



innovate

INTRODUCTION

THE BTN GROUP INNOVATE 2014 THINK TANKS

The Innovate 2014 Conference for the Advancement of Business Travel offered business travel executives the opportunity to articulate priorities and recommendations about six of the biggest challenges facing corporate travel buyers and suppliers:

- Selecting and Implementing Air
- Selecting and Implementing Hotel
- Selecting and Implementing a Travel Management Company
- Travel Policy Development
- Building a Better Booking Tool
- Making the Most of Mobile Opportunities

The BTN Group worked first with its Advisory Board and then with a dedicated Steering Committee to identify the focus topics for 2014. *Business Travel News* editors then recruited a group of leading business travel buyers to participate in independent task forces that could identify specific concerns and posit new ideas for moving the practice, the tools and the objectives of business travel management into the future. Think tank sessions held during the *BTN Innovate 2014* Conference served to validate concerns and flesh out innovation concepts.

The Innovate 2014 white papers document the results of these efforts.

In focus for this paper:
SOURCING TMC SERVICES, AND MAXIMIZING THE VALUE OF THAT RELATIONSHIP.



SOURCING TMC SERVICES, AND MAXIMIZING THE VALUE OF THAT RELATIONSHIP

The complicated task of sourcing travel management services and building effective relationships is not getting any easier. The discipline of travel management is evolving amid changes to organizations' requirements and priorities, and to traveler expectations and attitudes. At the same time, technology advancements behind the scenes and in the palms of end users' hands lead some to question the appropriate role for travel management companies.

TASK FORCE: Sourcing TMC Services, And Maximizing The Value Of That Relationship

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Alternatives

In this age of self-service, travelers can handle many of the tasks previously required of travel agencies. And in this age of corporate cost savings there's a keen focus on procurement-driven principles. Why, then, spend the time required to source a travel management company when that TMC's services account for only 5 percent of the average corporate client's travel spending?

For many companies, especially larger ones that send travelers to multiple continents, the answer can be simple: The travel management company is meant to be a partner, not a mere transactor of travel bookings. For many organizations, the TMC is a foundational element, cooperating with the travel management department, of course, but also human resources, finance, legal, IT, risk management and many other departments.

For those organizations, key questions relate to selecting a travel management company, constructing an effective contract, managing the cost of change during implementation and building a relationship that has room to grow.

The TMC Sourcing think tank convened during The BTN Group's Innovate 2014 conference in September 2014 provided no magic bullets. Though there was an overriding desire expressed for standardized travel management company pricing, the needs of buyer-side organizations and the capabilities of TMCs are too varied for simple, standard solutions. However, the group of travel management professionals explored several areas of the process and discussed pointers that can help both sides improve contracting and cultivate a long-term, strategic relationship.

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As with any business relationship, the keys are transparency and understanding each other's culture and business objectives.

Preparation

From the very start of the process, there are a few best (and sensible) practices for buyer organizations:

- Review the existing TMC contract before it expires
- Be sure there's a compelling reason to go out to bid
- Include all stakeholders upfront
- Only move forward if you truly will at least consider replacing the incumbent
- Consider the financial, operational and emotional costs of change
- From the beginning, include all departments that have an interest or role within the managed travel program. Although the specifics around pricing should be discussed much later in the process, involving procurement personnel at the start "adds structure and eliminates a degree of bias," according to one think tank participant.

Perhaps the most crucial task in the entire process for buyers is defining requirements.

(For travel management companies, it is defining deliverables). For buyers, no sourcing project can be successful without a firm grasp of needs and goals, and a clear understanding of the size and scope of their travel programs. Among

many components to consider—24-hour services and global traveler profile management, for example—buyers should determine which core services they are seeking and which can be characterized as non-core. If a global TMC arrangement is to be pursued, that needs to be recognized both internally and among prospective service providers before the bid process begins.

Requests for information can be useful. They should seek simple, straightforward answers about travel management companies' capabilities and technologies, and not necessarily pricing details.

