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Procurement Practices

Managing Change And Demand

Applying Procurement Discipline To Corporate Travel

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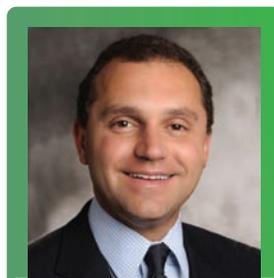
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The business travel industry has certainly changed since American Express Business Travel and *Business Travel*

News released the 2008 Procurement Practices survey last year. Most obviously, further deterioration in the economic markets has placed increased pressure on companies to find new opportunities for savings and efficiencies, and many travel suppliers have changed the way they charge for services as they grapple with the same pressures.

In challenging times like these, companies need to carefully scrutinize spending across all categories and quantify the return achieved through each dollar spent. Travel program managers must demonstrate the value from investing in travel. Now more than ever, it's important for companies to be reminded that face-to-face meetings with clients and prospective customers build stronger relationships, and that the revenue this generates can greatly impact their bottom lines.



**LETTER
 FROM THE
 SPONSOR**

This difficult economic environment also presents new opportunities for companies to focus on incorporating solutions and strategies that generate savings and offer greater control over expenses, both in the short and long term. Specifically, the procurement best practices you'll discover in the following pages will increase your ability to reduce costs and increase the effectiveness and efficiency of travel at your company.

We are pleased to collaborate again with *Business Travel News* and hope the 2009 Procurement Practices survey and the procurement strategies, solutions, tools and tips outlined here will strengthen your business travel program and deliver new levels of savings and lead to furthering your sales and growth.

Hervé Sedky
 Vice President and General Manager,
 Advisory Services and Meeting Solutions
 American Express Business Travel

A severe drop in corporate travel demand is making this year unlike any other for business travel buyers,

regardless of whether they come from procurement, travel, finance or other departments. Previous-year data, relied on by so many for judgments about what to expect for this year's volume, is much less of an indicator this time. While it is not clear to many companies how much they will spend on travel this year, it is clear to almost every senior management executive and corporate traveler how important it is for them to reduce their travel spending. As companies restrict spending, they are giving travel and procure-



**LETTER
 FROM THE
 EDITOR**

ment managers more latitude to implement policies and procedures that are more likely to be followed than ever.

BTN appreciates the participation of its readers, American Express procurement customers and Institute for Supply Management members in providing data, Equation Research for processing it and American Express Business Travel for supporting this effort to measure the application of procurement practices to business travel management.

David Meyer
 Editor-in-Chief
 Business Travel News

Measures For Maintaining Discipline

BY DAVID MEYER

The use of procurement practices to manage business travel spending is getting a real test this year as measurements at most companies show declines in such spending of some magnitude.

While a more methodical approach might alleviate the confusion generated by financial chaos, desperate times make it harder to deploy deliberate and discrete measurements.

Still, having metrics to evaluate in a time of change, even with a wild swing in the numbers, can help inform decision-making. In such times, however, historical

data is less helpful as a guide and a gauge of performance than usual. Such times call for an increase in creativity, common sense and communications, not only internally with senior management and employees, but also externally with suppliers and other corporate travel buyers. Of course, communications alone cannot resolve every challenge facing corporate travel procurement executives as a result of the economic downturn, but it is essential for defining the problems and designing solutions.

Of the tactics in the travel procurement bag of tricks, one that is being deployed broadly today is demand management. The sim-

plest form of demand management when it comes to travel is to stop traveling altogether. While that is not practical for sales activity or servicing clients, many companies have issued prohibitions on travel for internal meetings. As a result, many companies have implemented or increased their use of videoconferencing technology and of pre-trip notification or authorization processes.

Another basic tactic is to renegotiate or re-bid supplier relationships. Many procurement-driven organizations already have contacted their suppliers to adjust pricing in light of changing market conditions.

Most companies, whether pro-

urement is involved in travel or not, have tightened up travel policies, restricting classes of air and hotel services and toughening enforcement.

Procurement tools, such as balanced scorecards that are composed of multiple key performance indicators, continue to be informative in a changing environment, but analyzing those measures requires a sliding scale in a time of flux.

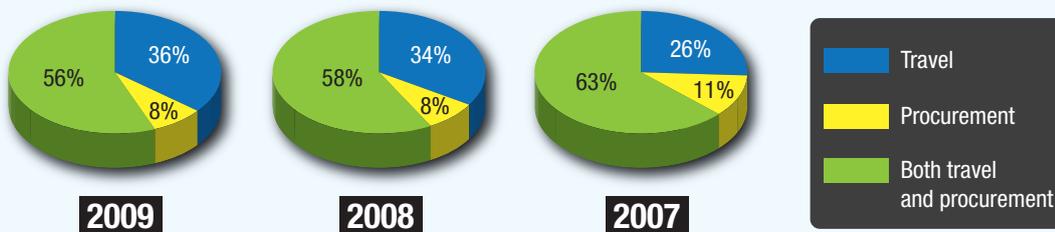
Another important procurement practice to assess during a time of massive layoffs is outsourcing, particularly when it comes to logistical rather than strategic functions.

With corporate executives throttling back on spending like never before, procurement and travel organizations have been empowered if not ordered to "scrape under every rock," one travel procurement professional recently told *BTN*.

Despite the game-changing aspects of the economic downturn, the mission of travel procurement remains the same: Define how to measure quality and costs while raising the former and reducing the latter. While more focus than ever is on numbers, the goal is qualitative as well as quantitative. Travel procurement professionals seek to provide intelligence about market conditions, including existing and potential supplier services and costs, that can contribute to more informed and timely decisions.

While it is true that the periodic aggregation, quantification and analysis of performance and cost information that are hallmarks of

Respondent responsibility



Involvement of the procurement organization in U.S.-based travel decisions

	2009	2008	2007
Leadership of the overall program, including supplier selection, ongoing program management and supplier relationship management	48%	47%	49%
Share leadership with another department	14%	10%	13%
Ongoing stakeholder as part of broader travel team	8%	13%	8%
Procurement provides support to supplier selection during RFI, RFP and contracting process only	14%	13%	12%
Not involved in travel buying	15%	17%	17%

procurement practices are easier for senior management to digest than less disciplined travel reporting, even travel buyers from companies without procurement organizations long have used many classic procurement techniques as part of their standard operating procedure. Such techniques include issuing requests for proposals, mandating the use of preferred suppliers and establishing service-level agreements, particularly with travel management companies. The growing influence of procurement executives on travel purchasing has prompted an increase in the use of service-level agreements and key performance indicators that populate balanced scorecards.

This third annual *Business Travel News* examination of the application of procurement practices to travel management again measures the expectations that travel and procurement professionals have about their companies' plans for travel and travel spending, and this year, unlike the past two, it shows a marked decrease in both.

While there is no indication in a decline in the use of service-level agreements, respondents this year said they are making much less use of financial incentives or penalties and volume and marketshare commitments in such agreements than they did previously. While SLAs continue to be a tool used primarily for contracts with travel management companies, this year's survey indicates a rise in the use of SLAs in almost every travel category and a surprising jump in their use in hotel contracts.

To generate data for the Procurement Practices survey, sponsored once again by

American Express Business Travel, *Business Travel News* editors solicited responses from several thousand of its readers who are procurement and travel management practitioners, American Express clients and members of the Institute for Supply Management. *BTVN* editors modified the questionnaires they previously devised to retain some consistency as well as to focus on demand management, performance measures and outsourcing practices. Third-party research house Equation Research, head-

quartered in Boulder, Colo., hosted the online survey, tabulated the individual responses and provided *BTVN* with aggregated data.

Of the 241 respondents who completed this year's survey, 87 identified themselves as responsible for travel, 19 identified themselves as responsible for procurement and 135 said they were responsible for both travel and procurement.

In addition to 177 *Business Travel News* readers, data came from from 36 American Express clients and 28 Institute for Supply Management members.

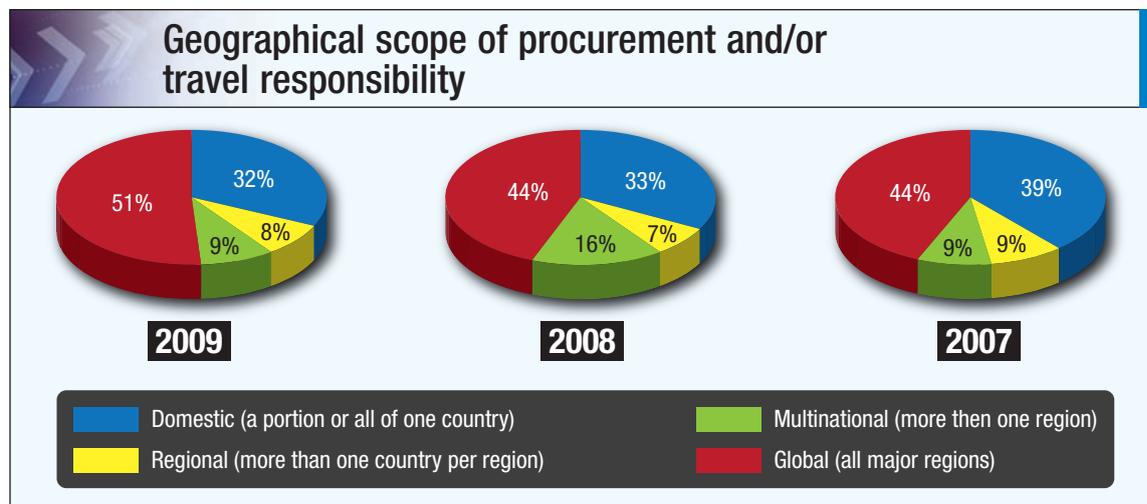
Data for respondents from companies that spent more than \$1

million per year on travel comes from 126 respondents. While there were slightly more participants this year and a few more with travel responsibility only, those who identified themselves as having procurement responsibility still made up about two-thirds of the respondents.

The distribution of participant U.S. booked air volume has been remarkably steady for the past three years, with one-quarter spending less than \$250,000 in 2008, one-fifth spending from \$250,000 up to \$1 million, one-

year in respondents that are not from a procurement organization.

This year we looked more closely at the role of procurement in supplier selection. Three answers each received slightly more than one-fourth of responses: all supplier selection is conducted by procurement, the travel team must follow procurement policy and that travel and procurement are teamed, with travel having the final decision-making authority. Only 12 percent said that when it comes to selecting suppliers procurement and travel are teamed,



fifth from \$1 million up to \$5 million and about one-third spending \$5 million or more.

