

# WHITE PAPER

Why is Category Management so Important for Travel?



- Dorina Santos

## 1. Introduction

All organisations travel to some degree - yet very few actively manage a category that can be quite complex, extremely dynamic and highly emotive. Savings opportunities (both hard and soft benefits) can be achieved quite easily, but the real test is sustaining these savings and ensuring the organisation doesn't go back to the "bad ole days".

For the sake of clarity, we will define travel as Airlines, Accommodation, Rental Cars and the most important piece, Travel Management Companies (TMC).

## 2. Sourcing

As procurement professionals we know the fundamentals of a sourcing review.

Travel is generally not a difficult category to source (especially for travel w/in Australia) and key sourcing levers are those typically found in many categories:

- Aggregation of suppliers
- Consolidation of spend
- Good rates and discounts that reflect the organisation's requirements

- Ensure policy is structured to deliver the desired outcomes and reflect the sourcing initiatives

Unfortunately this is where it usually ends for most travel managers. Get the deal, give it to the TMC to manage and tell the travellers to book using the preferred suppliers.

Many travel managers spend a lot of time trying to benchmark their rates and discounts to make sure they are competitive – and that is important. But the real importance is in making sure all the hard work put into the sourcing is substantiated and outcomes are achieved.

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## 3. Category Management

Category management is vital within the travel programme and again, not a difficult piece of work if you focus on the key areas:

### 3.1 Compliance

Compliance, compliance, compliance - do not take it for granted that travellers will follow process or policy.

Non-compliance can be as high as 30%-40% in accommodation. While compliance to preferred airlines is generally well maintained, compliance to the right fare type is generally not. Most organisations have Best Fare of Day policy, yet 20% -40% of flights are flown on flexible fares.

Review your non-compliance and associated lost savings and ensure all is done to minimise the impact. While TMCs can report on exception codes, the real underlying issues need to be understood.

- Is it traveller ignorance, stubbornness or is there a genuine need?
- Do you educate, implement consequence management techniques or simply take away their ability to buy non-compliant fares/hotels?

		Airline Spend		Accommodation		Approach – Examples
		Value	Savings	Value	Savings	
Strategic Sourcing	Competitive Bidding & Negotiation	●	3% -10%	●	5% -15%	• Respond to dynamic market • Leverage peak demand
	Aggregation	○	0%	●	5% - 15%	• Aggregate buying contracts enable clients to leverage our volume
	Specification Improvement	○	5% -15%	●	5% - 15%	• Consider changes to fare class and class of travel, room and property ratings
Category Management	Internal Compliance (auditing, reporting, analysis)	●	5% - 10%	●	5% - 15%	• Use policies to minimise lost savings • Use reporting and auditing to ensure policies are being followed
	Supplier Compliance & Performance Management	●	0% - 3%	●	2% - 7%	• Manage suppliers to contracted SLAs and rates (e.g. LRA, volume discounts)
	Market Changes (industry reviews & benchmarking)	●	0% - 3%	●	0% - 3%	• Benchmark regularly to identify opportunities • Optimise rates from yield/occupancy
Demand Management	Alternative Strategies (video/teleconferencing)	●	20% - 30%	●	15% - 20%	• Adopt strategies to minimise non-essential travel (such as internal meetings)
	Policy & Culture	●	5% - 20%	●	10% - 30%	• Refine policies to ensure alignment with the business needs and market changes
	Process & Reporting	○	2% - 5%	●	5% - 10%	• Pre & post trip approvals (e.g. correct suppliers and costs) • Report expenditure & volumetrics, compliance, lost savings and savings opportunities

Relative Size of Typical Opportunity    High ●    Low ○

Figure 1: Indicative savings opportunities from varying procurement stages

## 3.2 Supplier Performance Management

Lack of access to your contracted rates/fares is more prevalent than you think

How regularly do you check that your travellers have actually been able to purchase that great hotel rate you contracted, or availed themselves of the discounted international airfare? Is the hotel actually providing rooms at that rate, or are travellers consistently having to purchase deluxe rooms (at a more expensive rate)?

Measure the prices paid for your hotels, your trips (per route) and car rental costs. If there is a large enough variable compared to your contracted rate, then question your suppliers on why the lower fares, rates, cars are not being found.

## 3.3 Market changes and forces

The travel industry is fickle and one of the earliest barometers of the impact in changes to the economy. You need to ensure your contracts remain current and market worthy

For example, what was a great airline discount 6 months ago may no longer be valid considering the contracted airline has pulled out of some of your key routes or is now code-sharing many of its services (where your discounts may not qualify).

Hotels will amend pricing in line with the market. If average prices have fallen in a particular city or country due to economic pressures then re-negotiate.

## 3.4 Demand management

Question the need to travel and implementing alternative methodologies can have dramatic reductions in overall cost.

Lip service is generally applied to video/teleconferencing alternatives, but with technological advancements and greater



access to web based alternatives right on your laptop, this is an area to be considered more carefully. Nothing provides more savings than not travelling in the first place.

Enforce your authorisation process or implement one. For many companies that do have them, it's a token gesture and requests "rubber stamped". Developing an authorisation process that questions the need to travel can be very effective. For example, some companies have moved to limiting travel for internal meetings, while others insist that you must undertake 2 or 3 meetings for each trip undertaken.

Your authorisation form should also have trip cost estimations. This helps managers get a better understanding of the impending costs and can help build a case to look for cheaper options.

## 3.5 Specification and fit for purpose

Review whether lower cost options are a suitable alternative for your organisation

Question what your travellers genuinely need when they are on the road. For hotels, we are spoilt for choice in many locations, and prices can vary as much as \$60 - \$100 between 4 and 5 star properties.

Airline preference is another area that can be quite expensive. Whilst there is lesser competition in the domestic market, international opportunities are extensive and choosing alternative carriers can be financially advantageous.

## 4. Where do you start?

Your TMC is your best tool in helping manage all of these initiatives. They have very rich data that can be used to set up baselines and record your progress (or perhaps lack of). Take some time to understand this data and how to extract what you need from it

Work with your TMC to implement your strategies. While many TMCs may not have the strategic understanding or be as proactive in developing this area, most can offer advice on how best to implement the operational processes needed to deliver your outcomes.

TMCs are not miracle workers and you will need to ensure your travellers are well versed in the procurement objectives and you have senior management support for your initiatives. Ensure the business is prepared for ongoing category management and be prepared for the tough decisions if necessary.

## Conclusion

Category management is important to ensure we remain on track. It need not take a lot of ongoing time if you plan it well at the beginning and you identify the key areas. Develop your baseline and set the goals. Each year or so, review the goals and see if they are still necessary or valid.

Savings can easily be eroded and bad habits will emerge if this is not maintained. You need a robust programme which measures key deliverables and quickly identifies issues or slippage in performance. There are different ways to manage this slippage and much will depend on your organisational culture.

There is a difference in setting up contracts and the ongoing management of a travel programme. Travel still continues to be a high touch area and requires a lot of time and energy to manage, which is usually not commensurate to the value of the programme. Most of this work is in regaining lost ground due to lack of category management. Invest the time upfront and remain proactive.

## About the Author



### Dorina Santos

Dorina Santos is the Category Manager for Travel at Portland Group. She has 10 years of experience in helping corporations to effectively and efficiently manage their corporate travel programme.

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