

# Next Generation Travel Procurement:

Addressing the needs of the mobile workforce



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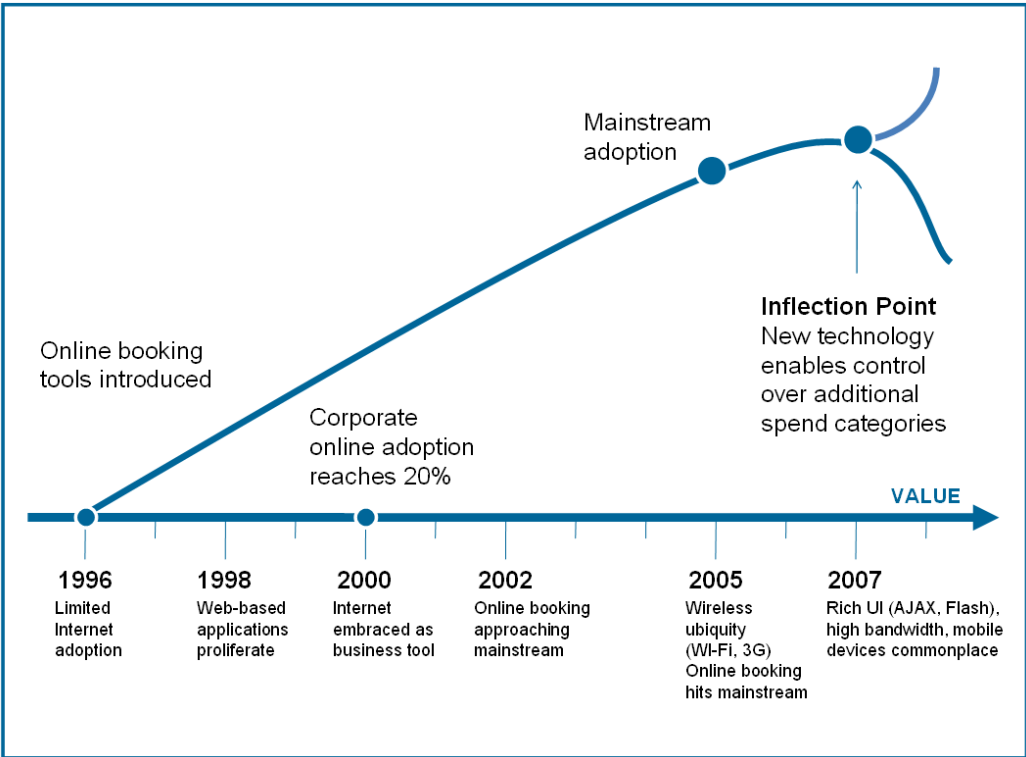
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# Introduction

Technology continues to have a major impact on the way corporate travel is booked and managed. When corporate online booking tools were introduced in the late 1990s consumer use of the Internet was just beginning to take hold. By 2000, the dot.com boom was in full force and the adoption of online corporate booking tools had reached 20%. By 2005, mainstream adoption was reached as all sizes of business recognized the value of automating the reservation process. Today, the corporate travel industry is at a strategic inflection point (Figure 1) that requires new techniques to support the changing nature of the mobile workforce. The era of ubiquitous computing has arrived. Employees are leveraging technologies such as broadband connectivity and wireless communication across their work and home life and are now connected 24/7. An example of this trend is the rapid adoption of mobile devices such as smart phones. According to market research firm In-Stat, frequent business travelers are leading the switch from standard cell phones, e-mail devices and PDAs to multipurpose smart phones.<sup>1</sup>

Figure 1 – Evolution of Corporate Travel Online Booking Technology



At the same time, core travel costs (air, car and hotel) continue to rise, often negating savings achieved through corporate discount programs. In 2007, air fares are increasing by 6.9%, hotel rates are going up by 8.5% and car rental costs are rising at 4.5% according to the American Express Business Travel Monitor Study.<sup>2</sup> To manage the requirements of the always-connected mobile employee, companies need to re-evaluate their overall services strategy. For travel management, a greater procurement focus is needed that concentrates on three core areas: Control, Mobility and Convenience.