Also very consistent is the way that participants describe the involvement of the procurement organization in U.S.-based travel decisions. Of the five choices we presented, just under half continued to say that procurement is involved in the "leadership of the overall program, including supplier selection, ongoing program management and supplier relationship management." A slight decrease in those who said that procurement wasn't involved in travel buying is interesting to note in light of the slight increase this

with procurement having the final decision-making authority. The even smaller remainder said that all supplier selections require procurement signoff.

When it comes to the reporting relationship between travel and procurement, the biggest single group, travel buyers who report directly to procurement, stayed constant at 42 percent. Also relatively unchanged are the 30 percent of travel buyers who operate completely independently from procurement organizations and the 10 percent of buyers who report indirectly to procurement. Meanwhile, during the past three years there has been a decline in



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those buyers who team with procurement only during contracting to 17 percent.

A plurality of firms, 40 percent, said they evaluate travel procurement savings on a quarterly basis. Another one-third do so monthly. Nearly one-quarter assess such savings annually.

The number of companies viewing travel as a commodity declined from two-thirds in 2007 to half this year, as travel and procurement managers observed the impact of a volatile economy on pricing. When looking at individual travel services, 44 percent of respondents said they see rental cars as commodities this year, for the first time in three years ahead of the 40 percent who see hotels as such. More than one-third named airline seats and package shipping. The rest of the list included telecommunications, online booking, agency and chauffeured car service. While 14 percent

Meanwhile, this year for the first time, a majority of respondents defined their travel or procurement responsibility as global, rather than domestic, regional or multinational.

Respondents indicated once again not only how important procurement and travel are to travel decision-making, but also how involved the finance department is involved in making such decisions. When asking respondents which division in their company validates travel procurement savings, nearly 30 percent said finance and identical percentages said procurement and travel. Six percent said their travel management company does that. Nearly one-third of respondents said finance is the department that owns the travel policy, while only 18 percent named travel and 16 percent named procurement. Meanwhile, 12 percent cited human resources and 10 percent said it was shared resources. When it

came to naming the department that sets yearly business unit budgets for travel, the majority—53 percent—said it was finance. Travel, procurement and human resources were named by 5 percent, 4 percent and 3 percent respectively, and 10 percent said it was shared resources.

In times such as these,

companies should recognize the value of travel managers' market knowledge and relationships, as well as their policy and communications skills, like never before. The hold that finance has on travel also is likely to strengthen during these tough economic times, but the mark that procurement practices have made on the practice of travel management is indelible.

A disciplined approach to measuring qualitative and quantitative external and internal performance, benchmarking to market conditions as well as year-over-year performance, managing demand and making strategic use of suppliers are not just good procurement practices, they are best practices in corporate travel management. ♦

Companies where procurement influenced travel policy

2009	2008	2007
65%	62%	64%

Companies where procurement made policy more restrictive

2009	2008	2007
75%	64%	71%

said they view none of those as a commodity, 21 percent said they view all of them as such.

Where companies stand regarding the importance of cost versus service is not significantly changed this year, with more than half continuing to say the two are equal and only the slightest movement away from service and toward the cost side of the importance equation.

Despite a slight dip, more than 60 percent said their procurement organization was involved in decisions involving travel originating outside of the United States, the same as for U.S.-based travel. Only 10 percent said procurement was more involved in decisions involving travel originating outside of the United States than for U.S.-based travel.

Demanding Pre-Trip Management

BY JAY BOEHMER

Once firmly in the business of facilitating travel, corporate travel buyers and procurement professionals increasingly are finding themselves deploying methods to curb it. Whether companies are dialing down trips that don't generate revenue and bolstering pre-trip mechanisms to measure the value of travel or offering remote conferencing options as alternatives to getting on a plane, the procurement practice of demand management has taken a front seat in the management of corporate travel.

Travel buyers, travel management company executives and technology suppliers said managing demand has risen to a priority as companies attempt to reduce discretionary spending, while also preserving the business objectives that travel can facilitate.

Advito vice president Bob Brindley said among the highest savers of travel dollars is the cost avoidance that comes with a trip not taken. "All corporations are pulling way, way back on the number of trips they're taking, and that's always the biggest mover," he said.

Companies are turning eyes toward reducing what they deem nonessential trips—examples ranging from limiting the number of employees sent to the same event, cutting travel for internal meetings and in some cases offering up more travel alternatives.

"Travel people are being asked how to not travel," said former Association of Corporate Travel Executives president and Bank of America travel buyer Greeley

Koch, now director of strategic development at management consulting Acquis Consulting Group. Koch noted that companies have run the gamut in addressing such needs—from the "soft-sell approach" of sending e-mails, asking employees "to think about travel" to employing pre-trip authorization systems and mandating that "unless it's a revenue producing trip, you just can't go."

Koch said companies are aiming to cut travel expenses "in a way that's not draconian, but that supports the business mission."

Increasingly, Koch said, companies are seeking new data streams for answers to different questions about their travel: "Who is traveling, why are they going, and what's the actual return on investment of that trip?"

American Express Global Advisory Services vice president Frank Schnur concurred: "In order to answer those questions, you need to have a robust infrastructure that most companies do not have in place. It's an opportunity for many companies to improve the infrastructure of the data."

Schnur said to get at such data, companies "either need a robust pre-trip approval process or a robust expense reporting process in place that actually captures the business purpose of each trip."

Once deployed, companies can make wiser use of their travel dollars, funding trips that demonstrate value and trimming those that don't—instead of deploying a slash-and-burn approach to expense reduction. "Every year, as budgets get tight within companies, you

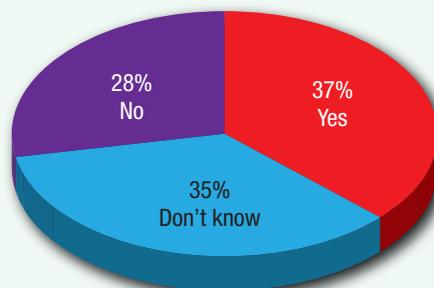
could always predict in December or November the message that says you can't travel any more because we don't have money," Koch said. "There was always a 10-month budget for travel, even though it was built upon a 12-month calendar. What we're starting to see now, instead of doing those blanket-type actions, people are starting to be smarter about the policy changes they make so it better suits their business needs. The broad brush of no travel for the last two months of the year has changed into managing it better throughout the year."

Companies continue to employ a variety of mechanisms to manage traveler behavior—

from e-mail communications and mandates to business unit report cards. However, there has been a rise in the number of companies deploying some form of pre-trip notification or approval in efforts to curb what companies deem to be nonessential travel. Among the respondents, 71 percent said their companies have rolled out some form of pre-trip notification or approval.

"It's definitely been on the uptick for probably the last two years within North America," according to Schnur. "With the level of insight

Companies saving money in 2008 from using videoconferencing rather than travel for meetings



Mechanisms companies use to manage traveler behavior

Regular policy communications via e-mail, intranet, etc.	75%
Online communications/red flags in booking	69%
Online communications/red flags in reimbursement	64%
Mandates	60%
Travel counselor verbal warning	56%
Business unit comparative report cards	41%
Sharing savings with traveler	31%
Incentive programs	27%
Other	15%

that senior management wants now, most companies are going to want to have something either on the front end or the back end to capture that.”

Several buyers during the Masters Program in Washington, D.C., in February said they have modified booking tools to ask travelers about the necessity of a trip or offer alternatives to the journey before proceeding to booking.

Executives from companies that provide self-booking tools, including Amadeus and Sabre, noted a growing appetite

for pre-trip notification and approval tools. Several buyers told *BTVN* said their companies are installing, refining and advancing pre-trip processes as a way to manage demand.

“The big value of an online booking tool is to manage the behavior of travelers long before they get on a plane,” said GetThere vice president of corporate market strategy and solutions Suzanne Neufang.

GetThere is in the midst of rolling out its Demand Management suite, which ties several pre-trip components together with the

aim to help companies curb unnecessary trips and facilitate “the right travel,” Neufang said.

The suite—largely composed of previously available modules—includes trip requests, travel validation, dynamic messaging, cost center validation, booking notification and pre-trip approval, as well as expense tool integration. “I’ve been joking with my team that this is the GetThere don’t-go-there suite,” Neufang said.

The suite also signals a shift in pricing for a tool that derives much revenue from transactions. “We’ve traditionally been a transaction-based-cost tool. The intent of this is actually to lower transactions, so we’re pricing it out in a way that we think corporations will win because of their savings on the travel costs,” she said. That means an annual fee for every profile in the GetThere system on top of transaction fees for bookings. Sabre said it is piloting the suite with “a handful” of clients.

“GetThere all along has been all about visual guilt. There’s been the notion that there’s visual guilt about the price, but it’s really not all about the price,” Neufang said. “It’s also now about whether the reason you’re going is even valid, and you can create some of that visual guilt even upfront.”

During the Masters Program, several buyers

said they have recently put such booking tool enhancements in place. “When you go into our online booking tool and someone puts in their destination, it will pop immediately and ask them if they could potentially be using one of our virtual meeting tools instead of taking the trip,” said Kim McGlenn, PricewaterhouseCoopers’ director of strategy and continuous improvement for U.S. travel.

Even before instituting that change, PwC said virtual meetings increased 79 percent, which in some cases helped curb travel.

“Our virtual meetings have increased significantly over the last several years,” McGlenn said, “and our travel transactions have been declining—not at the exact same rate, but there is a correlation.”

Koch said, “Since the technology now exists in online booking to ask those types of questions to help pause the booking process, if somebody goes through the gauntlet, so to speak, and gets out the other side, then it’s probably an appropriate business trip. The company needs to fund that, because there’s a return on investment, a revenue potential on that trip.”

As companies attempt to cut nonstrategic travel, they also are turning to alternatives to fulfill the mission of some business trips from the comfort of the office.

According to the 2009 Procurement Practices survey, usage of videoconferencing grew last year at 43 percent of the respondents’ companies, while half of the companies responding said they would increase videoconferencing this year. In 2008, 37 percent of the respondents said they saved money by relying on videoconferencing as an alternative to travel.

