

Travel Procurement Workshop

Scott Gillespie
Author
Gillespie's Guide to
Travel+Procurement



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Scott Gillespie's Bio

Author of Gillespie's Guide to Travel + Procurement

Founder and CEO, Travel Analytics

- Managed 300+ airline sourcing projects
- Analyzed \$20 billion of corporate air spend
- Clients included 40% of BTN's Top 100
- Sold firm to TRX

Author of a U.S. patent covering airline bid analysis

Inventor of hotel clustering concept

Former travel sourcing expert at A.T. Kearney

MBA, University of Chicago

Today's Topics

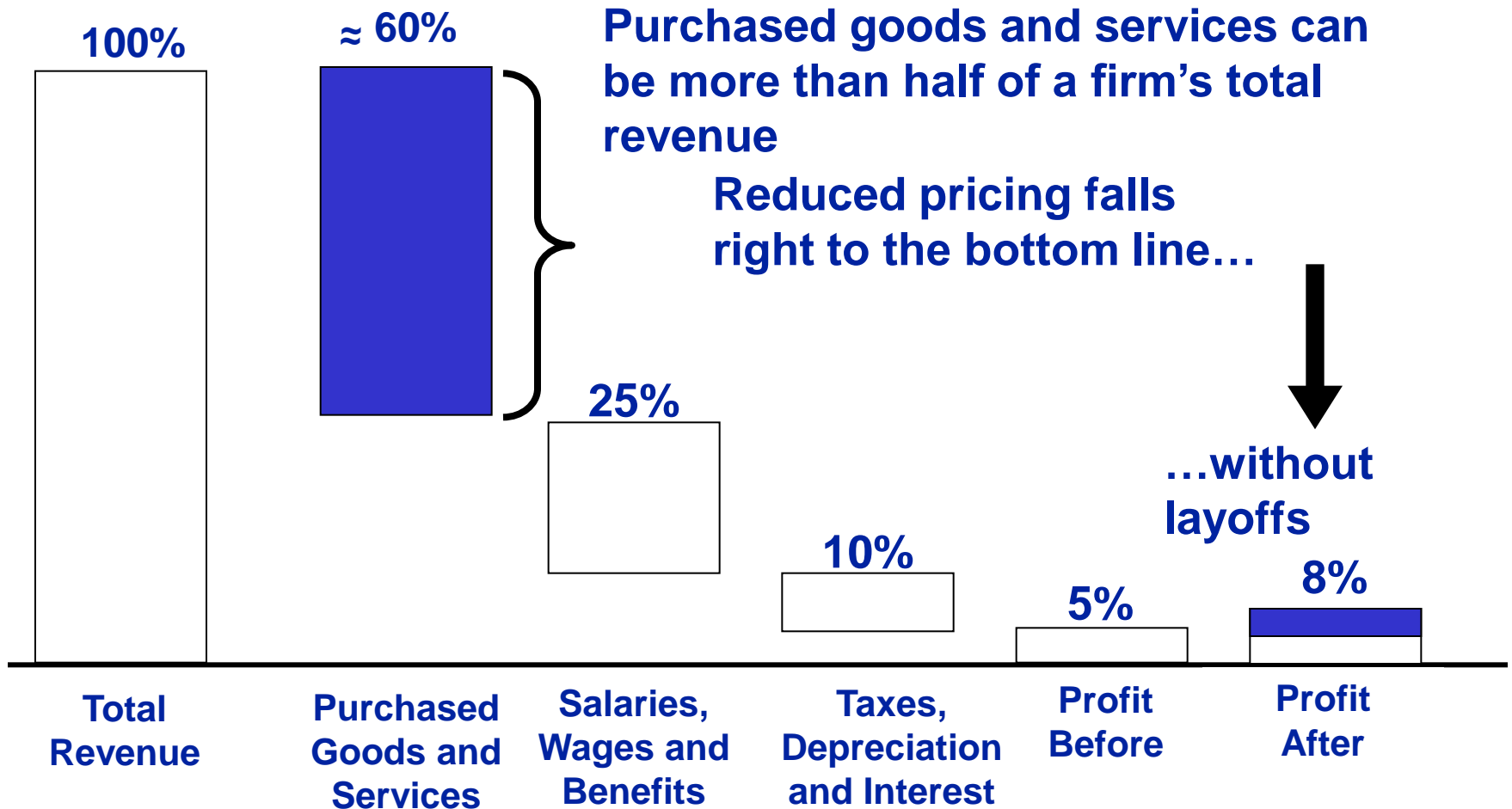
- Principles of Strategic Sourcing
- Travel Procurement – It's Complicated
- Travel Policy and Program Optimization
- Modern Airline Sourcing
- Hotel Sourcing – What's New
- Recognizing Value Beyond Price
- Travel Policy War Stories

**What are these
procurement
people**

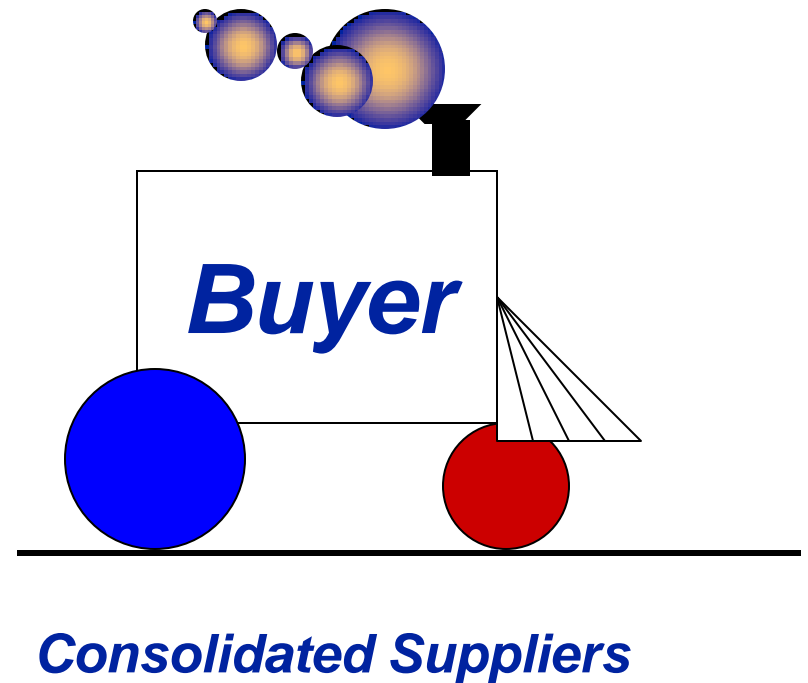


**doing in my
travel
program?**

Why CEOs Like Procurement



How does Strategic Sourcing work?

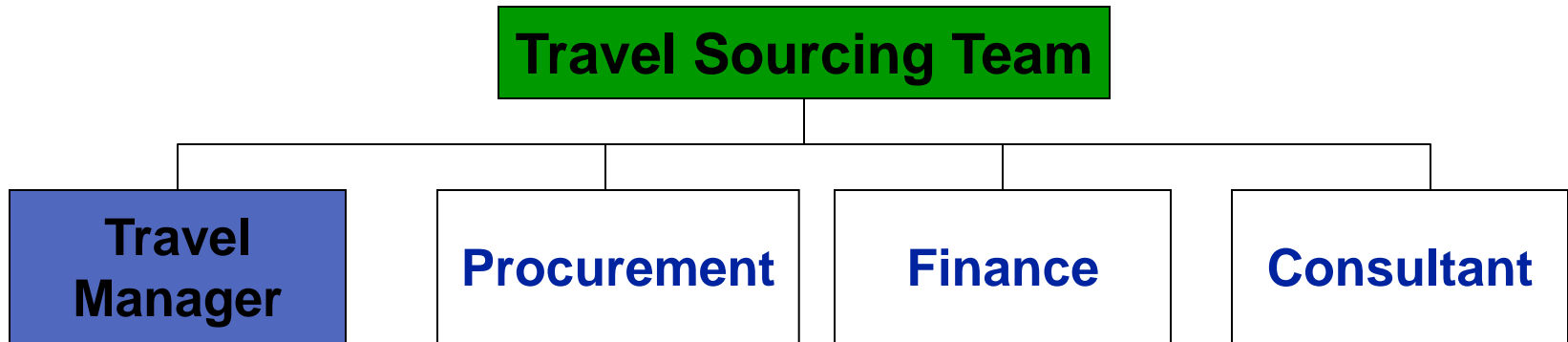


The Procurement-based Travel Management Model

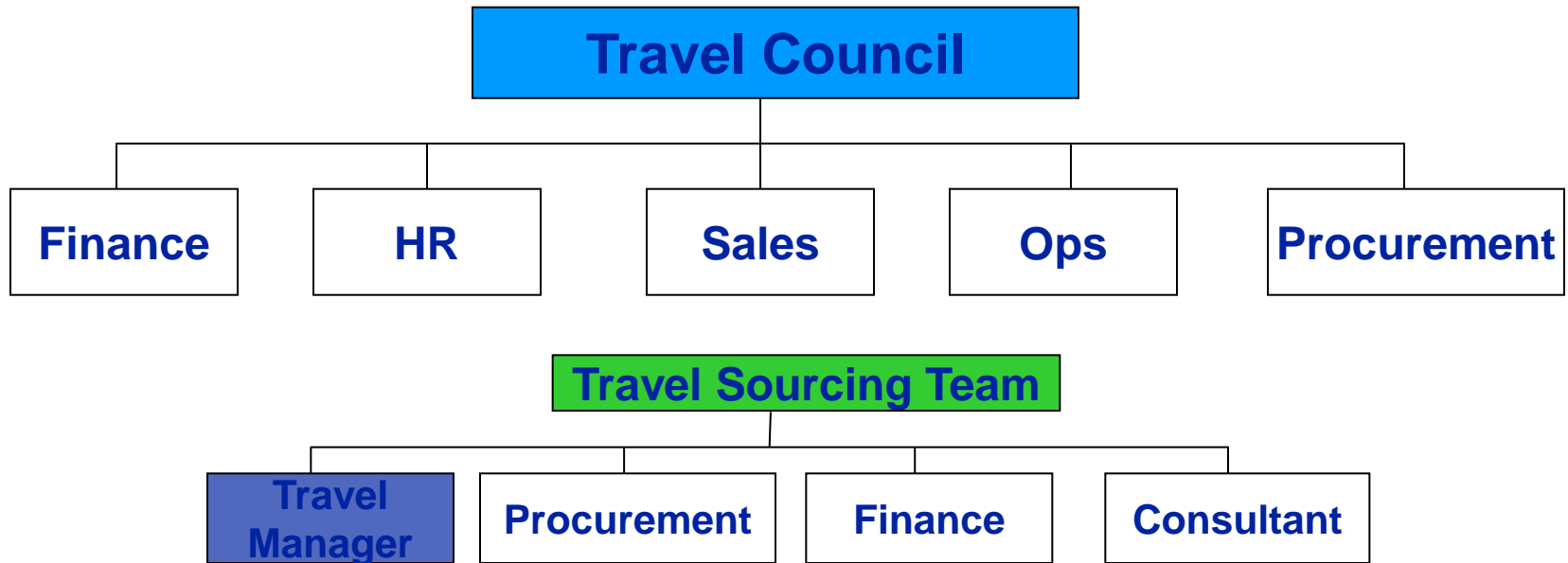


Each team has very different goals

Travel Sourcing Team



Travel Council



Travel Council's roles

- **Modify/endorse travel policy changes**
- **Provide guidance on supplier selection criteria**
- **Endorse sourcing team's recommendations to senior mgt.**

Steering Committee



Procurement Manager 101

- Typically on a career procurement track
- Very process-based (often not category experts)
- Often handle multiple categories at a time, and/or have sourced many different categories
- Skilled at dealing with stakeholders
- Know the value of placing FU&D into suppliers' minds
- Want to make defensible recommendations

Myths about Procurement Managers

“They treat Travel like widgets”

- A few do. The rest want suppliers to believe that.

“It’s all about price”

- It’s all about value – credible value.

“They’ll gladly over-commit share”

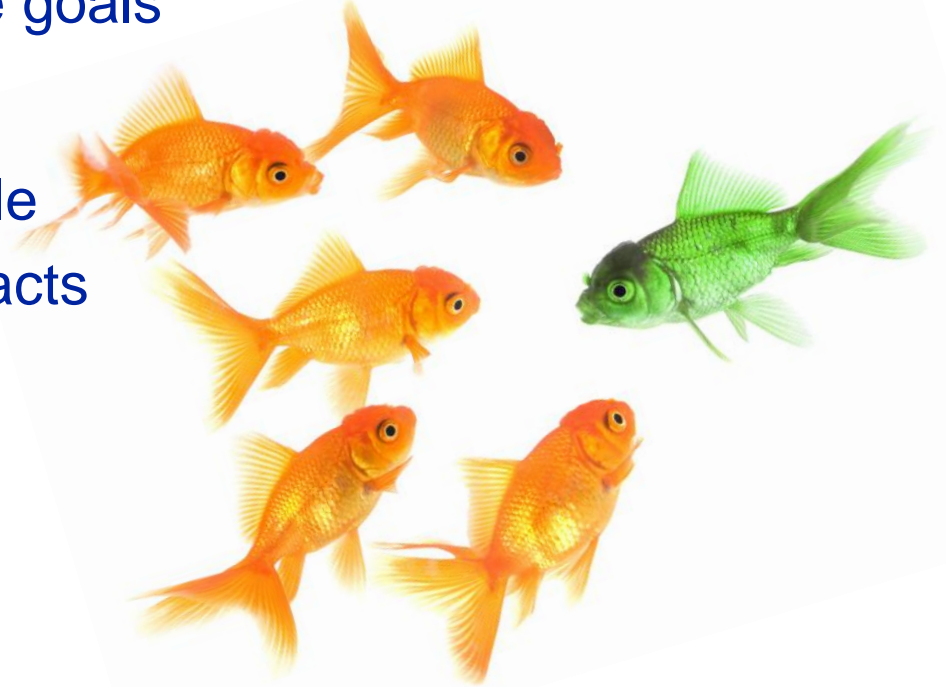
- They do care about good contracts
 - Pricing tied to volume or share makes sense
 - Accustomed to price penalty clauses
- They don’t care about traveler opinions
 - They understand the risk of non-compliance

Procurement's Stereotypes of the Travel Category

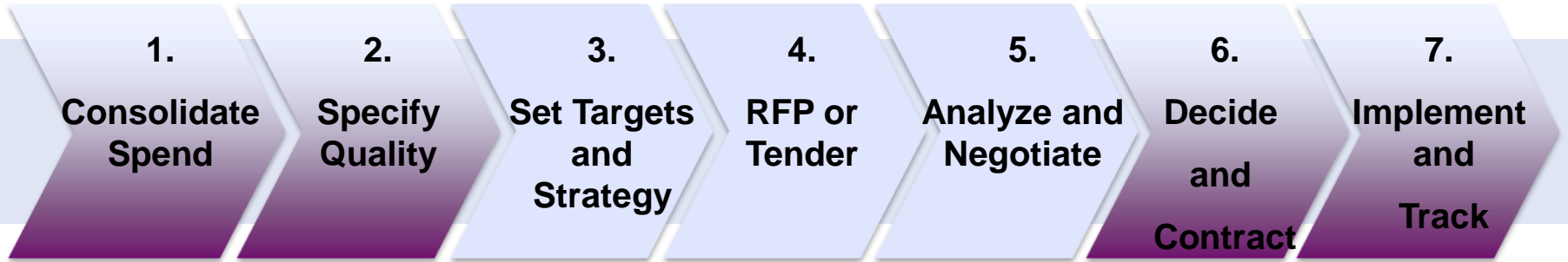
- Travel pricing isn't rational
- “We spend \$1 million with that supplier – we can throw our weight around.”
- “We'll form a buying consortia to get better travel prices”
- Travel managers are too cozy with suppliers
 - And coziness causes high prices
- Travel policy compliance shouldn't be a problem
- Travel people sure like to hug a lot

Ways to Work with Procurement

- Show that you understand the goals
 - Savings and good value
- Understand Procurement's role
 - Delivering high-value contracts
- Focus on the core issues
 - Qualified suppliers
 - Enhanced savings
 - Achievable contracts
 - Defendable decisions
- Respect the procurement process

