

# Playing by the Rules: Optimizing Travel Policy and Compliance

A CWT White Paper

## A practical overview of policy and compliance issues

Carlson Wagonlit Travel (CWT), the world's leading travel management company, has conducted in-depth research into travel policy design and compliance. The resulting report, *Playing by the Rules: Optimizing Travel Policy and Compliance*, provides actionable insights to help travel managers evaluate their own policies and compliance measures and uncover opportunities for savings.

### In-depth research by the CWT Travel Management Institute

*Playing by the Rules: Optimizing Travel Policy and Compliance* is the latest in a series of in-depth research initiatives carried out by the CWT Travel Management Institute into the eight key levers of effective travel management.<sup>1</sup> Realized in 2007, the study combines a range of research techniques:

- Benchmarks of travel policies and hotel pricing
- Surveys of travel managers, travelers and travel arrangers
- Analyses of CWT client transactions and credit card data, including detailed case studies

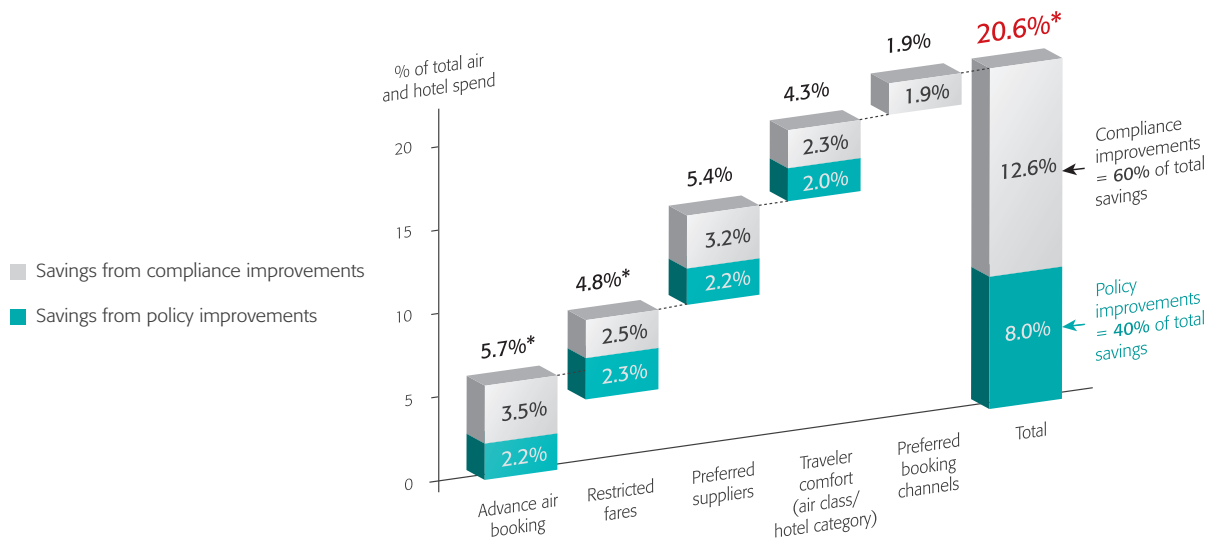
The research involved a wide sample of companies in terms of industry, travel spend (starting at US\$5 million) and region of headquarters.

### Key finding #1: Companies can save on average 20 percent of total travel spend by optimizing travel policy and compliance

CWT calculated this savings potential by comparing average market performance with best-in-class performance in five main areas: advance air booking, restricted airfares, preferred suppliers, traveler comfort (air class/hotel category) and the use of preferred booking channels.

The results show that rules pertaining to preferred suppliers and traveler comfort, which are typically the focus of cost-saving efforts, are not the only source of significant savings. Companies can benefit by improving performance across the board, as shown in Figure 1.

Figure 1: Companies can save on average 20% of total travel spend by improving policy and compliance in 5 main areas