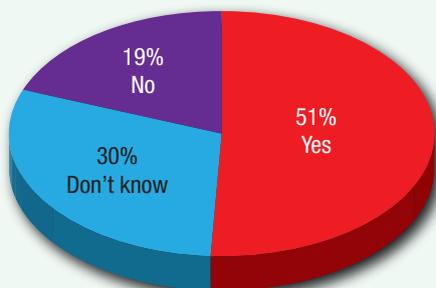
Though some companies have seen a correlation in remote conference usage and travel savings, others said it was difficult to quantify the exact savings remote conferencing usage has yielded.

Schering-Plough director of travel Christopher Allen said he has seen more evidence of remote conferencing supplementing, rather than supplanting, travel.

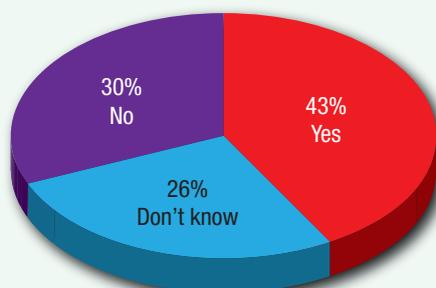
“We’ve had a push for alternatives to travel in the last three years,” Allen said. “The interesting thing is that we wanted to see if there was an inverse relationship where the use of those alternatives goes up and travel transactions come down. What we found was, even though those alternatives were going up, our travel transactions were going up as well. I think it’s a good thing. I don’t know how much of that is offsetting travel or just increasing interaction between our colleagues.”

Even travel management

Companies increasing use of videoconferencing in 2009 from 2008



Companies increasing use of videoconferencing in 2008 from 2007



companies are helping their clients curb trips with the help of remote conferencing capabilities. When Travel Solutions moves to new office space in June, said CEO Tammy Troilo-Krings, the space would include two telepresence meeting rooms, videoconferencing rooms and other spaces equipped with various remote conferencing technologies. Troilo-Krings said the facilities would enable clients to cut some types of travel—specifically internal

using telepresence, Webconferencing alternatives and other strategies.” The demand management strategy is resonating with the upper reaches



Cisco CEO John Chambers
Claims 15% discretionary spending drop partially due to TelePresence

meetings, employee recruitment and other forms of non-client-facing travel—while preserving the business purpose of meetings.

“The areas where you want to be spending your money are internal to external,” she said.

According to a report released by Forrester Research, entitled “The ROI Of Telepresence,” companies can reap a variety of benefits from such remote conferencing systems. They include reduced “travel costs, increased productivity, a reduced carbon footprint and increased collaboration leading to faster decision-making.”

According to Forrester, Procter & Gamble “was able to shave 20 percent off its global travel budget over the previous year by

of management. CFO Jon Moeller said during P&G’s second-quarter earnings call in January, “We are reducing travel costs by relying more heavily on video and phone conferencing. There are a lot of proactive choices being made to reduce costs and improve productivity.”

Forrester noted that the “upfront cost of technology is high, but, once installed, telepresence is stable.”

The report notes that hardware for each telepresence room can range from \$120,000 to \$350,000, depending on the setup. Considering that a company would need “two rooms to get started, and many companies implement three rooms in order to have multipoint conferences,” Forrester estimated the

“price tag quickly mounts to more than \$1 million for a three-location multipoint telepresence setup,” plus annual maintenance costs, but said discounts are “substantial” and can range up to 50 percent.

To gain the return on investment and justify the expense, Forrester said companies must achieve high use of telepresence rooms by reducing travel and fostering the perception that using the technology is “just as good as an in-person meeting.”

Suppliers of telepresence suites continue to extol their virtues and claim continued traction in their usage. Polycom chairman, president and CEO Robert Hagerty in the remote conferencing company’s fourth-quarter earnings call in January said many companies consider corporate travel to “be one of the most, if not the most, discretionary

budget line item. In fact, organizations of all sizes appear to be essentially eliminating intercompany travel and significantly reducing the number and frequency of individuals traveling for customer facing meetings.”

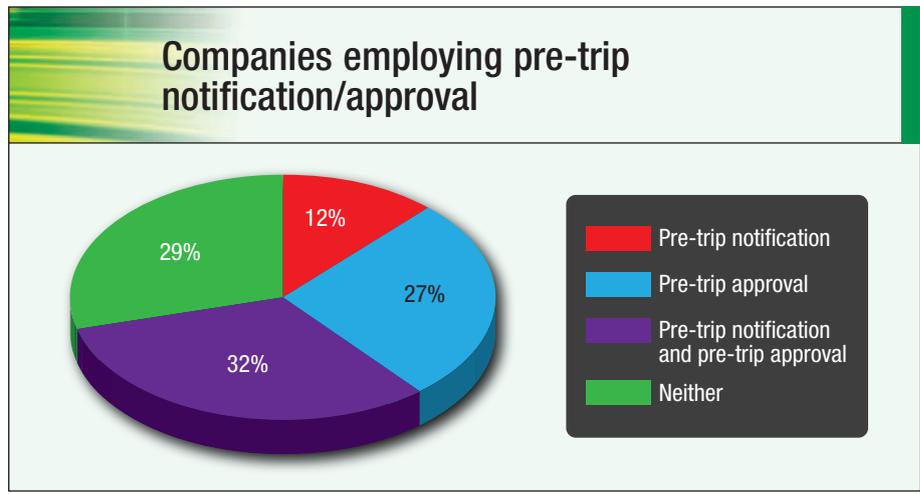
Hagerty said such telepresence systems as those offered by Polycom “not only decrease the out-of-pocket cost of travel, but also substantially reduce the opportunity cost of travel. In other words, a two-hour meeting takes two hours, not two days.” Furthermore, Hagerty noted the “green agenda” also serves as a “critical driver” for corporate adoption of such systems, particularly in Europe. “This is becoming a priority for the North American market as well,” he said.

Cisco Systems in February said 312 companies have adopted its TelePresence system, representing 65 new clients that have ordered the technology in the past quarter. The system,

which attempts to mimic boardroom meetings through virtual, high-definition conferencing technology, is helping Cisco reduce its own travel, the company said. Chairman and CEO John Chambers during Cisco’s second-quarter earnings call in February said “discretionary spend,” including travel, was down 15 percent from the previous quarter, thanks in large part to travel alternatives like TelePresence.

Though the high-def, high-priced telepresence systems have caught some companies’ imagination, any number of options—from Webcams installed on computers to audio-based systems—are available to enable remote conferencing.

“Teleconferencing is still probably the biggest alternative to travel,” according to American Express’ Schnur. “As better and more pervasive videoconferencing options become available, there will be more uptake of them.” ♦



Expanding The Use Of Travel Metrics

BY SETH HARRIS

As procurement departments expand their sway over travel management, supplier performance measurement using such procurement-based tactics as key performance indicators, scorecard analysis and service-level agreements have become a central part of that process at many corporations. In the past several years, companies have expanded the use of these strategies to more travel supplier categories, often providing more granular analysis and better accuracy for use in negotiations and internal program value assessment.

Today, executives are requiring more frequent and concise key performance indicator reports to provide them with snapshots of company travel spending and savings accumulated through travel management efforts. Senior management's watchful eye now has many travel procurement professionals fine-tuning KPIs to provide the most relevant metrics to stakeholders and new metrics for travel supplier cate-

gories are being pulled under procurement's wing, including meetings.

According to a January CWT Travel Management Institute report, 46 percent of 178 travel manager respondents said development of key performance indicators would be a higher priority in 2009.

BTN's 2009 Procurement Practices survey shows an expansion of KPIs this year that focus on demand management. For example, 36 percent said they measure their use of videoconferencing and 24 percent measure reduction of one-day trips.

Advito vice president of business development Mark Williams said the evolution of procurement in travel has created a higher level of sophistication in KPI metrics. In its earlier stages, there was more of a "focus on metrics that didn't really matter that much, like average ticket price," he said. As a metric, average ticket price has too many variances, including citypairs and volumes, for a company to benchmark itself against its peers. Travel buyers now have broken that down into a more meaningful analysis with such KPIs as average cost per mile and airline class of service price comparisons.

Even with a more tailored approach to KPI measurement, procurement's influence and subsequent focus on cost and savings can at times neglect the service aspects of travel, leading to a misinterpretation of a corporate travel program's performance. While 88 percent of respondents in this year's survey said they measure KPIs associated with measurement of air, car rental and hotel savings, 72 percent said they apply traveler satisfaction KPIs, which can catch the intangibles like a hotel's amenities or a TMC's agent services during bad weather.

"The challenge with applying KPIs and quantifiable goals has always been that so much of travel is pure service and highly subjective and not necessarily subject to clean quantitative metrics," according to TRW Travel Consulting president Tom Wilkinson. "There is always a benefit to measuring performance, but you have to be careful in the travel industry when you are trying to measure something that is inherently subjective."

Supply chain advisory services firm AMR Research's director of research Mickey North Rizza said too much of a KPI focus can cause managers "paralysis analysis" or "just focusing in on KPIs instead of focusing in on what they need to drive the business."

At Corporate Travel 100 pharmaceutical company GlaxoSmithKline, procurement has standard savings definitions for all supplier measurement categories, including travel, which are tracked through an automated system and validated through the finance department. "That's how we build real credibility within the organization. Sometimes it's a little more difficult to measure discrete savings in buying airline tickets and hotels," GSK vice president of procurement of global systems and operations Gregg Brandyberry said in a recent Rearden Commerce and Institute of Supply Management Webinar.

While senior management requires concise reporting, travel managers continue to measure supplier categories in new ways as they

Use of service-level agreements by travel supplier category

	2009	2008
Travel management company	54%	65%
Hotel	51%	30%
Car rental	47%	33%
Airline	43%	40%
Credit card	38%	30%
Online booking tool	38%	38%
Chauffeured car	20%	13%
Meeting agencies	15%	14%
Other	2%	3%
None of the above	16%	10%

Use of financial incentives or penalties to suppliers based on service-level agreements

	2009	2008	2007
Yes, incentives only	3%	8%	7%
Yes, penalties only	9%	17%	20%
Yes, both incentives and penalties	15%	26%	23%
No, neither	73%	49%	50%

seek the most value in terms of savings and service. While KPI-based service-level agreements are most commonly found in agreements between corporations and travel management companies, SLAs are being extended into new areas, including hotel agreements, to ensure acceptable service levels for such amenities as wireless Internet performance and availability of business services.

