Trends in European Corporate Travel
Focus on Midmarket Business Travel Management

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Trends in European Corporate Travel

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Author: Norm Rose

Norm Rose
Senior Technology and Corporate Market Analyst

For nearly two decades, Norm has been an analyst and consultant focused on emerging technologies and how they impact business practices in the travel industry. He has an extensive background in online, corporate, hospitality and leisure travel-related technology. Norm is renowned for his travel technology expertise, particularly his analysis of the impact of emerging trends such mobile and social media. Norm leads Travel Tech Consulting, Inc., a firm that partners with PhoCusWright to provide technology consulting to travel companies. Founded in 1995, Travel Tech Consulting specializes in developing e-commerce and procurement strategies for all types of travel related technology. This includes deep knowledge of technologies used for reservations, distribution, and marketing. Norm has been an analyst with PhoCusWright since 1999 and is the author of numerous publications and articles including PhoCusWright’s Mobile: The Next Platform for Travel and PhoCusWright and Travel Tech Consulting’s: Corporate Travel Technology Today and Tomorrow. From 1982-1988, he held sales and marketing management positions at United Airlines and from 1989 to 1995, Norm was corporate travel manager for Sun Microsystems. At Sun, he worked with a number of third-party developers creating software for the business travel market. This included early prototypes of self-booking tools and expense management systems. Norm holds a BS in Marketing from the University of Maryland.

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Introduction
The global recession has caused a permanent shift in corporate travel patterns and behaviour and has significantly affected European corporate travel. Overall European managed business travel volume suffered a drop of approximately 17% in 2008-2009. As Europe’s major economies continued to struggle with large deficits amid the burgeoning recovery, in April 2010, a volcanic cloud from Iceland’s Mt. Eyjafjallajökull shut down much of the European airspace for six days — the most dramatic service disruption since Sept. 11, 2001. Despite these hardships, many midsized travel management companies (TMCs) have actually grown their businesses over the last two years. Technology has played a key role during the crisis — providing key data analysis and facilitating communication with stranded travellers — but old-fashioned customer service has been of equal importance.

Key Findings

Corporate travel trends
• The changes in corporate travel patterns triggered by the recession have become permanent. Many corporate travellers now downgrade to less expensive classes of service, and corporations require that travel be closely tied to revenue generation.
• The crisis has actually helped solidify the value of the TMC by enabling corporations to gain a true picture of all their travel expenditures and squeeze more out of their travel costs.
• The increased need for travel policy compliance has required TMCs to closely monitor adherence to (and violation of) rules and to report accordingly.
• Procurement personnel are increasingly taking responsibility for travel management at corporations. The growth and influence of corporate procurement has put pressure on TMC fees, sometimes shifting the focus away from core supplier cost reduction.
• Europe experienced the economic slowdown 5-6 months after it began in the U.S. According to the Airlines Reporting Corporation (ARC), U.S. credit card sales for 1Q10 were up 30% year over year. Though evidence is mixed that the recovery has begun in Europe, PhoCusWright’s most recent interviews with TMCs indicate that the market is improving.

TMC strategy and business practices
• Many TMCs have prospered during these difficult times by emphasising customer service and implementing aggressive growth strategies, such as acquiring new business and selling additional services.
• Business consortia are growing and have become a key strategy for midsized TMCs that wish to provide country-wide and pan-European service, particularly to micro-multinational businesses. Thus far, however, consortia have been unable to beat out the mega-TMCs in the competition for global business.
• Diversification has been a key success factor, especially in the growth of rail sales and other ancillary services.
• Economic conditions have slowed the acquisition and merger cycle. Few agencies are considering selling and most markets are seeing very little consolidation. Ownership of agencies is aging as barriers for startups increase.
• Hiring and retaining good staff continues to pose a challenge for all travel companies. TMCs continue to have difficulty recruiting solid employees. Employees have shared in the economic woes, as most TMCs report that staff are willing to take salary reductions rather than lose their jobs.

• Despite the growth of online consumer travel, the large corporate online travel agency (OTA) brands have not been able to gain significant market share in Europe (with the exception of Egencia in France).

Technology trends

• GDSs remain a key supplier of technology to the European corporate travel industry, helping TMCs manage information and customer requirements, particularly during times of service disruption. In many cases, TMCs depend heavily on GDSs to provide solutions to problems (e.g., ancillary fees).