<sup>1</sup> David Haskin -ComputerWorld 08.03.06

<sup>2</sup> American Express Business Travel Monitor Study 2006

# The Changing Dynamics of Corporate Travel Management

Travel management by its nature must balance the need for cost savings with the obligation to satisfy the needs of the employee. This is becoming increasingly difficult as costs rise, discounts decrease and suppliers gain access to frequent travelers through direct Internet channels. In addition, the proliferation of high-speed Web access in the home, on the road and via a multitude of devices, combined with the availability of a vast array of business and personal services over the Web, has enabled people to work effectively anywhere, moving beyond telecommuting to true nomad status.

## COSTS RISE AND DISCOUNTS DECREASE FOR CORE TRAVEL SERVICES

Many factors are altering the economics of the travel industry. Increased demand, limited supply and the growth of low cost alternatives are all factors which constrain corporations' ability to negotiate deep discounts. The American Express study projects that "an average domestic North America trip inclusive of air fare, car rental and hotel stay will increase \$46 USD or 4.5 percent in 2007, and an average international trip with its air fare and hotel stay will increase \$180 USD or 4.6 percent."<sup>3</sup> At the same time, increased demand is allowing suppliers to curtail their discount programs. Combined, these two trends limit a corporations' ability to reduce core travel expenses (air, car & hotel). Another factor is the emergence of low cost carriers, which is further impacting negotiated discounts as published rates drop, allowing both consumers and corporate travelers access to low cost inventory. To meet savings goals, corporations need to look at other areas of spending. This theme was clearly described in a recent PhoCusWright study which stated that "Supplier discounts and agency revenue sharing have all but disappeared, and travel managers are looking at the next areas of opportunity for cost cutting and efficiencies."<sup>4</sup>

## CONTROLLING ADDITIONAL SPEND CATEGORIES

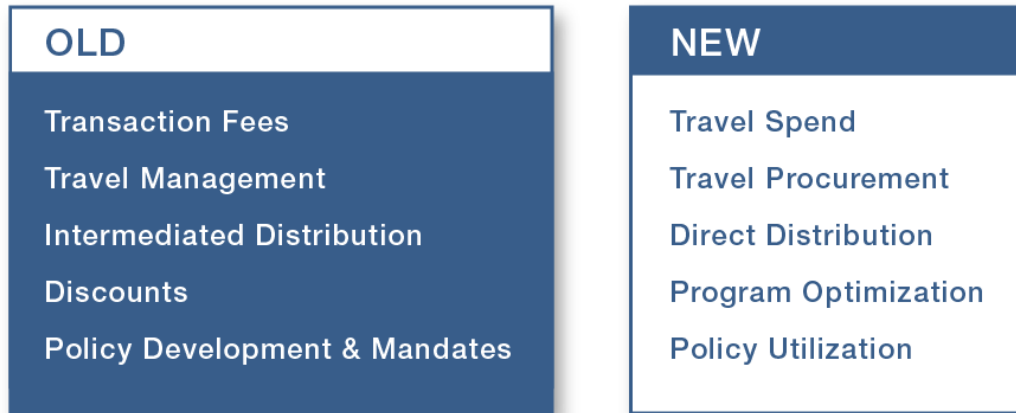
There are many areas of spend that are not effectively controlled by the company. Corporations have implemented systems that manage catalogue based purchasing (e.g. offices supplies, equipment) but have found it difficult to control service expenses. This problem has been amplified with the growth of the mobile worker (work at home or traveling on business). Organizations often monitor purchases of car service, parking, dining and client entertainment, through expense reports, but lack the controls needed to reduce these spend categories at the point of purchase. A system that simply enables a restaurant booking (e.g. OpenTable) can help automate the reservation process, but unless the purchasing activity is controlled, savings in these spend categories cannot be realized and it is essentially impossible to engage in strategic sourcing or vendor management (Figure 2).

