip approval

There is also a pre-trip approval process to ensure only necessary travel takes place. Information provided to line managers to aid their decision making includes whether the traveler has selected the lowest logical fare and information on how much cheaper the travel would have been if the traveler had booked the trip earlier.



“Having an approval process, traveling only when necessary and having senior management involved are not temporary measures.”

Video-conferencing

Airbus has introduced extensive video-conferencing facilities, but, says Airbus, “that is not enough. You have to integrate it with the travel process and to create awareness and change behavior. If people get used to it, they like it. Our video-conference rooms are fully booked.”

Policy compliance

All travel receipts are matched with expense claims and then audited for policy compliance, e.g., to ensure employees have not exceeded maximum allowed daily hotel rates.

Conclusion

Airbus made substantial cuts to its travel program between 2006 and 2008. It only needed to reduce travel by a single-figure adjustment in 2009 – far less than most corporations – because its highly disciplined demand management strategy was already in place. As far as Airbus is concerned, there will be no turning back post-recession. “This is a structural change which will not reverse,” they say. “Having an approval process, traveling only when necessary and having senior management involved are not temporary measures.”

Changed Landscape

How the Travel Landscape Has Changed

How the travel landscape has changed supplier/client relationships

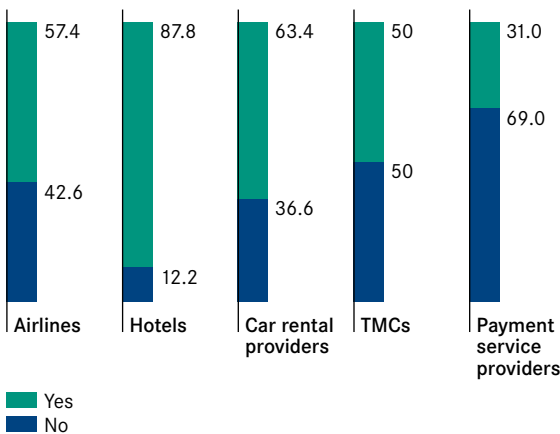
The drastic reduction in corporate travel demand has hurt suppliers and intermediaries badly over the past year. Reduced income has forced them to change their products and the agreements they negotiate with clients. Going forward, the new era of greater control over travel programs will also re-shape relationships between travel suppliers and their corporate clients.

A buyer's market?

It has been said many times that the recession has made corporate travel a buyer's market. The survey of ACTE travel managers suggests this is true, but not necessarily for all suppliers and intermediaries.

Has the recession created more favourable conditions for negotiating with the following travel suppliers and intermediaries?

in percent



The one supplier type among which buyers are overwhelmingly enjoying more favorable negotiating conditions is hotels (88%). This reflects the fact that the recession has created a market correction after an extreme seller's market which saw four years of significant double-digit growth in some cities.

In contrast, not many more than half of buyers (57%) believe negotiating conditions have become more favorable with airlines. When it comes to intermediaries, buyers are evenly split on whether TMC negotiating has become more favorable, and only 31% have found it easier to strike deals with payment service providers.

Long-term negotiating strategies

Businesses are expecting their procurement departments to extract heavy discounts from suppliers while the market is in their favor, but if buyers hit suppliers hard today, will that help them in the long run?

Travel and procurement consultant Huub Smeets of the consultancy Simacon is not so sure. He advocates a more long-term view which ensures the supplier benefits as well as the customer. "At the moment it is more favorable to be in the buyer's seat but that does not mean they should squeeze every penny," he says. "They have to respect that travel suppliers need to make money too. When the recession is over, the market will come up again, so if they want to show true partnership, this is the best time to do it."

One way to ensure a quid pro quo is to drive more business to suppliers by consolidating with fewer suppliers. Smeets says this is more important than ever, but he also points out a paradox: it is not always easy to consolidate, because service cutbacks by airlines, for instance, mean a single carrier may not offer all the flight options the client needs.

Airlines

Negotiated fares vs. Best-on-day

Although only a relatively modest 57% of buyers are enjoying better negotiations with airlines, that does not mean they are failing to achieve lower average ticket prices. They could be finding better fares

instead by switching to best-on-day purchases – a major shift noted by numerous interviewees. This shift is all the more remarkable for the fact that, according to FCM Travel Solutions UK account management director Alex Cousins, airlines have in many cases doubled the negotiated discounts they are offering corporate clients.