Buyers also have increased use of SLAs with their online booking tool vendors as they measure “up time” and proper preferred supplier display.

Integrus Energy Group is developing its KPI portfolio as it reaches the one-year implementation anniversary of its procurement-driven managed travel program via its supply chain organization. The program will use its first year of data as its baseline as it secures preferred contracts with more travel suppliers. It already evaluates its travel management company’s customer service levels, online booking tool inventory and “up time,” according to Rick Seymour, Integrus’ corporate card coordinator and travel buyer.

Seymour’s contracts contain few SLAs. “We chose that supplier through other efforts and RFPs,” he said. “Once you go through all those hurdles and hoops, we said you are the best and you give us the best price and your product is the best. We are really watching the price to make sure the vendor isn’t adding any dings on there to nickel-and-dime you.”

Integrus senior management is taking an active role in reviewing the program. “In the past, they would let the immediate supervisors or the respective business units police themselves,” said Seymour, who is moving from quarterly to monthly KPI reviews. “Now, upper management is saying, ‘Give me these comparisons and I want to know why.’”

One growing focus for travel procurement professionals is reining in meetings spending by wrapping procurement methodology around it. According to the survey, 22 percent of respondents apply KPIs to their meetings contracts and 24 percent include SLAs.

“Meetings has been talked about for a long time, and we are seeing increased visibility within the procurement organizations and in general management in wanting to put a

process in place,” said Carlson Wagonlit Travel North America vice president of meetings and events Tony Wagner.

UnitedHealth Group applies that procurement approach to its roughly 600 meetings annually. Service-level agreements and key performance indicators are part of standard addenda to meetings contracts that are “topics of conversation when we are going through the negotiations process,” said Tamara Gordon, UnitedHealth global travel and meetings manager, who reports through procurement and ultimately the finance department.

Although KPIs and SLAs continue to grow across travel supplier categories, there has been a reduction in the application of financial incentives and penalties, especially as year-over-year comparisons became tougher to measure in such volatile economic times.

Looking back on his travel-buying days, Advito’s Williams said, “Sometimes we were just disgusted with the things that were going on. When you would go through the written service-level agreement, even if you tried to button it down as much as you could at the time of the contract, when you actually went

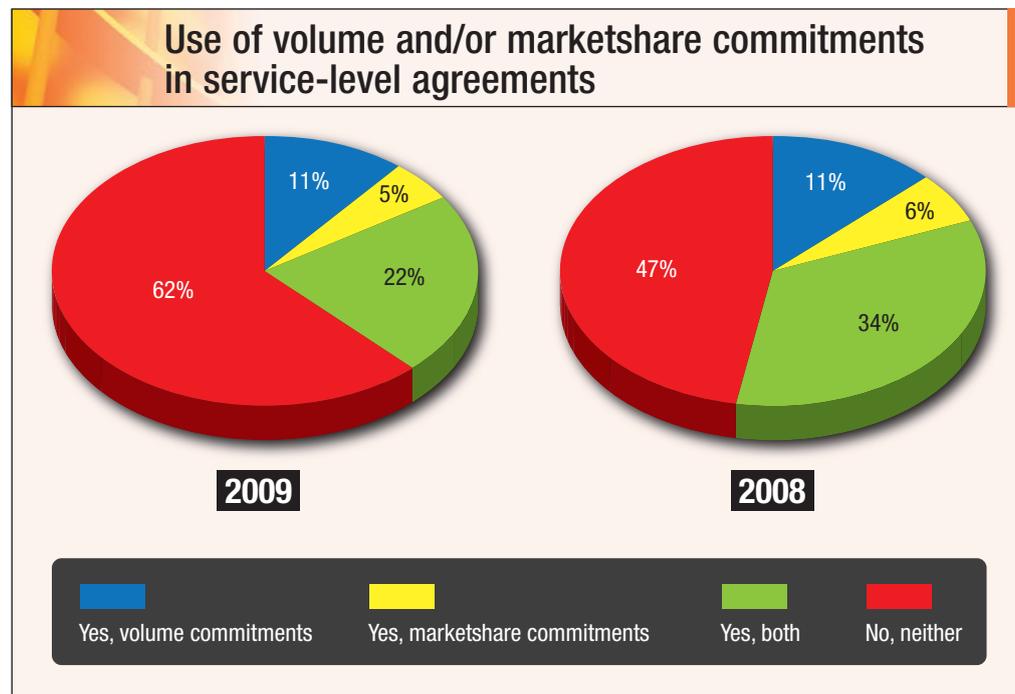
through a calculation with your TMC partner, the interpretations would end up being different and it would be very difficult to come to a conclusion that in fact they made this one or missed this one.”

Now that volumes are falling, buyers and suppliers are working more collaboratively and are looking at numbers differently to avoid penalties and building long-term relationships for when business travel rebounds.

“It’s much harder to hit targets these days as volumes fall,” consultant Wilkinson said. “A hotel supplier at this point that insists on maintaining the same rigid quantity of room nights in the current economic environment that were committed a year ago is going to wind up with very few preferred customers.” ♦

Key performance indicator review frequency

	2009	2008	2007
In real time	14%	6%	3%
Weekly	7%	5%	2%
Monthly	28%	22%	23%
Quarterly	30%	43%	54%
Annually	14%	19%	12%
Other	6%	5%	4%



Outsourcing Levels Holding Steady

BY CHRIS DAVIS

Balancing the need for an in-house travel management staff to help guide a comprehensive strategy with the temptation to limit costs by outsourcing some or all of a corporate travel program is tricky in the best of economic times. When a recession pushes increasingly desperate corporations to slash operational costs far beyond any recent precedent and tighten the management and procurement of corporate travel, the equilibrium becomes that much more difficult to maintain.

Though the specter of travel management layoffs has become all too real for many professionals in 2009, job losses have not yet

translated into significant increases in travel outsourcing levels, according to *Business Travel News*' Procurement Practices survey. Only 12 percent of respondents said their companies are outsourcing more travel services than they were 12 months ago, actually outpaced by the 16 percent who said that level has declined.

Possibly, deep cutbacks in travel volume have left corporations with fewer big-ticket initiatives to outsource, holding outsourcing levels steady.

"When a company's losing money, they can't spend a lot of money on major travel management initiatives," said Yasuo Sonoda, founder of the Sonoda Travel Management Solutions

consulting firm and a former corporate travel manager with Spanion, Business Objects and Macromedia. Sonoda cited the deployment of integrated online booking and expense reporting tools as an example. "The funding for that is all dried up."

However, interest in involving third parties in travel procurement efforts is on the rise. About 46 percent of respondents said they currently use a third party for such efforts, far higher than the 31 percent who said so last year. Those who said they had no plans to do so dropped from 60 percent of respondents in 2008 to less than half this year.

The figures illustrate an approach that some travel managers and third parties said currently governs travel outsourcing theory: Manage the strategy in-house, but outsource tactical operations.

"We are trying to do a lot of things globally with no people, so we need some people to help us with those tactical exercises," said Merck & Co. global sourcing manager of card and travel Cynthia Teufel. "We're not outsourcing strategy. That's what we do best. The tactics of sending

out a request for proposals, that can be outsourced."

The survey results show that Teufel is not alone. In two of the three supplier categories *BTN* collected data in both 2008 and 2009, far more respondents this year said they are using a third party to help source travel: 65 percent of respondents said they do so for hotel sourcing, compared with 45 percent in 2008, and 51 percent said they use a third party to assist in car rental sourcing in contrast to 31 percent who said they did so last year.

"We've seen more outsourcing of various pieces," said American Express Global Advisory Services vice president Frank Schnur. "Our business grew at a healthy rate in 2008 and that continues into 2009. Companies are looking to, in some cases, own the strategy and outsource the tactics."

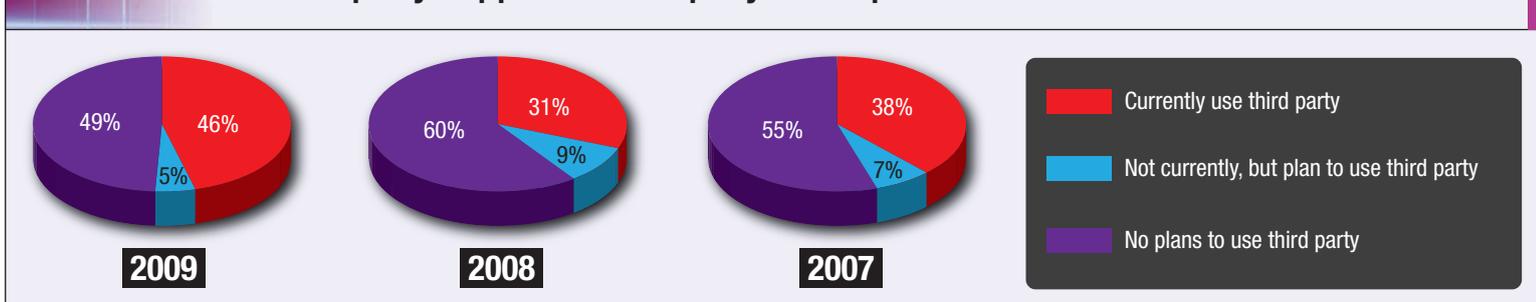
Schnur added that other companies are happy to outsource the strategy, too, looking to third parties for approaches concerning demand and change management, communication, policy construction and compliance.

Many companies that have announced cutbacks seek "improved data around the budg-

Use of third party for procurement with specific travel suppliers

	2009	2008
Air	63%	61%
Hotel	65%	45%
Car rental	51%	31%
Car services	26%	NA
Meetings	46%	NA
Other	11%	NA

Use of third-party support for company travel procurement efforts



eting process,” Schnur said, to support “precise and intelligent cuts. Initially, management might announce a 20 percent cut.” He added, “Then, though, they’ll go to the travel department and ask how to do that, which is to ask, ‘Can you tell me why we’re traveling,’ and the best companies will have the infrastructure to support that, but a lot are struggling with that question.”

Developing such an infrastructure and securing that data, Schnur said, should be a primary goal of outsourcing strategy. “There is data out there, from pre-trip to online booking to expense reporting, that can provide insight. Senior management should be asking for this level of data, and it’s a way for travel professionals to add value at a critical time.”

Some travel managers, however, are finding it difficult to secure management support for allocating the expenditure necessary to develop an extensive outsourcing strategy. “The return on investment that you have to present to bring in a consultant or to outsource something has to be stronger than ever,” said Ernst & Young manager of procurement operations Susan O’Rourke.