• Midsized TMCs have had to invest in technology to compete with the mega-TMCs.

• Videoconferencing is not yet widespread. Very few agencies are promoting it, though it has clearly been a valuable tool during the economic crisis.

• The mobile revolution has yet to take hold in Europe, but it is coming. Smartphone penetration is increasing and applications are emerging to aid travellers en route. TMCs’ mobile strategy is once again driven by client demand rather than their own mobile initiatives.

• Airline ancillary fees are not a currently a top concern for the midsized market in Europe, but are causing TMCs some challenges. Most TMCs expect a solution to selling ancillary fees from their GDS partners. Both corporations and TMCs report difficulty in tracking ancillary purchases, and many are allowing people to buy services and upgrades at airports, where company policy cannot be monitored.

• Expense management systems have not been a focus of midmarket TMCs or their corporate clients, but with the growth of cloud-based computing and mobile expense applications, this is likely to change in the next three years.

Methodology

This paper is the result of ongoing research conducted by PhoCusWright on global corporate travel trends. Existing research was augmented by interviews with TMCs and consortia that serve the midmarket. Interviews were conducted in the U.K., France, Germany, and Italy. A total of 11 new interviews were conducted with midsized TMCs in each country during April and May 2010. Market share data was derived from billing and settlement plan (BSP) statistics and published reports in trade magazines.
European Market Overview

General Trends

Size of the European corporate travel market

The European corporate travel market represented approximately €39.3 billion in gross bookings in 2008 (see Figure 1). This dropped to €32.6 billion in 2009, according to PhoCusWright estimates.

Online adoption

Despite the fact that some very large European companies are achieving significant online adoption, the projected online corporate adoption for 2009 was 22% of the total European corporate travel market. This is expected to grow only slightly in 2010 and 2011. For 2008, online bookings as a percentage of total corporate travel for Italy were under 5%, for Germany 15-20%, and for the U.K. and France, 15% for larger TMCs and less than 10% for smaller ones. For the midmarket, the vast majority of travel bookings are still made by telephone or email. Most TMCs recognise the need for an online component, but many have not aggressively pushed this to their corporate clients, and are instead waiting for the clients to take the initiative. Midmarket TMCs also value personalised service and feel it enables them to differentiate themselves from the mega-TMCs. The question remains: Will Europe eventually adopt online corporate travel at higher percentages? Yes, but in a roundabout fashion: By 2011, European online adoption for leisure and unmanaged business travel in 2011 will reach 36%, and as these consumer expectations bleed into the corporate psyche, online corporate travel will increase.

PhoCusWright has long observed that as online travel among consumers grows, business travellers are influenced by their experiences researching and booking their holidays online and thus expect to use similar technology in a corporate travel context. Younger generations raised on the
Internet also have different expectations regarding online travel. As these generations enter the workforce, they will logically expect to do more online.

There is also a direct correlation between corporate online adoption and credit card usage. Those markets with lower credit card adoption present natural barriers to online corporate travel adoption. This is particularly true with the midsized market, where corporate credit card adoption is as low as 10% in many European countries, though many midsized TMCs have recently shifted much of their business to corporate charge cards.

In general, northern Europe has embraced online corporate travel to a greater extent than southern Europe. Markets such as Scandinavia, the U.K., and the Netherlands report higher online corporate adoption, while Germany, France, and Italy lag behind. This mirrors consumer online adoption in these markets and further illustrates the relationship between these two segments.

### Differences in European corporate markets

Though the EU has brought a new level of economic interdependency and common practices across Europe, the continent is not a single homogeneous market. Therefore, individual market cultures and business practices affect the way corporate travel is managed in specific countries and regions. This includes the expected level of personalised customer service and the complexity of products offered in the market, as well as penetration of online booking tools and charge cards.

In 2008, the top four European markets had the following estimated TMC volumes (see Figure 2):

- Germany: €7.5 billion
- France: €6.8 billion
- U.K.: €7.6 billion
- Italy: €4 billion

![Corporate Travel Volumes in € Billions](image)
**TMC market share snapshot**

Figure 3 shows the relative TMC market in 2008 in the four top European markets. Independent TMCs are compared against the four mega-TMCs — American Express, Carlson Wagonlit, Hogg Robinson Group, and BCD Travel. In some markets, these four companies are not necessarily the largest in the market. These statistics clearly show that independent TMCs still control substantial market share in Germany, France, the U.K., and Italy.