A pre-bidders conference also can help buyers during the vetting process. When doing so, they should include a "mixed bag" of potential bidders, including "mega" travel management companies, large national or regional ones, consortia, online travel agencies that offer corporate services and perhaps a local agency or two. Such an exercise also will help inform bidders of their potential clients' objectives and priorities.

However, it is incumbent upon TMCs to take their own steps to learn about the business on which they may decide to bid. A "client clinic" can provide that better picture showing pain points and opportunities, perhaps in ways that the request for proposals process cannot.

The goal for both buyers and bidders is to complete due diligence early in the process to ensure all relevant stakeholders from each side are on the same page. Doing so will improve the odds of an effective and productive RFP process.

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The RFP

In writing a request for proposals, buyer organizations describing their requirements should be as explicit and thorough as possible. Everything should be defined to eliminate ambiguity. “The more scripted you are in incorporating culture into the RFP and highlighting goals, the stronger response you will drive,” said one participant.

“
In the RFP, you need to get into excruciating detail, with an established template and little room for variability outside that construct.”

Another added that TMCs “cannot price effectively in this business without having a granular level of understanding. That’s where companies get in trouble trying to do comparisons among agencies. I

have seen rude awakenings during implementation. In the RFP, you need to get into excruciating detail, with an established template and little room for variability outside that construct.”

In answering an RFP, a TMC also should be clear in explaining all potential deliverables. For example:

- Establish the RFP template
- Agent types: define “dedicated,” “designated” and “exclusive”
- Transaction types: define touchless, light touch, agent-assisted, etc.
- In what ways will air transactions differ from hotel-only transactions?
- Exactly where do voids, exchanges and refunds fit?
- What is meant by “hard cash” (perhaps in relation to a signing bonus)?

Oftentimes it is offered as a coupon for additional products and services.

- How will the account management team be structured?
- What is the level of quality of the call center and where is it located?

The TMC also should list every value-add they may want to offer so that each can be discussed and negotiated up front.

PRICING

The most common type of pricing model is a blended transaction fee, which can be differentiated within the service spectrum, from online touchless through to complex, agent-assisted. (Some buy-side corporations focus on the agency cost per ticket, which can include several transactions.) Clearly defined transaction fees also can help corporations internally sell their travel programs, especially as those programs are globalized.

Other models are management fees (based on annual costs) and subscription pricing, an idea being explored by some in which clients pay by the traveler, by the profile or by the complete trip. The latter may be seen as an innovative approach to managing in a new reality that includes traveler empowerment, proliferating self-service tools and the “open booking” philosophy in vogue in some circles.

When negotiating a fee structure, precise definitions are a must and there are many variables to consider, including those noted above. Here are a few more:

- Is account management included?
- Are commissions retained or returned?

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■ Which party keeps GDS income and overrides from other suppliers?

TMCs also may be challenged to propose prices when the prospective client states a desire for a global or multinational program but ultimately chooses a multi-source approach using different providers in different countries or regions. In such cases, TMCs may opt to propose two sets of pricing. Buyers, however, should evaluate local-market services based on capability and overall value, and not strictly price.

Given these and many other factors, along with differing client volumes and requested levels of service, an “average” transaction fee in the industry from which to benchmark is nonexistent.

And it is for those reasons that standardized TMC pricing is an ideal that hasn’t been realized and may in fact be out of reach. Yet, the consensus among think tank participants was that standards would be hugely beneficial for both buyers and TMCs. All participants agreed that it’s a worthy pursuit, even if there was little optimism.

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A FEW WORDS ON TECHNOLOGY

Technology increasingly is a major consideration for managed travel programs, but

deciding which suppliers to use is a tricky task. Plenty of third parties sell their wares directly to buy-side organizations and most travelers carry some of their own technology, capable of handling an ever-growing number of travel-related functions.

TMCs, too, offer technology. Sometimes they build it, and sometimes they buy or resell it. Because most TMCs white-label at least some technology furnished by third parties, a key consideration for buyers is how well those TMCs integrate it with other systems and tweak the offering to make it unique and valuable.