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<sup>3</sup> American Express Press Release 10.26.06: [http://home3.americanexpress.com/corp/pc/2006/gbt\\_forecast.asp](http://home3.americanexpress.com/corp/pc/2006/gbt_forecast.asp)

<sup>4</sup> PhoCusWright Corporate Travel Distribution: Key Markets 08.06

Figure 2 – Corporate Travel Paradigm Shifts



Source: PhoCusWright

## Travel Management and Corporate Procurement

The PhoCusWright study on corporate travel distribution cited a paradigm shift in the way corporate travel is being managed.<sup>5</sup> The move from travel management to travel procurement is a global trend that is impacting the roles, responsibilities and strategies for corporate travel managers worldwide.

As travel procurement becomes the norm, the traditional travel management discipline must evolve to more closely match corporate procurement best practices.

Corporate Procurement's primary objective is to secure contracts that most effectively balance the requirements of the employee while containing costs. For today's corporation, that requires three governing principles (Figure 3):

- **Control** – The organization must control contracted services, ensuring that they meet organizational needs at the lowest available price.
- **Mobility** – The organization needs to look beyond the traditional means of supporting employees, and provide a complete range of employee services 24x7, anywhere, on any device.
- **Convenience** – The organization must make it convenient for employees to quickly and easily find and purchase the goods and services they need so they can focus on their "real" job.

<sup>5</sup> PhoCusWright Corporate Travel Distribution: Key Markets August 2006

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Figure 3 – Corporate Procurement Objectives



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## CONTROL

It's always been challenging for companies to control the purchasing of services. For most catalogue-based purchasing (e.g. office supplies) applications such as third-party software programs (e.g. Ariba) or modules of an ERP application (e.g. Oracle, SAP) can effectively manage the company's procurement requirements. Online booking tools have successfully enabled the control of traditional travel services (air, hotel, & car) primarily because of the massive back-end aggregation of the global distribution systems. New management strategies are needed to extend the success to encompass a wider breadth of corporate services that have, until now, operated in unique silos on the Web. Capturing parking, meals, overnight shipping, event ticket purchases and other service activities is an essential capability of innovative online booking platform and has been made possible with the advent of next-generation Web technology. Expense reporting systems capture all travel related expenses, but only after the trip. Backend controls are fine for auditing purposes, but do not prevent employees from spending money in violation of company policies. Applying preferred supplier and discount strategies can only influence traveler behavior if the procurement of the expense is controlled at the point of purchase.

## MOBILITY

Runzheimer International defines telecommuting as programs that support relocation, international assignments, travel, corporate aircraft, business vehicles, and mobile/home office employees. In a recent report on telecommuting, Runzheimer International stated that "An important characteristic of leading organizations in the 21st Century will be that they have developed effective and well-integrated employee mobility programs, including mobile office programs."<sup>6</sup>

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<sup>6</sup> Runzheimer International: "Runzheimer's Groundbreaking Study Reveals Trends In Telecommuting Programs"

<http://www.runzheimer.com/Web/ALL/news.2006.06.01.aspx>

An argument can be made that ubiquitous computing has enabled ALL employees to become mobile. When the employee goes home with a BlackBerry™, a cell phone or a laptop they continue to require key corporate services. The travel procurement manager must expand their thinking to embrace a new concept of the “customer”, beyond the standard frequent traveler definition. Today mobile employees need complete access to corporate services anytime, anywhere and from any device. For example, the traditional process of checking with a hotel’s concierge for dinner reservations while on a business trip is inefficient and doesn’t take into account corporate or personal preferences. Automating this process is essential, but must be done in a way that satisfies both the traveler’s preferences and provides benefits to the company. To positively impact the corporate bottom line, procurement managers must be able to apply traditional sourcing best practices and implement tools that provide the mobile worker with an easy-to-use, integrated solution. This solution must control supplier selection, provide discounts to the corporation and take into account employees’ work requirements and preferences.