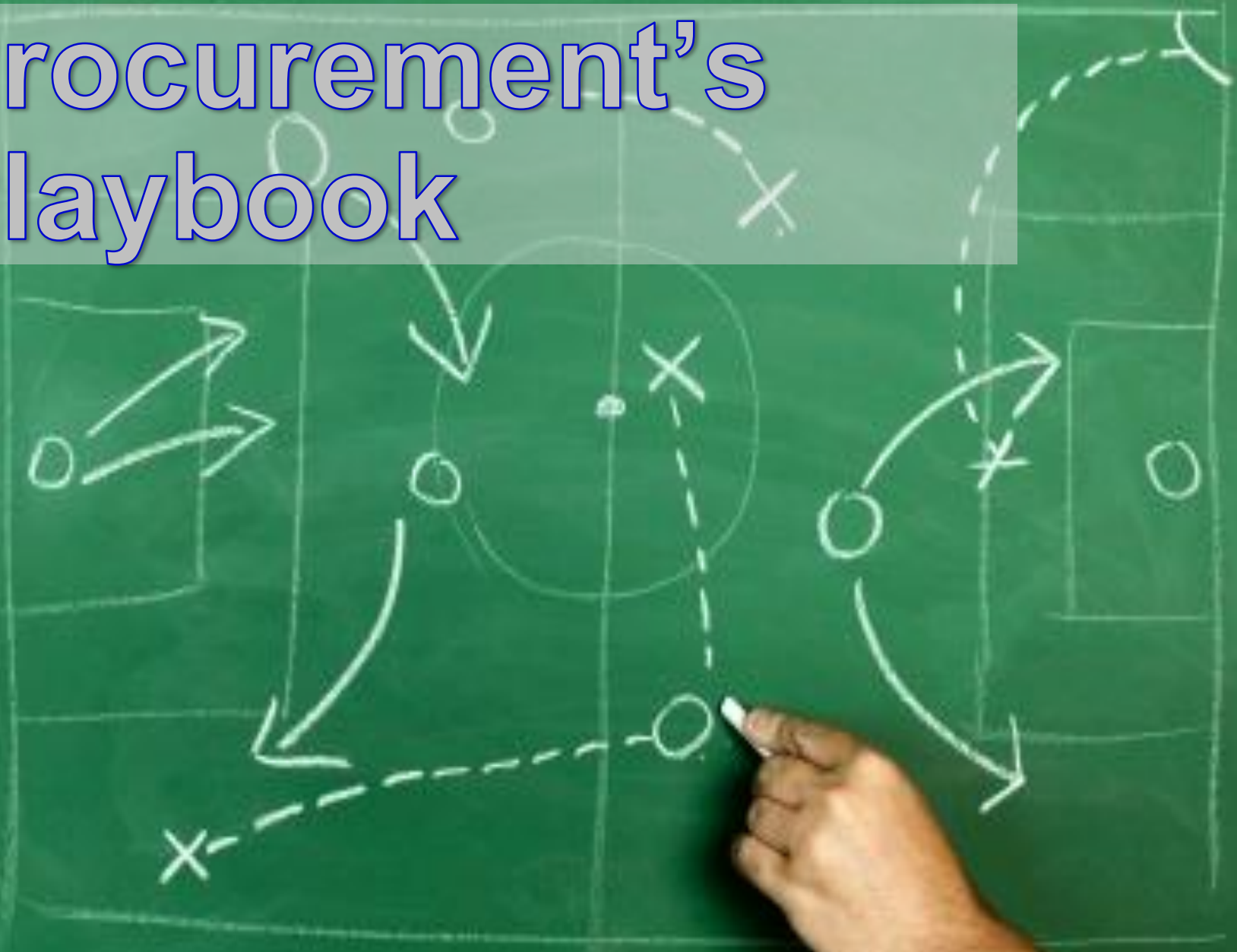


Seven Basic Procurement Steps



Works well for most every category, including Travel

Procurement's Playbook



A large, dark, triangular shark fin is visible above the surface of the ocean. The fin is positioned in the center-right of the frame. The water is a deep blue, and the sky is a lighter blue with scattered white clouds. The fin's reflection is visible in the water below it.

4 Fear Factors

“It’s all about _____”



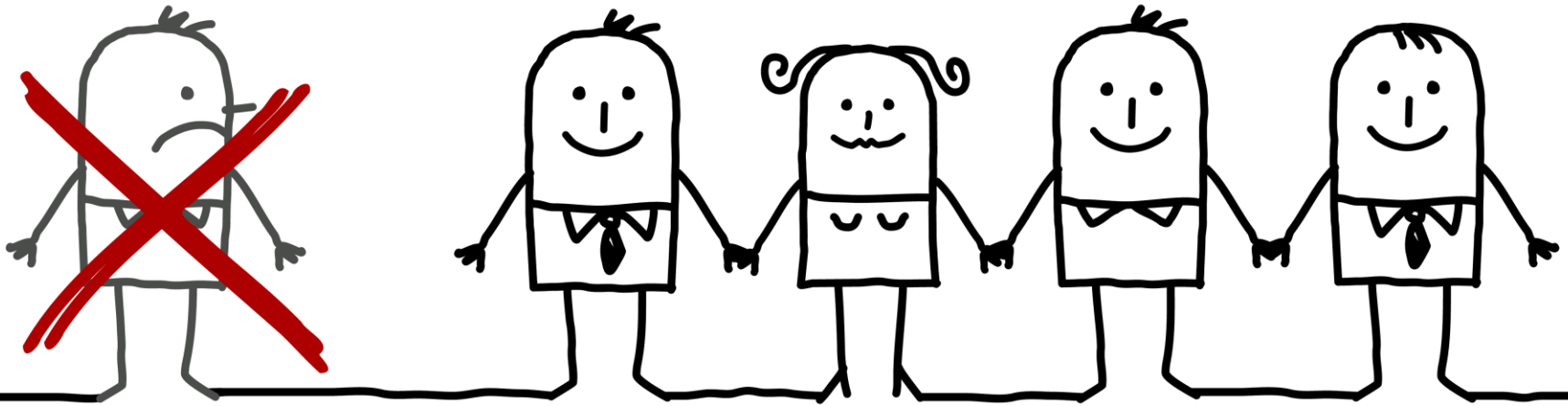


Commoditization

Impersonal Relationships



Supplier Rationalization



Reverse Auctions



Pooled (Consortia) Buying





Buying in Bulk

Benchmarking



Selective Negotiation





Reciprocity



Supplier Development

Supplier Conditioning





Joint Cost
Reduction





Is a **Travel**
Signal
Category

Q: Why is Travel Sourced?

A: Money and Politics

Money

- Travel budgets are soft targets – big and “easy”

Politics

- Travel is one of the most visible expense categories
- Great way to show the organization that senior management is serious about change
 - New policies and new suppliers

Travel is not a commodity — right?

Common Points

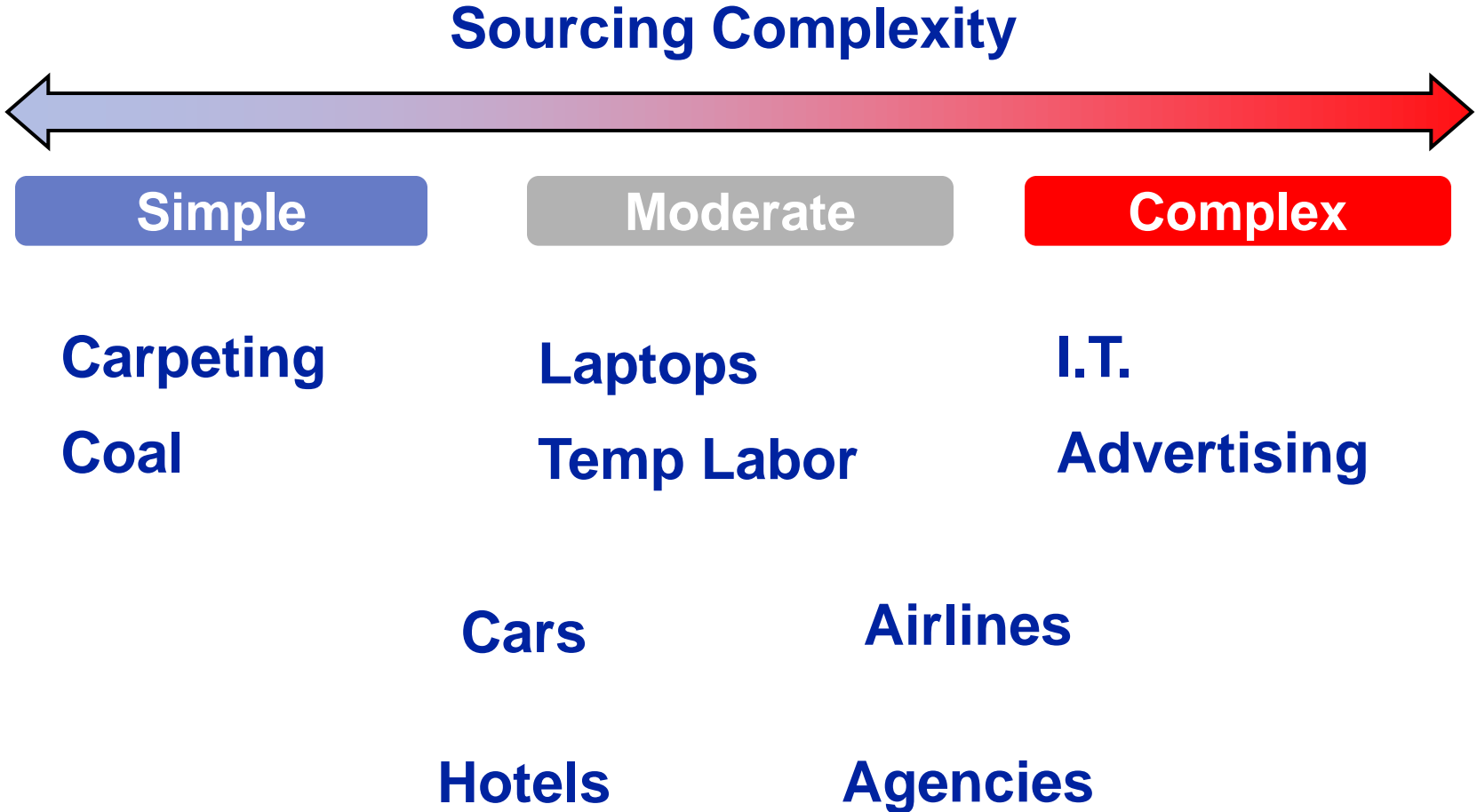
- “It’s a significant expense category.”
- “The spend is very hard to control.”
- “It touches most employees.”
- “You can’t just switch suppliers like you can with office supplies.”
- “It really affects sales and/or productivity— but you can’t quantify it.”

We Could Be Talking About...

- ...Travel
- ... or Health Benefits
- ... or Advertising
- ... or Enterprise Software
- ... or I.T. Consulting,

Travel isn’t as different as we might think

Sourcing Travel Isn't Very Hard



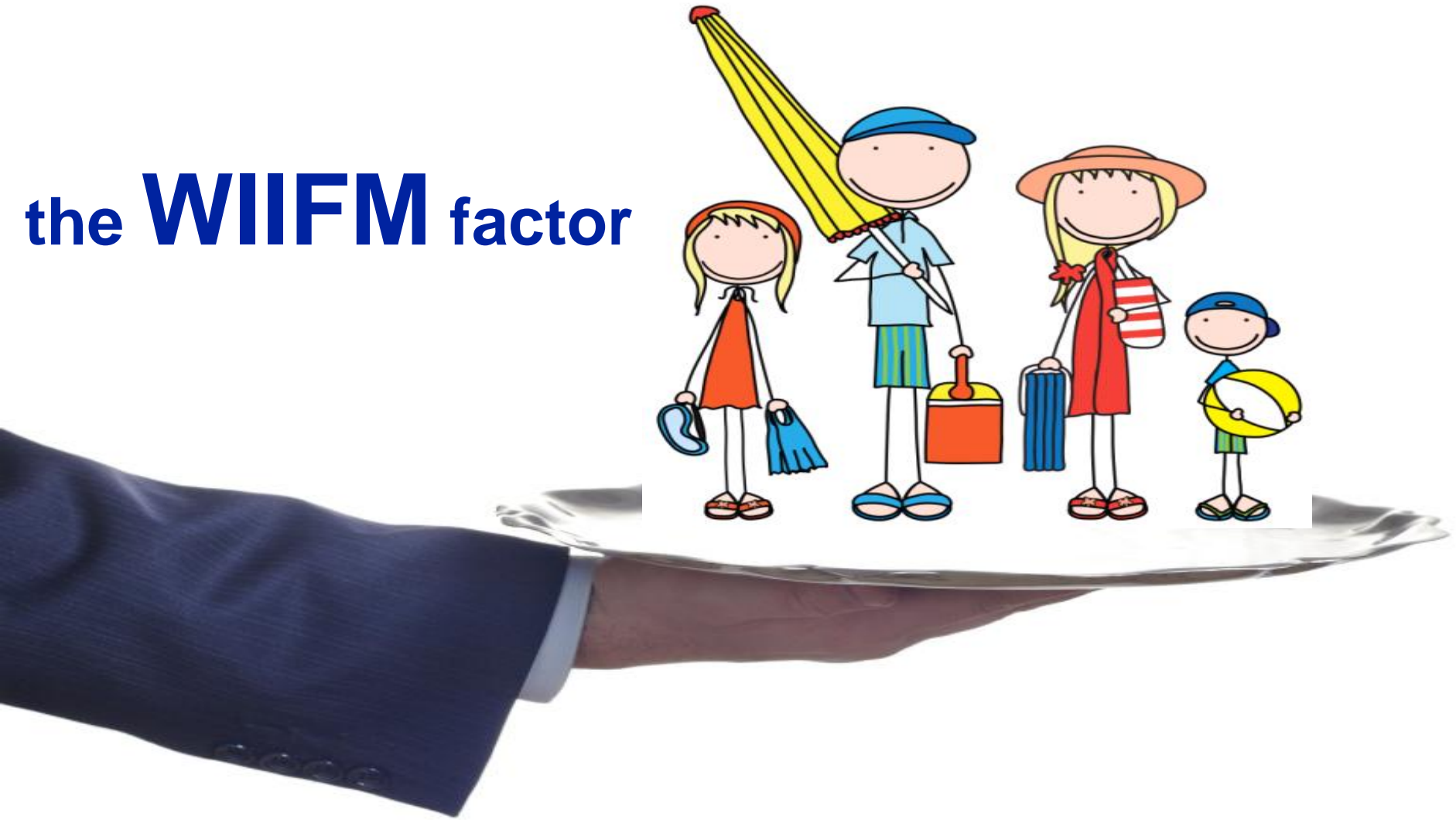


**Tight
Travel
Policies**



**Traveler
Support**

the **WIIFM** factor





buying is **easy**
outside
of corporate

**lost
leverage**



**lost
data**

**undiscounted
spend**

**lost
traveler
itineraries**

every traveler

is an

expert



Travel Procurement Starts with Travel Policy

Travel Policies Impact Travel Spend and Sourcing Efforts

<u>How</u>	<u>What</u>	<u>Who</u>	<u>Why</u>
Purchase Process	Quality Specs	Preferred Suppliers	Savings
•Pre-trip	•Cabin	•Air	Security
•Booking	•Connex	•Car	Reimbursement
•Payment	•Hotels	•Hotel	
	•Car size		

Why Is Travel Policy So Important?

