

BYE-BYE BUYING.

OUTSOURCING STRATEGIES IN MODERN MOBILITY MANAGEMENT.

TEXT: ANKE PEDERSEN

The **role of the travel manager** is changing faster than some people might like. For where increasing complexity requires the adoption of strategic overall responsibility, there is no longer any room for operational activities like **purchasing travel services**. However, letting go - outsourcing - is still frequently difficult, particularly in this area.



PHOTO: HERO IMAGES INC

Value added” – this is one of Jörg Martin’s favourite words, because generating value added is part of his job as a travel management consultant. On the other hand, anything that makes no discernible contribution to value added, but only creates costs, is questioned – whether it is an IT solution, a process stage or an unforeseeable service provider.

However, in an increasing number of companies, Martin is currently observing a development that is much farther-reaching: The individual aspects are no longer being sounded out, but the value-adding potential of travel management itself. Thus the consultant is calling on all travel managers “to redefine their value-added.”

Traditionally, the function is defined by the “procurement of travel services.” And their value-added can be calculated very easily – by the amount of costs saved. On the other hand, the benefits of all the other tasks of a

travel manager in the 21st century are far less obvious, because smooth processes, satisfied employees or the security of data and travellers do not usually appear in the controlling department’ profit-and-loss accounts.

“THE CLASSIC TRAVEL MANAGER-BUYER IS DEAD”

However, it is precisely these aspects – and “not merely the finances” – that constitute the value-added of modern mobility management, according to German mobility management network Verband Deutsches Reisemanagement (VDR): “The challenge lies in bringing together processes and sensitivities – then the mobility manager becomes the value-added generator for the travellers, the company and the environment.” Benjamin Park formulated this more clearly at the Corporate Travel Forum, a conference organised by HRS and the economic club Travel Industry Club, in Cologne: “The classic travel manager-buyer is dead,” the Director of Procurement

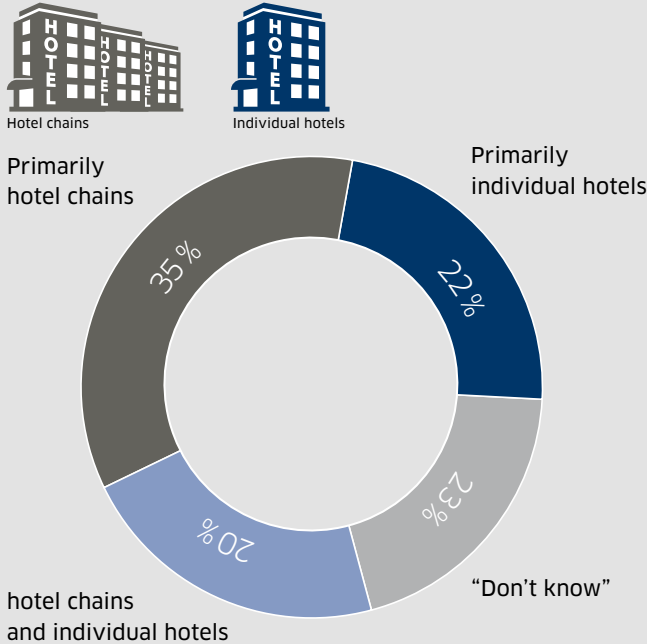
& Travel at the PAREXEL company believes. “Everyone who still pursues this job with their purchasing glasses on is flogging a dead horse.”

But what is the new thing? “Many travel managers still define their function as operational and not strategic,” mobility consultant Martin sighs. Yet now in particular they should be “adopting the strategic function of a process director, where they can then select and orchestrate the optimum vicarious agents for the various operational tasks.” In other words, strategic travel management delegates individual operational, non-value-adding activities to a qualified third party.

In many companies, hotel purchasing is right at the top of this list. The simple reason: Negotiations with the hotel industry are very costly and time-consuming, because unlike in the airline or car-hire sectors, the purchaser does not just have to deal with a few suppliers here. Instead, he is faced with highly fragmented markets with thousands of individual providers.