“Published rates are often more attractive than the contracted rates,” says e.on global travel manager Anja Schaper. The proportion of contracted fares used by her company has fallen over the past year from 55% to 46%, but in addition many of the fares e.on now buys on a contracted basis are in lower classes which would formerly have been published fares.

Whether this will prove a lasting situation, or buyers will revert to heavier use of contracted fares once the recession ends, is hard to call. In a seller’s market, the contracted fare is usually the cheapest available, whereas today it is often the ceiling fare. On the other hand, the reason contracted fares are the cheapest available is because travelers are often undisciplined, for example booking at the last minute. The tighter control now exerted on travel programs may have weakened the need for corporate fares considerably.

Travel professionals think that the way corporates buy from airlines may change as a result. “Instead of putting 60-70% of business through one airline, corporate clients might have a pool of selected carriers and search for the best price among them for each flight,” suggests AirPlus senior vice president

for global sales & solutions Volker Huber. Similarly, Schaper foresees buyers effectively staging an RFP for each inter-continental trip, but she fears there would be less transparency at point of sale.

Ancillary fees

The last couple of years have also seen exponential growth in airlines on both sides of the Atlantic charging ancillary fees for services ranging from catering to checking in luggage. Originally a practice introduced by low-cost airlines, it has spread to legacy carriers.

There has also been a growing tendency for airlines to offset their distribution costs by passing them on to intermediaries in the supply chain. Many carriers now defray part of their global distribution system charges in this way, and during 2009 both KLM and United Airlines started to do the same for card fees for bookings made through agents. This trend is expected to accelerate in 2010.

Business class

If downgrading is permanent, as many travel professionals expect, then business class as we know it today may change – from a five-star to a four-star product as one airline executive described it at a recent conference. HRG chief executive David Radcliffe also expects to see fresh thinking. “Some business travel products will be reshaped to meet the changing market,” he says. “There may be a new business class in Europe based on speed through the airport rather than space on the aircraft.”

Some carriers have also responded by reducing the size of their business-class cabins, but since the recession started no mainstream airline has removed business class entirely, even from its short-haul fleet.

Hotels

In many respects, as the 88% who have enjoyed more favorable negotiating conditions will agree, accommodation has been the most straightforward travel supplier category to deal with during the recession – a welcome development given that traditionally it is where policy compliance and corporate buying power have been weakest.

However, although there are bargains available, Schaper does not feel she is always able to take advantage of them. “Some offers, such as two nights for the price of one, are only bookable through direct channels,” she says. “We need to ensure they are available in our booking tools, because at the moment they are not. The risk is we are losing some of our visibility.”

Car rental

Although an impressive 63% say negotiating conditions with car rental companies have improved, this is by no means the case universally. “Car rental is curious. We are seeing rates go up, especially in Europe,” says HRG’s Radcliffe. Shortages in supplies from vehicle manufacturers are thought to account for the problem. Another consequence is that rental fleets are ageing.

TMCs

Only half of the buyers in the survey believe it has become easier to negotiate with TMCs, yet Radcliffe and Huub Smeets are among many who say TMC RFPs and re-tenders are at a record high. However, if buyers are trying to beat down the fee, are they wise to be doing that? “We are becoming more careful about what we will and will not bid,” says Radcliffe. “A lot more clients are focusing on the transaction fee as what they believe is an easy win. Longer-term clients are calling us to discuss what they can save in the round.”

One might expect Radcliffe to take this position, but his views are backed by the travel managers interviewed for this white paper. “Cost is only one area – service and savings are also very important,” says Christoph Carnier of Merck. “TMCs are not businesses with a margin of 25-30%. If you reduce their already small margin to zero, the TMC will reduce its service.”

e.on is fully in agreement. “We are not trying to squeeze every last cent out of our TMCs,” says Schaper. “We could try to negotiate the transaction fee down but they are having a tough time anyway because they are handling fewer transactions. TMCs are not the key driver of our costs. We have very attractive conditions with them and especially in these times we have to rely on the quality of our TMCs to ensure they get us the best deals.”