The price paid by a corporate traveler



Is determined by the supplier's willingness to negotiate



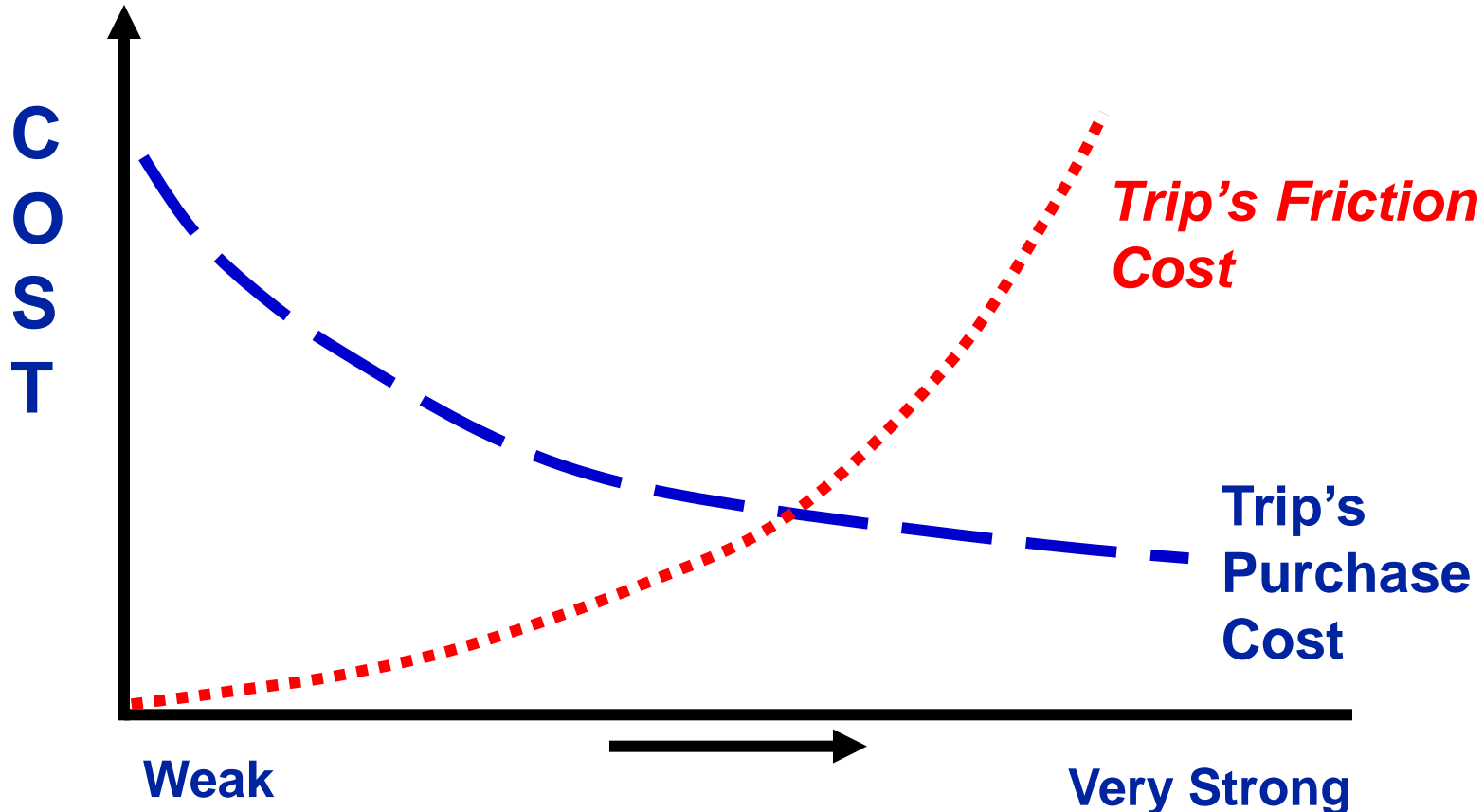
Which is based on the company's ability
to move market share between
suppliers



Which depends on the company's
travel policy and its enforcement

**Companies with weak travel policies
will never get the best prices**

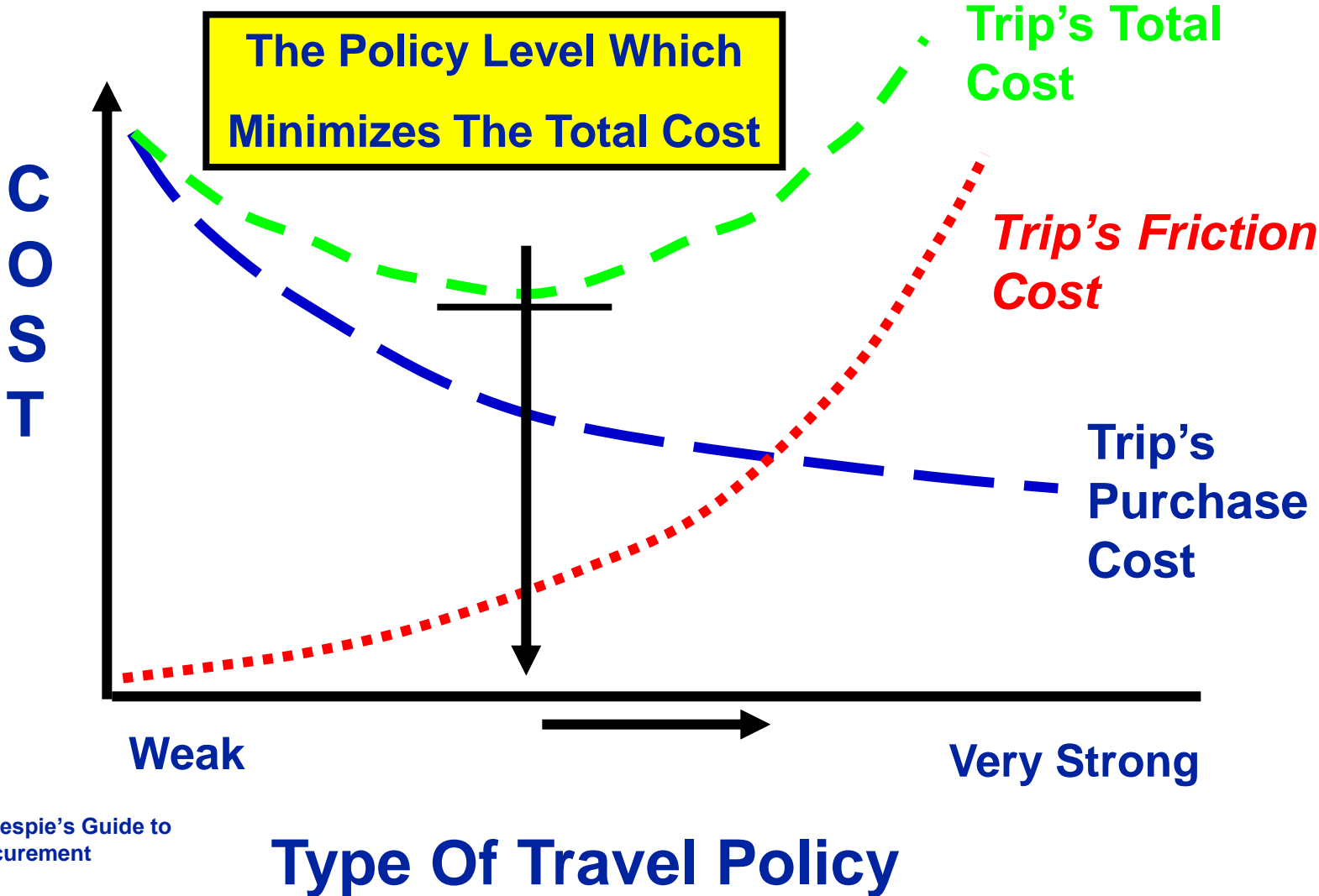
Travel Policy's Impact On A Trip's Purchase Costs: Diminishing Returns



Source: Gillespie's Guide to Travel+Procurement

Type Of Travel Policy

Program Optimization Means Lowest Total Cost



Source: Gillespie's Guide to Travel+Procurement

The Magic Formula for Supplier Discounts



Two Key Criteria

- 1. Movement:**
Ability to move share
- 2. Margin:**
Potential contribution

Essential for figuring out how much to pay for revenue

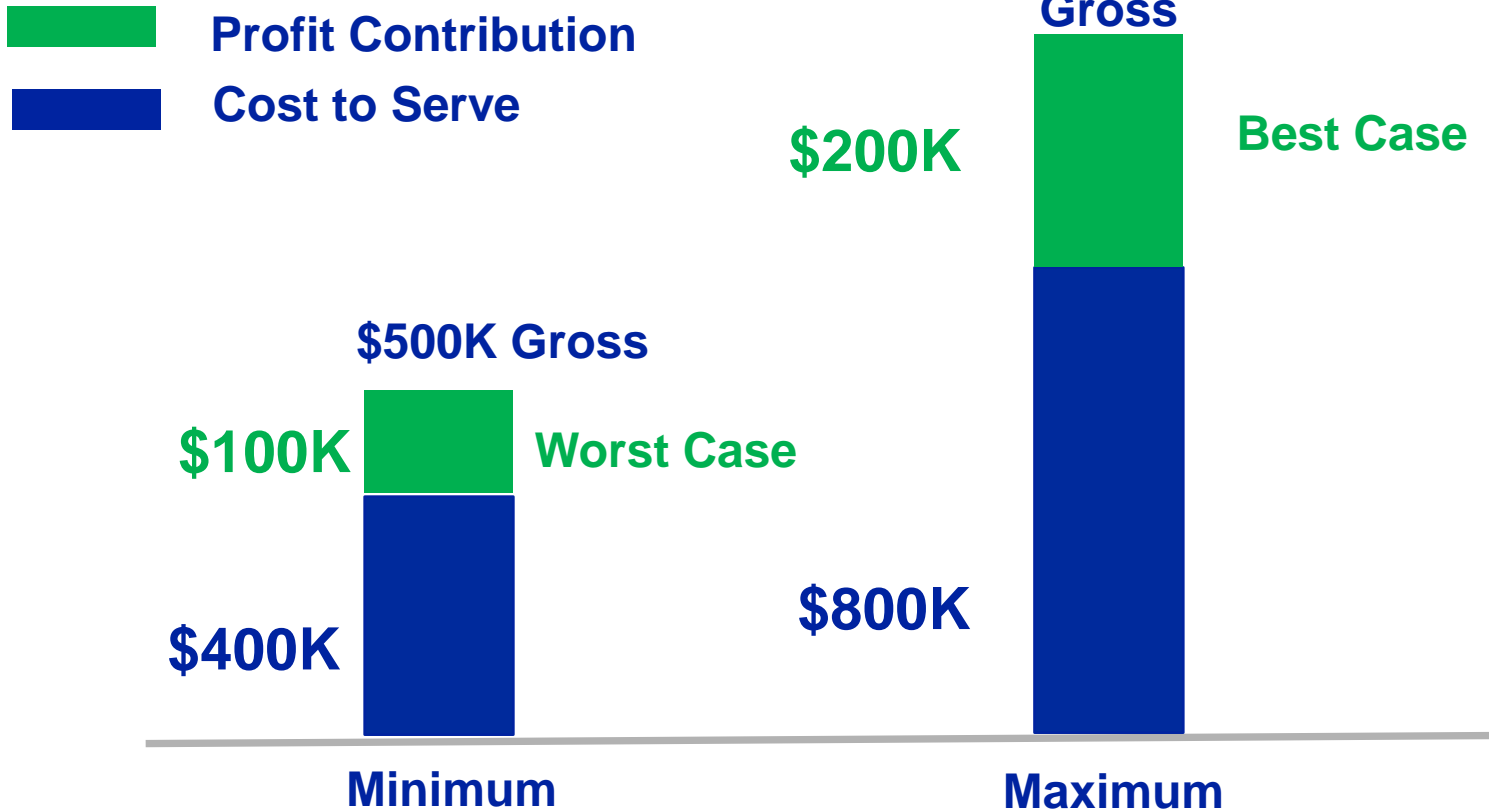


What discount should an airline offer if you promise to double your spend?

- Today, you try hard to avoid doing business with Delta (DL), but still spend \$0.5 million on DL, and get no discount
- You and DL both believe you could move another 0.5MM from UA to DL, if you and your company tried very hard
- DL makes a 20% profit margin on your current spend
- What is the maximum discount DL should offer you, in return for getting a total of \$1.0MM from you?
 - A) 5% B) 10% C) 20% D) 40%

Let's do the math!

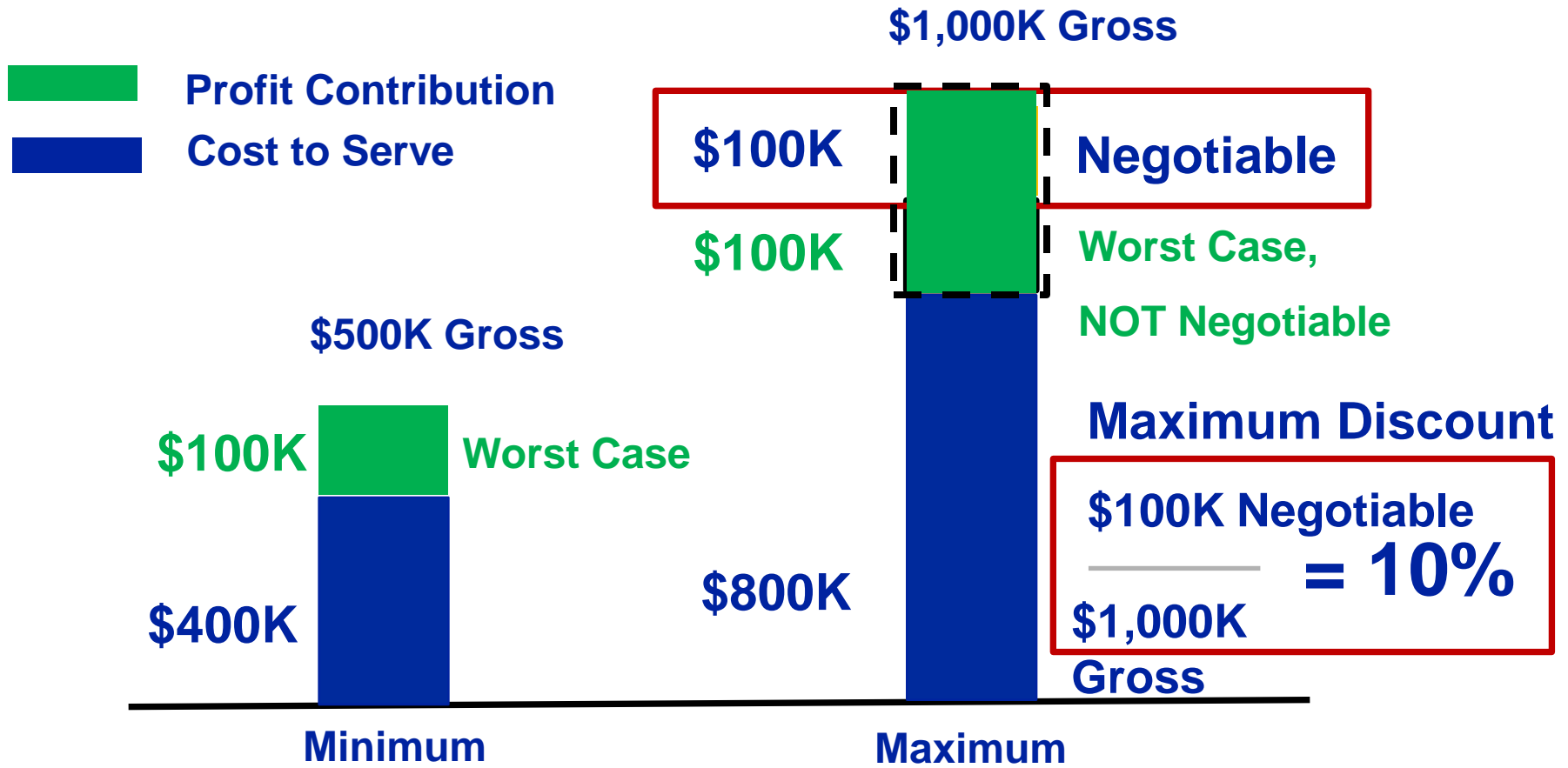
Discount Drivers: Movement and Margin; NOT Volume



Source: Gillespie's Guide to Travel+Procurement

Supplier's Revenue from an Account

What's the Maximum Discount?