## CONVENIENCE

To drive adoption, online booking applications must be easy to use. Attacking a broader range of services through a single point of purchase application is essential to implement a more holistic cost management strategy. If the company does not offer a broad range of services, employees will inevitably turn to the ever-expanding, easy-to-use, consumer-oriented Web sites – without corporate control or benefit.

Traditional corporate booking tools already lag behind consumer-based Web applications and offer little functionality on mobile devices. Online booking tools must not only keep pace with consumer applications, but provide added value to the employee by integrating multiple services into a consistent, user experience.

To achieve these objectives, a more strategic approach to travel management technology selection is required. Travel buyers can no longer meet the requirements of this dynamic environment by selecting an online booking vendor solely based on a checklist of feature/functionality. A new set of criteria is emerging:

- **Does the application support the mobile worker on a variety of devices?** Corporate travelers are the early adopters of smartphone technology. Devices such as the BlackBerry™ and Treo™ have become essential tools for the business traveler. Corporate booking applications need to go beyond simple downloads of itinerary items to enable access to a variety of services available on any device, while still maintaining both employee preferences and corporate controls.
- **Is the application keeping pace with the user experience provided by consumer travel sites?** Historically, corporate booking technology has lagged behind advancements made in consumer applications. As a result of this lag in technology advancements, adoption of consumer applications has been dramatically higher than corporate tools. In 2006 consumer adoption was at 54% while corporate remained at 36%. Over the next two years this difference is expected to grow to 23% with consumer adoption anticipated at 70% and corporate adoption to register in at 47% by 2008.<sup>7</sup> In the last 18 months, a vast variety of new sites using Web 2.0 technologies have emerged enhancing the experience available to the consumer – delivering Web sites that deliver the functionality and responsiveness of desktop software applications. As consumer sites continue to rapidly evolve, the employee is no longer satisfied with online booking applications that lack a rich user experience and will ultimately turn to consumer sites to complete their tasks.
- **Is the application extensible with the ability to quickly add new services?** To gain control over a larger share of corporate services, the application must be built on a platform to which new services can be easily added. The same rules used to control existing services must be applied to control any new service added.

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<sup>7</sup> PhoCusWright US Online Travel Overview Sixth Edition

If you consider the two most prominent consumer commerce sites – eBay and Amazon – one of the key capabilities to their success has been to eliminate the obstacles and friction between buyers and sellers. Each site has made it simple for even the smallest merchant to publish their products, and consumers can now search from a startling array of goods all within a trusted e-commerce merchant. To deliver this flexibility for corporate services, the application must be built using a modern architecture based on Web services. A platform that is built using a services oriented architecture (SOA) can enable the addition of any type of content, application, or merchant quickly and easily. This type of platform is critical to create “mash-ups” that integrate disparate sources of information and e-commerce capability into a single, seamless display.

- **Is the application extensible with the ability to quickly add new merchants quickly?** The service oriented platform also applies to the ability to add new or change merchants simply and easily. The corporate administrator must have the ability to provision a new merchant and service options with simple mouse clicks, without impacting employees or existing business processes.

## The Vendor Selection Process

### ABANDONING THE CHECKLIST APPROACH TO VENDOR SELECTION

Commoditization and relative functional parity between online corporate travel booking applications has led to a checklist approach to vendor selection. This technique has often been promoted by third party consultants as a way to simplify the selection process. While understanding vendors’ feature/functionality is important, this approach often masks the true opportunity for savings. Feature/functionality advantages are transitory in nature, as one feature is introduced by a vendor it is quickly matched by the competition. Moreover, this has encouraged some vendors to pursue “check-box” feature parity rather than invest in delivering true business value for their customers and increased convenience for employees. Given the long sales cycle associated with online booking acquisition, depending on a static list of features and functions as the primary driver for self-booking tool selection will likely miss the broader value of controlling additional spend.