Nevertheless, 7 percent of sur-

vey respondents said they outsource all corporate travel management functions, a figure



Yasuo Sonoda
Funding for many travel initiatives has dried up.

Eric Wong

dwarfed by the 30 percent who outsource nothing, and the remainder who pick their spots, predominately travel management company call center and ticket processing operations, as well as online booking tool deployment and administration.

Within the past few years, several Corporate Travel 100 companies have at least studied, and in some cases radically changed, their approach to travel management outsourcing.

In one example, part of a com-

panywide overhaul of its meetings management process, management and technology consulting firm Accenture last year centralized meetings under its travel and events department and outsourced the U.S. events team to American Express. Nearly half of all survey respondents said they use a third party to assist in meetings sourcing.

On the other hand, Procter & Gamble last summer moved back in-house the travel functions—save for expense management—it for several years had outsourced to IBM. Intel, meanwhile, studied outsourcing travel procurement last year, but global strategic sourcing mobility manager Megan Stowe, *BTN*’s 2008 International Travel Manager of the Year, opted against it.

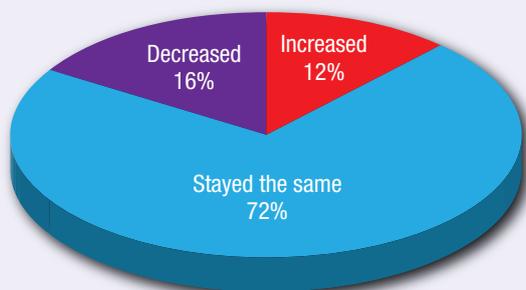
“We concluded there was no correct fit at this stage,” she said. “The true outsourcing companies that presented to us were too small and inexperienced to handle a company of our size.” However, the potential to consolidate spend with other corporate customers and assure continuity

of expertise led Stowe to keep the possibility open.

Most companies are in the same boat. As the economy struggles and cost-cutting solutions that once seemed radical to corporations appear increasingly reasonable, the role of third parties and in-house corporate travel and procurement departments in sourcing, implementing key initiatives and developing strategy will continue to evolve, in some cases very quickly.

“Travel management is so much about strategy and continuous enhancement. You can outsource tactical stuff to the travel management company, but they can’t do all of it,” Sonoda said. “It’s a hot topic in procurement itself to try to outsource the whole thing, and you can outsource to India the day-in, day-out material supply issues, but travel procurement is so much more. I mean, it’s difficult to switch a preferred airline. You can’t outsource that, because it needs constant internal communication to assess top business traveler feedback. Companies try all the time, and they fail.” ♦

Change in company use of travel services outsourcing in the past 12 months



Other travel management initiatives firms outsource

Travel management company operations (call center/ticket processing)	46%
Online booking tool deployment and administration	40%
Traveler safety and security	19%
Other indirect travel spend management booking and management (package shipping, dining)	15%
T&E reimbursement system deployment and administration	13%
Other tasks	2%
All corporate travel management functions	7%
None (all travel management from sourcing through booking in-house)	30%

Gauging Corporate Travel's Downturn

BY MICHAEL B. BAKER

The economic downturn spurred a dramatic shift in 2009 corporate travel budgets and forecasts. *Business Travel News'* Procurement Practices survey shows the gulf in attitudes toward corporate travel in 2009 compared with previous years.

Two-thirds of respondents plan to cut back on travel spending this year, and about the same percentage said their travelers will make fewer trips this year than in previous years. It's a complete reversal from 2008, in which only about 20 percent were planning

to spend less on travel and take fewer trips. In 2007, about half said their plans were to increase travel spending and trips.

These results jibe with other recent industry data. *The Economist* Intelligence Unit, in partnership with Amadeus, in February reported that nearly half of 354 executives surveyed said they were planning fewer trips during the next 12 months, and only 11 percent said they expected to take more business trips this year. About that same time, an Association of Corporate Travel Executives survey of 176 travel buyers showed that 71 percent of respondents plan to spend

less on travel in 2009.

"A lot of companies are planning on traveling less and spending less, so that really creates an opportunity for travel and procurement professionals," said Frank Schnur, American Express Global Advisory Services vice president. "They can go to CFOs and discuss how to make these cuts intelligently instead of just making broad, sweeping cuts."

Patricia Carlin, purchasing manager for global card and travel for Dublin, Calif.-based Sybase, said her goal is a 10 percent reduction in travel and entertainment spending this year. "We absolutely will reduce spending by reducing trips," she said. "We're still consolidating global locations—we've brought in Australia and Singapore, so we're bringing in more countries to manage—but we've decreased T&E overall."

A 10 percent reduction is no small order, but Sybase's goals actually are modest by measure of the results of the survey. Respondents said they plan to see about a 20 percent decrease on average in both travel spending and actual trips. In the *Economist* survey, 16 percent of the executives said they would

cut back the number of trips by 30 percent or more.

Sybase's Carlin said demand management would play a large role in her T&E cutbacks. "We're really getting into our stride, and we're having a lot more pre-trip approvals than we've ever done," she said. "There are going to be fewer trips and a much greater drive to videoconferencing for internal meetings."

While Carlin said shorter trips were not part of her company's cost-reduction strategy, some companies will see reductions in that manner. The *Economist* survey, for example, showed the number of executives who said one-night stays were the par for their business trips increased to 16 percent for this year, compared with 11 percent in 2008.

These cutbacks generally should not impair negotiating leverage. The minority holding travel steady or increasing it will be in a great position to renegotiate agreements, said Bob Brindley, vice president for BCD Travel consulting unit Advito. "Those who have dramatic declines year-over-year will have a more difficult position, as well as those who are changing policy, such as bringing travelers out of the premium classes," he said.

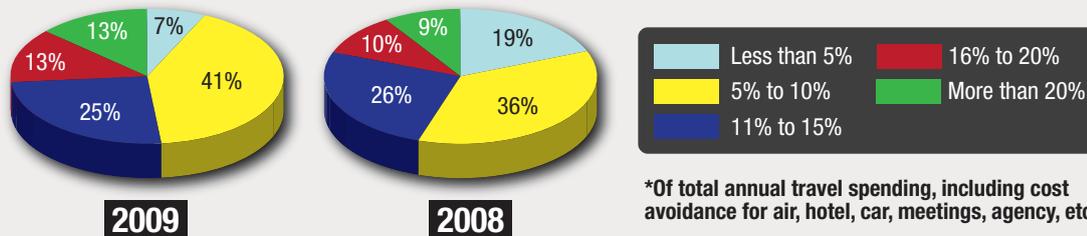
The percentage of companies that save money by applying procurement techniques to travel has remained fairly steady in the past few years, albeit at a strong majority, according to *BTN's* survey results. The percentage companies expect to save by using those techniques, however, is higher on average this year than

Percentage companies saved* by applying procurement practices to travel in the previous 12 months

Less than 5%	13%
5% to 10%	44%
11% to 15%	24%
16% to 20%	12%
More than 20%	7%
Average	11%

*Of total annual travel spending, including cost avoidance for air, hotel, car, meetings, agency, etc.

Percentage companies anticipate saving* by applying procurement practices to travel in the next 12 months



in 2008. The percentage of those expecting to save less than 5 percent through procurement practices dropped to 7 percent this year from 19 percent in 2008, and those expecting to save more than 16 percent increased from 19 percent to 26 percent.

Survey numbers also might not fully reflect the impact of procurement practices on savings. As they become a more settled part of a travel program, it can be harder for a travel manager to differentiate savings specific to those practices from those accomplished by the overall program management, said Sybase's Carlin, whose travel program has been under the procurement umbrella for a long time. "All the savings I achieve are from all my methodologies of doing business," she said.

Another factor to be considered is the disparate ways companies have of measuring those savings. Some companies, for example, don't count cost avoidance as savings. Carlin said Sybase measures savings, comparing rates with published corporate rates for hotels and lowest coach fares for flights, as opposed to rack rates or full coach fares.

As procurement practices become more ingrained and as travel buyers face mandatory cutbacks, measurements will become even more important in ensuring that the overall quest for savings in travel is not detrimental to the company as a whole, American Express' Schnur said. Tight monitoring and measures will enable companies to have the necessary data to adapt policy to allow for savings even as certain kinds of travel—sales department staff visiting prospective clients, for example—can increase.

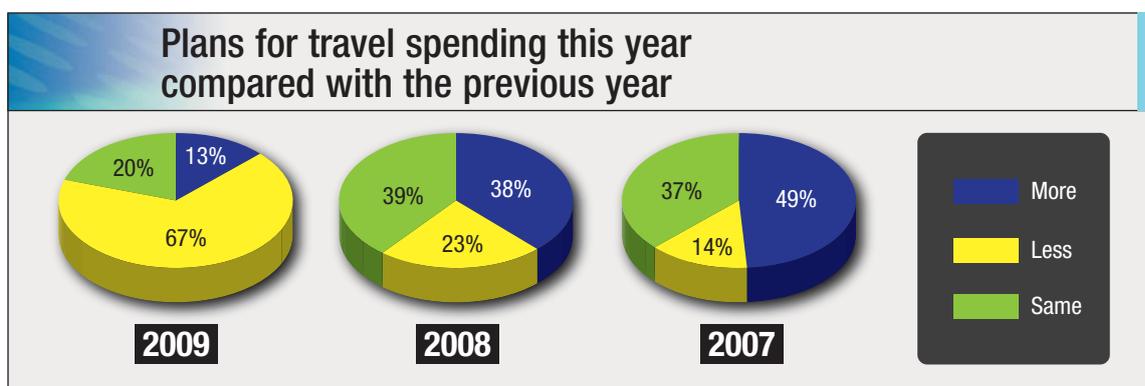
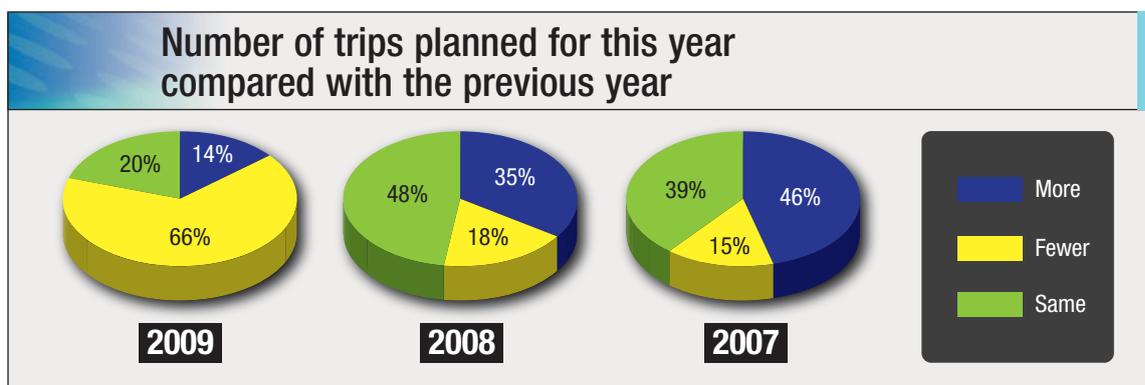
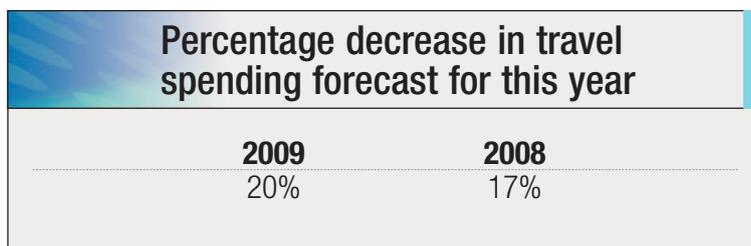
"It'll give a window to all those behavioral things: changing a business class policy, getting people to pick up a sandwich for lunch instead of sushi, getting people to combine business purposes on a single trip," Schnur said. "We owe it to our companies to present this kind of data, so if you need to cut travel spending by 20 percent, then you can do it without impacting the future growth of the company."