None of this necessarily means TMC agreements should be left untouched, but that it is important to offer something in return. FCM says it is reducing fees for some clients but in return it is expecting longer deals and cost-saving commitments by clients, such as moving to online booking.

Payment service providers

The recession has led to numerous changes in relationships between T&E payment service providers and their corporate clients, including the following:

Consolidation

Putting more spending through the same provider improves visibility of data and financial control.

Data

Clients are asking for more management information and are analyzing it more fully.

More client stakeholders

Choosing a payment service provider has become less frequently a decision for the travel department alone, and this can cause problems, warns Michael Fuerer, Germany country manager for AirPlus. “Treasury and purchasing are getting stronger in discussions but both have a limited understanding of the challenges a travel manager faces,” he says. “They are often fighting on price, so issues like data quality or process optimization are being forgotten. It will be a challenge for travel managers to get aligned with decision-making again.”

Cash flow

One reason treasury departments are becoming more involved is that they are concerned about cash flow optimization issues such as liability and settlement terms. This is understandable, says Volker Huber, but it may sometimes miss the point. “Companies want to save money by improving their payment terms, but we are reluctant to do this because we have to pay the suppliers,” he says. “Each day we give away, we suffer. Instead, we want to show clients how much they could gain by using our data well to gain insight into cost drivers such as advance booking behavior and use of business class. Our relationship with customers is changing dramatically into a more consultative role.”



How the travel landscape has changed for travel managers

Earlier in 2009, ACTE and AirPlus International published a joint-white paper entitled “Empowered Employees – How Travel Managers Are Adapting and Thriving in the Global Recession”. A survey of buyers conducted exclusively for the paper revealed that 62% considered the recession had made senior management more receptive to their ideas for running the corporate travel program. Another 27% said they had been well-supported even before the recession began.

There were a few respects in which travel managers would have liked even more support. In particular, although senior managers were happy to help by adopting and publicly endorsing cost-saving strategies, they were not prepared to invest in technology or personnel that would achieve additional savings. Overall, however, travel managers considered themselves empowered to an unprecedented level.

Six months later, interviewees for this white paper confirm travel managers are continuing to enjoy the ear of senior management. “Travel managers are winning a lot of policy changes they had been trying for years to get past the board,” says HRG chief executive David Radcliffe.

Before the recession, many companies had some parts of the business which were receptive to a consolidated approach to travel management but others which were hostile. That resistance has now evaporated and solutions are being pushed through the entire corporation. As an example of this tendency, AirPlus has noticed that the average number of countries per client contract has increased. Clients are also using policy mandates to push a higher percentage of transactions through AirPlus.

Lasting changes

Will it last? Most travel professionals think the answer is yes. Having gained greater visibility, travel managers will not become invisible again because they are demonstrably making substantial savings as a direct result of their empowerment. “We are more visible and more important than before,” says Christoph Carnier of Merck. “In the past, travel managers simply had to work without making too much noise; now we are being asked to identify opportunities to save and how to change the business.” This shift from an operational role to a strategic one is likely to make the improved status of travel managers permanent.

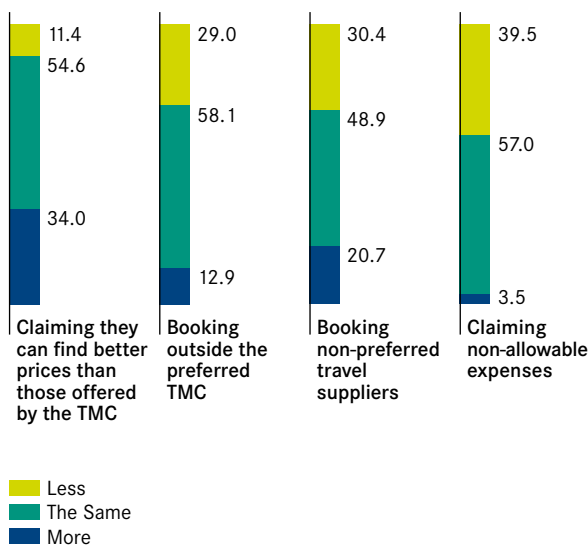
The perils of fame

Although travel managers are very pleased with their improved lines of communication to senior management, visibility can bring its own pressures. In particular, it can mean more interference in decisions, and this is not always helpful. “On the one hand I welcome more management attention,” says one travel manager, “but I wouldn’t say it makes my job easier because they can look at the figures without understanding the complexities of the market.”