Source: Gillespie's Guide to Travel+Procurement

Supplier's Revenue from an Account

Travel Procurement Summarized in **Seven** Pictures

**standard
sourcing
steps**



**tight
travel
policies**



**traveler
support**

walk the **talk**




A vibrant green cornfield stretches to the horizon under a bright blue sky with scattered white clouds. The text "credible promises" is overlaid on the left side of the image.

credible
promises

**credible
threats**



A globe of the Earth is shown with a glowing blue grid representing latitude and longitude. Overlaid on the globe is a complex network of white lines and nodes, representing travel routes or a network. The lines are curved and connect various points across the globe, suggesting a global travel network. The background is a dark blue gradient.

travel- specific modeling tools

**Recognize
a good
deal**

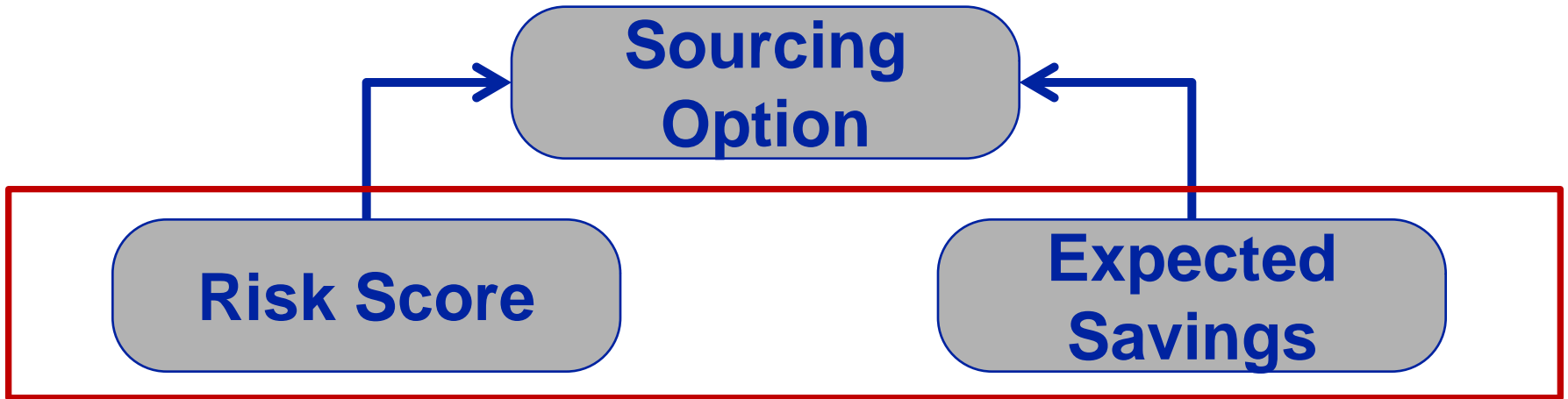


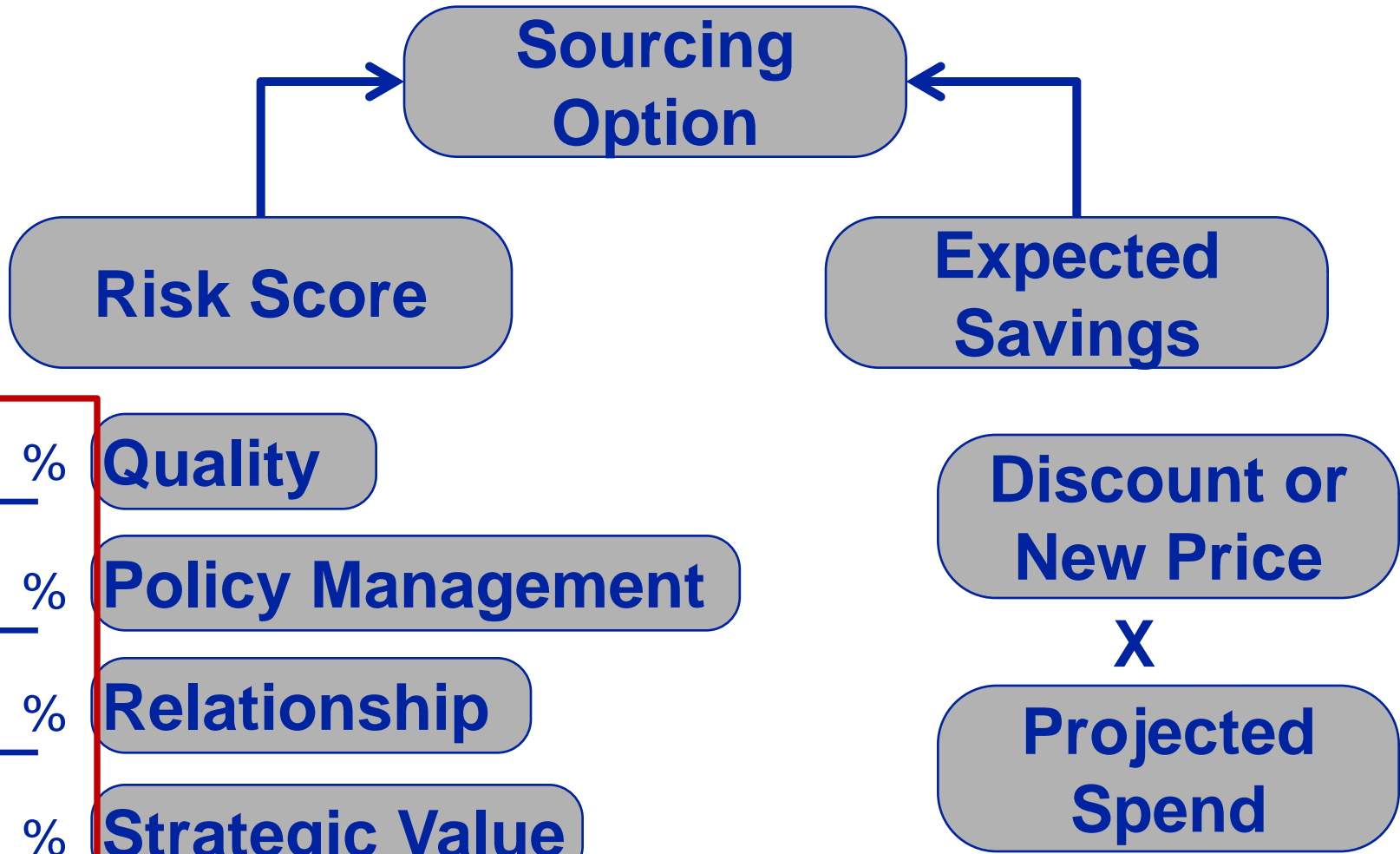
Sourcing Options

Two key dimensions are Risk and Reward

- Reward = Savings
- Risk of failure is more subjective:
 - **Q**uality of products, services
 - **P**olicy compliance (traveler resistance)
 - **R**elationship (risk of not working well)
 - **S**trategic value (can offset other risks)

Sourcing Risks Must be Scored





Illustrative Risk Scoring

1 = Very Low Risk

.....

10 = Very High Risk

**Quality of
Product/Service**

**This supplier will consistently
provide excellent
product/service quality**

.....

**This supplier will consistently
provide inferior
product/service quality**

**Policy
Management**

**Travelers will quickly and
strongly support this
supplier**

.....

**Travelers will strongly avoid
this supplier**

Relationship

**Our stakeholders will benefit
from a strong, trust-based
relationship with this
supplier**

.....

**Our stakeholders are unlikely
to have a good relationship
with this supplier**

Strategic Value

**There is a compelling
strategic advantage in
selecting this supplier**

.....

**There is a big strategic
disadvantage in selecting this
supplier**

Elements Worth Evaluating?

Quality of Product/Service

Customer service
Upgrades
Ease of check-in, check-out
On time stats
Availability
Cleanliness
Food quality
Roominess
Health and Safety
Age of fleet or buildings
Traveler productivity
- GPS
- Internet access
- Meeting space
Other?

Policy Management

Supplier's popularity
Favorable pricing
POS tools, e.g. Self Booking
Pre-trip approval
Exception reporting
Our Sr. Mgmt.'s Use
Consequences
Per diem vs. Preferred hotels
Other?

Relationship

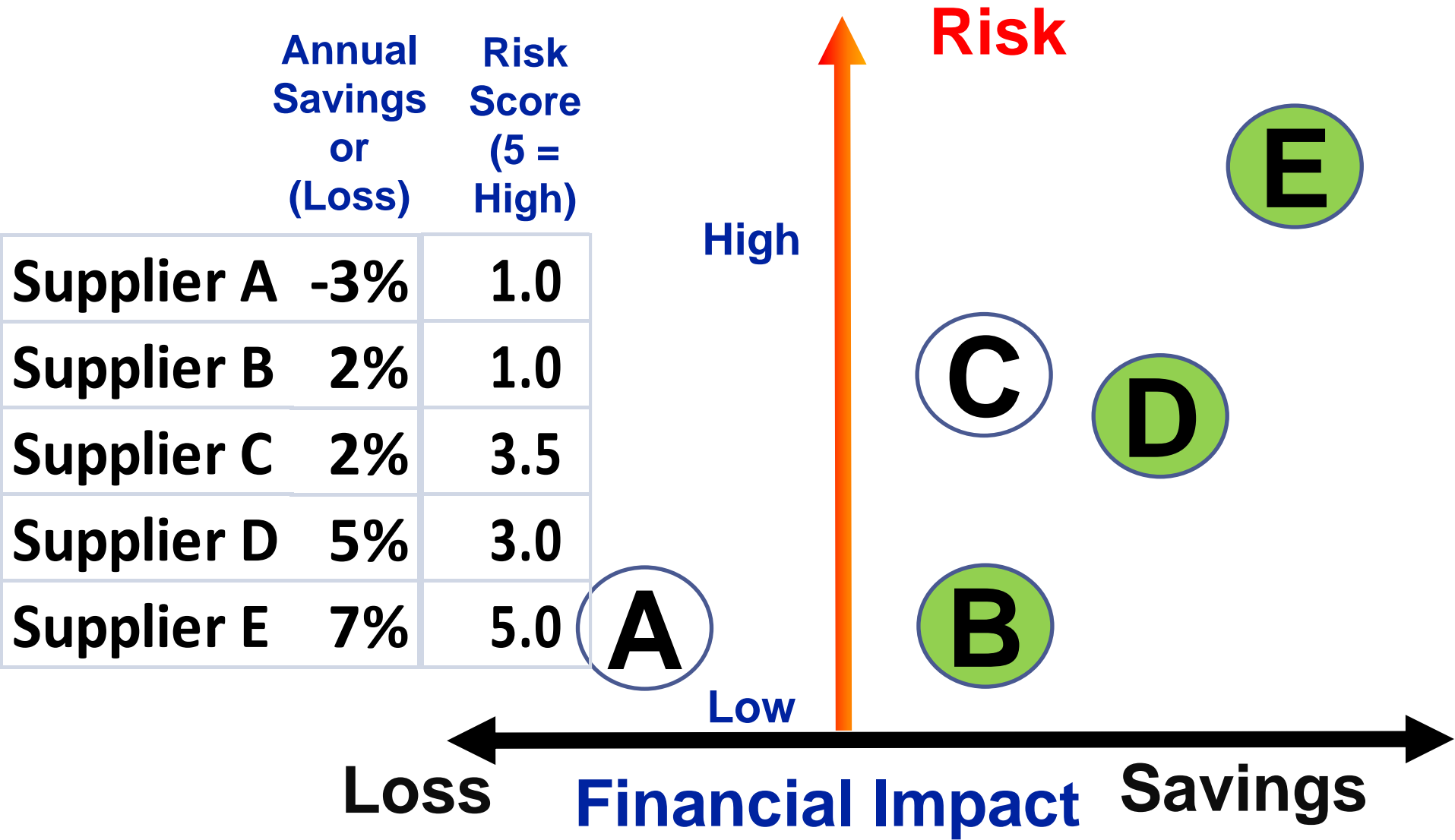
Plays nice with our TMC
Effective account manager
Responsiveness
Solution-oriented
Constructive QBRs
Waivers and Favors
Trust
References, reputation
Other?

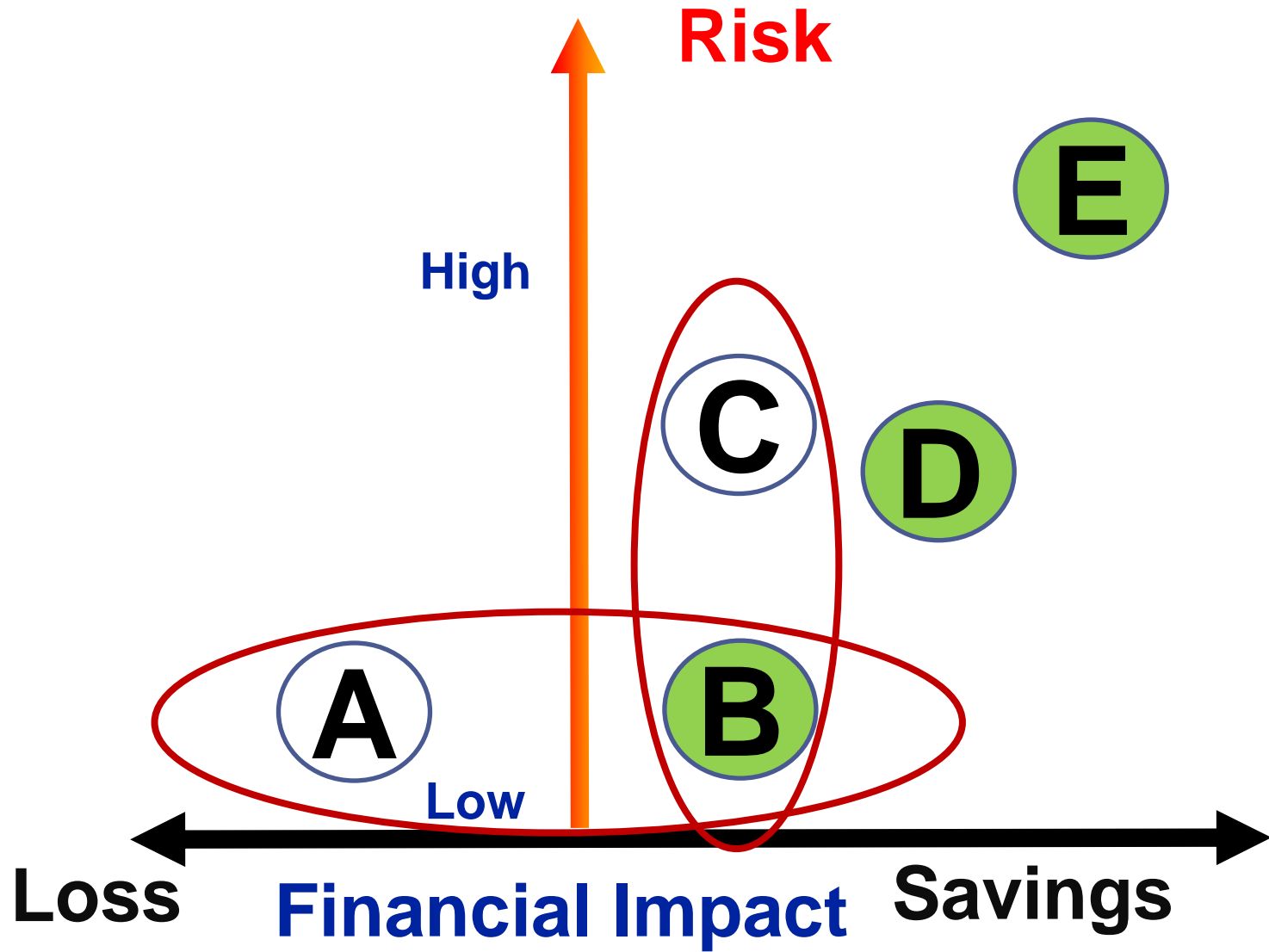
Strategic Value

They buy from us
Common Board Members
We're growing in their markets
Their Green commitment
Supplier Conditioning
Supplier Development
Other?

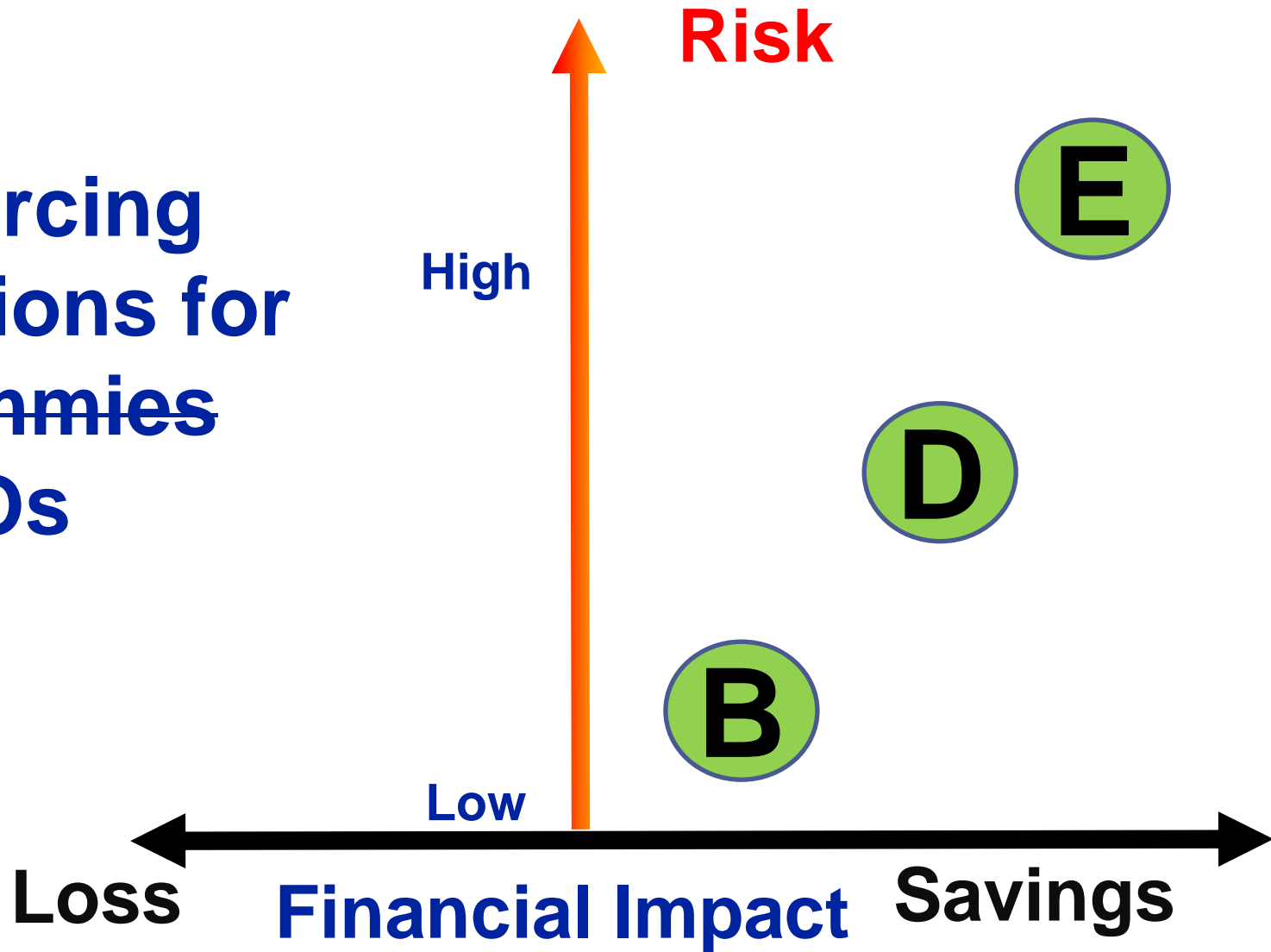
Travel Category Sourcing Scenarios

	Sourcing Scenarios	Savings (K/Year)	Risk (10 = V. High)
Air	AA as Primary, DL as Secondary	\$400	6
	UA as Primary, DL as Secondary	\$200	2
Hotel	Marriott and Hyatt as Preferred	\$300	4
	Starwood and Hilton as Preferred	\$300	4
Car	Avis as Primary, National as Secondary	\$100	5
	Hertz as Primary, Enterprise as Secondary	(\$100)	1
TMC	BCD globally	\$75	7
	Amex in N.A., CWT in Europe	(\$50)	4





