Business Intelligence:
A Critical Tool to Enhance TMC Profitability

A Travel Tech Consulting Thought Leadership Paper
Commissioned by Travel Booster

Travel Tech Consulting, Inc. 951 Old County Road Belmont California 94402 1 650 345-8510
www.traveltechnology.com

Table of contents:

Galor Systems & Software Development Ltd.
www.TravelBooster.com
Azrieli Center 1, Round Tower, 37th Floor, Tel Aviv, Israel 67021
Phone: + 972-3-6076300 | Fax: +972-3-6076310
Email: sales@travelbooster.com

Business Intelligence the Key for TMCs Survival

Commissions are disappearing, TMCs service fees are spiraling downward, GDS financial assistance is being reduced or eliminated, traditional distribution platforms are being challenged; all of this while the business traveler is embracing new online and mobile technology. Is your TMC positioned to survive these changes? TMCs can no longer operate in a mode of business as usual. Dramatic changes in fees and revenues are forcing TMCs to change their operating model. The key for survival is an expansion of core services supported by a robust business intelligence (BI) platform.

At the heart of this transformation is the need to for the TMC to deploy a robust business intelligence (BI) platform.

Travel Management Companies (TMCs) must evolve their focus from transaction processors to strategic consultants. At the heart of this transformation is a comprehensive business intelligence (BI) solution. Rather than generating reports, TMCs must use BI to clearly identify areas of growth in order to maximize revenue from clients. TMCs must use BI analytics to understand the profitability from different activities and channels. A robust BI solution must also identify savings opportunities for their corporate clients while measuring the behavior of the corporate traveler. This paper describes the changing marketplace and provides practical advice to TMCs on how to use BI to evolve their businesses.

Surviving the Global Recession and Thriving through the Distribution Turmoil

On a global basis, most TMCs have not only weathered the global recession but are thriving. Just as we are emerging from the economic downturn, new changing distribution dynamics and increased pressure on fees and revenues are forcing all TMCs to look for new sources of profit.

There are a number of factors impacting the travel distribution. These storm clouds on the horizon may forecast significant changes in the way travel is distributed and will have a significant impact on the profitability of TMCs.

Figure 1: The Approaching Storm of Distribution Changes

Over the last two decades, a significant contribution to TMCs' profits has been and continues to be the financial assistance provided by the Global Distribution Systems (GDS). While airlines suffered through major losses, the three large GDS continued to be profitable. 2012 is a critical year in travel distribution as many large airlines are re-negotiating their GDS contracts and re-evaluating their distribution strategies. The goal is to force the GDS to lower their prices. In addition, many of the largest global carriers are using new direct distribution platforms to gain a closer relationship with the traveler. The airlines continue to face challenges with higher fuel costs and continued competition from low cost carriers (LCC). In an effort to compete, traditional carriers are pushing for lower distribution costs by promoting direct connect strategies, using new technology standards and platforms. Airlines are also passing along costs, such as credit card fees, to the TMCs. No matter what the ultimate outcome of the GDS re-negotiation effort will be, it is clear that the traditional financial assistance provided to TMCs by the GDS is at risk. TMCs cannot afford to be innocent bystanders during this distribution upheaval as these changes represent a direct threat to an agency's profitability.

TMCs must also re-evaluate their relationship with technology providers. The role of technology has evolved beyond reservation tools. The technology provider must be a true business partner providing the TMCs with a Business Intelligence (BI) solution to maximize their profitability. The same relationship is being reflected between the TMCs and their corporate client, where BI becomes a strategic capability that helps the corporate client drive greater profitability through lower travel costs.

The New Role of the TMC

Historically, travel agents were literally that, agents of the airlines. The number of travel agents grew dramatically in the 1970s and 1980s as automation from the GDS (originally called CRS) spread across the globe. The GDS were created by the airlines to automate the reservation process. This fact is particularly ironic today given the conflict between the major airlines and GDS. The carriers divested of their ownership of the GDS in the late 1990s and early 2000s. Corporate travel agencies, who became known as TMCs, grew out of the increased use of air travel for conducting global business and the desire of the airlines to shift the reservation manpower needs to the travel agency channel. Thus, traditional TMCs viewed their primary role as transaction processors. In many parts of the world this is still true today. This transaction focus drove TMCs to strive for optimum efficiency while revenues were primarily derived from commissions. Providing reports to their corporate clients became common in the late 1990s, but this was considered part of the standard service offered by the TMCs.

