

Taking Control of Travel Costs

How a Consolidated Hotel Program and Enforced Corporate Policies Reduce Hotel Spend

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Introducing Egencia[™]

For travel managers searching for ways to reduce growing travel costs, hotel expenses are a top priority. With average rates forecasted to rise again this year, hotel expenses continue to be a significant driver of business travel costs. To bring this cost down, it is essential to consolidate company spending, guide traveler purchasing behavior with an appropriate hotel policy and monitor compliance on an ongoing basis. Recent developments in corporate travel technology can assist companies in each of these areas.

Hotel costs are on the rise and are growing faster than any other segment of a company's overall travel budget. In fact, room rates have risen so quickly over the past few years they now outpace airfare, once the fastest growing component of that budget. With average rates forecasted to rise another 5.9 percent this year, hotel expenses continue to be a significant driver of business travel costs.¹

Because of this dramatic inflationary growth, it's critical that travel managers find ways to control hotel spend. Reducing the amount of travel time typically is not an option. Employees take trips away from a company's main office for a variety of reasons, whether it's closing a business deal, meeting a company's customer service objectives, or obtaining professional enrichment at a meeting or convention.

Thus, travel managers need to find new, effective ways to rein in rising rates without reducing travel opportunities.

Why Are Hotel Costs Increasing?

Hotel costs fell and then flattened following 9/11; but in recent years, business travel has rebounded – as has leisure travel – and surpassed its previous highs. As demand has increased, supply has not kept pace for a number of reasons, including rising construction costs for new hotel properties. As a result, hoteliers are able to charge higher rates, and far fewer companies are able to secure negotiated rates.

“Hotels are enjoying their most profitable period since 1991. PKF Hospitality Research projects hotel profits will rise by 9.8 percent, and if that trend holds true, profits would be up by almost 60 percent since 2003. The average hotel room is expected to earn \$16,000 in profit this year.”

David Grossman
USA Today²

Problem: Hotel Spend Control Challenges

Travel managers face significant challenges when it comes to controlling hotel spend. In some cases, corporate culture allows travelers to make reservations without adequate oversight or regard for cost. In others, travel managers find it difficult to get an accurate picture of their hotel spend in order to identify potential savings. These challenges tend to overlap, creating barriers to bringing down spending, while increasing a travel manager's workload and stress levels. The biggest hurdles include:

- Travelers making hotel reservations through multiple channels
- A company not having an effective travel policy in place
- Inconsistent enforcement of existing travel policy
- Inability to secure data on who is spending – and where they're spending

Control Hotel Spend with Consolidation, Policy Enforcement and Visibility

Travel managers must regularly monitor spending in order to understand it – and control it. They also must develop and enforce a company's hotel policy that helps employees make cost-effective decisions and fits with their culture. Finally, to have maximum effect, a travel manager should consolidate spending with one travel agency – allowing a company to fully leverage its buying power by directing travelers to select hotels with negotiated rates.

To control hotel spend, there are three key proactive steps travel managers can take:

1. Consolidate spending with one travel agency
2. Create and enforce an effective travel policy
3. Monitor spending to spot compliance problems and identify new savings opportunities

Why and How to Consolidate Your Hotel Spend

Whenever a traveler makes a hotel reservation outside of a company's designated travel agency, there's little if any ability to enforce company policy and the data is essentially lost for reporting and analysis purposes. To ensure travelers are making the right decisions and to keep tabs on all aspects of spending, it's best to use one travel agency.

By channeling hotel travel spending through an agency, travel managers can ensure travelers have access to a wide range of hotel options and rates. The result: travelers or arrangers find the best in-policy hotel for their trip. Consolidation allows travel managers to easily analyze average hotel rates, track monthly spending, and spot travelers who are spending excessively and/or breaking company policy.

Online booking tools have made it easier for travel managers to consolidate their spending. Benefits of online booking tools include:

- Consistent policy enforcement both online and via the telephone
- Near real-time visibility for better monitoring of spending and traveler behavior

There can be hurdles to overcome. Some employees may prefer booking directly to earn valuable points or other perks like frequent flier miles. They may also balk at using one agency because they are accustomed to making their own travel arrangements with little or no oversight. Publicly expressed support for consolidation from senior management and an explanation of the need to control costs can go a long way in convincing travelers to comply.

Why and How to Implement a Hotel Policy

In addition to encouraging travelers to make their purchases through a single agency, companies may want to revisit their hotel policy. It's hard to control spending if reasonable and agreed upon guidelines are not defined. Unfortunately, many companies don't have solid travel policies and those that do often don't enforce them. A good hotel policy discourages employees from spending more than the company deems necessary while allowing travelers to still be productive while on the road.

A well-defined travel policy can also direct employees toward preferred hotels that cut costs through negotiated rates. By encouraging employees to use these hotels, companies save money in the short term and help secure potentially larger discounts in the future.

'Lodging caps' that set a maximum allowable nightly rate for travelers help avoid situations where travelers are not selecting the most cost-effective hotel option. Implementing a combination of a reasonable default lodging cap for all travel, with higher caps allowed for specific cities (such as New York and San Francisco that are known for their higher rates) can be very effective in reducing overall average hotel costs without inconveniencing travelers. It's important to select caps that are reasonable and reflect real costs.

When creating a corporate travel policy, it's also a good idea to designate a company's travelers into separate policy groups that reflect their status and responsibilities. For example, travel managers may want to provide a more generous room rate allowance for senior executives while capping general travelers at a lower rate.

Travel managers should also require an explanation when travelers break hotel policy in order to prevent and track the causes of out-of-policy purchases. Online booking tools can be configured to require travelers to select from a set of 'reason codes' when they select an out-of-policy hotel option.