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**German TMC Market Share**

- BCD: 24%
- CWT: 12%
- Hogg Robinson Group (HRG): 8%
- AmEx: 7%
- TUI Leisure: 6%
- LCC: 12%
- REWE Group: 17%
- Others: 14%

**France TMC Market Share**

- BCD: 9%
- CWT: 25%
- AmEx: 25%
- Hogg Robinson Group (HRG): 4%
- Fram: 2%
- Manor: 4%
- Egencia: 4%
- Afat: 7%
- Others: 10%

**UK TMC Market Share**

- BCD: 7%
- CWT: 17%
- Hogg Robinson Group (HRG): 18%
- AmEx: 16%
- Others: 26%
- ATP: 3%
- Hillgate: 3%
- Portman: 5%
- FCM: 6%

**Italy TMC Market Share**

- BCD: 4%
- CWT: 7%
- Hogg Robinson Group (HRG): 4%
- AmEx: 16%
- LCC: 7%
- Cisalpina: 8%
- Others: 54%
The Middle East

General Market Characteristics
Like Europe, the Middle East is not a single homogeneous market; in fact, it is a highly fragmented environment with different currencies and cultural behaviour across the regions. The culture and customs in the Kingdom of Saudia Arabia, for example, are quite different from those in the United Arab Emirates. Israel itself stands alone, still isolated from many of its Arab neighbours. Strong European ties throughout the region continue to drive travel between Europe and the Middle East.

The global recession hit the region hard. Dubai, once considered the ultimate boomtown, defaulted on loans and was ultimately rescued by its fellow UAE kingdom, Abu Dhabi. The region has seen some signs of recovery in 2010, but with the millions of dollars lost on real estate investments, full recovery will take some time.

Travel Industry Characteristics
The Middle East travel market is a bit of a paradox. While new market forces (such as the growing penetration of low-cost carriers) push some travellers online, most Middle East businesses continue to prefer human interaction when booking corporate travel. As a result, overall online adoption is low. It is also inhibited by lack of credit card penetration, with many corporate clients still on invoice. While there are a large number of small leisure agencies, many of the large corporate travel management firms have become affiliates of mega-TMCs. GDS adoption has only taken hold over the last 5-7 years, and thus, fierce competition continues between the major GDSs in the region. Adoption of traditional agency mid-office systems is low, though that trend is changing. While the region is home to a large number of five-star properties, hotel pricing can be very complex and thus difficult to automate. The region is seeing significant airline growth, as Emirates and Qatar are expanding rapidly and positioning their hubs as major global connection points between Europe and the Far East.

Differences between the European and U.S. corporate travel markets
Though the European market is vast and contains many submarkets with individual characteristics, there are some general differences between the corporate travel markets in Europe and the U.S.:

• **Domestic versus international travel**
  While some countries such as Germany and France have significant domestic travel, the proximity of neighbouring countries in Europe has created a predominantly international travel environment. The complexity of fares and the ability to select different connection points and modes of transportation make travel planning more complicated and airline pricing harder to calculate, particularly when multiple international cities are included in a single itinerary.

• **The importance of rail**
  The vast rail network across Europe has made train travel a logical mode of business travel.
Though certain U.S. regions such as the Northeast have significant business travel rail use, the majority of U.S. business travel is by air or automobile.

- **Use of corporate credit cards** The majority of U.S. companies, both large and small, use charge cards for business travel. In contrast, credit card usage varies greatly throughout Europe, with many countries still primarily invoicing their corporate clients.

- **Adoption of corporate online travel** PhoCusWright projects that U.S. online corporate travel penetration will reach 54% by 2011. Many large corporations in the U.S. have achieved as high as 80-90% online adoption. Corporate divisions of OTAs such as Travelocity Business, Egencia, and Orbitz for Business have taken business away from both the lower end of the market and, in some cases, the mega-TMCs. With the exception of online success in some key European markets, overall online adoption in Europe is low, with major markets achieving a 22% adoption rate in 2009. With the exception of Egencia in France, corporate divisions of the major OTAs have not gained major market share in Europe.

- **Travel and expense integration** In the U.S., the emergence of end-to-end travel solutions with integrated online reservation and expense components has become popular in the last 3-5 years. Often, TMCs feed their information into a single corporate travel data warehouse that combines booked, ticketed, and expensed data. Integrated expense is just beginning to emerge in Europe, though some third-party booking system vendors have created their own expense systems. The recent purchase of a French expense vendor by Concur, the leading U.S. expense system vendor, may signal further growth in Europe.

