How to Improve Travel Management Cost-Savings

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The days of quick wins and sweeping savings in travel management are probably over. **If you've not already been through multiple cost-saving initiatives, you're the exception rather than the rule.** So when the pressure is on to drive further cost savings in your travel programme, what can you do?

In this guide, we'll take you through ideas to reframe the cost-saving conversation at a strategic level, as well as techniques for budgeting to maximise your cost controls and tools to help you benchmark your travel budgets.

- From Cost to Value· Reframe How You Measure Travel
- The Link Between Business Strategy and Travel Cost-Savings
- How to Manage Hidden Travel Costs
- Four Ways to Set Your Travel Budget
- Benchmarking your Travel Budget

1

FROM COST TO VALUE: REFRAME HOW YOU MEASURE TRAVEL

Typically, there are three drivers of commercial business success -

- Increase sales
- Reduce customer churn
- Decrease costs

Travel departments are usually charged to focus on decreasing costs as the main way they can support commercial success.

But understanding the links between business travel and increasing sales can help travel managers prove the positive impact of travel and alleviate some short term cost-cutting pressures.

According to a GBTA report, for every $1 spent on business travel, the average company sees a 15·1 return. This means they see $15 in increase sales for every $1 spent on travel. As well, cutting travel costs too far is known to have a negative effect on sales.

There is, of course, an upper limit to optimise travel spend - the point at which it can no longer drive further value. Like any other service input, diminishing business returns set in as more and more is spent on business travel. Where this point is will depend on your industry and organisation.

To understand the ROI and value of business travel in your organisation, make the investment to link your travel data with your sales data. This will help you to establish what 'X' spent on business travel could do to increase sales. It's incredibly powerful data, as it helps the whole business to understand the link between business travel and business success.

2

THE LINK BETWEEN BUSINESS STRATEGY AND TRAVEL COST-SAVINGS

Cost cutting usually starts when an organisation already has a problem [Source HBR]. This situation means decisions are reactive, not considered. In short, they're not connected to business strategy and only focus on the immediate need to save money.

Effective organisations "think of cost management as a way to support strategy" [Source HBR]. This means they cut costs in areas that don't support the strategy and redirect resources to where they are needed. **It is a proactive approach to controlling costs.**

Without understanding the link between strategy and travel cost-savings, reduction targets are often set so that each business unit takes on its 'fair share' - regardless of whether or not this aligns with the strategy. As a result, this can starve high performance units of resources they need to grow and leave some underperforming units with more than they need.

For travel managers to make effective cost-cutting decisions, they need the insight to understand the reasons for the travel costs. For example, only someone like the country sales manager has the indepth knowledge to know which client meetings need to be face-to-face and which can be done by alternative means, like video conferencing.

When meetings need to be face-to-face, **costs can further be reduced with an increased choice of hotel options**, including more bespoke hotels and B&B options that both appeal to the traveller but are also cheaper than corporate hotels.

It's only by working with these internal stakeholders and understanding the strategic priorities that you can uncover where to prioritise travel spend.

The same thinking applies when looking to consolidate business trips. While there will be occasions where it makes sense to combine or extend business trips to save on costs, it won't always make business sense.
For instance, arranging to meet more than one client when travelling could save the cost of an extra flight or night in a hotel. However if there are unexpected delays, which means the second meeting is cancelled, or travellers are too tired to perform well in the meeting, then the cost saving isn't necessarily in right decision.

Again, speaking with local teams will help you identify where trip consolidation makes sense and where is will cost more than it will save.

3

HOW TO MANAGE HIDDEN TRAVEL COSTS

Travel managers usually have a good handle on the headline costs of business travel, like food and drink, flights and accommodation. Even in instances when these are purchased out of policy, it's possible to reconcile the information through corporate credit card data and expenses reports - though this is not an ideal situation.

However, there are many 'hidden' costs associated with business travel that aren't as easy to monitor. These include -

- International sales taxes - these can be reclaimed on some purchases, but need to be monitored for this to happen.

- Mobile charges for out of contract uses - upgrading employee contracts before trips can help to save on data and other call charges.

- Tipping - depending on local custom, tipping can add up to 20% to the cost of food and drink. Including guidance on tipping in your travel policy is one way to manage this cost. Also, encouraging tips to be paid on corporate credit cards will give more visibility on how much has been spent.

- Seasonal cost fluctuations - local holidays, national celebrations and even large business conferences can all drive up room occupancy rates and overall travel costs. If travellers don't need to be in a location during a peak time, delaying trips can reduce the cost.

- Paper/manual processes - it's not just travellers that can add to the hidden costs of a travel programme. According to a report by Certify, 20% of enterprises are still using some form of manual process (either paper or spreadsheet) to manage their travel and expenses data, making mistakes and reporting errors more likely.