Figure 2: From transaction providers to strategic advisors

Today's corporate travel environment requires a new approach to TMC services. Few corporate clients have sophisticated internal travel management organizations. Increasingly the travel function is controlled by procurement generalists who have little knowledge of corporate travel practices. This has opened up a new opportunity for the TMCs as a strategic advisor to their corporate clients. Robust BI systems power this new role identifying savings opportunities, measuring traveler behavior and fueling a new set of services for the TMCs.

The Changing Economics of the TMC Market

The Internet has ushered in a new era of transparency. Throughout the globe, travel agents are confronted with a familiar phrase "I saw a cheaper price on the Internet". Internet shopping at online travel agents (OTAs), supplier sites and through other online aggregators has permanently changed the rules of the game for the TMCs. Greater transparency means that the TMCs must efficiently present all low fare and rate options to travelers, or risk losing credibility. Transparency also opens up an opportunity for the TMCs to continuously demonstrate savings achieved as long as this can be supported by a dynamic BI solution. By demonstrating the savings achieved, TMCs can counter the travelers' perceptions that better fares are available through online shopping. The TMCs must offer corporate clients clear value from continuous knowledge of their travel expense patterns, and present concrete evidence of additional savings available through improved negotiations and policy compliance.

TMCs must evolve into true travel management consultants to their corporate clients

Supplier commissions, the traditional staple of TMCs' revenues, have disappeared in many markets and are under threat in others. As a result, many TMCs have embraced service fees as a way to offset lost commission revenue and assign value to their reservation services. These fees are under constant downward pressure, especially as the Internet TMCs (ITMCs), corporate travel versions of global OTAs, expand in new markets, pushing lower transaction fees. At the same time, corporate online booking tools are increasing in popularity across the globe. As leisure travel online booking increases, the demand for corporate self-booking tools also increases. Self-booking technology represents a paradox for the TMCs, as service fees for reservations booked using these tools are lower than traditional phone based reservations.

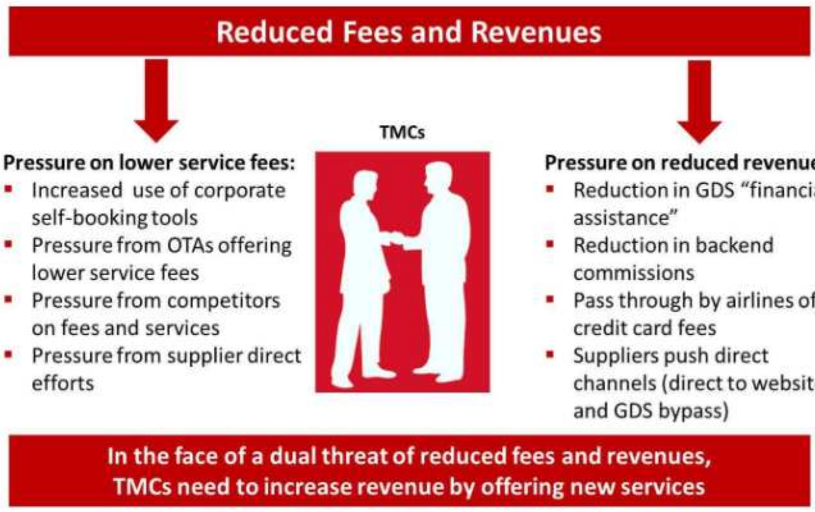

Figure 3: Distribution Changes Impact on TMCs

With revenue sources impacted such as: the reduction or elimination of GDS financial assistance; the tightening up of backend supplier overrides (commissions); the passing on of credit fees to the TMCs and the overall effort of suppliers to push more direct channels, TMCs must find new sources of revenue. The bottom line is that TMCs must truly evolve into true travel management consultants for their corporate clients. This transformation emphasises the underlying role of the TMCs, forcing companies to move from reservationists to true travel management partners.