- **Focus on supply chain management** Many U.S. companies have adopted a supply chain management discipline with respect to corporate travel management. This is an integrated approach — from sourcing through payment — across partners involved in the distribution and management of business travel. Since procurement’s involvement in travel is a global phenomenon, some of these trends are also emerging in Europe. Supply chain management refocuses travel management to connect travel with overall corporate objectives, including:
  - Spend vs. sales impact — Measuring the cost of travel as it relates to sales productivity.
  - Spend vs. ROI — Looking at the return on investment of travel spend.
  - Compliance vs. risk management — Balancing the overall need for travel compliance with risk management issues, such as number of employees on a single plane.
Cost of travel vs. environmental risk — Greater focus on the environmental impact of corporate travel, including carbon footprint tracking.

Cost savings vs. technology investment — Evaluating all travel technology expenditures in terms of overall cost savings.

Time vs. output of trip — Measuring the cost of an employee time commitment against the results of the trip.

Increased use of videoconferencing
The increased use of Web-based conferencing and videoconferencing, as well as the growth in telepresence availability at corporations and hotels, is enabling corporations in the U.S. to reduce some travel. Some U.S.-based corporate booking tools have integrated videoconferencing as an option during the self-booking process, driving increased use. Overall, the cost of travel, combined with pressure from the recession and environmental concerns, has spurred the use of videoconferencing as an alternative to business travel in the U.S. European adoption of this technology has been much lower.

In-destination services Because online adoption is now so high, many U.S. companies are expanding the types of travel-related services they buy on the Internet. In addition to purchasing air, car, and hotel online, companies can, for example, make restaurant reservations, buy event tickets, reserve parking, and arrange for meetings management services.

Smartphone adoption For years, the U.S. lagged behind the mobile revolution. As Europe embraced a common GSM network and actively used SMS messaging, the U.S. struggled with disparate networks and low mobile data usage. The introduction of the smartphone, fueled by the RIM BlackBerry, Apple’s iPhone, and Google’s Android operating system, has shifted the focus of innovation to North America, which is now driving global trends in mobile computing. According to PhoCusWright, 75% of U.S. business travellers carry a smartphone. This number is much lower in EMEA due to the dominance of Nokia, which has been late to the smartphone market. Numerous applications and mobile Web versions of travel sites are available to improve the efficiency of the business traveller, and the U.S. has seen significant adoption of these tools. As discussed later in this paper, Europe is poised to embrace the smartphone revolution.
Changes in Corporate Customer Trends

A permanent change in corporate travel patterns

The changes in travel patterns implemented by large and midsized companies during the global recession have resulted in a permanent change in traveller behaviour. Many companies have asked their employees to shift to coach-class air travel rather than business class. Hotel choices have moved from four- and five-star properties to three stars. Many companies have limited travel to essential business only.

A new level of scrutiny for all travel expenditures

Gone are the days when travel was considered a basic perk. Every business trip is now scrutinised in a way that questions the trip’s value and return on the corporate investment. The importance of face-to-face meetings — particularly for sales — is difficult to dispute, and their replacement is thus unlikely. But travel for internal corporate meetings, seminars, and events has been greatly curtailed. Understanding how travel helps employees meet their corporate objectives has become a key part of the travel planning process. With every corporate travel expenditure under close watch, TMCs have found themselves in the evolving role of consulting with their corporations on strategies to maximise the value of each trip.

The increased value and role of the TMC

As travel policy compliance is paramount for cost control, European TMCs have increased their role in monitoring and reporting adherence to policy. This may take the form of tighter pre-travel authorisations to pre-trip reporting on pending trips. Travel MISs play a critical role in this effort. TMCs are being tasked with helping their corporate clients manage both trips and travel compliance. For some, this is an expansion from their previous role as passive customer service representatives expected simply to book the best rates. The increased involvement of procurement on the corporate buyer side reinforces this new role, as purchasing professionals lack expertise in the nuances of corporate travel and thus depend more heavily on TMCs to assist with this effort.