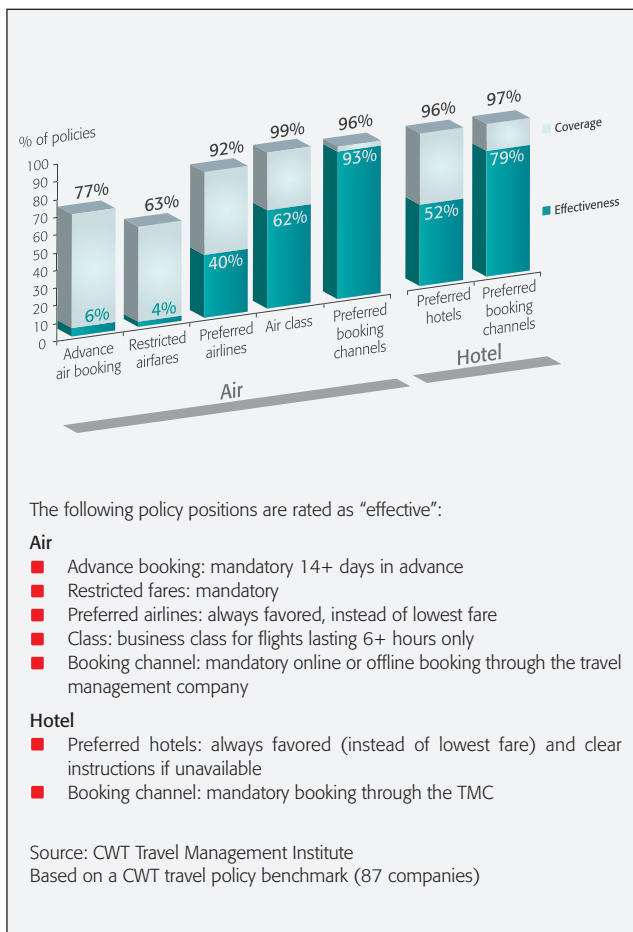
Source: CWT Travel Management Institute

\*As restricted fares are typically available in advance, CWT calculates a 1.5% overlap in savings from improved performance in these two areas. This figure is deducted from the total savings, which become 20.6% instead of 22.1%.

Improvements to **policy** can enable companies to save as much as **8 percent** of total travel spend and best practices in traveler **compliance** can save another **12 percent**.

Companies can generally improve their policy design in terms of **coverage**—how many of the five key savings areas are addressed—and **effectiveness**—how clearly they are defined (e.g., whether they are mandatory or simply recommended). This is illustrated in Figure 2.

**Figure 2: Travel policies vary in terms of coverage and effectiveness**



There is also considerable room to improve traveler compliance. In a CWT analysis of 5,266 air transactions and 200,000 hotel transactions, **50 percent of air transactions** and **60 percent of hotel transactions fail to comply** with policy.

While travel managers believe **personal preference** (e.g., a favorite hotel or frequent flyer affiliation) is the main reason for non-compliance, travelers rate it behind **practicality** (e.g., a hotel's proximity to a place of business) and **pricing**. Surveyed travel managers said they are aiming to boost compliance over the next three years, introducing stricter measures and reinforcing initiatives such as regular reporting and communications to team leaders and travelers.

## Key finding #2: Savings come from improvements in five main areas

A significant gap between average market performance and best-in-class performance highlights significant savings opportunities in five main areas:

### ■ Advance air booking

Booking in advance enables travelers to access significantly lower airfares—depending on the how far in advance the booking is made, the class of travel and the route, the average ticket price can be more than 50 percent lower (the difference being particularly marked in economy class and on highly competitive routes). Yet companies generally recommend, not mandate, advance air booking in their travel policy and rarely specify a clear timeframe. Companies that **mandate booking at least 14 days in advance** whenever possible see their travelers booking earlier and realize greater savings.

### ■ Restricted airfares

Restricted fares usually cost considerably less than other fares, particularly for short-haul economy, where the savings can exceed 60 percent of negotiated flexible fares. Even when the cost of exchanging or canceling tickets is taken into account, restricted tickets can provide substantial savings compared to flexible tickets—on average 24 percent of air costs on the relevant routes. One main reason is that companies typically change or cancel only 20-35 percent of tickets—considerably fewer than is generally believed. Companies make best use of this savings opportunity when they **mandate the use of available restricted airfares even if travelers' plans could change**. Only 4 percent of policies currently do so.

### ■ Preferred suppliers

Companies pay on average 23 percent less for flights with preferred suppliers than alternatives (taking into account any available back-end rebates) and 5-14 percent less for room nights, depending on the hotel category. What may surprise some travel managers is that **a policy of always favoring preferred airlines is more cost-effective than asking travelers to take the lowest available fare** regardless of the airline. The main reason is that companies with a lowest-fare policy are typically less able to make volume commitments to airlines during pricing negotiations and can not reach the higher thresholds required for additional volume-based discounts.

The most effective policies mandate the use of preferred suppliers and provide guidelines on the procedure to follow if they are unavailable. Yet only 29 percent of companies mandate the use of preferred airlines whenever possible, while only 13 percent mandate preferred hotels. Compliance is therefore low. With preferred hotels, this ranges from 22-47 percent in seven companies studied by CWT. With preferred airlines, compliance presents a particular challenge when travelers are loyal to other airlines such as national carriers.