Sourcing Options for Dummies CEOs







**MODERN
AIRLINE
SOURCING**



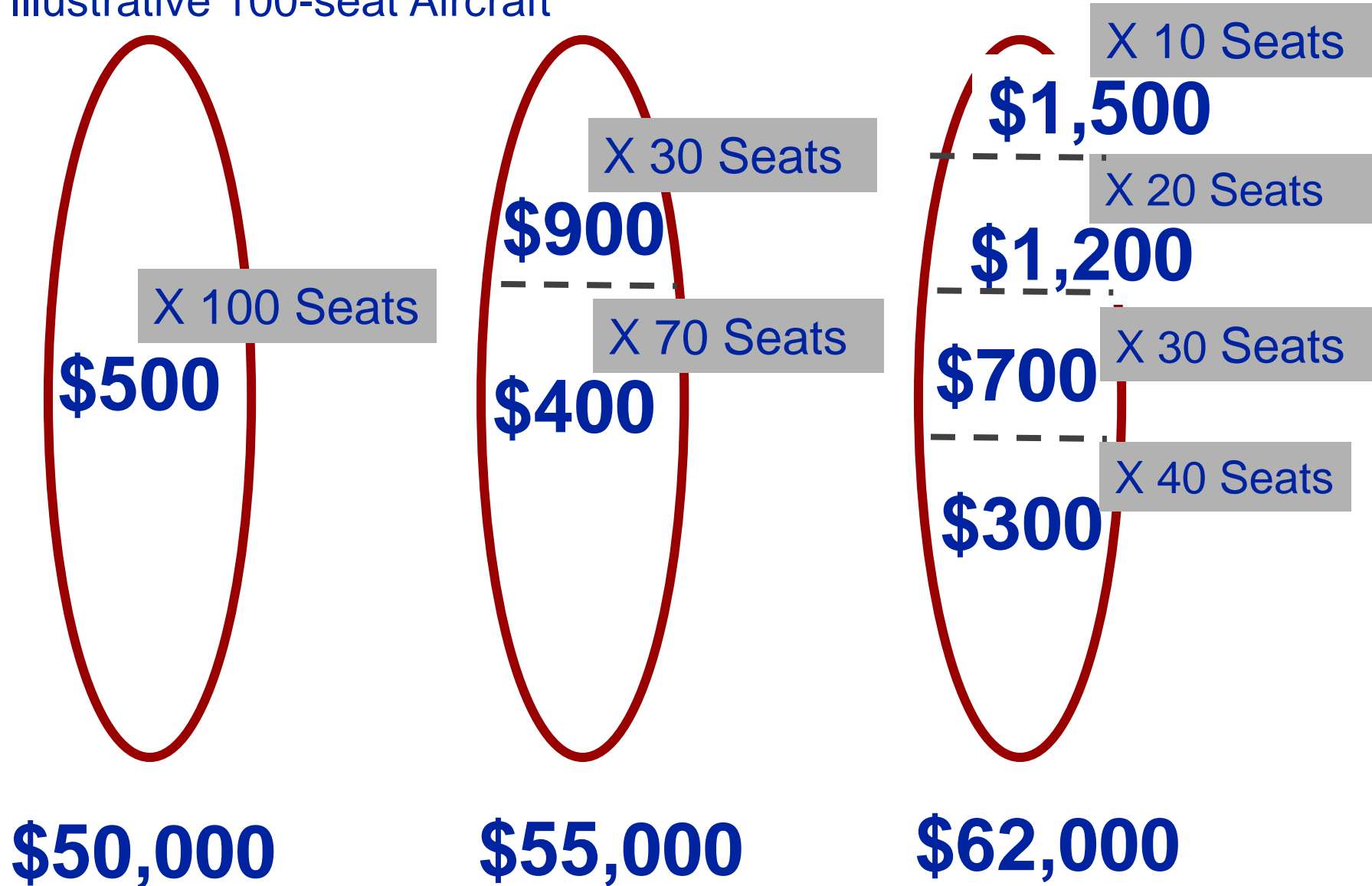
Lower prices!

More market share!

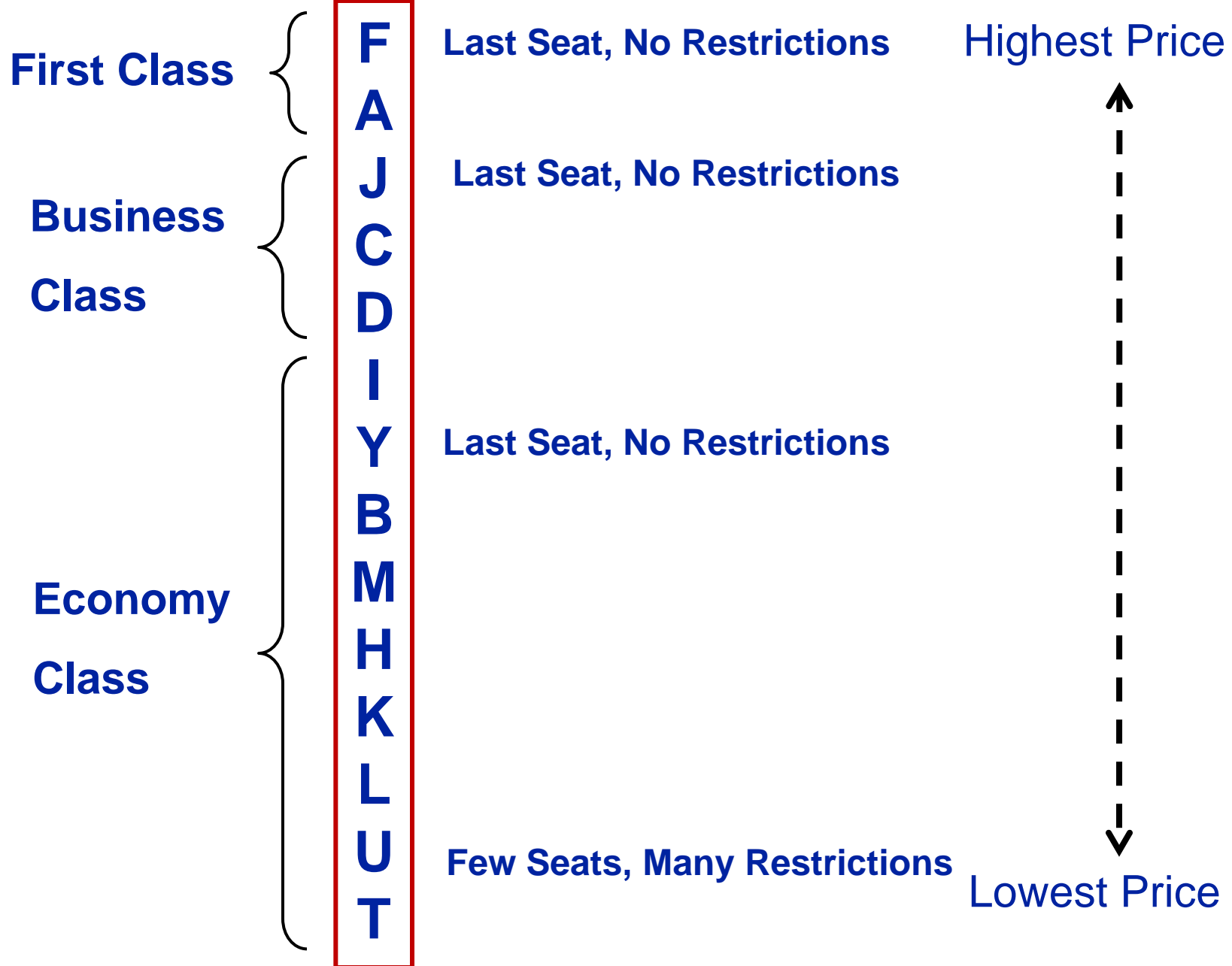
**Airline
sourcing
made simple**

Yield Management Simplified

Illustrative 100-seat Aircraft



Fare Ladders, a.k.a. Inventory Buckets



Q: Which is the better deal?

- 30% off F, C, Y, B and M in all markets served globally by United
- or
- 10% off all fares in all markets served by Delta from Atlanta and Minneapolis

A: Depends on:

Your travel footprint (city pairs)

Each airline's coverage

Your fare mix

Fair Market Share (FMS)

- A.k.a. QSI, or neutral share, or share of lift
- Best estimate of carrier's market share **before** pricing and loyalty factors
- Very important basis for all modern airline sourcing projects
- Drives minimum, maximum and goal share, and the corresponding spend projections
- Key variables are connection logic and interline logic

Fare Mix, Discounts and NER (Net Effective Rate)

Fare mix is key to calculating savings

Historic fare mix determines the spend-weighted Net Effective Discount

Share of Spend	Booked Fare Class	Discount	Net Eff. Rate
10%	J	30%	3.0%
20%	Y	20%	4.0%
40%	M	15%	6.0%
30%	T	0%	0.0%

Net Effective Rate = 13.0%

Fare Mix Issues

Buyers use historic fare mix data

Airlines may use non-historic fare mixes when bidding

- Buyer's calculation of Net Effective Rate, and savings, will differ from airline's

No practical way to guarantee inventory availability
– or the future fare mix

- Standard practice is to use last year's fare mix
- But check with each airline!

Scenario Modeling is Critical

- Basis for modern airline sourcing
- Scenarios are “What if” options
- Typically involve Tier 1, 2 and 3 airlines
- A.k.a. Primary, Secondary and Tertiary
- Can have Co-primaries, co-secondaries, etc.
- Easy to model alliances
- Calculates detailed carrier shares and buyer’s savings for each scenario

Scenario Examples

- DL as Primary, Star as Secondary
- DL/AF/KL as Primary, Star as Secondary
- DL + AA as Co-Primaries, then Star
- Star as Tier 1, then DL + AA as Tier 2
- Avoid DL: Make FL/AA/UA/US as Tier 1
- Modeling tools test 50-250 scenarios

Buyers Focus on Scenario Savings

Last year's net program spend

- Scenario's projected net spend

= Scenario Savings

Sample Scenario Results (Illustrated)

Last year's Program Net Spend was \$3,000K

Scenario	Scenario Total Net Spend	Scenario Savings (\$000s)	DL's Net Spend (\$000s)
1. DL, then Star	2,950	50	700
2. DL/AF/KL, then Star	2,940	60	600
3. DL+AA, then UA+AC	2,930	70	400
4. Star, then DL+AA	2,960	40	300
5. Avoid DL	2,970	30	200

Scenario Implications

**DL/JV prefers No. 1
or No. 2**

Buyer prefers No. 3

Scenario	Scenario Total Net Spend	Scenario Savings (\$000s)	DL's Net Spend (\$000s)
1. DL, then Star	2,950	50	700
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5. Avoid DL	2,970	30	200

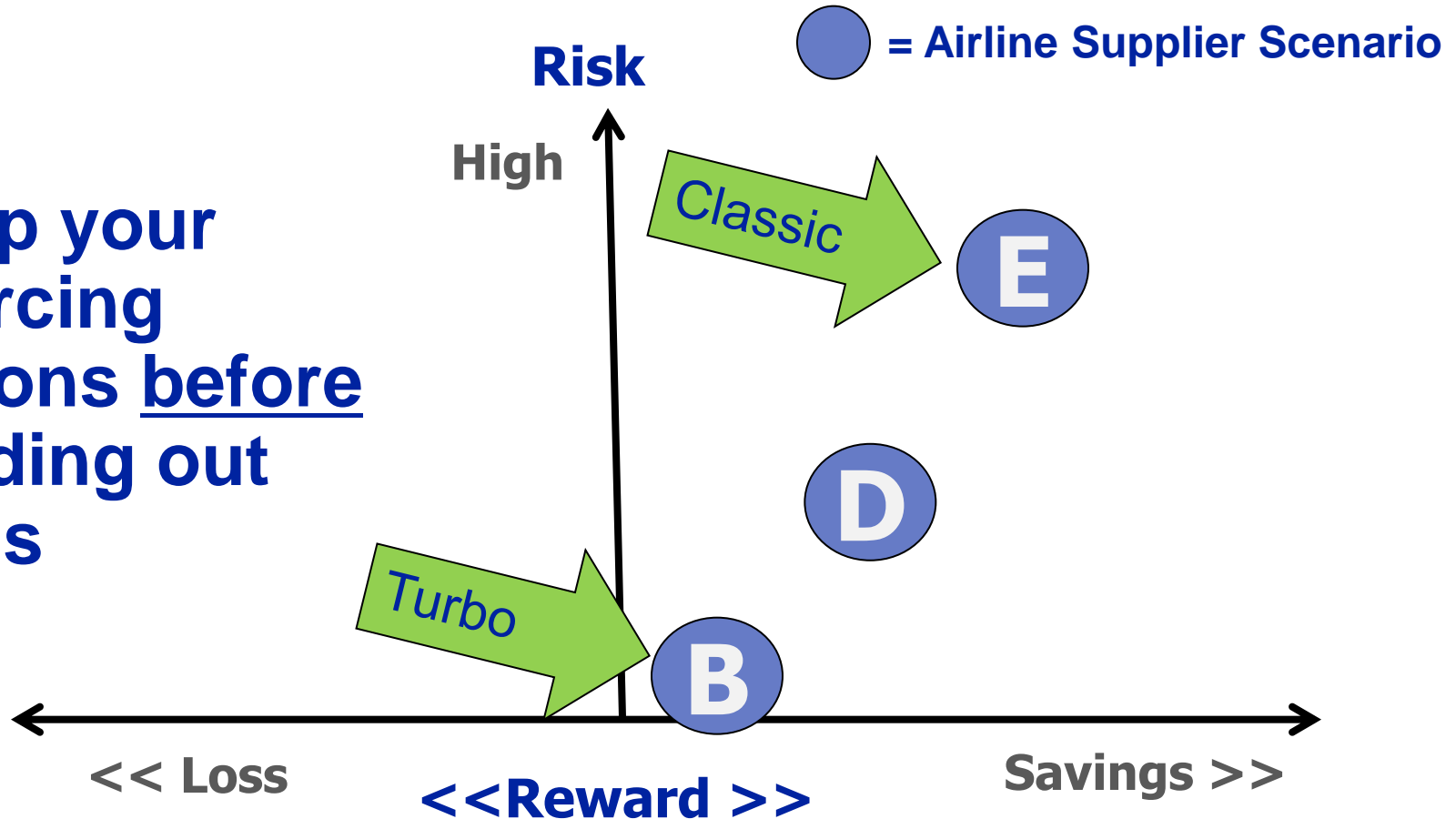
Sample Scenario Results (Illustrated)

Last year's Program Net Spend was 3,000K SGD

Scenario	Scenario Total Net Spend	Scenario Savings (000s)	Scenario Risk Score
1. DL, then Star	2,950	\$50	6.4
2. DL/AF/KL, then Star	2,940	\$60	5.1
3. DL+AA, then UA+AC	2,930	\$70	7.2
4. Star, then DL+AA	2,960	\$40	4.5
5. Avoid DL	2,970	\$30	8.2

Which Sourcing Option is Best?

Shop your sourcing options before sending out RFPs



Classic vs. Turbo Sourcing

Classic RFP

Seeks bids from all qualified airlines

Willing to revamp preferred suppliers

Share goals are negotiable

Seeks more savings than Turbo

Turbo RFP

Faster RFP process

Keeps current preferred airlines

Seeks better discounts in key markets

Strives to keep current share goals

In return for not going to Classic RFP mode





Modern

Hotel Sourcing

Hotel Sourcing Topics – What's New

- Data Sources, Data Quality
- Role of the Hotel Strategy Study
- Hotel Clustering
 - Pre-bid Benefits
 - Post-bid Benefits
- Chain Fitting
- Airline-style Rates

Hotel Spend is a Guesstimate

Visible via Corp. Card **Card Data** Invisible: Non-Corp. Card

Visible via Corp. TMC/SBT

Room Nights and Spend

Room Nights But No Spend

Booked Data

Invisible: Non-approved Channels

Spend But No Room Nights

?
Expense Report Data?