- Currency conversions - in what currency is the spend made and in what currency is it expensed? Any discrepancies?

- Time - how long does it take for employees to book their travel? Improving the booking user experience can reduce cost in terms of employee time.

The main problem with these hidden costs is that they cause gaps in your spend data, which can lead to -

- Exceeding your travel budget, because you don't have visibility over all your costs

- Less effective supplier negotiations, as you don't have a complete view of everything being spent with a supplier

- Issues with duty of care fulfilment, as you don't know where travellers are staying, which makes it harder to contact them in an emergency

To manage travel spend, you have to know what data to look for and where to find it.

4

FOUR WAYS TO SET YOUR TRAVEL BUDGET

An important factor in cost-savings is having an effective budget in place. For travel managers, knowing the best way to budget for your organisation can be the difference between keeping costs down and seeing them spiral out of control.

The table below outlines four ways to set your travel budget -

Fixed Budgeting		
How Does It Work	Advantages	Disadvantages
Planned ahead of a set period of time, a fixed budget is a set amount allocated to cover the expected expenditure.	Easy to see how much over or under budget spend is at the end of a set period of time. Straightforward to setup and allocate.	Need a reasonable amount of certainty about what the costs will be for the period ahead. Higher risk of having a budget shortfall.

Flexible Budgeting		
How Does It Work	Advantages	Disadvantages
Budgets are set for a period of time, but these can be changed during the period of time, to reflect demand.	Provides a greater level of control over fixed budgets, as budgets can be more agile. Not too complicated to setup.	Requires knowledge of which costs can be adjusted and which need to remain fixed. Changing budgets mid-way through a budget period can cause contention.

Performance Budgeting		
How Does It Work	Advantages	Disadvantages
Budgets are allocated to fund activities that contribute to business goals. It's not designed to punish or reward any business unit, but performance budgets focus on working towards a common goal. This approach makes it easier to justify budgetary changes to meet business needs. It's often used in the public sector, but can be applied to the private sector.	Shows which departments are under and over performing. Ties budget to business results.	Requires goal/outputs to be quantifiable, as budgets are set based on meeting numerical goals. No room for qualitative analysis of goals.

Zero-Base Budgeting		
How Does It Work	Advantages	Disadvantages
All expenses must be justified for each new period. Under this approach, each business unit is assessed for its needs and costs. Budgets are them created based on what is needed for the upcoming period, regardless of whether this is higher or lower than previous budgets.	Forces business units to justify their spending. There are no automatic budget increases. The focus is on spending the right amount to support business needs.	Resource intensive to allocate the budget. Biased towards short-term planning. Time consuming to gather necessary data to set budget.

5

BENCHMARKING YOUR TRAVEL BUDGET

Establishing the type of budget to use is only part of the puzzle. The other piece is setting a benchmark for your travel budget.

Here are tools to help you the benchmark for you budget -

Historical Spend Data		
How Does It Work	Advantages	Disadvantages
Set your budget based on what you've spent in previous years.	Good for established businesses that have a regular annual travel pattern.	Doesn't account for market price fluctuations, which can lead to under or over budgeting.

Annual Budgeting Allocation		
How Does It Work	Advantages	Disadvantages
Through an annual budgeting process, a set amount is allocated to cover travel and expenses.	Ideal for organisations that already have an annual budgeting process in place or want to use forward planning to determine their budget benchmark.	Doesn't necessarily take into account strategic priorities of the business.

Follow US GSA per diem Rates		
How Does It Work	Advantages	Disadvantages
The GSA sets per diem rates for Federal Employees, which can be a useful benchmark of how much to spend on travel.	Good for businesses that are doing a lot of travel in the US.	GSA Rates don't cover areas outside of the continental US.

CONCLUSION

Making cost-savings to your travel programme is never going to be easy. You're trying to provide value to the business without breaking the bank or being too restrictive. There is no single approach to control costs. But bringing a fresh approach to cost-savings, by refocusing on your strategy, and rethinking how you set your travel budget, it's possible to gain greater insight that allows you to make informed decisions on your costs.

It's about working to understand the needs of the business and creating an approach to cost-savings that brings true value to the organisation.

As part of a travel cost saving initiative, it's crucial that all costs are tracked including the hidden costs mentioned. This data can come from expense reports, corporate credit card data and online booking engines, but the key is make sure this data is easily consolidated and visible. Where travellers are booking using their own tools, you might consider plugging these tools into your current travel management programme to keep visibility and spent reporting accurate.

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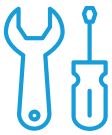

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