Even if an online booking tool is offered for “free” by a travel management company (TMC) or vendor (based on the purchase of other related technology such as expense reporting), the true impact to the company will be limited if only air, car and hotel is managed. A buyer needs to question any “free” offer particularly if this results in the selection of a tool that is slow to encompass a wider breadth of services and deliver new savings opportunities.

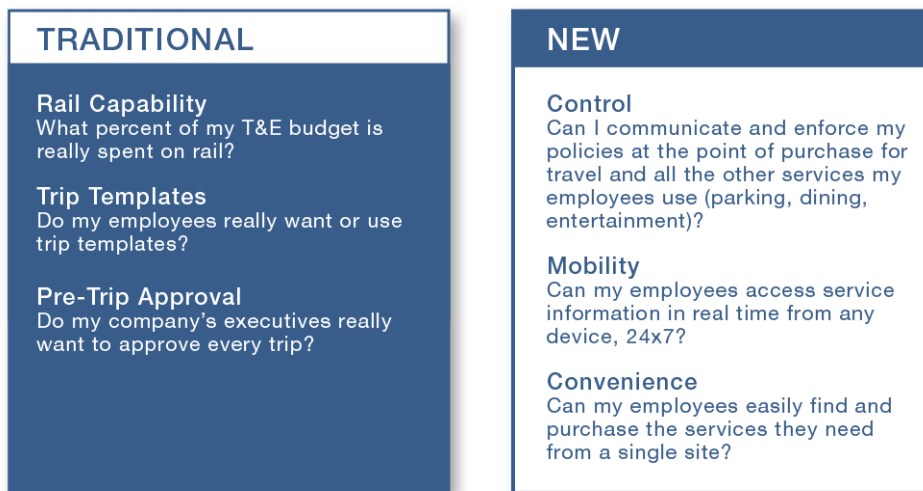
As travel continues to become a purchasing function, procurement professionals should evaluate the needs of the workforce and the goals for cost savings, policy management and service delivery in a broader view. The focus on particular features needs to be tempered by an understanding of the efficiencies or cost savings they will deliver. Companies need to evaluate a vendor’s rate of innovation and product direction based on their own requirements, rather than on the latest feature pitched by the vendor (Figure 4). For example, Rail may represent a significant savings opportunity, because a bulk of company’s travel is in the Northeastern Corridor. However, for most companies, Rail represents only 1-4% of the total T&E budget<sup>8</sup> so focusing on a wider range of high impact services will yield a larger ROI through increased adoption and greater leverage in supplier negotiations.

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<sup>8</sup> Amex corporate card study 2006; AirPlus TM Study 2007; BTN, etc



**Figure 4 – The Evolution of Vendor Evaluation Criteria**



The key evaluation criterion for online booking should be extensibility. Without it, a customer may select a supplier based on one core service and create an inherent limitation on their workforce that could take years to correct. Change management is expensive and a narrow vendor selection process may have serious, long-term impact on the company's bottom line.

## SATISFYING THE NEEDS OF THE ENTIRE VALUE CHAIN

An online booking application is a point of sale tool that touches each traveler and travel arranger. As such, the ability to deliver unique services based on corporate role and position is a natural requirement. Augmenting this approach to provide an avenue for supplier communication is a natural extension of this process. The software itself acts as an intermediary between the buyer and seller. As the market evolves, balancing the needs of the corporation and supplier will lead to enhanced benefits for both parties.

In today's corporate environment, procurement managers need the flexibility to easily add or delete preferred suppliers and consolidate transaction volume with suppliers offering superior service and negotiated discounts. Organizations evaluating online booking applications should select solution providers which provide them this flexibility across all service categories, not just such traditional travel categories as air, car, and hotel.