Business Intelligence

To understand how information can be utilized to drive new TMCs services, one first needs to understand the meaning of business intelligence (BI). We live in an era of information overload. The old paradigm of generating reports no longer applies. Companies worldwide, in all different industries, have embraced the concept of business intelligence. Simply put, business intelligence allows companies to identify, analyze and extract information across multiple data sources to gain new insight into the data. Traditional reports require the identification of specific fields to report on, thus inhibiting quick manipulation of the data or drill down capabilities into specific detail. To get different views, new reports needed to be generated. This process is not only inefficient but may miss key relationships between data elements. BI provides a new platform to view data instantaneously and manipulate it to extract new insight.

In a travel management setting, the primary use of BI is focused on improving agency operational efficiency and profitability, supplier negotiations, policy compliance and measurement of change management initiatives. A robust BI platform should enable the TMCs to not only track supplier performance, but identify areas where additional negotiations can yield incremental savings for their corporate client. Travel policies should be monitored and measured in terms of effectiveness. Advanced solutions should allow “what if” scenarios demonstrating how a change in policy (e.g. from business class to economy class) impacts on a corporation’s bottom line. At the heart of successful corporate travel programs is adherence to travel policy by the traveler. Sophisticated BI systems can track individual traveler behavior, identifying areas where change management strategies can yield significant savings.

Most important for the TMCs, new services can be created around advanced BI functionality. An important fact that all TMCs must recognize is that not all account management services need to be provided for free to their corporate clients. Successful TMCs have created a set of standard services which are part of their normal compensation. These include all areas around customer service, basic reporting, and supplier relations. BI driven services can include evaluating air, hotel and car discount programs, advising on changes to corporate travel policy and creating key performance indicators (KPIs) to measure traveler behavior in order to improve compliance and achieve greater savings.

Not all TMC account management services need to be provided for free to corporate clients

The Role of BI in Measuring and Tracking Change

Travel management is all about change management. In order to achieve and maintain corporate discounts, corporations need to control and often alter employees’ behavior. For TMCs to increase profits, ongoing analysis must be conducted to identify the profitability of specific travel counselors, agency branches, corporate accounts and industry sectors.

An important tool to track traveler behavior and corporate performance is the use of Key Performance Indicators (KPIs). KPIs provide the backbone to measure the results of travel management initiatives.

Figure 4: Why Measure KPIs

Once a KPI is established, the use of a robust BI solution allows tracking of the performance against the goal to monitor savings or changes in employee behavior. For example, a KPI which identifies savings from negotiated hotel rates can compare rates achieved against standard rates for the destination. Employee behavior can be tracked such as how many days in advance the reservation was booked. The earlier a reservation is booked the lower the fare. Other standard traveler behavioral KPIs include:

(1) Online booking percentage - the number of reservations made online through a corporate booking tool.
(2) Spend under contract –how much of a corporation's travel spend is covered by negotiated rates.
(3) Hotel attachment rate - the number of reservations that include a hotel reservation. Itineraries with hotel reservations generally show higher compliance to negotiated hotel rates.

Figure 5: Set Key Performance Indicators

Galor Systems & Software Development Ltd.
www.TravelBooster.com

Azrieli Center 1, Round Tower, 37th Floor, Tel Aviv, Israel 67021
Phone: + 972-3-6076300 | Fax: +972-3-6076310
Email: sales@travelbooster.com

Once the KPIs are created, it is essential to establish specific goals for the company/division. The key to executing a successful KPI strategy is to establish a baseline and track the change over time, using a robust BI platform to track changes and savings achieved.

Figure 6: Establish Company/Division Specific Goals

Another method for KPI measurement is to benchmark performance of a client's divisions or compare corporate client performance. To protect client confidentiality, most TMCs will not disclose the name of the other client used for comparison. Internal company benchmarking is a very effective tool to highlight positive behavior of a given division while motivating less performing divisions to change their travelers' behavior.