Additionally, buyers should find upper management more receptive to trying to institute controls that might have been ignored in the past, Advito's Brindley said. "It's definitely an easier sell, and it's much easier to put these policies in place in tough economic times, especially if a company is going through cost reductions in other areas."

He added that signs are showing travel cutbacks in the near future will not be as severe as the

ones seen now. "We're hoping that things are bottoming out," Brindley said. "Airline demand is starting to stabilize after a big drop last year, certainly not going up but not going down at a faster rate. Hotels will be a bit slower to rebound, because clients that have cut back on air travel have cut back on hotels even more."

Once companies emerge from the downturn, procurement practices put in place then could be even more benefit. "They can use these times to be more efficient in the future and continue those savings as the economy rebounds," he said. "The old saying applies: Never lose an opportunity from a crisis." ♦



Procurement Practitioners

Managing Change, Demand

(Left to right) Ernst & Young's Susan O'Rourke, Merck's Cynthia Teufel, AllianceBernstein's Joanna Martinez and Philips International's John Guarneri



AllianceBernstein chief procurement officer Joanna Martinez, Ernst & Young manager of procurement operations Susan O'Rourke, Merck & Co. global sourcing manager of card and travel Cynthia Teufel and Philips International global supply market manager of travel John Guarneri recently met with several *Business Travel News* editors and discussed demand management, balanced scorecards, outsourcing and other applications of procurement practices to travel management. The following is an edited transcript of that discussion.

BTN: One-third of respondents to a new *BTN* survey said they saved money in 2008 from using videoconferencing. Almost half said their company increased its use of videoconferencing in 2008 from 2007. More than half said they would increase use of videoconferencing in 2009 from 2008. Where do each of you stand as far as usage and demand management are concerned?

Susan O'Rourke: We have a lot of expensive equipment out there, and while there is a lot of pressure to use this expensive equipment, I have not seen anyone in our firm tie the two together to say, these videoconferences saved this much in travel and had an impact on demand. IT is purely not part of the procurement organization. Its direction is completely separated from travel. I'm sure it's had some impact, but I'm not comfortable saying it's had that big of an impact.

Our travel is way down, but that's not because we've been videoconferencing. I think they are making better decisions or just plain not traveling. We have a lot of anecdotal evidence that sometimes the splashy videoconference is taking place of the telephone conference that you would have had anyway, so is it really saving in the long run?

Joanna Martinez: I am really struggling on the value of videoconferencing. I think if you make a very substantial investment and get a lot of high-def equipment, which not a whole lot of companies can afford to do right now, perhaps you enhance the experience to the point where it really is like sitting around the room. But generally speaking, the experiences I've had have been such that I suppose it keeps you from doing e-mail on the side, so maybe you pay a little more attention.

BTN: In other words, you can audioconference and have the same benefit.

O'Rourke: Yes.

Cynthia Teufel: At this point, everyone in the company is focused on saving travel dollars and the same travel dollars have been saved by almost every department. We would define it as cost avoidance, since they are not traveling on an airplane. We've tried to do some measurements and modeling. We had a great deal of difficulty saying that we could save X dollars. Those are dollars we don't spend, so those are cost avoidance dollars rather than savings. Unless we

have oversight over the whole piece, it will be hard not to save those dollars over and over again.

A little aside about cost avoidance: I'm campaigning in my company to make cost avoidance visible and important. In a mature travel program, you have a lot more cost avoidance than you do savings. I want people to realize that we're doing a good job. We saved a lot of money in terms of cost avoidance, but the incremental savings might be small.

BTN: Has your company's use of videoconferencing gone up?

Teufel: There was a large spike that is leveling off a little bit. Our CEO in April of last year said not to travel unless you absolutely have to. That cut travel by about 50 percent over the year. That's the best kind of travel reduction you can possibly have, when the CEO is looking at the travel dollar. That's the easiest way to get it to work. We will have over time multiple types of communication, including travel, as methods to do business. I think videoconferencing is something that needs to be integrated into





what we are offering.

Martinez: Our videoconferencing usage was up, but so was my audioconferencing. Business demands we spend less on travel, travel less, be smarter and consider other venues, and I think videoconferencing is only one in the group.

John Guarneri: I have a database of our major citypairs and how much traffic we're doing, and we just put into 20 of our facilities high-definition videoconferencing. We chose it through analyzing the data we have on travel. Now, we're going to see if indeed those citypairs should drop because of videoconferencing. That's the role purchasing plays in advising our people that we do have this videoconferencing capability, and we're challenging them if they need to travel. We really just started implementing the sites in the last quarter of the last year, with BT using Cisco's systems. We have struggled quite a bit with how to measure savings.

Teufel: It's the best kind of savings. You don't spend it.

Guarneri: We can't define that as a savings, but we jointly work with IT, which is part of the group to which I belong in the purchasing organization, so we work very closely with them. They procured the systems and we supplied them with data about the markets to deploy them in. Besides the video, we're getting more into Net meetings. It's audio, but you're at your computer with a virtual meeting going on. You can show your presentations and have your discussions that way.

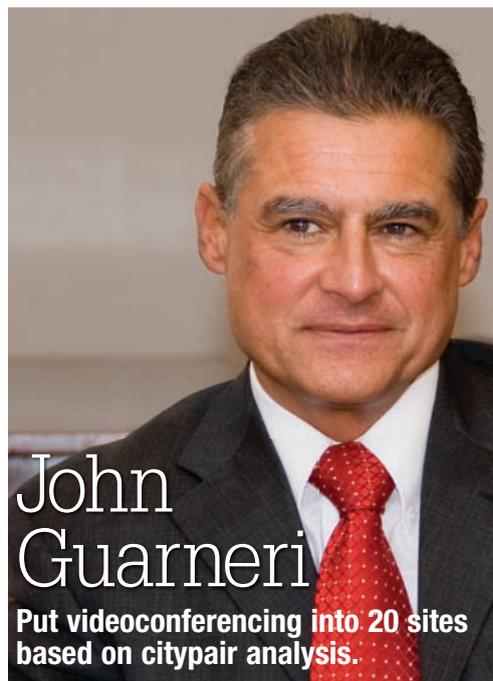
We've come to some metrics where we can look at the number of meetings going on between our sites. It's not focused on customer-facing but on internal meetings. At Cisco, they have eliminated all travel for internal meetings through their systems. The goal is really to cease that and travel will be more customer-facing than anything else.

From a procurement perspective, at least at our company, we call something a project when it has a one-year life span as far as savings go. After that, it's more of a contract. I struggle to come up with projects, as most of our programs are mature. If you renegotiate with an airline, is that really a project or an extension? When you redesign something or

bring the vendor in early to help you to reduce costs in the process or the program, those are projects. What we call connect meeting or videoconferencing is a project, an IT project. After a year, it just maintains itself.

BTN: Do you have some kind of pre-trip process now in place?

Guarneri: Yes. We are starting to put that back into place. We decided that to keep things simple we did not have to have the manager giving official pre-trip approval, but now it's becoming more and more prevalent.



Each group is doing something different. We don't have a standardized pre-trip process.

BTN: Beyond notification, are some divisions requiring an authorization?

Guarneri: Yes, definitely.

BTN: Is that true for you too, Cyndi?

Teufel: In our largest market, the United States, we have always had a very low-tech approval method. If you want to go on a trip, you give your boss the estimate of how much it costs and then he or she says yes and you go on your trip. Now, with our total transformation using SAP, we will begin using an approval system. The whole pre-trip part of it becomes something that you want to feed all the way through. That's kind of the direction the company is going.

BTN: The SAP rollout has been a couple of

years in coming. Were they headed this way all along or have their been changes?

Teufel: They've been headed this way all along and the global rollout will continue until 2012. This is big for a pharmaceutical company to have such global systems. We have had businesses that were very much in silos before, and now our therapeutic categories are doing business globally, which is different.

Guarneri: Even with SAP, information is different kernels that don't necessarily communicate with each other.

Teufel: I agree. I've done this three times. It's a transformation, is all I can say. It's not something that we have aspired to—we like our low-tech method, it seems to work really well—but we will have pre-trip.

BTN: When do you think you will have it?

Teufel: We go live this July.

Guarneri: I agree that pre-trip is going to become part of the end-to-end solution. When you really look at it from the procurement standpoint, it's the cost of the trip with the authorization to buy and everything else that goes along with it, including the expense reporting system up until the payment is actually recorded on the charge card.

O'Rourke: Pre-trip is really difficult for us because we are client-facing, and if they have to be there tomorrow morning, end of story. What we're doing, though, is a type of pre-trip notification to the traveler. We have a third party scraping our records every 15 minutes. They will send compliance e-mails to the traveler saying that you should have taken this airline or hotel instead, so if you proceed you will be charged \$100.