Don't Overestimate Your Spend

<u>Card Spend</u>		<u>TMC Booked Spend</u>		<u>Total Est. Spend</u>
\$50,000	+	\$70,000	=	?

- Do NOT simply add Card Spend + Booked Spend
 - **Look at transaction dates to avoid double-counting**
- Seek data captured by hotels
- If in doubt, use the higher value, e.g. \$70K

Pick “Rates” Carefully

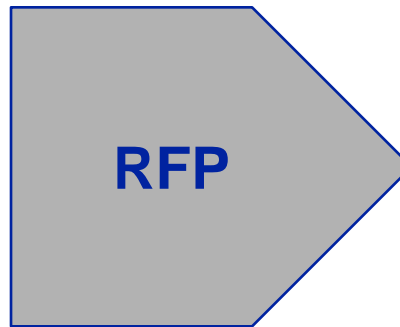
	CFO’s Rank	TM’s Rank
—Negotiated	Low	Best
—Booked (Avg. Booked Rate)	OK	OK
—Paid	Best	Low

Hotel Sourcing's Typical Annual Cycle

Summer



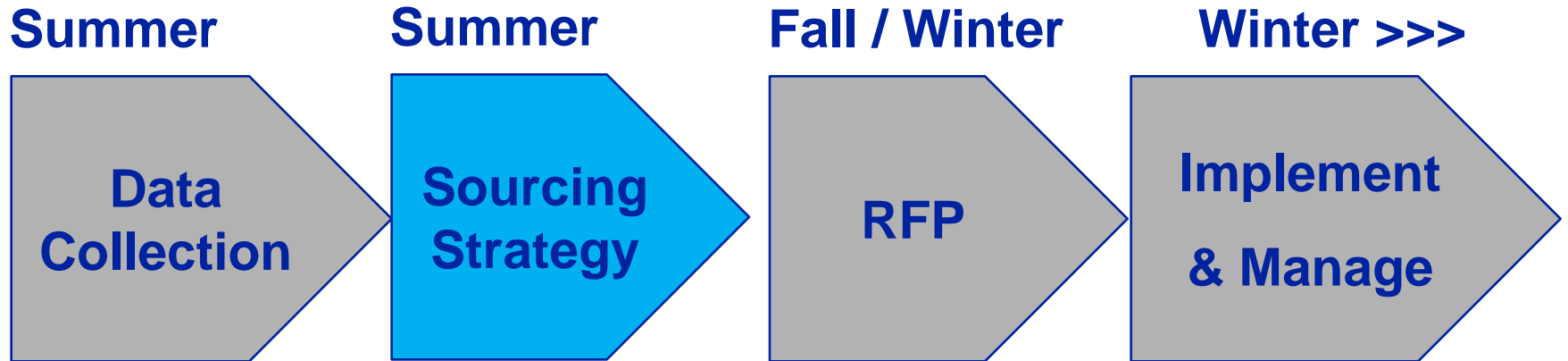
Fall / Winter



Winter >>>



Hotel Sourcing's Best Practice Cycle



Strategy Study's Key Deliverables

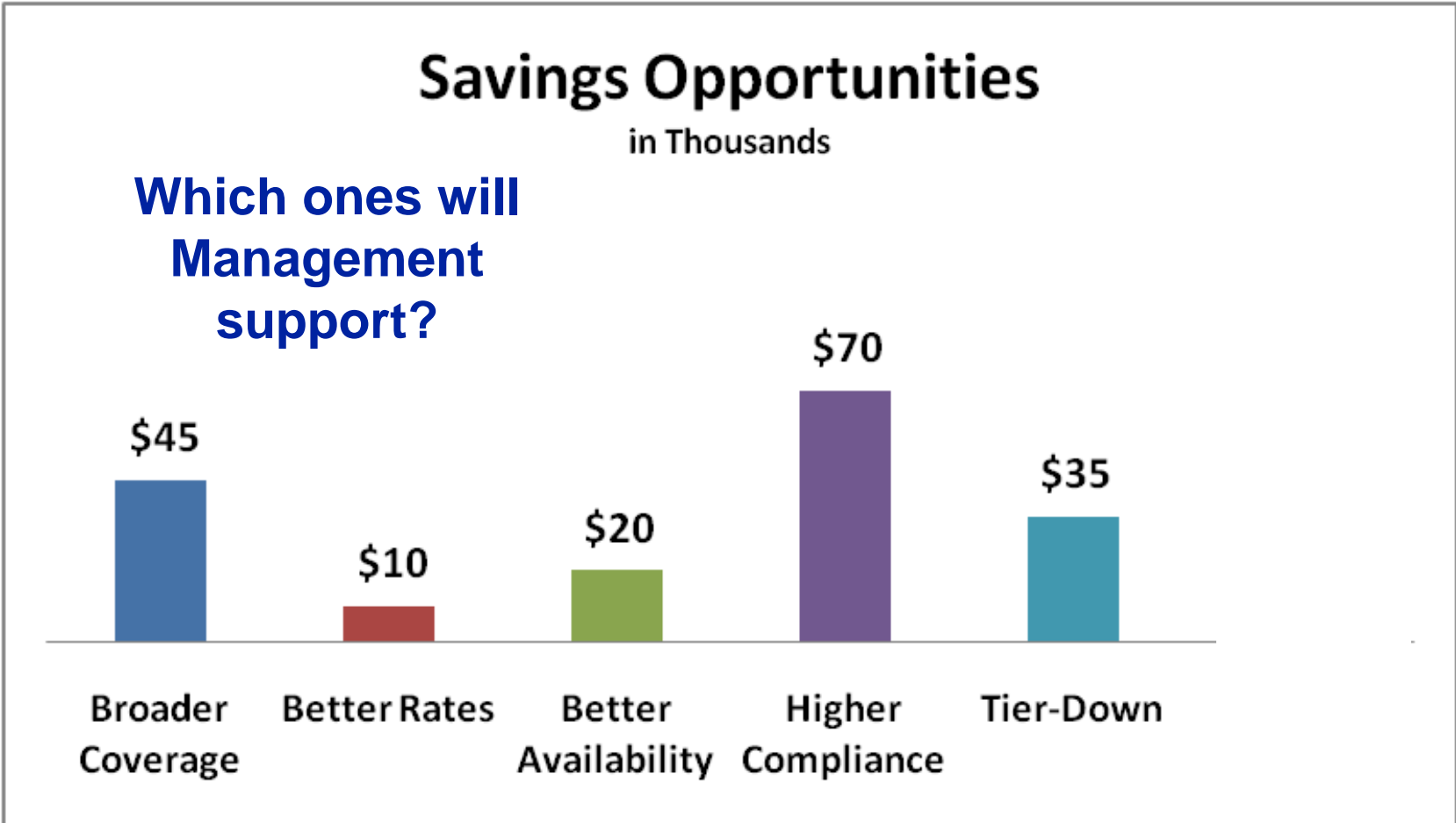
Which Savings Opportunities to Pursue

- Higher compliance to “as is” program
- Broader coverage (more preferred hotels)
- Less upgrading and/or more rate availability
- Better rate negotiations
- Realistic tier-down scenarios

Creates a Bid List That Fits the Strategy

- Depends on management's appetite for savings and change

Socialize with Senior Management





Hotel Clusters 101

How should you group hotels for negotiations?

Distance between hotels matters a lot

You want to group hotels into actionable markets

- Small enough to be create valid competition
- Regardless of artificial boundaries

Artificial boundaries:

- State borders
- City borders
- Zip Codes

“Midtown”

“Downtown”

“Near Airport”

Clusters are actionable markets

Clusters are small areas, maybe 1-3 miles in diameter

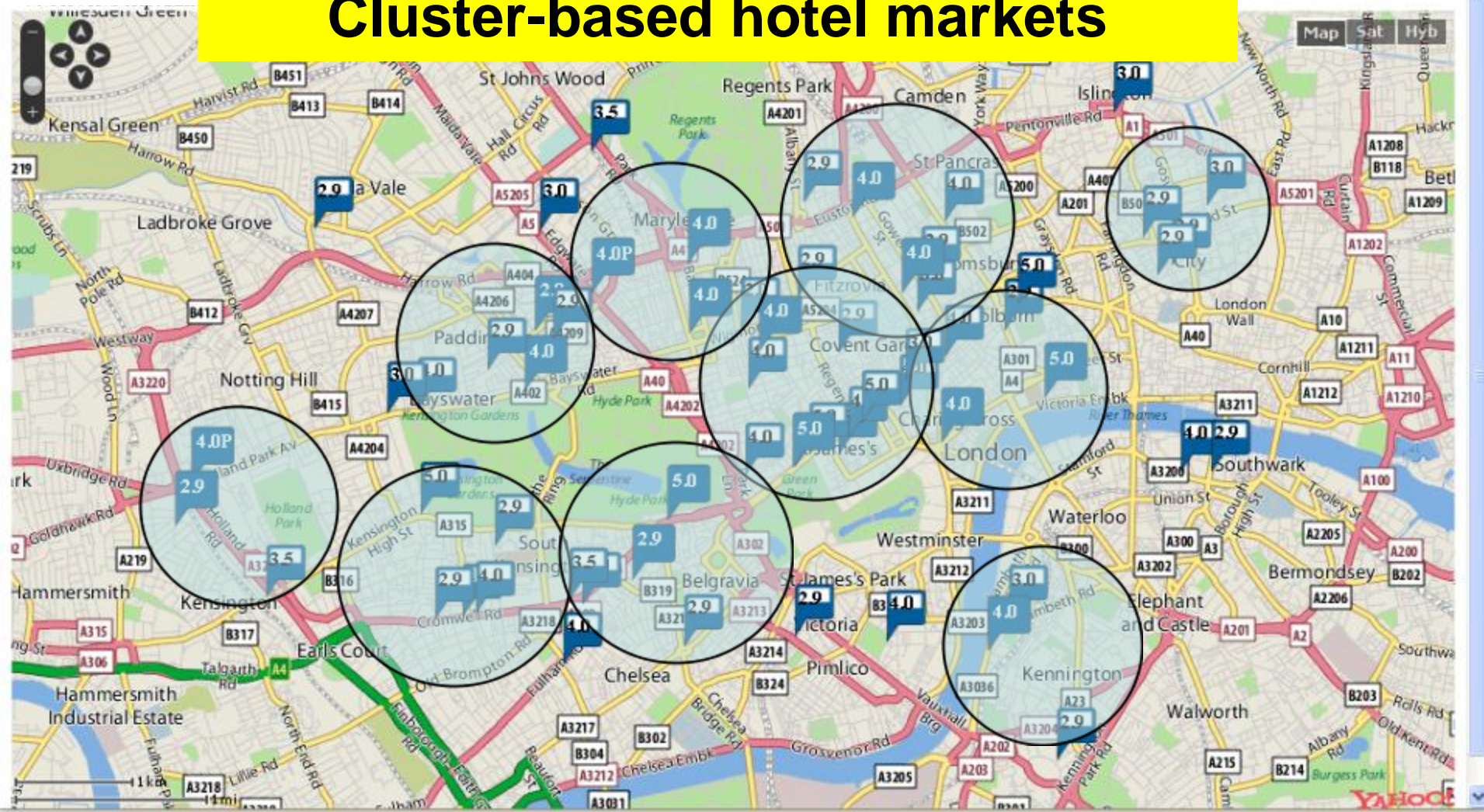
Clusters are built around high-stay areas