Increased influence of procurement on managing travel

In the last five years, corporate procurement has become more actively involved in the travel management process. Procurement professionals tend to be less knowledgeable about the travel industry and often view it as a commodity. Purchasing tends to focus on prices rather than total service capabilities. As a result,
midmarket TMCs are under new price pressure. Purchasing is a mature profession with well-established standards, and procurement buyers tend to apply general purchasing techniques to the way they manage travel. This is changing the focus from single-trip fulfillment to optimisation of the entire travel program (see Figure 4).

The positive side of this trend is that progressive TMCs have supplemented this lack of industry knowledge by providing procurement buyers with advice on how to reduce overall travel spend. The downside is that purchasing professionals often have a limited focus on price reduction and, in the case of the TMC, this means fee reduction. Consequently, the bigger picture of core supplier expenses is sometimes lost on purchasing professionals as they narrow their focus to lowering TMC fees. As a result, using travel MISs, TMCs need to refocus the buyer on supplier fee reductions. Given the fact that many small and midsized companies lack sufficient volume to negotiate their own discounts, TMC-negotiated discounts play an even greater role in this market segment. It is therefore essential for midmarket TMCs to leverage volumes across their clients to negotiate supplier discounts. Multiple clients can then benefit from these discounts.

**Growth of LCCs for business travel**

Low-cost carriers such as Ryanair and easyJet have revolutionised travel within Europe by providing low-cost fares to the masses. LCCs are now in every European market. Traditionally these carriers were not considered viable options for business travel, as they often use secondary airports and lack some basic services such as pre-assigned seats. But the recession has changed the willingness of corporate travellers to use LCCs for business trips. TMCs have facilitated this trend by booking LCCs through the GDS or directly online on

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**Corporate Travel Paradigm Shifts**

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<td>Online Adoption Rate</td>
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Source: PhoCusWright's Corporate Travel Distribution, Key Markets

The impact of the new travel procurement buyer:
- Greater focus on metrics – TMC activities and benchmarking
- Greater complexity of negotiated contracts
- Outsourcing non-core activities – opportunity for true travel management companies
behalf of their corporate clients (generally for an additional fee). Again, information is key, as progressive TMCs aggregate LCC volumes with other travel expenses to provide a total picture of air expenses.

**Travel and expense**

An emerging trend in corporate travel management is a new focus on managing total expenses (rather than individual ones). The goal is to integrate all sources of data into a single view. Though the adoption of online expense management systems in Europe is still fairly low, the ability to consolidate the picture of expenses by capturing expense report data is a trend worth watching. The overarching goal is to streamline the T&E process by identifying the firm’s total cost footprint for travel. This means focusing on:

- **Spend** — Capturing, aggregating, and optimising spend. Ideally, the company would have an aggregate view of all spend.
- **Process** — Automating and integrating as many manual travel-buying processes as possible.
- **Cost** — Reducing fees for service and processing. With procurement’s greater influence, reducing fees has become a major focus. Improving efficiency should be of equal importance.
- **Cash management** — Increasing the firm’s working capital and tracking how cash flow used for travel impacts overall corporate cash management.

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**Linear View of Travel Data Flow**

![Linear View of Travel Data Flow](source)

*Figure 5*
Role of business consortia and micro-multinational accounts

TMCs are increasingly joining local consortia. These consortia help provide a broader set of negotiated rates and discounts for suppliers and technology vendors. Smaller TMCs have recognised the strength of these business alliances.

One of the most challenging (and fastest-growing) segments in the corporate travel market is micro-multinational companies (see Figure 6). These are corporations with pan-European or global offices, but whose offices are often small (less than 100 people). For these companies, global consolidation of service and information is difficult — and managing consistent travel policies is equally difficult.

While business consortia have not produced the desired ability for midmarket TMCs to compete on a global basis against mega-TMCs, they have played a critical role in providing country-wide coverage for large domestic clients and service to pan-European micro-multinational clients. Consortia can provide the missing local support for those micro-multinational offices outside the geographic coverage of the TMC. Global competition against the mega-TMCs can be challenging, but competing on a country-wide or pan-European basis by joining a consortium has proven to be a successful strategy for TMCs throughout Europe.
Driving new profits and expanding service in an economic downturn

Expecting a business to grow during a period of economic hardship may seem counterintuitive, but travel management can actually prosper in tough times. Corporations of all sizes need to do more with less, but most continue to understand that travel remains a key facilitator of sales and thus cannot simply be abandoned. Corporate travel must be smarter, more cost-effective, and directly related to economic return. With the complexity of the European market, a trip involving multiple cities often has many travel options and potential routes. Successful TMCs use their expertise to guide clients to the most economic routes and the best travel alternatives.