This is new this year: consequences that when your expenses are submitted, monies are withheld. You may get them back, but first they will torture you for it. To get to true pre-trip in our client environment, I don't think would ever be a practical solution. We're not telling the manager, we're telling the employee. You said you would do this, you should have done that. Here's your chance to click and have us change that for you. If you don't click, this is what will be withheld from your expense check.

BTN: You have a nonreimbursement policy.

O'Rourke: Again, I'm not saying they won't

eventually get their money back in most cases, but it's withheld initially and it's painful, because in the meantime your Amex bill is due.

Martinez: You are in a different situation. Your folks have to be out and with their clients in order to create revenue.

O'Rourke: Yes. I've had travel report to me at different points in my life, usually in a manufacturing environment, and it's been a real headache. In our environment, it's a strategic point of competition. It's nice to have travel in this world.

BTN: How do you define demand management in your world?

O'Rourke: Demand management is having 25,000 people make the correct decision on the correct day and say, "Do I really need to go? What is the ROI on this trip?" Our job is to provide the data necessary to help people make these decisions. Around internal meetings especially, we would like to implement in our Ariba tool the upfront approval process, because what the Ariba tool does beautifully is route things. One of our goals this year through an e-form is to have all of the particulars of a meeting route everywhere they ought to, so that maybe only 10 people need to go to a meeting instead of 25. Maybe you don't need to wear Mouse ears this year if you really can meet at an airport hotel. You can't make internal meetings go away, but you certainly can make them more effective. I don't know if we'll ever get into client meetings.

Martinez: You probably don't want to. Someone in our group, who worked at Lucent during their very difficult days, said Lucent started doing some things relative to demand management that had to do just with making information visible. They didn't set new policies. They didn't try to strong-arm people. They just made data visible. They started publishing the top 50 T&E spenders for the month and generally people started being concerned about having to justify being on that list. We experimented with just sending the business unit heads a list of reservations that were made on a biweekly basis. We didn't ask for approvals. We didn't say you have to put your stamp on it one way or the other. We started to see the number of trips drop. It was probably the single most effective demand man-

agement tool that we used, just sending out that Excel spreadsheet.

BTN: Is that because the bosses were doing something about it or because people realized their bosses would be seeing it?

Martinez: I think a little of both.

Guarneri: The only caveat I'll throw out to that, from the perspective of a global company, is data protection, especially in Europe, with works councils, particularly in France. We have to be very careful when names are being sent out.



Susan
O'Rourke

New this year: Money could be withheld from expense reimbursement.

BTN: Even internally?

Guarneri: Oh, yes.

Teufel: We can't even do a 360-degree review of someone over the phone or in an e-mail. It's really tough.

BTN: Joanna, was demand management at your company driven by cuts to each division's travel budget?

Martinez: We had spending cuts, not travel cuts. It was up to the business units to decide what makes more sense for them. Someone in a client-facing role is going to look at a lower class of travel, maybe a lower class of hotel, depending on who the client is or the proximity to the client. Someone in a non-client role might not make the trip at all.

Guarneri: How does that affect your travel sourcing?

Martinez: It's very much an issue, but you have to have an open dialogue with the hotels and the airlines and the other travel service providers, because it's not like you're alone. Everyone is facing the same dilemma. We're having conversations with every one of our suppliers. We're saying to them very honestly that the expectations we had going into this year was that we would do X, but it's not going to be that, it's going to be Y. In this environment, I don't see that as an obstacle. There are precious few businesses that aren't encountering this.

I think this is a year that you get a bye. No one is going to make their numbers, so we just need to do the best we can.

O'Rourke: You keep the conversation more marketshare-focused. My room nights in New York City may be down, but you're still going to get 35 percent of them.

Martinez: Exactly.

Guarneri: Our purchasing people have already sent letters to vendors that we expect a reduction by X percent. We called vendors in back in October and November. We thought there was going to be a decline and luckily we were at the forefront of it. I'm just wondering if others have done that.

Teufel: In other words, you sent out a letter asking for cuts?

Guarneri: Yes, saying that we expect a reduction in cost and let's talk.

Teufel: From them?

Guarneri: Yes, as opposed to, say, rebidding. Due to the economy, we expect X off.

Teufel: Yes. We've done that.

Guarneri: That's a purchasing thing. If travel reported to someplace else, within finance or another part of a corporation, would that have been a trigger? I don't know. We looked at that for various vendors.

BTN: Did you have an internal budget cut to travel this year?

Guarneri: Yes.

BTN: Was it an across-the-board percentage cut?

Guarneri: It was a guideline percentage, but it's being reported every month to the CFO. We've seen a dramatic cut.

Teufel: We haven't done that wholesale, but we've done that sometimes to certain suppli-





ers. I will say that as part of our sourcing process, we don't just stop at the sourcing of the product. Procurement is in charge of the relationship, so we actually work with our suppliers by having a dialogue with them. We'll tell them that our volume may be off by 18 or 20 percent for the year, but here are the things that we've given you in the past and for that we are expecting a reduction of X. We have used that successfully, but we've used our supplier value management to get through these tough times. We still want to do business with these people. We don't want the suppliers to hurt badly either so we need to see how we can all work through this.

BTN: Sharing the pain.

Teufel: A little bit, but if there's something we can do to help them, then it's incumbent on us to bring that to the table as well. Our relationship shouldn't just end at the end of a sourcing project. Ongoing communication is important. You have to tell them there is going to be a cutback. The pharmaceutical companies are so overregulated that we have to show more restraint than we always have.

That's not to say that we won't change a supplier, but the relationship does go beyond the sourcing piece of it so that we can get more out of it. It does work, if used the right way, it's a peer advantage for both companies. It's not like somebody is trying to get more blood out of somebody else. That is not what we're trying to do here, but we are trying to work through those issues, and then go to the next step of taking this relationship and doing something that is more strategic. We went through a kind of tactical exercise and now we want to

make it more strategic.

Guarneri: And that's high-level purchasing?

Teufel: Yes. That's the good stuff. It goes beyond the operations and the getting-someone-upgraded nonsense. There are some really good benefits beyond cost from developing a strategy together.

BTN: Susan, you were saying that your business travel is more mission-critical. Is there a cutback to the travel budget?

O'Rourke: There are two sides



to the business: client-facing and core business services, which has been cut to the bone. Client-facing activity is about the same. I think we're making better decisions. There's a certain class of traveler who can travel first class, and we're seeing the use of first class going down even though the number of trips remain the same. Hotel is a huge area because we tended to stay in four- and five-star hotels. Then you have the company's Americas managing partner saying, "Courtyard by Marriott is fine for me." That's certainly leading by example, so I think people are making better decisions and staying in the business-oriented hotels, rather than enjoying a night

at the Ritz. Core business services spending is at about half of where it was last year.

BTN: Let's switch topics and talk about outsourcing. In this environment, are you increasing outsourcing for travel services?

Teufel: Do we use consultants to help us do the hotel program or an airline program? Absolutely. We are trying to do a lot of things globally with no people, so we need some people to help us with those tactical exercises. We're not outsourcing strategy. That's

what we do best. The tactics of sending out an RFP, that can be outsourced. We outsource to travel management companies all the time. To John's point, travel has done this first and best. We've taught other parts of the company how to outsource the right things. That's the key.

In travel, we've always looked at ways to maximize our resources. We have two people globally for travel and meetings. We have four regional people who we work with, but they're not 100 percent dedicated to travel. They might be 20 percent or 30 percent, but that's who we have to work with to put out a really robust global program. To do that you need some outsourcing.

Martinez: The more pressure there is and the tinier your in-house organization becomes, the more our roles evolve into managers of networks of suppliers and people with subject matter knowledge. I spent a lot of time thinking about our travel team. With such a focus on less travel and managing demand and the numbers going down, how do you provide a career opportunity? How does travel become a job that people want to do when even the travel people can't go on trips? How do you structure the roles so in-house travel positions are positions people aspire to?

O'Rourke: We've outsourced the same things. A hotel RFP with 1,000 hotels in the program, you're not going to do that by yourself. The airline RFP, just the computer programming required to crunch numbers and model to get marketshare, we've always outsourced and will continue to.

The return on investment that you have to present to bring in a consultant or to outsource something has to be stronger than ever. "Consultant" is almost a dirty word right now. You really have to make the business case of what this is going to return. It will exist for very targeted and specific purposes, but I don't see it growing in the near term.

Martinez: I ask myself this question all the time: If we're all out there doing airline and hotel RFPs, is this kind of like buying a car? Is it the kind of thing where there's a list price and the real price is somewhat lower than that? If each of us is doing the same kind of thing, is there a different way for us to get at it?

O'Rourke: Take hotel RFPs. To me, who has been in procurement a million years, an RFP is the

stupidest thing ever. You do it every single year. You just about finalize it and get the contract signed, get the rates loaded, do your audit and you're preparing for next year again. It never ends!

Martinez: What else can you do?

O'Rourke: We dabbled in dynamic pricing a couple of years ago. We tried it in 25 markets, but we had to pull the plug after three months because if it wasn't working for us in the winter, it definitely wasn't going to work for us in the spring or the fall. If you could negotiate multiyear hotel deals or if dynamic pricing could be nimble enough, these would be wonderful things.

BTN: Switching the topic, John, are you using scorecards?

Guarneri: Yes, we call it PBSC, Philips balanced scorecards, and the key performance indicators are part of that. Supply management has their scorecard, which gets passed down to non-product-related purchasing, and my boss has his scorecard. I have to take that scorecard that he just took and apply that to my area. Almost half of that is what is passed down for us to meet. We have about 16 KPIs. A lot of that is driven by customer satisfaction surveys and cost of operations for my department. There are about eight that you are measured on.

BTN: Are there qualitative as well as quantitative measurements on your scorecard?

Guarneri: No. We're bottom-line driven. We're in procurement, so we are measured on our numbers.

BTN: What about you, Joanna? Do you use a balanced scorecard as well?

Martinez: We do. It is a mixture of qualitative and quantitative. As I said, we do go out with a survey every year. Although we've decided, given the demands this year, to go out for a second one to try to gauge where our traveling population is, and whether the new restrictions are working for them.

BTN: Do those measures change each year?