Clusters include non-preferred and unused hotels

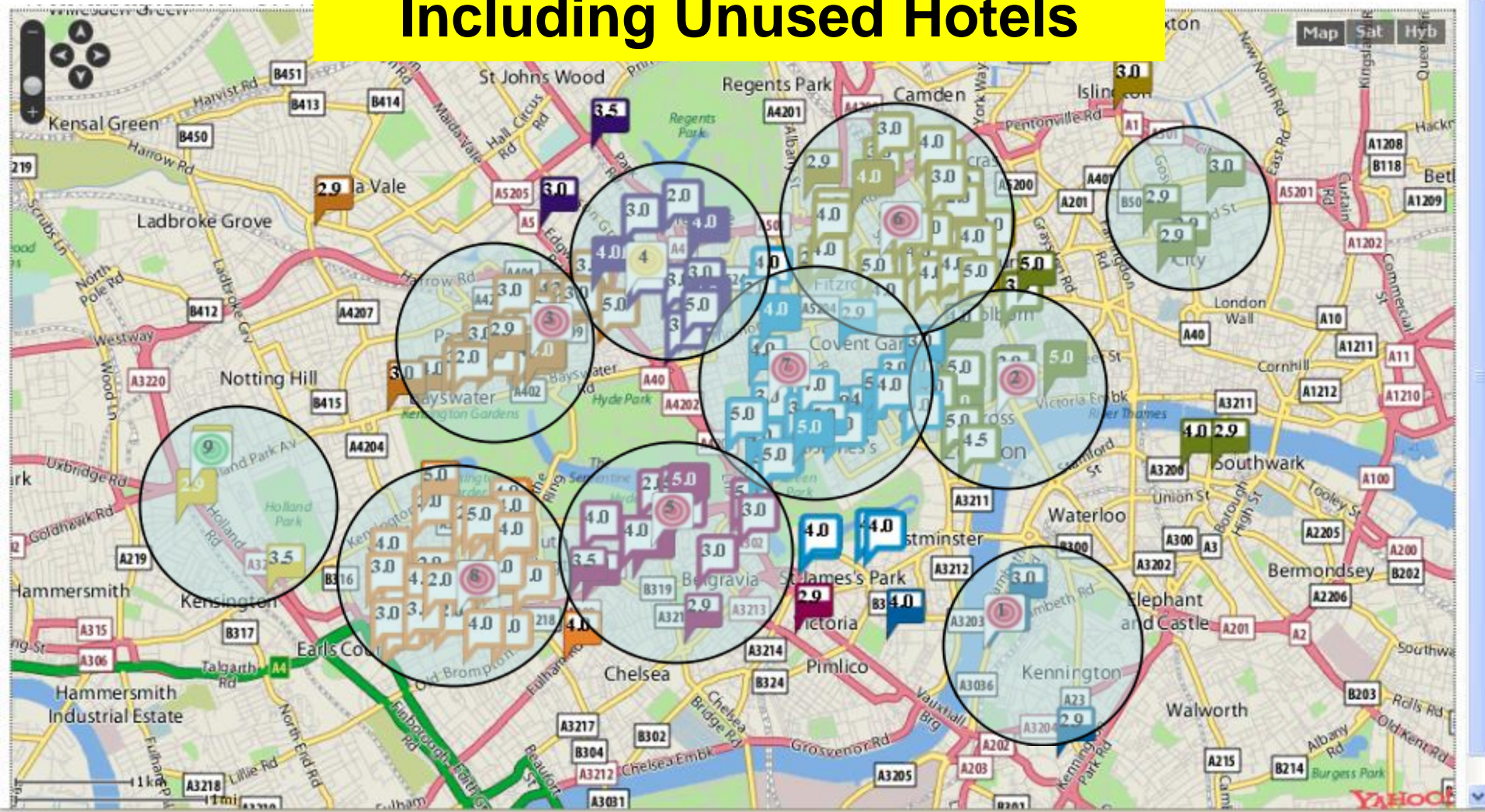
Clusters ignore artificial boundaries

Clusters create actionable markets, much like city pairs

Cluster-based hotel markets



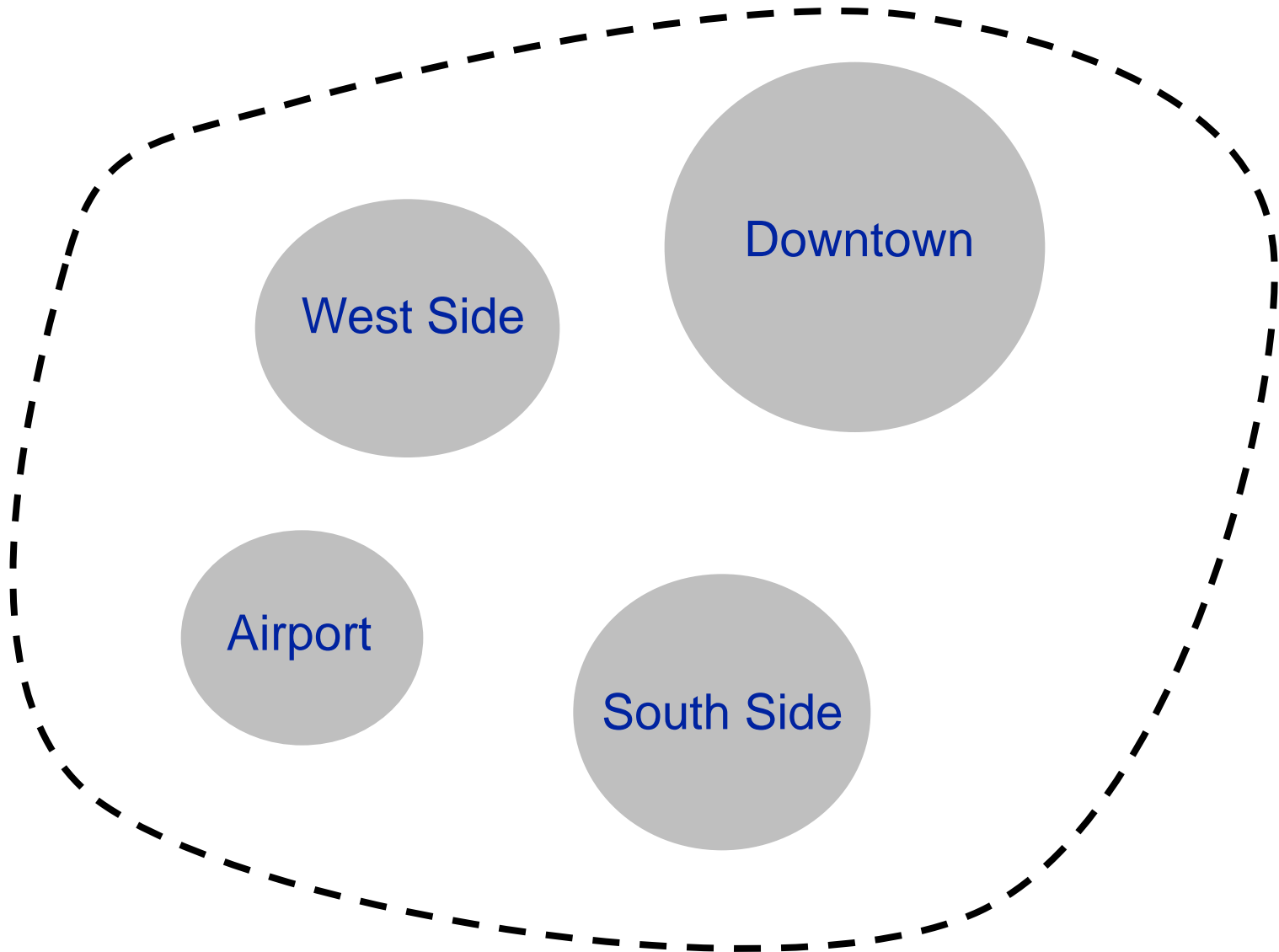
Including Unused Hotels



Clustering Cleans up the Bid List

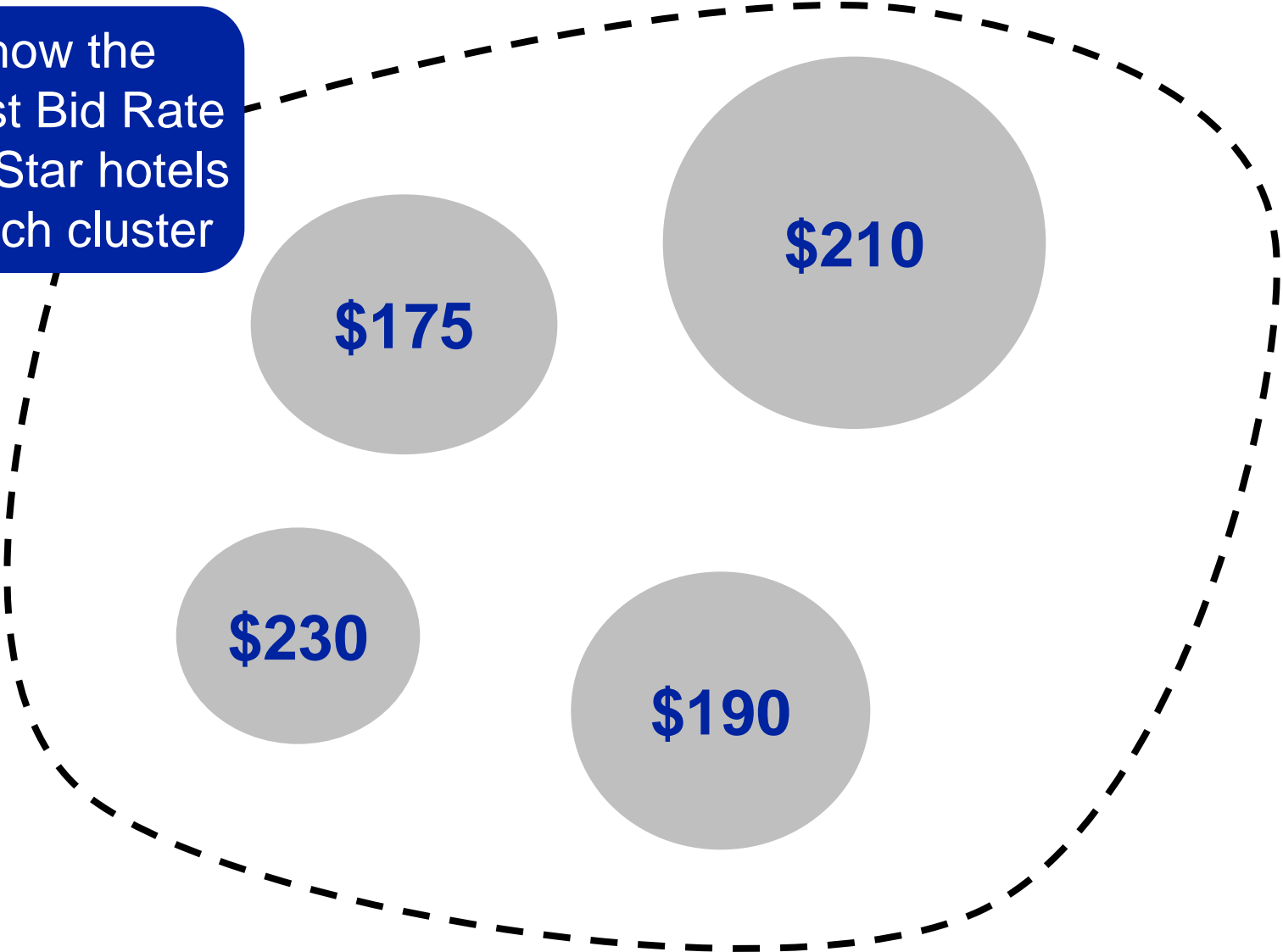
- Helps match your hotel sourcing strategy to the relevant hotels
 - Going after Tier-down savings?
 - Need broader coverage?
 - Need more competitive rates?
 - Main problem is low compliance?
- Eliminates 70% of the hotel properties in your Card+TMC data set
 - Identifies these hotels as low-volume and outside any cluster – so they are not needed

Use Clusters for Rate Benchmarking

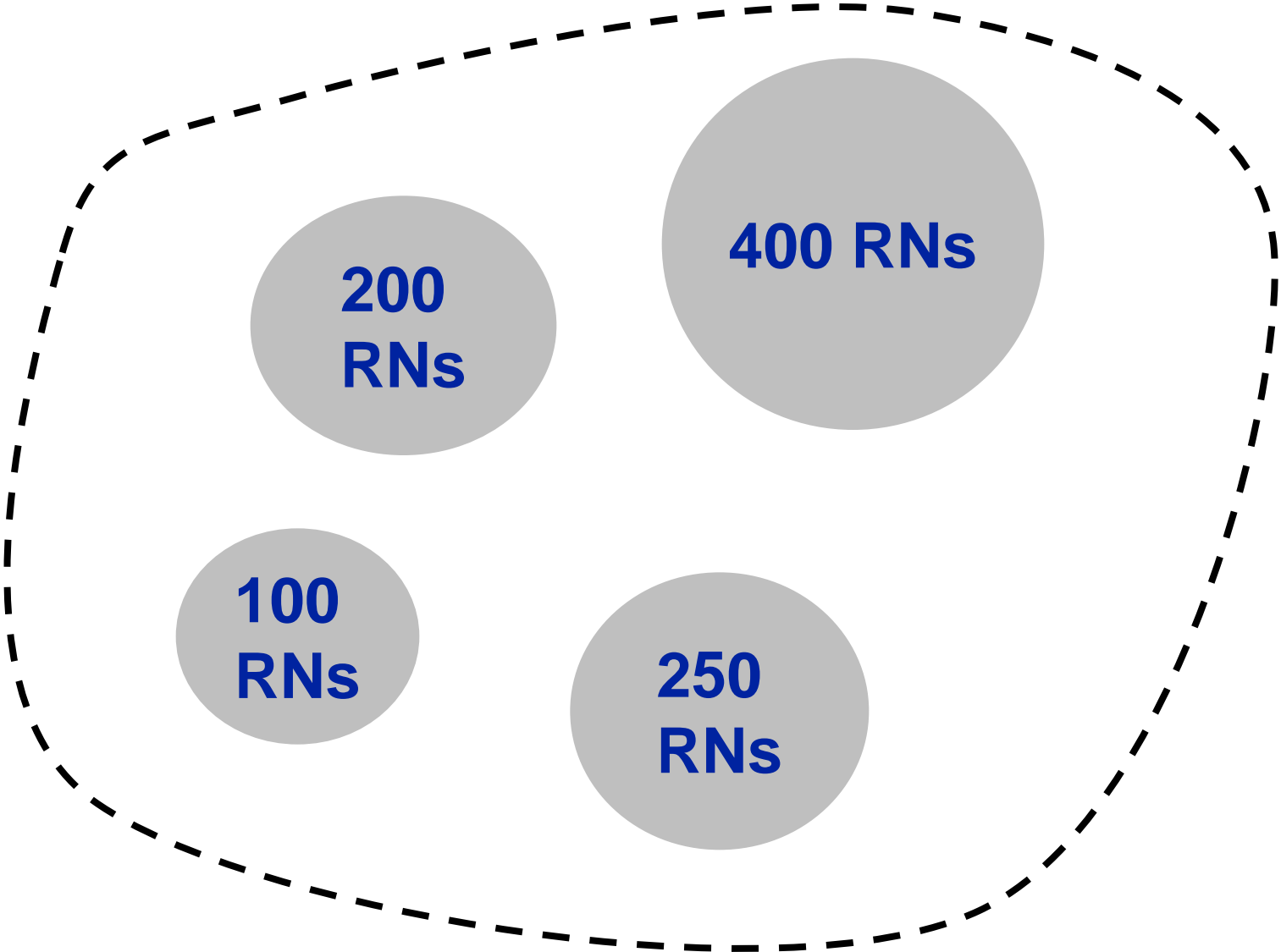


Clusters improve apples-to-apples comparisons

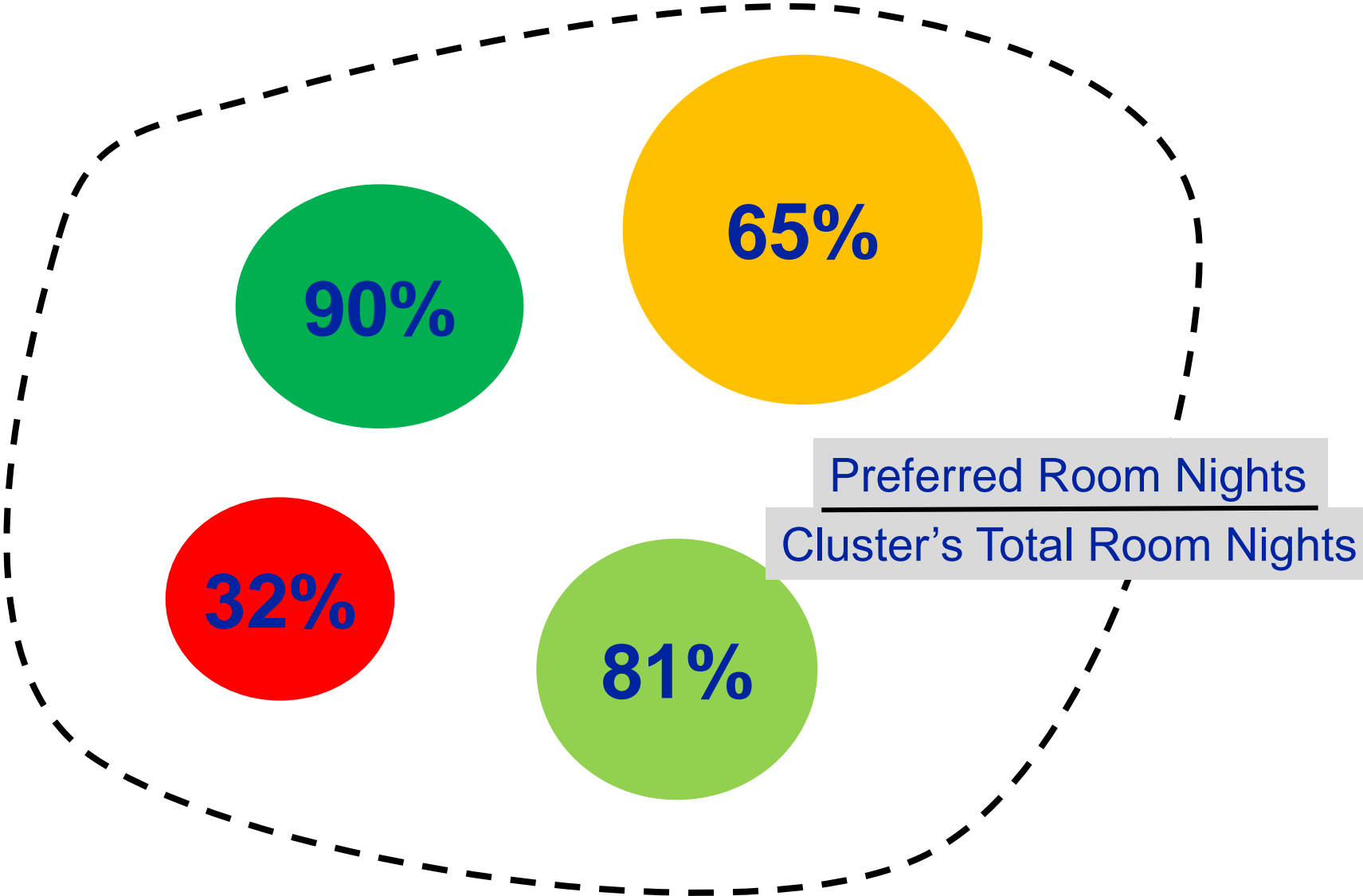
Show the lowest Bid Rate for 4-Star hotels in each cluster



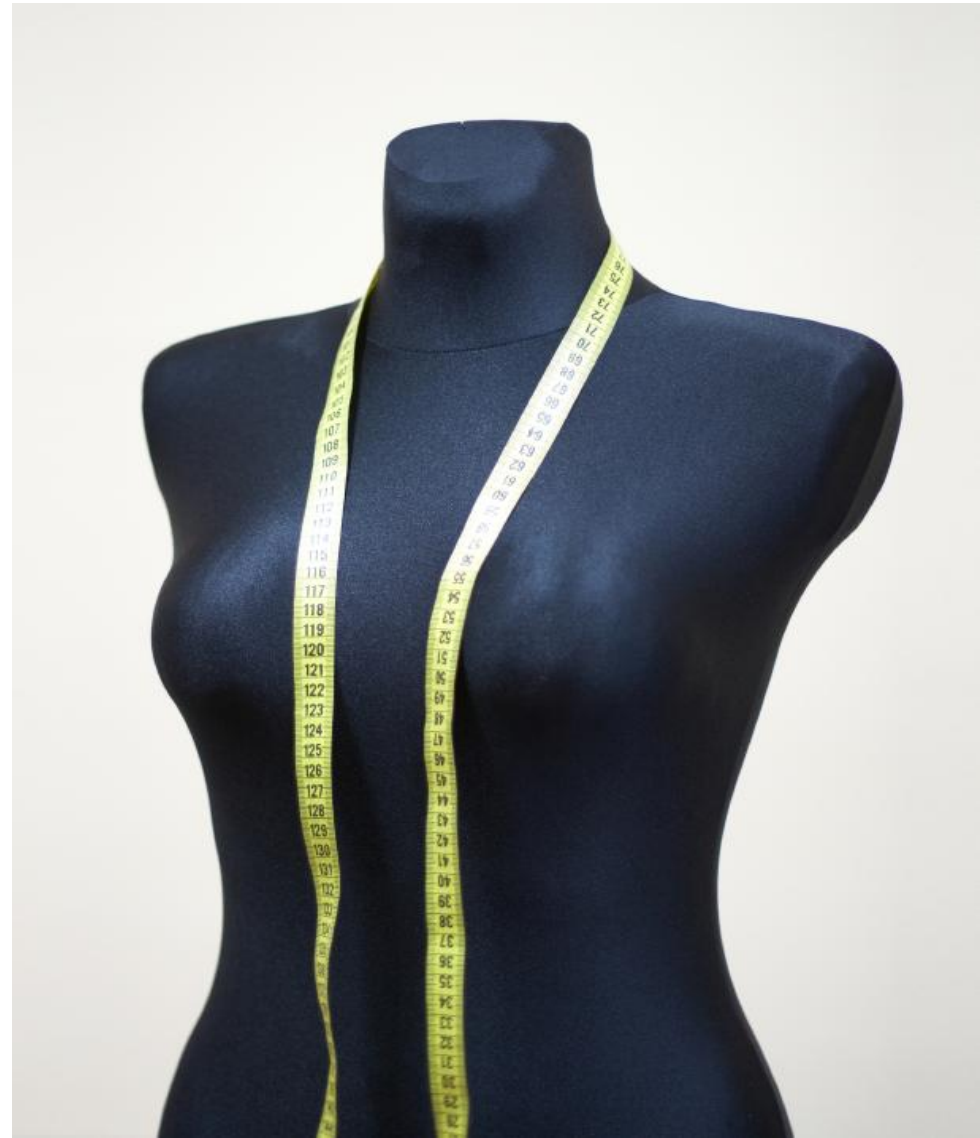
Cluster-based Compliance



Cluster-based Compliance is Actionable



Cluster-based Chain Fitting



If you had \$1 million in spend in these secondary markets...