Despite the challenges of credit card adoption, many successful midmarket TMCs have shifted as much as 50-60% of their business to charge cards. The major obstacle to broader acceptance is the merchant fee, but the security of receiving payment (versus waiting on invoices) has motivated many to change their business practices. Reducing accounts receivable through the use of charge cards is a significant way midmarket TMCs have increased their profits.

Diversification

A common technique embraced by TMCs across Europe is expansion of product offerings. This includes selling more rail, ground transportation, meeting services, and other products beyond the traditional air, car, and hotel. Some TMCs have expanded into selling leisure travel targeted to their corporate clients. The move to diversify, particularly with a greater emphasis on rail, helps the midmarket TMC position itself as a single source providing a total service and cost picture to its corporate clients. The TMC benefits from added revenue for providing these additional services, and by providing a consolidated MIS, can advise the corporate client on the total travel expenditure picture.

Mergers and acquisitions

During the mid 2000s, midsized TMCs aggressively sought partners to expand their businesses. Mergers and acquisitions were common. A number of TMCs decided to sell their businesses during this period, while profits were high and commission cuts were becoming more common. But the economic downturn has essentially brought this to a halt. Valuation of any business is difficult during a slow economy, and with the tight credit market, few TMCs are considering selling their businesses, acquiring competitors, or merging with other companies. Pressure on fees and competition from mega-TMCs and suppliers all have made the TMC business in Europe challenging. As economic conditions improve, mergers and acquisitions are likely to return, especially since ownership of many midsized TMCs is aging.

Staffing

The travel industry is a service business, and as such, the staff represents the front line to the customer. Recruiting and retaining staff continues to be a major challenge for many midmarket TMCs. There is no substitution for an experienced travel counsellor. When economic conditions worsened, most companies reported that their staff was willing to sacrifice compensation in order to avoid layoffs. More recently, with the volcanic service disruption, many staff members put in long hours contacting their clients and accommodating stranded travellers on alternative transportation.
Crisis management

Often the most severe conditions demonstrate an organisation’s real value. This was certainly true with the recent service disruption due to the Icelandic volcano. As air traffic came to a halt, hardworking, creative TMCs found alternative rail and ferry routes to help their clients get to business meetings or simply to get home. Many TMCs operated on extended hours, with agents available on a 24-hour basis until all customers could be accommodated. Expanding service support has helped TMCs reinforce their value to their corporate clients. Many TMCs were not fully prepared for this disaster and relied heavily on GDSs to provide the location knowledge necessary to contact their clients. Even in the first few days of the crisis (when nothing could be done), TMCs provided the key benefit of customer communication and gave travellers the comfort that somebody was looking out for them.

Proactive traveller notifications

Technology also played an important role in identifying stranded passengers and providing a method to communicate with them. Outbound email notifications and SMS messaging were two critical tools deployed by TMCs to support their travellers during the crisis. Most TMCs had technology in place for such an emergency, and this crisis demonstrated why fees for travel tracking programs really do have a return on investment for the corporate customer.

The value of the TMC

The increased need for travel policy compliance has heightened the role of TMCs in monitoring and reporting adherence to rules, both at the individual transaction level and company-wide. TMCs use reports to identify areas of policy violations and additional savings opportunities. A key added value for TMCs is their ability to offer guidance on the most economical routes and best travel alternatives.

As corporate purchasing departments gain influence over travel, TMCs can supplement procurement by providing travel management expertise, since most corporate purchasers are generalists. Given the disparate nature of travel expenses in Europe and the increased focus on travel metrics, progressive TMCs are emphasising their ability to aggregate information and provide proactive recommendations on areas for additional savings.

The role of corporate online booking tools

Though overall penetration of online booking tools in Europe remains below 30%, these tools can be vital to a TMC’s strategy. Unlike the U.S., which has a huge domestic market, most European travel is international. Given the variety of transportation and route options, multi-country trips can be very complex. Corporate online booking tools are best suited for simple point-to-point travel, and by encouraging travellers to book simpler trips online, TMCs can free up staff for complex travel planning. Encouraging travellers to move simple bookings online also allows the TMC to better position advisory services as a value-added role and move its focus away from travel reservations.
Travel content in the European market has always been fragmented. With the large number of independent hotels and alternate modes of transportation (e.g., traditional airlines, low-cost carriers, rail), understanding the total cost of travel can be challenging. Progressive TMCs have focused on this need to understand total costs and have expanded services to include all modes of transportation. TMCs have invested in MISs that capture all these costs. Providing detailed cost reports to corporations has become a service corporations have been willing to pay for, and thus another revenue source for TMCs.