Martinez: No, the KPIs are pretty constant. If I go back to where we started on this strategic sourcing journey, we didn't have an online booking tool and now we do, so of course we now have an online booking tool usage meas-

urement. Compliance is actually a very diminished component, because our compliance numbers are very high. It's really become ingrained in the culture.

Guarneri: We've said the compliance is at 90 percent, which is very good, but we've kind of raised the bar or at least determined not to go below as part of the scorecard. We try to figure out how we can stretch it a little by raising the awareness or tweaking our tool to make sure that we are showing the right availability. Do we need to open up windows to



raise the bar? I'm always being challenged.

Martinez: The e-booking is another example of just providing information. We had extremely low usage of the online booking tool, and we started publishing just a bar chart that shows usage by business unit for the month. The internal competition dynamics between the different business units not wanting to be at the bottom, as well as occasional questions from our senior executives asking about comparative performance, has helped raise it dramatically.

Teufel: We do a couple of things. We send out our KPIs monthly to division leaders about online booking use, travel policy compliance, etc. We're getting better at it because of better insights from the data. Our travel data has been poor in a lot of areas of the world. We

expect that to improve this year with our finalization of our global agency bid very shortly. We also do, as part of supplier value management, a scorecard that is both quantitative and qualitative. We only do this supplier value management process at the strategic level today with one large supplier. The quantitative stuff is taking the temperature twice a year with the voice of the customer. Both those surveys come in to that scorecard. Our stakeholders who use this particular supplier around the globe would fill out how they are doing from a management point of view. The actual end user also fills out a survey twice a year. All of that is reported up through procurement, and we have scorecard numbers we are supposed to meet. We're trying to raise the bar every year. The qualitative stuff that we put in there is how we are doing against business plan for the year, and other things where there are not as strict numerical measures.

We do have a kind of Supplier Value Management Lite with our strategic suppliers. With airlines we trade KPIs back and forth four times a year. We do a lot of KPIs and scorecarding, but that's really taking the temperature of where you are. What you were saying, John, about raising the bar is really critical, or the relationship stays where it is and stagnates or falls below. Those are bad things. You have to constantly in a sense set new targets.

BTN: Do you have several scorecards, then?

Teufel: We have major scorecards that roll up to the supplier value management scorecard, including service-level agreements. We also have our smaller KPI reports that we do monthly with our managers and then with suppliers. There are lots of different measurements there.

Martinez: A valuable piece of our scorecard is benchmarking a few numbers that we ask our travel management companies to compare us against their other clients. We'll track airline and hotel travel in certain cities or city-pairs to help us see trends. In a recent one, we could see that our competitors were beginning to tighten up their travel policies before we were. That turned out to be an interesting way of gauging how other companies and their efforts to cut back were producing different results.





O'Rourke: We have a similar process with the balanced scorecard. It starts at the top and rolls and rolls. There's probably one dozen key numbers we track in there, quantitative as well as qualitative, primarily for air, hotel and agency performance. We have vendor scorecards too. We also tier our suppliers. For Tier Ones we have quarterly reviews and the others annually or less often. We develop the scorecard when we enter into the relationship.

BTN: Do vendors help with the scoring or do you do all of that?

O'Rourke: It's a mutual thing. Some of the data has to come from them. We don't have complete access to all the vendor data, so it is a mutual process. The things we measure every year are about the same, but every year we look to raise the bar and set a goal that we strive to meet.

Guarneri: We do quarterly business peer reviews where we sit down and review our commitments and how we are doing. We also have a global review process in which the customers rate the vendors.

BTN: John, before you were talking about the impact of the economy. If you can show some volume, would suppliers be more receptive to negotiating? Has there been a change in your relationship with suppliers?

Guarneri: I don't think the relationship has changed, but I've never seen this industry or the economy drop this much. Usually you can pretty much figure out how you are going to do in the coming year based on your past volume. Unlike in some other areas of procurement, this year I don't know how many units I am going to be buying. There's a lot of crystal-balling, but I think the vendors are in the same situation today too.

As long as we can maintain that ratio we had before, even though our volume has dropped, I think they are still willing to work with us, because everybody is in the same boat. Nobody knows what's going to happen tomorrow. It changes the dynamics. If you want to talk about the airlines cutting capacity and frequencies, they are changing the dynamics of how they're doing business. We need to take that into consideration in our strategy and cope with that. We work in a perishable environment. When the flight is gone or the night

is over, you can't restock it. Hotels, I know, are closing down floors. They are doing some wacky pricing just to cover their fixed costs. We've really never experienced that before, so our strategy has to change. I think vendors are receptive, but they are just as confused as we are by what's going on, and meanwhile they are willing to work with those who want to work with them.

BTN: Does anyone have a different view?

Teufel: He is spot-on.

BTN: What are the benefits you see from



applying procurement to travel?

Guarneri: The sourcing that goes into it, the contracting, the recording afterward with the KPIs and the SLAs. Those are good procurement practices.

BTN: Joanna, have you had a similar experience, where procurement practices don't necessarily apply to travel?

Martinez: My point of view is a bit different. When we started at AllianceBernstein, we created a toolkit. A group of us came from various industries, from Accenture and Caterpillar and Johnson & Johnson and the beverage industry, and we created a kit of analytical tools and reporting tools. We found the travel spend responds very well to at least the analysis side of that. The same type of analysis we might go through in looking at an IT spend or

a print spend or a services spend, we apply to the travel spend. Just like with different commodities, sometimes you've got a lot of leverage and sometimes you don't. We find travel is that way. For hotels last year, supply was low and demand was high. It wasn't a measure of how much I could take out, but how much better I could do.

Guarneri: With the normal procurement, you usually have buyers. You put an order in and they go out and purchase it. Every corporate traveler, in essence, makes that buying decision—even though you have a policy that directs them—but I don't have a group of people who are buying a commodity on behalf of something. There's a change there that needs to be considered as part of a procurement operation.

If you really want to look at it, travel has been in the forefront of using procurement tools. We're now doing catalogue buying. I think 35 or 40 years ago, the GDSs and the airlines had that. They were taking inventory out and buying it. You were talking a little bit about electronic data interchange or electronic payment systems. Charge cards were there years ago doing that. The travel industry has really been on the forefront of doing quite a few things electronically. Some other purchasing has caught up to it.

With the way that travel is procured—usually it's based on past history—this year is going to be really hard because of the economy. How do I make a commitment to a vendor for a discount when I can't really judge now what I'm potentially going to give or steer to? We have a policy that we use to try to direct employees, and we use reporting regarding compliance to try to get employees in line. It's a little bit different, but then we have to try to accomplish what you might do in a normal procurement world.

O'Rourke: I agree that travel did have a lot of the tools earlier, but what travel purchasing didn't have until procurement came into play was the discipline. In the past, travel purchasing was very relationship-based. Procurement has made the decision making far more objective and far more fact-based.

Guarneri: That's why I say we have to follow good procurement practices. I can recall

working for one company at Christmas, when sending oranges back cost more than the oranges cost.

We look at the market price index and the Consumer Price Index and how we are doing against that, because when you try to really benchmark with other companies, policy plays such a variance. If you do two segments and I do 100 on a particular route, it's hard to benchmark that. If you allow business class and I do only economy class, that's hard to do. We benchmark now more in concepts and ideas than we do in a particular market price-wise.

O'Rourke: The benchmarking is key. Up until this year, with the economy falling apart, for a procurement organization, it's about year-over-year savings according to rigorous calculation. In travel, though, if we had done nothing we would have paid \$1 million more for hotels. Because we negotiated really hard, we are only paying \$250,000 more for the year. To tell your story required benchmarking—how did you do vis-a-vis the peer group? But finding a really good peer group, that's gold. Benchmarking is the biggest measure of success if you find the right peer group: similar organizations, types of business and spend.

Guarneri: Toward the strategy itself, how do you go about dealing with airlines or hotels? Are you looking at the best buy or are you looking at city caps? I'm not saying I can use the same metrics and pricing, but what is your strategy and is it working? Do I need to change my strategy?

BTN: What tools are you using and how has that changed in the past few years?

Teufel: We still use the same

tools and a lot of them are very useful. I do agree about what you are saying about making the process rigorous and putting in some discipline, because at the end of the day, we all sort of know where we're going to end up, but you have to have the facts and data to support it. We have the tools to get behind the thoughts and relationships.

Some tools are better than others. You can do a lot of looking into market intelligence and gathering all that data. You use the benchmarking, tools like Strengths, Weaknesses, Opportunities and



Threats and all of that, to just take temperature of the marketplace. Then you've got to make some really good assumptions with that data about what kinds of strategy you need to follow. For instance, what makes sense in the airline market today?

Having that discipline helps to put a strategy in place. You shouldn't be bogged down by tools. We can use the tools that make sense, then make some common-sense decisions based on what we see there.

BTN: What are the most effective tools?

Teufel: Benchmarking, looking at market intelligence, which

sometimes is looking at *BTN* and the Internet. We use SWOT, we use Porter's—we do a lot of analysis, but you have to make some decisions about what that analysis is telling you.

Martinez: There is nothing wrong with asking what I paid for this last year and what I am paying for it now. Sometimes I think we overanalyze things. When we look at tough market conditions, sometimes we can mitigate circumstances by changing the class of hotel or focusing more on usage and driving more travelers to certain hotel chains. There is

they want their traveler to buy that next trip.

BTN: Are there tools that you use to crunch that data?

Guarneri: Oh, yeah. We have the agency data, the card data. We also utilize an outside company to crunch some of that data and put it all together so we can see what's going on. We're such a global company, we're trying to look at all the back-office systems at their core and getting into standardization. I operate travel in about 40 countries and it's done a little bit differently in each.

Martinez: We did some sensitizing into the effects of different decisions and looked at the costs for changing airline and hotel class of service and food allowances. We've met with the business units just to help guide them. In the end, we can save some percentage, or the ultimate by not going on the trip at all.

I've seen some thinking like, if we're not going to travel, then where in the world should this role be located so they can take advantage of conferencing and things like that? I've talked to some of my peers in other businesses and it seems we've all seen in terms of job movement, a little bit more is going to London for global roles, because they can connect during the course of their business day with everyone across the globe.

BTN: Do you actually do model what the savings could be?

Martinez: Yes, and then we present that to the business units. I view our role as really sourcing, not procuring. I am going to make the best deal I can with the information that I have. Ultimately, you're right, the decision is in the business unit. We just give them the information and let them go. ♦