THE RIGHT MIX?

Distribution of companies' hotel portfolios across hotel chains and individual hotels (worldwide)



Hotel chains' and individual hotels' overall market shares

Average



Savings potential from optimising hotel purchasing and the hotel portfolio:

US\$27 billion

SOURCE: "GLOBAL SOURCING STUDY - THE RIGHT MIX: SAVINGS THROUGH A BALANCED PORTFOLIO", HRS CORPORATE 2015

SOURCE: EUROMONITOR 2012, SMITH TRAVEL RESEARCH 2012

“Outsourcing is not just about costs, it is also about quality.”

“Hotel purchasing is the classic area, because here the travel manager has no blanket purchasing power,” Jörg Martin confirms and advises the adoption of a “director function.” “Then I am quicker, I can breathe and shift allocations over and back flexibly.” Or, as the Head of Corporate Mobility Services at Dürr AG, Marcus Scholz, formulates it: “We do not want to spend six months of the year dealing with sourcing, but maybe only a month and be done with it.”

The HRS white paper “Global Sourcing Study – The right mix: Savings through a balanced portfolio,” for which companies worldwide were surveyed last year about their hotel purchasing, comes to the same conclusion: In response to the

question of which challenges were making life difficult for them, most respondents stated “rising hotel prices” and “conflicting interests” in first place as expected with 48 percent each. However, many also find almost equally onerous the enormous time and resource expenditure on their purchasing processes, as well as the fragmentation of the various regional hotel markets (39 percent each). Particularly large companies named these hurdles even before rising hotel prices.

HOTEL PURCHASING: US\$27 BILLION IN SAVINGS POTENTIAL

However, outsourcing hotel purchasing does not just save time and expense. American Express and HRS Corporate



PHOTO: ENDERS | CAPGEMINI

Wolfgang Enders, Capgemini: Improve quality through outsourcing

calculated that the share of total travel costs incurred by overnight stays lies between 23.6 percent (Amex) and 27 percent (HRS). Assuming that companies worldwide spent around US\$1.18 trillion on business trips in 2014, as calculated by GBTA, this adds up to a total of almost US\$300 billion.

CHALLENGES IN HOTEL PURCHASING.

Reasons why travel managers do not achieve their sourcing targets.



All surveyed companies

1.	Hotel prices on the rise	48%	<div style="width: 48%;"></div>
2.	Various interests must be taken into account	46%	<div style="width: 46%;"></div>
3.	High time and personnel expenditure	39%	<div style="width: 39%;"></div>
4.	Fragmented hotel market	39%	<div style="width: 39%;"></div>
5.	Lack of transparency in booking and invoicing data	37%	<div style="width: 37%;"></div>
6.	Lack of benchmarks	32%	<div style="width: 32%;"></div>

All large companies

1.	Various interests must be taken into account	60%	<div style="width: 60%;"></div>
2.	Fragmented hotel market	52%	<div style="width: 52%;"></div>
3.	High time and personnel expenditure	48%	<div style="width: 48%;"></div>
4.	Hotel prices on the rise	44%	<div style="width: 44%;"></div>

SOURCE: "GLOBAL SOURCING STUDY - THE RIGHT MIX: SAVINGS THROUGH A BALANCED PORTFOLIO", HRS CORPORATE 2015

PHOTO: WILBERS | HOCHSCHULE WORMS



Professor Andreas Wilbers,
Hochschule Worms University
of Applied Sciences: Trimming
business travel departments

This sum could in turn be reduced by up to US\$27 billion (!) every year if companies were to optimise their hotel purchasing. To do this, however, they need more market expertise and cost transparency. These are the key results of the Global Sourcing Study.

This enormous savings potential is based on the composition of the sur-

veyed companies' hotel portfolios. According to this, an average of 45 percent of the negotiated volume falls to hotel chains. In the case of more than one-third of respondents (35 percent), this share is actually between 60 and 100 percent. On the other hand, only 22 percent focus primarily on negotiations with individual hotel businesses.