By using a travel agency with online booking capabilities, a company's travel policy can be applied at the point of purchase. Travel managers can implement a policy that:

- Is adjustable by group
- Includes customized hotel search destinations
- Helps travelers find hotels near key company locations
- Notifies travel managers and/or supervisors of out-of-policy purchases
- Requires travelers to select from a list of customizable out-of-policy reason codes when making out-of-policy purchases
- Can steer travelers towards negotiated rates (where available)
- Is city specific and reflects different market conditions
- Provides smaller companies price breaks for using merchant hotels

A National Business Travel Association (NBTA) forecast survey shows nearly 75 percent of respondents anticipate ramping up policy mandates this year to trim costs.³

How to Monitor Hotel Spending

This is often the biggest hurdle for a busy travel manager, but it is a key to controlling costs. Tracking how much is spent can be difficult if employees are using multiple travel agencies or lack an effective company travel policy that helps curb spending. Some travel providers offer limited or incomplete reporting making it difficult to monitor. However, a full-service, online travel agency allows travel managers to track spending around the clock, in every category.

With online reporting tools travel managers can answer important questions such as:

- What is my overall hotel spend this month, quarter, or year?
- How does it compare to past years?
- What cities and hotels do we have the most volume?
- Is my average hotel rate decreasing or increasing?
- Who is booking out-of-policy?

With an online travel agency, travel managers can get answers to these questions right away. So if one employee is planning to stay at a hotel that is too expensive, the manager can cancel the reservation if necessary. This type of monitoring also provides insight into where money is being saved while singling out areas where saving can be improved.

Monitoring can answer questions such as:

- Is there a segment of the employee workforce that is routinely overspending?
- Are certain hotels with negotiated rates being underused?
- What cities are being visited the most?
- Is there a hotel or hotel chain that is a consistent favorite?
- Are employees booking hotel rooms outside of the agency?

Introducing Egencia

Egencia[™] is the industry leader in online travel services. Unlike traditional agencies that outsource their booking technology to an unfamiliar third-party provider, the transition to booking business travel with Egencia requires little if any employee training. Egencia also allows managers to create, monitor and enforce travel policies. In addition, Egencia's size and volume allows travelers access to lower, negotiated rates.

In 2006, companies using Egencia, who consolidated their hotel spend⁴, had a six to 19 percent lower average nightly rate than the overall average across all customer accounts.

Pricing Options

Egencia offers a number of options unique in the industry by combining special rates and amenities exclusive to Egencia customers.

For instance, hotel inventory may include any or all of the following pricing options:

- Egencia[™] Preferred Rate Hotels: special pricing teamed with increased flexibility in payment terms, combined with key amenities important to business travelers
- Expedia[®] Special Rate Hotels: quality hotel accommodations with significant savings off regular rack rates
- Negotiated Rate Hotel: a rate offered exclusively to the company for use by its travelers as a result of negotiations between or on behalf of the company and the hotel supplier.

Highly Customizable Policy Features

Egencia's policy settings are flexible and customizable so that travel managers can:

- Set default and city-specific lodging caps
- Organize travelers into groups with customized policy settings
- Prioritize negotiated hotel rates in hotel search results
- Customize out-of-policy reason codes
- Be notified of out-of-policy hotel choices before a purchase, or immediately afterwards

Policy Enforcement

Because Egencia[™] Travel Consultants and travelers use the same booking technology to make purchases, travel managers are assured policies are consistently enforced whether travelers book online or with an Egencia[™] Travel Consultants. With most agencies, agents use a different technology than travelers, requiring policy information and changes be entered into two separate systems, which can lead to policy enforcement gaps. Egencia's technology ensures that a company's travel policy is always front and center.

Visibility

Egencia's online reporting allows travel managers to analyze all travel purchases, both online and phone. The data is updated daily, so travel managers can stay on top of travel spend, quickly identify areas for improvement and catch improper spending early. A manager can cancel an overly expensive hotel booking, for example. While other agencies offer online information, Egencia's full-service reporting allows travel managers to better analyze and control hotel spend.

Summary

As hotel costs continue rising, travel managers must find new ways to keep these costs in check. Over-spending on a hotel room is no longer a luxury companies are willing or able to pay for. Reducing hotel spend requires getting control of it. The best way to gain that control is by consolidating travel spending with one agency, along with creating and enforcing travel policies that encourage employees to make cost-effective choices. It's only through establishing these protocols that hotel spending can be significantly lowered.

About Egencia

Egencia's goal is to be a valuable source of industry information and best practices that travel managers can use in realizing their travel program's full potential. Our customers enjoy one of the highest online adoption rates in industry of 85 percent, and we are proud of our role in their success.

Footnotes

1 "Pricewaterhouse Coopers Forecasts A Slowdown in U.S. RevPAR Growth in 2007," Press Release, December 21, 2006 <<http://www.pwc.com/extweb/ncpressrelease.nsf/docid/1DF22A03C8EC7B0F8525724B006BDB3F>>

2 "Business Travelers Hit by a Triple Whammy of Rising Costs," USA Today, January, 15, 2007 <http://www.usatoday.com/travel/columnist/grossman/2007-01-15-rising-travel-costs_x.htm>

3 "NBTA 2007 Business Travel Overview and Cost Forecast," National Business Travel Association, November 2006

4 Defined as having a ratio of hotel transactions to air purchases of 70 percent or greater

Egencia integrates the strength and technical innovation of Expedia, Inc. with the customer service, business intelligence and policy oversight of a world class travel management company.

Trusted as a leader among the top five global corporate travel management companies, Egencia takes a customized approach that speaks to the specific needs of each client.

Whether a growing local business, a prominent multinational corporation, or anything in between, Egencia develops corporate travel solutions to optimize the value in your corporate travel program.

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