**Ancillary fees and the true cost of travel**

Extra fees for services have become standard for all types of airlines within Europe (see Figure 7). What began with LCCs has now spread to mainstream airlines. With the fuel crisis in 2008, these fees were embraced by all airlines — first for meals, and then for checked baggage and other services. The fees represent a total unbundling of airline pricing and a fundamental shift in the way airlines market their products. This merchandising trend is only beginning and is likely to expand to other services and sectors, such as hotels. The trend will move toward equating added services with value (e.g., a small fee for more leg room or a room away from the elevator).

The impact on distribution is significant.

**Industry solutions to track and measure airline ancillary fees**

Companies of all sizes are struggling with understanding how ancillary fees fit in to the total cost of an airline ticket. To determine this, they are focusing on managing the point of sale and tracking allowable ancillary fees for expense reimbursement. TMCs are looking to the GDS to solve the point-of-sale issue for these fees. GDS solutions need to integrate these fees into the display so the travel counsellor can quote the total fees associated with a given itinerary.

The Airlines Reporting Corporation in the U.S. and the International Airport Transport Association (IATA) in Europe have developed an electronic miscellaneous document (EMD) that helps travel companies reconcile ancillary fees. EMDs

### Worldwide Review of Ancillary Revenue

<table>
<thead>
<tr>
<th>Total Annual Result – Calendar Year 2008</th>
<th>Total Annual Result – Calendar Year 2006</th>
<th>348% increase from 2006 – 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>€7.68 billion ($10.25 billion)</td>
<td>€1.72 billion ($2.29 billion)*</td>
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*2006 results were calculated in euros, the dollar value was re-stated based upon a $1 = €0.75 exchange rate. Some carrier results were based upon the most recent fiscal year.

Source: IdeaWorks/Jay Sorenson

**Figure 7**
will be available in the U.S. later this year and will be adopted by other BSPs in Europe over the next few years, with full global deployment by 2013.

The Airline Tariff Publishing Company (ATPCO) has developed a comprehensive list of standards for ancillary services, ranging from baggage and in-flight services to airline-branded clothing. As Figure 8 illustrates, a large number of TMCs, online travel companies and GDSs have announced their support of these industry standards.

From a European corporate travel management perspective, TMCs need to ensure that as GDS solutions are developed, ancillary fees can be captured in travel MISs so the true cost of travel can be reported to corporate clients. Ancillary fees may also spark a renewed interest in automated expense management systems as a means to capture these charges for policy measurement. In the interim, TMCs can add further value to their corporate clients by identifying these charges at the point of sale and advising the client on the trade-off between total cost and value when evaluating itinerary alternatives. TMCs can also help by advising companies on these changes and on how to adjust their travel policies accordingly.
The role of the GDS
The GDSs remain at the heart of corporate travel automation. TMCs rely on GDS tools not only for booking, but also for providing online booking tools and traveller locator applications. Most TMCs look to the GDS to solve difficult industry problems such as ancillary airline fees.

The importance of travel MIS: integrating information
Technology has proven to be a great equaliser for midsized TMCs. A variety of GDS or third-party travel MIS applications have been licensed (or in some cases, internally developed) to capture costs from multiple sources and provide detailed reporting to corporate clients on total expenses. Reporting greatly helped in identifying the location of stranded travellers during the volcano-related service disruption. In fact, driven to compete with the mega-TMCs, most midsized TMCs have found investment in technology a competitive necessity. They are also focusing more on business intelligence. Rather than simply generating reports, business intelligence helps identify opportunities and trends to achieve additional travel savings.

The role of online in a complex booking environment
Some progressive TMCs are pushing corporations to adopt online booking to become more efficient and respond to evolving customer requirements. In Europe, the major obstacle to mass online booking adoption is the inherent complexity of travel options. Simple point-to-point travel can easily be handled by self-booking technology, but more complex travel involving multiple countries and cities often requires human intervention. As online booking technology continues to improve, most TMCs agree that it will grow to take on a greater share of the market.