OUTSOURCING: LOWER COSTS, HIGHER QUALITY

According to the survey, the hitherto unused savings potential lies mainly in this one-sided composition. For the disproportionately high share of chains means that the lion's share of the market is simply disregarded: In Europe alone, individual hotel businesses comprise 88 percent of the total market, in Asia this share is actually 95 percent. The clear conclusion of the study: "If companies optimised their hotel purchasing with regard to the entire market, they could save around 9 percent of their costs."

Despite this enormous potential, only 14 percent of all companies surveyed








worldwide leave their hotel purchasing to an external service provider. The majority, on the other hand - 71 percent - still negotiate their hotel rates themselves or use a supporting tool (14%) to do this. German firms in particular seem to still lack confidence in external service providers: Only 8 percent operate their hotel purchasing through outsourcing.

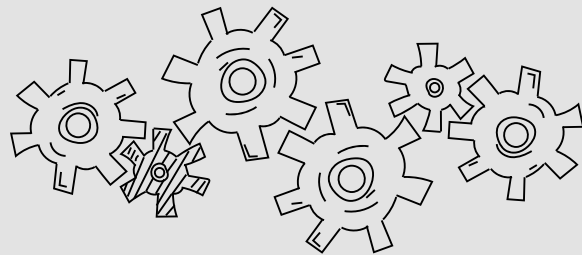
Wolfgang Enders, Managing Consultant at Europe's largest consultancy company, Capgemini, is surprised at this. Outsourcing has long been established as an optimisation lever, the expert says, because for companies, it is usually not just a case of saving costs, but additionally of "improving quality" with the aid of qualified, specialised suppliers, optimised processes and technology.

Of course, he admits, it can "always be a bit rough at the beginning." This is independent of whether a company opts for external or internal outsourcing, for example in the form of a shared service centre, Enders says. "This continues to be a huge trend and

POTENTIAL FOR SAVINGS.

Companies are aware that they lack market expertise and that it can be wise to involve a specialist.

Outsourcing business operations to reduce internal costs	51%	
Greater cost reduction	44%	
Involvement of a hotel purchasing specialist	40%	
Regional market expertise	38%	
Market transparency from relevant data	30%	
Market transparency from relevant data	29%	
Higher response rates from hotels	10%	




a huge challenge.” However, he says, the result justifies the measure - with “lower costs and a higher level of quality” across the board.

Andreas Wilbers, Professor of Business Travel Management at Hochschule Worms University of Applied Sciences in Germany and a travel management consultant with many

basis,” outsourcing purchasing too is often a thoroughly sensible measure, he says. “I do not see an entire travel management division being outsourced, but certainly individual activities to have a lean business travel department,” Wilbers says.

There remains the issue of a partner. In general, Wilbers says, some-

sions are dropped so that they can pocket a larger commission. But they do not do it like that: Everyone pays the same fee.”

And another reason speaks in favour of the Cologne-based company, he says. Although HRS too does not do anything fundamentally different from what the big travel agencies can also do, Wilbers says, noting market overview, benchmark tools, etc., yet unlike these HRS has “made hotel purchasing operations extremely professional and highly automated, however.” Wilbers: “As a travel manager, I really only have to use spot checks to analyse whether my partner negotiates fair market conditions. Information from networks like German mobility management network VDR is useful for this.” 

“As a travel manager, I should only have to deal with quality management.”

years’ experience, can only emphasise this. Many companies have long regarded purchasing as their “own specific task,” not least for fear of loss of quality, Wilbers says. However, since external service providers often have a “better market overview” and as a result a “stronger negotiating

one would only be eligible “who has no vested interests, who is neutral because he is getting no money from a third party.” So is a provider like HRS Corporate not eligible for purchasing? “It’s different at HRS,” Wilbers says. “They could steer it in such a way that hotels that do not pay large commis-

You can read more about this in the current white paper “Global Sourcing Study - The right mix: Savings through a balanced portfolio”, which can be **downloaded at** www.hrs.de/sourcing