## CHANGING EMPLOYEE BEHAVIOR

Changing employee behavior is both the foundation of a successful program and a potential obstacle to achieving vendor contract goals. From an employee perspective, purchasing core travel expenses (e.g. air, car, and hotel) versus extended services (e.g. parking, restaurant reservations, event tickets) is not perceived as a separate activity. A common interface to these multiple components is necessary to drive greater user acceptance and ultimately savings to the company. The application should guide employees to make good purchasing decisions. Adoption is dependent on the utility and convenience of the tool. The application must have full integration with desktop and mobile calendars. The booking process should provide a common familiar interface regardless of which service is being booked. Once in place, the ability to add more and more services, incrementally, and gain further control and savings is possible. This is a crucial point as the

application's extensibility to add these new services translates to greater savings, employee satisfaction and ultimately productivity.

## MESHING PERSONAL PREFERENCES WITH CORPORATE POLICY

A related feature that will encourage employee adoption of an ever-expanding group of on-demand services is the ability to dynamically adjust content based on both corporate priorities *and* individual preferences. Personal preferences go beyond recognizing preferred airline seats or frequent flyer numbers. True profiling gathers both explicit and implicit preferences to filter content to meet one's needs. These preferences are then shared across services, actually anticipating user requirements based on the selection of products, location and purpose. An online booking platform should provide dynamic filtering of options that conform to corporate policy and meet an individual's preferences. Balancing the goals of the corporation with the preferences of the individual is at the heart of true personalization. The application should know who they are, what they like, where they're going, what they're doing, what they've done before and apply that across all types of services and activities. For example, the system should know you're in NYC and like steak, and thus suggest a restaurant that fits these preferences—within corporate spending guidelines. This is very different from a static file that stores a traveler's preference for an aisle or window seat or a non-smoking hotel room.

## REDEFINING END-TO-END AS AN INTEGRATED SOLUTION

The term 'end-to-end solution' has a variety of definitions. Self booking tool /expense report integration first appeared in the late 1990s. It soon faded as the true value of pre-populating an expense report became questionable as booked reservations often differed from actual expenses incurred. With the launch of Internet TMCs, 'end-to-end' took on another meaning referring to the integration of travel service fulfillment with online booking. With so many vendors preaching end-to-end themes based on different definitions, the true value of an integrated solution may be lost. It is time to challenge the idea that connecting booking to expense is a valid means to control service purchases. Expense reporting innovations may help simplify the creation of an electronic expense report, but true value can only be achieved by broadening the scope of services under management and proactively managing them at the point of purchase.

True 'end-to-end' should really define a tool that supports the procure-to-pay process based on the requirements of the individual company, and the inherent flexibility and extensibility of a Web Services model actually make that possible. Corporate procurement buyers can benefit from an integrated platform by expanding the types of commodities controlled and under contract. TMCs can use an integrated tool to expand their service offerings by extending their reach to new services such as restaurant reservations, parking and conferencing. And users gain a single, easy-to-use interface that covers a broad spectrum of content delivered on any device that the user prefers.

## UNDERSTANDING THE TECHNOLOGY BEHIND NEXT-GENERATION ONLINE BOOKING PLATFORMS

When Amazon.com was launched in the mid 1990s many observers questioned the branding of a site (the largest river in the world) that simply sold books and CDs. It is now obvious to any online observer, that Amazon is truly a technology company not simply a retailer. By building a flexible platform that can deliver any product with "one-click", Amazon has expanded its reach to an infinite variety of offerings, many of which are no longer warehoused but delivered through traditional retailers using the Amazon engine. The same capability that Amazon has created for consumer goods needs to part of an innovative on-demand service platform for corporations.