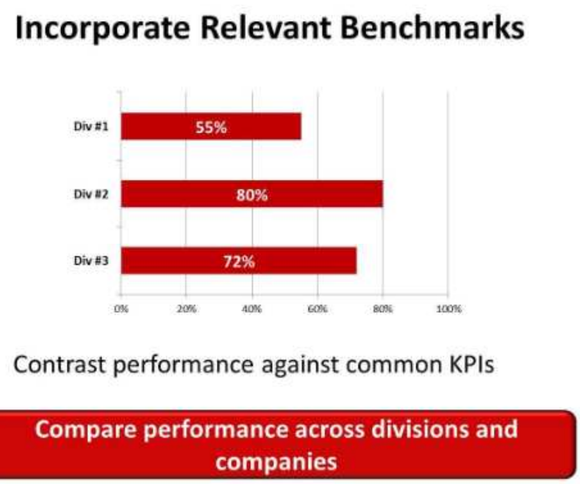

Figure 7: Incorporate Relevant Benchmarks

The Role of BI in Understanding TMC Profitability

A BI solution must enable the TMCs to analyze all aspects of their business in order to drive efficiencies and maximize revenue. It is essential that TMCs understand the sales cycles and profitability of each transaction as well as the efficiency and productivity of each employee. The BI solution must allow the TMCs to set specific goals for measuring agent productivity and account profitability, and measure these goals dynamically as business opportunities evolve and change. Effective BI solutions enable analysis across various dimensions including service type, destinations, users, agents, suppliers and clients. By establishing measurable goals, agent productivity can be tracked dynamically thus ensuring maximum value from each transaction.

TMCs with multiple branches need to evaluate the profitability and efficiency of each location identifying and driving best practices. BI can also be used to evaluate the profitability by client and industry sector. For example, a large client may actually be less profitable than a smaller client. Different corporate sectors may have different profitability profiles; for example, energy companies may be more profitable than pharmaceutical companies. Understanding where a client's behavior adds extra costs to a TMC is also important. A client that has a high frequency of changes on ticketed reservations may in turn motivate the TMC to alter the fee structure for that client.

Developing a Clear Delineation between Account Management and Consulting

One of the most challenging aspects of the TMCs' transformation from transaction processors to strategic advisors is the re-definition of the role of account management and the development of a new set of services for fee based consulting. TMCs often position themselves as doing whatever it takes to satisfy a corporate client's needs. This devotion to service often results in a TMC's account management group offering any and all services to clients at no additional charge. Starting with the initial proposal through the implementation cycle of a new account, TMCs need to clearly define and limit the services offered by their account management staff. TMCs can drive this transformational change by using BI to analyze and optimize operational efficiencies and offer new consulting services to clients. How a TMC implements new consulting services using a robust BI foundation is described later in this paper.

Defining New Client Services

Transforming your TMC to be more consultative by delivering added value services can be challenging but represents a key to continued profitability. By implementing a robust BI solution and clearly defining the role of standard services offered by account management staff, a TMC can launch a new set of consultative services for a fee. Deciding on the services to be offered and the prices to be charged for these services depends heavily on the particular market's maturity, its competitive dynamics and the willingness of the corporate clients to accept new services. In more mature markets, mega-TMCs have already set the standard for consulting services with large multinational clients. Standard services involve analyzing supplier contracts and programs, developing strategies to control demand management (e.g. the reduction of unnecessary trips), and the evaluation of spend management techniques (e.g. how the company uses policy and process to control travel expenses). In less mature markets, TMCs need to start with the basics such as advice on creating an effective travel policy, establishing basic KPIs and developing benchmarks to compare the effectiveness of the company's travel program against like entities. In markets where competitors continue to give all services away for free; the TMC can implement new services through a "share the gain" approach. Simply put, if the TMC can demonstrate to the corporate client that a consulting service saves travel dollars, a portion of the savings becomes the TMC's fee for implementing the new service.

Summary

With increased pressure on transaction fees and revenues, TMCs can no longer operate in a business as usual mode. The changing dynamics in distribution and compensation threaten TMCs' profitability. TMCs must offer clients an additional value, derived directly from the continuous analysis of the client's travel patterns, costs structure and savings opportunities. BI provides the foundation for this analysis.

TMCs must deploy a robust BI solution to measure operational metrics and corporate client analytics more carefully. For the TMCs, a robust BI solution offers:

- The ability to constantly monitor and measure operational efficiency by agent, corporate client and branch.
- The ability to set clear goals that drive increased profits.
- The ability to measure profitability across various dimensions including service types, destinations, users, agents, suppliers and clients.

For their corporate customers, an effective TMC BI tool must:

- Allow for the development and measurement of Key Performance Indicators that track traveler's behavior and travel policy compliance.
- Enable new services to be offered for a fee that use the BI solution, and KPIs to track and identify savings opportunities by analyzing the effectiveness of the client's travel management program.

At the end of the day, TMCs must transform themselves from transaction processors to travel management consultants. A robust BI solution provides the critical underpinning to transform the TMC into a true travel management advisor.