Selecting And Contracting

In any sourcing project, choosing a TMC should be based on the merits. Buyers should carefully guard against any brand bias, avoid decisions based solely on in-person presentations (which should neither be centered on glitz nor obviously generic) and use scorecards to evaluate every aspect of a TMC’s proposition. One recommended practice discussed during the think tank is for buyers to use different teams for scoring RFP responses and reviewing financial components.

SLAS AND KPIS

In many travel management contracts, service-level agreements and key performance indicators play an integral role. service-level agreements should not be employed, however, if the client is not serious about making them easy to understand and measure, monitoring them and following through if the client and travel management company decide to set potential

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penalties or offer rewards.

These days, service-level agreements are less focused on such telephonic metrics as how quickly calls are answered, though that still matters, and there still are plenty of quantitative measurements in place (online booking tool uptime and data quality and timeliness, for example). Some are a bit more abstract and aimed at the bigger picture.

“They are less operational and more aligned with our business objectives,” according to one buyer participating in the think tank. “What’s important to me is that you are running my business as efficiently as possible.”

That can mean TMCs may be evaluated on cost savings and other types of initiatives they bring to the table, responsiveness of account management, building processes that enable touchless online bookings and, at the beginning of the relationship, safeguards against implementation failures.

Whether covered by an SLA or simply deemed a minimum service expectation, increasingly of interest is how

quickly travel management companies communicate and proactively respond to wide-scale travel disruptions. “A lot of agencies have started to push a lot of responsibility to the traveler and/or arranger because of the tools that are available, and the information that is available,” said one participant. “But proactively tell me about arrival and departure taxes, or when my CEO’s flight was

anceled rather than just expecting his admin to know that and call you.”

Lessons And Considerations

To avoid pitfalls, there are several steps buyers and TMCs can take to ensure a mutually beneficial relationship. For example, in terms of price negotiations, both sides should strive to:

- **Stick with whatever has been calculated and agreed upon.** “If you keep on changing how you define these terms, people in your company won’t buy what you are saying,” according to one buyer participant. “You need consistency to make comparisons and hopefully to speculate what will happen in the future.”
- **Specify how fee structures will change based on volume fluctuations.** “Don’t allow blind renegotiation clauses,” cautioned one participant. “If pricing can be raised every year, you don’t have a three-year agreement, you have a one-year agreement.”
- **Avoid “nickel-and-diming.”**

Beyond pricing, there are other lessons that can help lead to successful arrangements. For example, a myopic view on transaction fees means missing the big picture. Higher prices can and should mean better or more services. Think tank participants noted that price-only decisions have led to failures in the past because of buyers who never asked the right questions and travel management company executives who never could be certain of exactly which deliverables ultimately would meet client needs. Buyer organizations also should ensure that all de-

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cisions throughout the sourcing process and the resultant contracts are able to withstand audits in the years ahead.

CREATING A PARTNERSHIP

Above all, if a TMC is to be a cornerstone of an organization's travel management program, a true partnership is necessary.

A TMC should:

- accept client preferences and adapt to client culture
- study client programs and determine where and how to optimize
- know the company's long-term objectives

home," according to one participant.

Moving forward, TMC relationships must evolve as the market evolves. That may mean finding ways to service travelers who have booked through other channels. It certainly means optimizing technology and it also should mean customizing programs.

"The TMC is a strategic partner; they are part of you," said one participant. "If you embrace them that way, they'll embrace your company." ■

“

When [travelers] are stuck on the other side of the world, they want that person on the other end of the phone to know who they are, and really care whether or not they get home.”

In striving to be a manager of travel rather than a mere transactor, TMCs should help with RFPs for other travel supplier categories, suggest how clients should tweak programs and policies, provide

consultation and be proactive.

Importantly, because managing travel means managing travelers, it is incumbent upon both the TMC and the client's travel management team to provide employees with a sense of security.

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