To evaluate a vendor's technology platform requires some knowledge of how software is built. A product's technical architecture may sound irrelevant to a corporate procurement manager, but it should be an essential part of the selection process. Over the last 3-4 years a major change has occurred in the way software is created. The concept of service oriented architecture (SOA) is more than a buzz word, as it signifies a dramatic shift in software design and interoperability. The beauty of SOA is that services can be delivered in a seamless, integrated fashion entirely over the Web. SOA turns monolithic inflexible applications into hundreds, even thousands of small flexible applications. <sup>9</sup> Understanding "what's under the hood" of a given vendor's platform or network needs to be a key part of the evaluation process. "Gartner estimates that by 2008, more than 60% of enterprises will use SOA as a "guiding principle" when creating mission-critical applications and processes."<sup>10</sup>

To understand the true value of a SOA solution, one needs to look at the way older software was created. In the past, applications were built as a large unit, like constructing a large office building where the foundation, the offices, the windows and the roof are all tightly integrated. This approach limited the ability to alter the software without impacting the entire application. In contrast, SOA starts with small, very focused components that carry out small processes—for example, verifying a credit card transaction, or dynamically filtering a group of search results. The services are loosely coupled, meaning that an application takes advantage of a given service only when it needs to, and services can be swapped in or out of a given work flow as required. Applications built based on SOA principles are more flexible and extensible, (e.g. easily able to add additional services, content and functionality). For the company or the user, this means much more rapid innovation. For the marketplace, it means merchants can easily publish their services to a robust channel that offers access to consumers at the point of purchase.

From a user perspective, SOA has enabled "mash-ups" of information, functionality and transactional capability from a variety of sources pulled together dynamically to deliver a service in a single seamless interface. Figure 5 illustrates this point using a restaurant booking example.

Sites such as OpenTable provide online restaurant reservations. Zagat publishes ratings and prices for restaurants on a global basis. These two services need to be integrated with maps (in this case provided by Google) and filtered based on corporate policy, individual search parameters and personal preferences. The end result is a single integrated application that books restaurants that meet both corporate and employee requirements.

Booking platforms built using a service oriented architecture result in increased usability. This comprehensive user experience is directly related to greater employee adoption and therefore compliance with policy, bringing together disparate pieces of information and resources an employee needs (e.g. ratings, user generated content, maps, photographs, pricing, availability) to make a good purchasing decision.

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<sup>9</sup> Stephanie Stahl - Information Week February 26, 2007 – "SOA Is Happening- Time to Get on Board"

<sup>10</sup> CIO Magazine Focus "The Ins and Outs of Service-Oriented Architecture" 2006

Figure 5 – Dining Example: A Mashup with Control Over Purchasing Process



## Summary

The very nature of corporate travel management is changing. As core travel expenses continue to rise and procurement increases its control over travel management, new strategies are needed. Even the very definition of a mobile employee has changed. Workers who are traveling or are simply working outside of the office (at home or in transit) now have ubiquitous access to information. To accommodate this new reality, online booking tools must encompass a wider variety of on-demand services, guiding the employee to make good purchasing decisions and enabling the travel procurement buyer to manage a wider scope of vendors. Tools need to be built on a flexible service oriented architecture that can easily react to changes in the market. Selecting an online booking tool should no longer be driven by a simple checklist of features and functionality. The travel procurement manager must use the guiding principles of Convenience, Control and Mobility as the new criteria for vendor selection. The platform must not only satisfy the current needs to book core travel components today, but be ready for the dynamic changes to come over the coming years.

## About the Author

Norm Rose is the President of TravelTech Consulting and a 25-year travel industry veteran with an extensive background in both the corporate and leisure travel markets. As an analyst and consultant for the past 11 years, Norm's focus has been on emerging technologies and how they impact business practices in the travel industry. Considered a foremost expert on technology and business trends in the travel industry, Norm has appeared on CNN and has been quoted in the NY Times, Wall Street Journal, and numerous travel trade publications.

## About Rearden Commerce

Rearden Commerce, Inc. is the world's largest online marketplace for services of all kinds. Through Rearden's online personal assistant, employees purchase services from a trusted network of over 137,000 global services suppliers based on personal preferences and company policies. Rearden Commerce is headquartered in Foster City, CA. For more information, visit [www.reardencommerce.com](http://www.reardencommerce.com).