Traveler behavior

As this white paper has made clear, travelers have become more disciplined in their buying behavior. “They understand they are all in the same boat and need to be good travelers,” says Huub Smeets. “They are not drawing attention to themselves by flying in first class or with non-preferred suppliers.”

Since the recession started, are travelers:
in percent



“I can find it cheaper”

However, when questioned about four typical traveler “vices”, the ACTE buyers give a mixed response. There has been a sharp downturn in claims for non-allowable expenses. There is also an improvement in travelers attempting to book outside the preferred TMC or choosing non-preferred suppliers, but a small number say the situation has worsened in this respect. Most worrying of all, three times as many travel managers report an upturn in the familiar complaint by travelers that they can find a better deal than the TMC as those who report a downturn.

This is an age-old problem for travel managers, but anecdotally the situation was believed to have improved in the last couple of years. EADS, for example, says it is experiencing fewer “I can find it cheaper” complaints because online booking tools and TMC reservation systems have broadened to include more content drawn from outside the global distribution systems.

If travelers are in fact complaining more, the reason may simply be that they are looking harder for the best prices in response to the corporate call to cut costs. In this respect, their complaints can be regarded as encouraging, although in reality there are often reasons why the lower price travelers find is not as good a bargain as it first seems.

Alex Cousins of FCM thinks the complaints are beginning to die down again. “It is more of a problem than it was in 2008 but less of one than three to six months ago,” she says. “Travelers want to be seen to be driving down cost in the recession, but now they are gaining confidence in TMCs. They are also becoming too busy to spend time proving a point to the travel department.”

The future

Once again, the question is whether greater traveler discipline will outlast the recession. No doubt there will be challenges, but the signs are hopeful. If it is agreed that corporations will maintain their tighter control of travel programs, they will have little choice. However, greater prudence by the travelers themselves may have become a lasting habit. “We have clients with non-mandated policies where compliance is as high as at companies with mandated policies,” says David Radcliffe.

In addition to more compliant behavior, travelers may also voluntarily choose to travel less. In particular, the instinct to jump on a plane without stopping to consider alternatives may diminish as technologies improve and travelers give more thought to work/life balance and environmental issues.

Conclusion

Challenges and Changes

The outlook for travel management is an optimistic one. Although there is no consensus on the extent to which travel volumes will recover over the next five year, there is near-unanimous agreement that the improved control over travel spending brought about by the recession will not be lost. And if demand management is under control, then supplier management will be much easier, even if the market rebounds strongly.

Yet although the forecast is good, there is little room for complacency. Maintaining a strong grip on the travel program will require sustained and active management, and even more strategic thinking than has been evident over the past couple of years. Furthermore, the new travel management landscape painted in this white paper will bring its own challenges and changes to which travel managers and other relevant stakeholders must adapt. To conclude, here are some of those challenges and changes as seen by the expert interviewees who have kindly contributed to the white paper.

Threat to suppliers

“If the recession does not lift in the next 6-12 months, many suppliers will go out of business.”
Huub Smeets, Simacon

Travel vs. cost

“There will be increased tension in balancing the need to travel with the need to control the cost of travel.”
David Radcliffe, HRG

Communication, not travel

“Companies will start to look holistically at communication, with travel as one of a range of communication options.”
EADS/Airbus

Identifying necessary travel

“Businesses will look for ways to distinguish unnecessary trips from necessary trips. Today, some companies grant automated approval or disapproval based on the reason for the trip, but that is very basic.”
Michael Fuerer, Air Plus International

Confusing surcharges

“A widening range of airline fees, including fuel and security surcharges and card charges, will create transparency problems. Keeping the full cost of a flight in one basket will be an increasing challenge.”
Christoph Carnier, Merck

Supplier consolidation

“Will there be greater consolidation in the market and what will that mean for customers?”
Alex Cousins, FCM Travel Solutions

Avoiding bad traveler habits

“It will be a challenge making sure travelers don’t fall back into old habits, like booking just before departure, when the economy improves. We must communicate so travelers understand why we are still taking certain measures.”
Anja Schaper, e.on

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