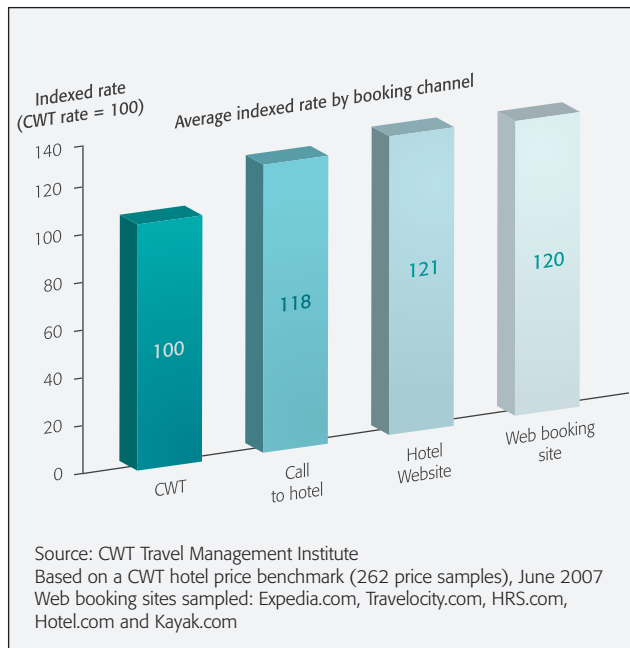
### ■ Traveler comfort (air class/hotel category)

Companies generally make travel class/category rules mandatory. Most set a minimum flight duration for business class seating—this is on average six hours and varies only slightly with traveler profiles (e.g., senior executives vs. other employees). Some companies also specify circumstances where higher classes or categories are authorized (e.g., when traveling with clients or more senior managers). For hotels, the category is implicit in the preferred properties. As compliance with this area of policy is high, adjustments to the authorized air seating classes or hotel categories can have a significant impact on costs. Some companies can benefit from **benchmarking industry standards** and identifying acceptable adjustments to their policy to achieve savings.

### ■ Preferred booking channels

Booking through the travel management company brings tangible benefits. Notably, **hotel rates are on average 20 percent lower than when booked through alternative channels** (i.e., booking directly with the property or using a Web booking site), as shown in Figure 3.

Figure 3: Hotel room rates are 18-21% lower when booked through the travel management company



Similarly, a 2007 price benchmark published by corporate travel consulting company Topaz International<sup>3</sup> shows **13 percent lower airfares on average through the travel management company**. Booking through the preferred channels also encourages travelers to use preferred suppliers more often—on average 9 percent more for air transactions and 15 percent more for hotels.

These savings can be enhanced by using an online booking tool in addition to the offline services provided by the travel management company. An analysis of five key routes for a major company indicates that travelers use preferred airlines

on average 20 percent more if they use the corporate online booking tool. Despite this potential for increased compliance, few companies mandate the use of their online booking tool.

As a general rule, companies can improve compliance with preferred booking channels—case studies show travelers using alternative channels for 2-22 percent of air transactions and 23-66 percent of hotel transactions. Surveyed travelers say they mainly book through alternative channels because they believe they can find lower prices, although this contrasts with the reality of pricing benchmarks. They also cite reasons related to product offering (e.g., a more conveniently located hotel) and booking convenience.

### Key finding #3: There are eight keys to success

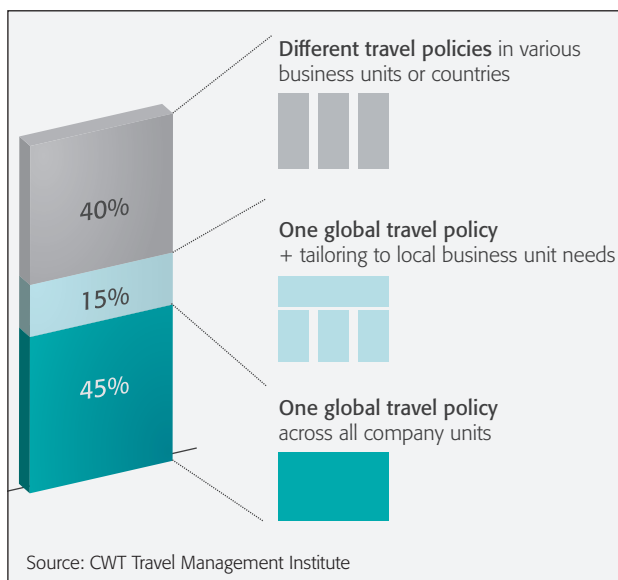
CWT has observed a number of best practices for designing travel policies and increasing traveler compliance:

**1. Engage management throughout the organization.** Best performers in policy and compliance get support from management to raise awareness of travel rules, overcome resistance to change and promote compliance. Four points stand out: making senior management support visible, escalating the approval process for exceptions to the rules, involving management in pre-trip approval when implemented, and engaging team leaders in post-trip follow-up.