Tacoma

Tampa

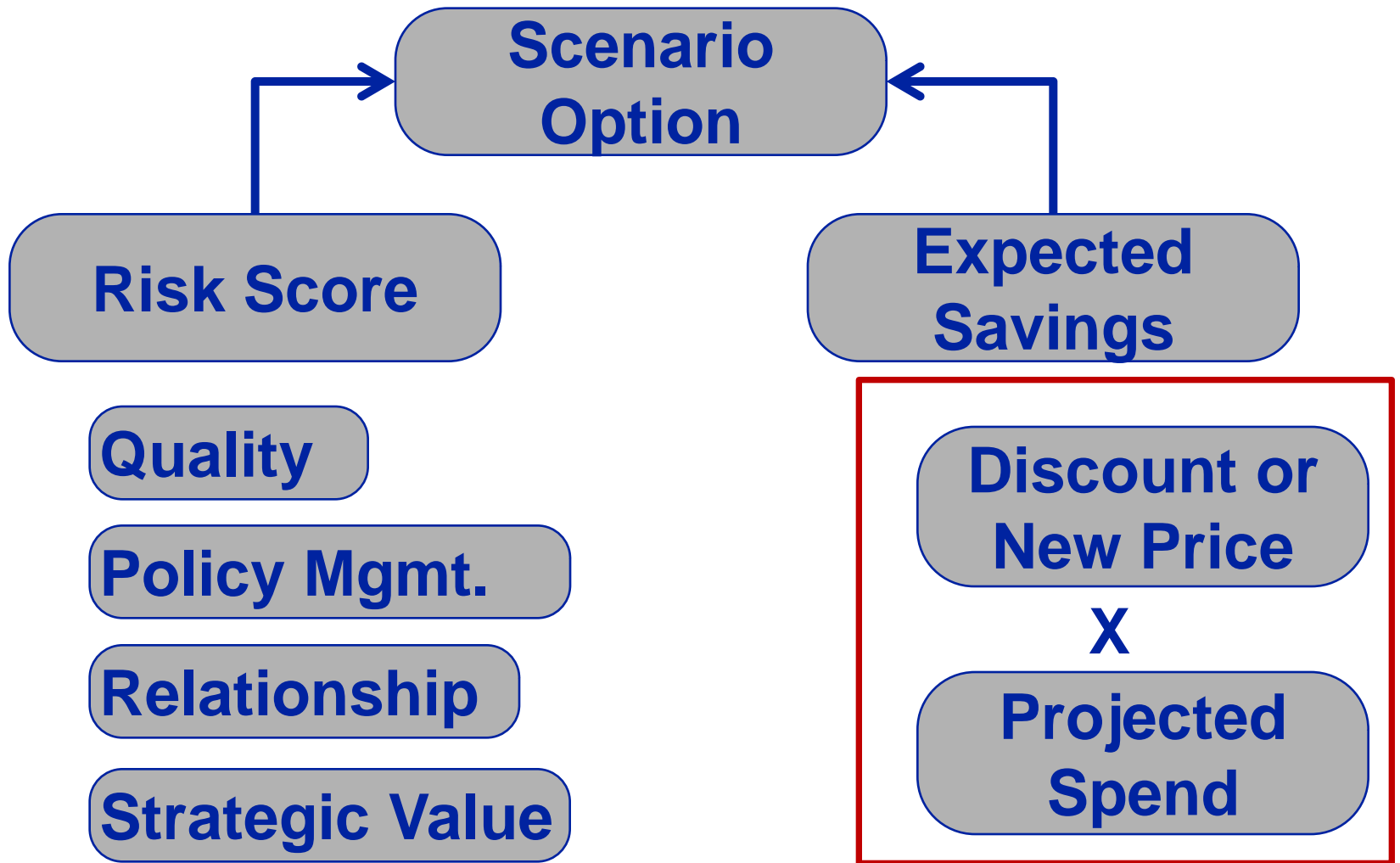
Toledo

Topeka

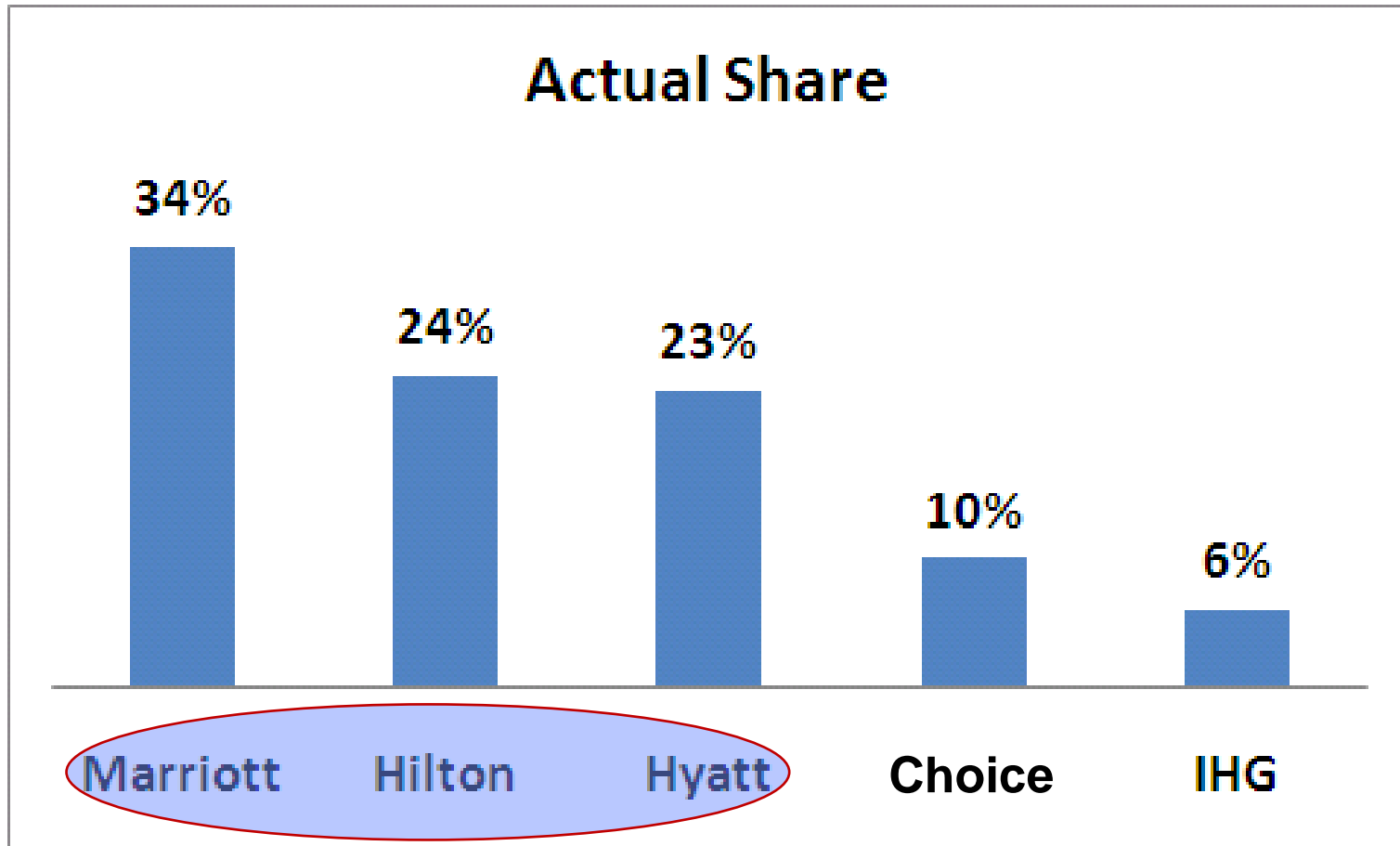
Tucson

Tulsa

...Which hotel chain gives you the best coverage?



“Well, let’s look at our historic spend by chain”

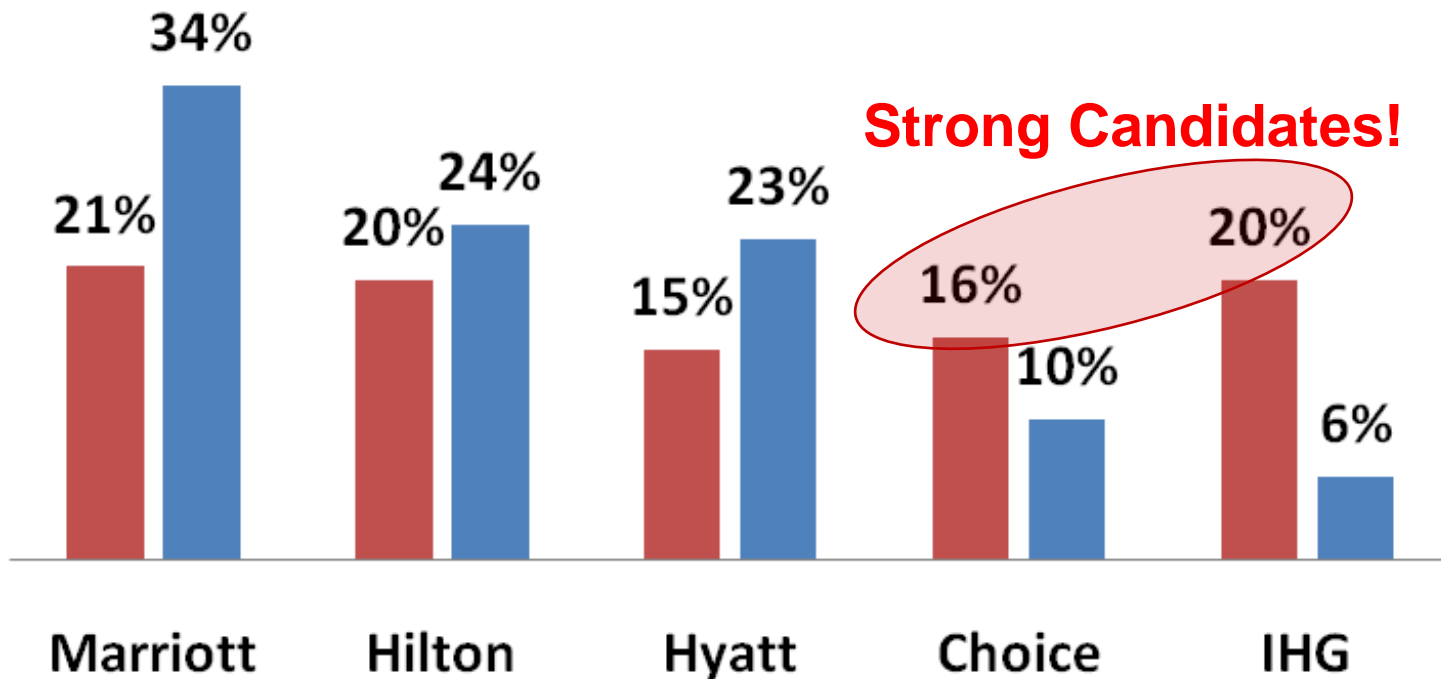


Look at bed capacity, not just historic share of spend

Illustrative Data

Share of beds in the selected clusters

■ Neutral Share ■ Actual Share

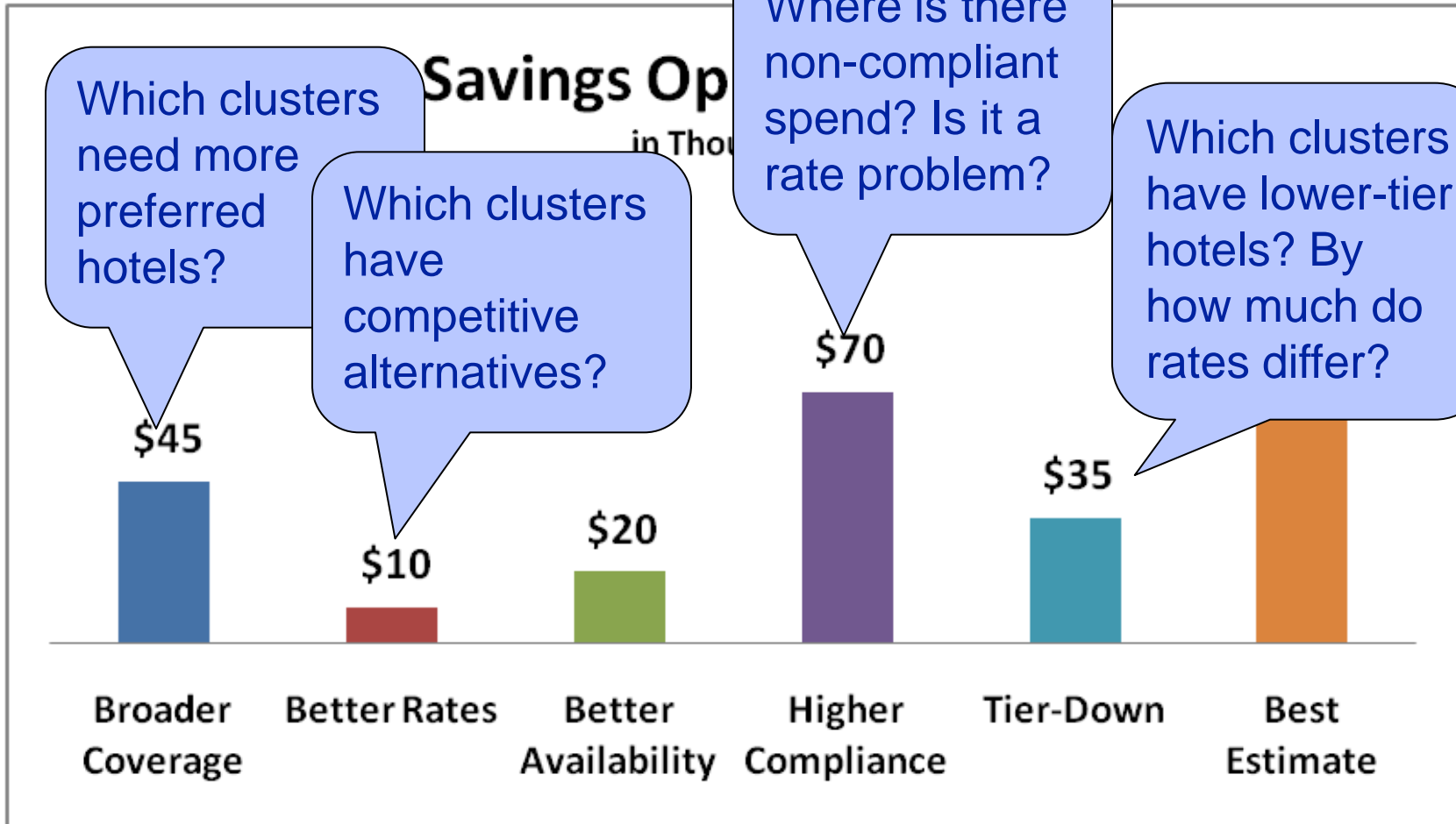




**Know which
chains
best fit
your
program**



Clusters Create Meaningful Insights



Airfare –Style Hotel Rates

- Hotels are learning that yield management works well for lodging
- Explains why Dynamic Pricing (DP) is attractive to hotels
- Buyers should expect major hotel chains to convert to DP for corporate rates within five years
- Look for non-refundable corporate rates sooner

Happy to continue the discussion anytime!

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