In general, traditional TMCs have been able to prevent OTA corporate divisions from gaining significant market share. The exception is France, where Egencia, Expedia’s corporate travel division, achieved a 4% market share in 2008. Egencia’s success has been primarily with large corporations not serviced by midmarket TMCs.
Embracing end-to-end expense management

Expense management systems have traditionally not been part of a TMC’s technology offerings. That is changing. With the growth of third-party systems and the emergence of cloud-based alternatives, some progressive European TMCs are considering offering an expense management solution to corporate clients. The move to a more comprehensive, end-to-end expense management approach also plays well with the continued growth of procurement on the corporate buying side. Expense management systems provide a more efficient method of capturing total travel costs — a key goal of purchasing professionals.

The potential of mobile

The introduction of the Apple iPhone has launched a wave of smartphone adoption across the globe. A wide variety of devices are now available, such as the RIM BlackBerry and devices using the Google Android operating system. Europe has seen less smartphone adoption than the U.S., as the major device manufacturers serving Europe — Nokia and Sony Ericsson — have been slow to get these devices to market. Standard full-feature phones still enable corporate travel communication through SMS, but a smartphone is essentially a small computer in your hand — a converged platform combining the capabilities of many other stand-alone devices (see Figure 9).

Figure 9

Convergence

As such, new applications on smartphones can improve the efficiency of the business travel process (see Figure 10).

Most European midmarket TMCs report limited use of mobile technology for corporate travel, but all agree that the mobile revolution is coming soon. Many TMCs are waiting for customers to request mobile travel functionality rather than proactively providing this innovation.

Providing mobile capabilities can be a differentiator for the progressive TMC and generate additional revenue by charging a fee for the service. The most important (initial) use for mobile in a corporate travel setting would be itinerary management. Few believe mobile devices will be used for new bookings, but their value during irregular operations is clear.

Source: PhoCusWright Inc.
A permanent shift in behaviour and a re-emphasis on the role of service

Corporate travel patterns and behaviour have been permanently altered by the global recession. Businesses of all sizes are scrutinising every travel expenditure and searching for the best value for their euro or pound. TMCs have taken advantage of this tight economic environment to provide expense control guidance to their corporate accounts and help with increased policy enforcement. Corporate procurement has become more involved in managing travel at companies and thus, TMCs are relied upon for their travel expertise.

Successfully navigating the economic recovery

Progressive TMCs have followed clear strategies that have enabled them to not only survive the economic downturn, but to prosper. These include:

- Aggressively growing their businesses, with an emphasis on increased customer service.
- Joining a local business consortium to support country and pan-European coverage and gain greater supplier and technology provider discounts.
- Diversifying their business by selling more rail and ancillary services.
- Investing in technology to compete with the mega-TMCs.
- Continuing to emphasise personalised service as a differentiator against mega-TMCs.

The value of the TMC and strategies for growth

Tough economic times are often good for corporate travel management. Many TMCs have used the economic downturn to expand their business and increase the types of services offered to their corporate accounts (e.g., rail, ancillary services). Many have reduced their operating costs, which enables them to better withstand future crises. In light of the corporate need to understand total expenses, TMCs have positioned themselves to provide clients with a total travel expense picture.
Managing content fragmentation

TMCs help aggregate disparate travel expenditures into a single view for corporate control and compliance. As ancillary fees become more pervasive, TMCs are looking to their GDS partners to provide a solution that will enable seamless integration of these fees into the selling and travel management processes. This integration will be helped by standards endorsed by the major TMCs, online travel companies, and GDSs for publishing fees through ATPCO and tracking them via IATA’s EMDs.

The role of technology and emerging trends to watch

Technology continues to drive greater efficiency and provide valuable travel MISs to corporate clients. Midmarket TMCs have invested in technology to compete with mega-TMCs in reporting and traveller-tracking software.

Technology continues to act as a catalyst for changing business practices in the travel industry on a global basis. Consumer online travel will continue to grow in Europe and consequently influence the adoption of corporate online travel. Mobile technology is poised to change the way travellers interact on the road by providing new applications that take advantage of the converged smartphone platform. Despite these changes, one constant remains: TMCs will continue to survive and prosper as long as they can provide valued services to their corporate clients. No matter what advancements technology brings, there is still no replacement for high-quality personalised service.