**2. Provide travelers with clear, comprehensive guidelines.** The most effective travel policies provide clear, comprehensive guidelines in a user-friendly format. This contrasts with many documents observed in the market that are long, difficult to read and imprecise. Ideally, a travel policy sets mandates where the corporate culture allows it. A policy should also cover each of the five main areas that present significant savings opportunities.

**3. Standardize the policy regionally or globally.** By aligning travel rules and processes across business units and regions, travel managers can share best practices and reduce costs—the savings are on average 12 percent of total travel spend, as described in the CWT publication *Global Horizons: Consolidating a Travel Program (2007)*. Indeed, 60 percent of travel policies analyzed by CWT are already global, including 15 percent which include some tailoring at a local level while remaining at least as strict (see Figure 4). Local initiatives mainly involve booking processes and selecting preferred hotels. In contrast, preferred airline policy is almost always defined at a global level.

Figure 4: Travel policies are mainly global



**4. Promote compliance through communications and training.** The best-performing companies clearly explain the benefits of the travel policy to travelers. They also make the policy easily accessible online and in local languages, ensuring that any changes are communicated in a timely manner. All travelers and travel arrangers should receive thorough training in the travel policy, booking processes and tools (e.g., through monthly Web conferences for new hires and refresher sessions). Finally, progress reports can help motivate travelers to comply by making their efforts visible.

**5. Drive compliance through point-of-sale measures.** Compliance can be improved considerably by integrating the policy into the booking process, both on- and offline, to channel travelers toward compliant options. The corporate online booking tool can drive compliance by clearly indicating options that are in keeping with the travel policy and filtering out non-compliant choices. It can also provide policy reminders during booking and proactively propose other services (e.g., a preferred hotel for a traveler booking a flight). Offline, companies should clearly define the level of involvement expected from agents, from providing advice and compliant alternatives to refusing non-compliant bookings.

**6. Track progress and take corrective action.** Travel managers should measure performance regularly. In particular, comparing results by business unit or division and sharing that information with team leaders can reinforce efforts to boost compliance. It also can be worthwhile identifying the small proportion of travelers who are responsible for the majority of non-compliant bookings and taking targeted action (e.g., a personalized email reminding travelers of policy rules). Moreover, non-compliance reports can indicate areas of the travel program that need to be changed.

**7. Benchmark industry performance.** Although a company's travel policy should reflect its culture and business priorities, benchmarking can ensure that a policy remains in line with evolving standards in the same sector (e.g., on the minimum flight duration required for business class travel). In addition, companies can identify savings opportunities or highlight below-average results by tracking their peers' performance in key areas of the program.

**8. Leverage travel management expertise.** A travel management company can facilitate travel policy design and implementation, as well as compliance. Travel management companies are also well positioned to help monitor and improve performance. Their specialized professionals and technology can play a key role every step of the way, from travel policy design through implementation to performance monitoring.

## Conclusion

Many of the best practices observed by CWT are within reach of all companies. Organizations are focusing less on tightening rules than on clarifying policy and reinforcing compliance measures. In the future, they will increasingly integrate environmental measures and meetings and events into their travel policy.

To reap the greatest benefits, travel managers need to work as a team with their travel management company, senior executives and managers throughout the organization—not just to define the right policy, but to ensure that travelers play by the rules.

For more information about how CWT experts can help your company successfully optimize its travel policy and compliance, please contact your CWT sales or account manager or e-mail us at [tmi@carlsonwagonlit.fr](mailto:tmi@carlsonwagonlit.fr).

The full report is available on [www.carlsonwagonlit.com](http://www.carlsonwagonlit.com).

<sup>1</sup> CWT has identified eight key levers to effective travel management: provide the right services and assistance to travelers and optimize transaction processing, tackle hotel spend in a disciplined and professional manner, continue to drive air and ground transportation savings, increase policy compliance and optimize demand management, address security needs and corporate social responsibility, integrate meetings and events in the travel program to control and optimize the related spend, and develop executive dashboards and actionable performance measures.

<sup>2</sup> Restricted fares impose conditions such as advance purchase requirements, a minimum or maximum length of stay, and financial penalties if the booking is changed or canceled.

<sup>3</sup> Topaz International publishes regular comparative studies of corporate travel airfares booked by TMCs and those available on public Websites and airlines' own Websites.