

The background of the entire page is a photograph of an airport terminal. It shows the silhouettes of two men in business suits standing on a mezzanine level, looking out at a large airplane on the tarmac through a glass railing. The scene is backlit by bright natural light, creating a high-contrast silhouette effect. The man on the left is gesturing with his hands while talking to the man on the right, who is holding a briefcase.

## CONTRACT CONTROL IN THE BUSINESS TRAVEL MANAGEMENT

Using eProcurement:  
Opportunities, Potentials  
and Approaches  
for Implementation





# CONTRACT CONTROL IN THE BUSINESS TRAVEL MANAGEMENT

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and Approaches for Implementation

This study is performed by KPMG Consulting in conjunction with CTC Corporate Travel Consulting on behalf of i:FAO Aktiengesellschaft.

We would like to give special thanks to all of the companies and employees for their helpful collaboration and their substantial support for the intensive research on current practices.

This study was developed in September and October 2001 and was published in January 2002 in this form. The study is available in German and English and also in electronic form.



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## 1 MANAGEMENT SUMMARY

The realization of cost-reducing potentials has gained importance, given the actual situation in the business travel industry and considering the economic stress on many companies. Business executives recognize the increasing expenditures for travel due to price increases on the part of providers and are alerted to practice efficiency in business travel management. More stringent cost-saving measures can be expected in the foreseeable future. Consequently, control over contracts and their general conditions in travel management is becoming the crucial factor in efficient cost management. The tools offered will help Travel Management to make an active contribution in this area from this point forward.

Current studies show that travel expenses rank fourth in the list of expenditures by German companies. Still, at the business executive level, these expenditures command less attention than comparable expenditures. Travel costs are often considered a fixed, externally controlled cost unit.

The special conditions that rule the purchase of business travel have created a market with pronounced dynamics. Companies with a demand for travel services in this market use highly decentralized purchasing procedures. This puts high demands on professional operations and the efficiency of the supporting tools. Currently, Travel Management has only a few resources available to seamlessly control one of the largest expenditures in the company. Company executives rarely support the officers for purchasing and the implementation of guidelines. That leaves the officers without the necessary mandate and resources for the travel management.

The use of eProcurement systems means optimization potentials for business travel which rival those of comparable C items (maintenance, repair and supplies for operations).

In this study, we use a model to outline the potential for optimization, which is brought to the flow of processes in the business travel management using an eProcurement system.

Basis for the above optimization potential:

- An information and communications infrastructure which allows control over complex purchasing and ordering procedures.
- Direct influence on the cost structure through extensive use of control options.
- Improvement in position in negotiations and purchasing due to the transparent control of the workflow.

The model approach is to anchor the point of information and the point of sale as strategic control functions in the travel management by using an eProcurement system.



## 2 INTRODUCTION

Travel Management is responsible for planning and organizing procedures for the optimization of business travel transactions in the interest of the company.

In order to fulfill this obligation, Travel Management will take on the important task of analyzing and controlling purchasing volume and negotiating terms and conditions dependent on volume.

Many companies structure processes to acquire business travel services in a cross-functional way. It is important for the control of these processes that the required services (airline and rail tickets as well as hotel and rental car reservations) are ordered directly by a large number of employees. The business travel market is at the same time characterized by a fast dynamic, defined by quick changes in pricing and demand-oriented service availability. To achieve more transparency under these market conditions, Travel Management will negotiate in advance general contracts for the company's required business travel services. Predominantly, these contracts are structured to be volume dependent, and they contain special terms and conditions.

Therefore, Travel Management must face the task of communicating the contents of master contracts with clarity to a large number of people who order services in a decentralized way. This decentralized structure calls for contract control by the Travel Management. This is the only way to communicate the contents of negotiated contracts, to implement them together with business travelers and so to realize anticipated cost saving effects. These complexities of business travel management call for an in-depth analysis, which is done by an initial qualitative analysis in the context of this study.

### 2.1 Objective

Based on a survey of German companies, this study shows the starting situation and the optimization potential in travel management through a conceptual approach to web-based contract management. To define optimization potentials and utilization advantages for the future travel management, we developed a design approach based upon the use of an eProcurement system.

The study describes how Travel Management presently controls terms and conditions in contracts with providers. Control in this context means the active design of business travel procedures to implement contracts and comply with contract agreements. In addition, we also delineate and analyze opportunities for control, which provide for, or guarantee, contract implementation and accomplishment. The study defines critical success criteria for future contract control. This involves the analysis of tools usable by Travel Management to control volume-based master contracts in a highly decentralized and individualized business culture, in ways that allow effective contract control and cost savings.



## 2.2 Approach

In line with the objectives, the study has three phases, which are arranged by method.

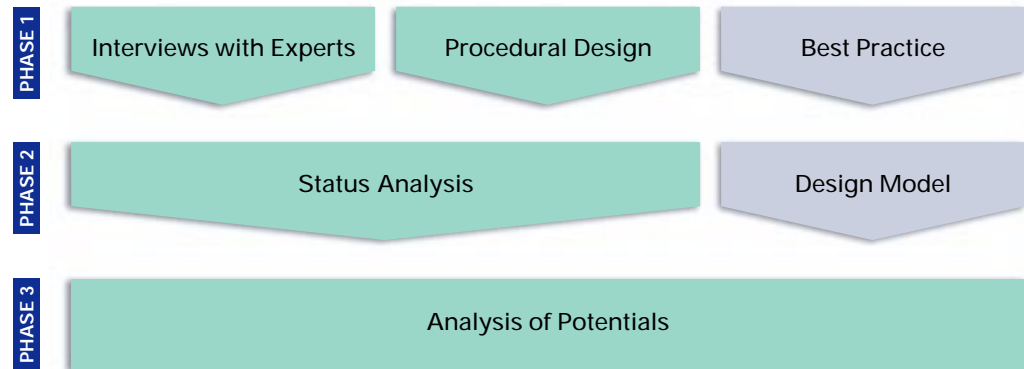


Figure 1: Methodical approach within the scope of this study

Subject of phase 1 is the survey of the status for the processes *Contract Negotiation* and *Contract Implementation* and the further development of these processes. The Best Practice know-how of CTC Corporate Travel Consulting and of KPMG Consulting has enriched this study. In the course of our empirical investigation, we have deliberated with experts about the process design and have looked for differences in comparison to the current procedures. We used standardized questionnaires for the thorough determination and documentation of the status for business travel purchase procedures.

In phase 2 we evaluated results and analyzed the status quo. We also developed a design model for a web-based travel management to optimize contract control.

In Phase 3, the analysis of the potential, we used the design model from phase 2 as a reference model to derive from it significant optimization potentials and solutions through the integration of an eProcurement system in travel management.





### 3 STATUS ANALYSIS

For the status analysis, we empirically investigated a pre-assembled test group.

We used the VDR (Association of German Travel Management) year 2000 member analysis as a basis for comparisons with results from our own investigation. Deviations in the structure of transaction volumes for both databases are small. Therefore, we can assume that the focus for our study is representative and the results for the contract structures are generally valid. The focus for the study is on the transport services of air travel, car rental and rail travel as well as overnight hospitality services offered by hotels. The total transaction volumes for travel are comprised of volumes in single service categories as follows:

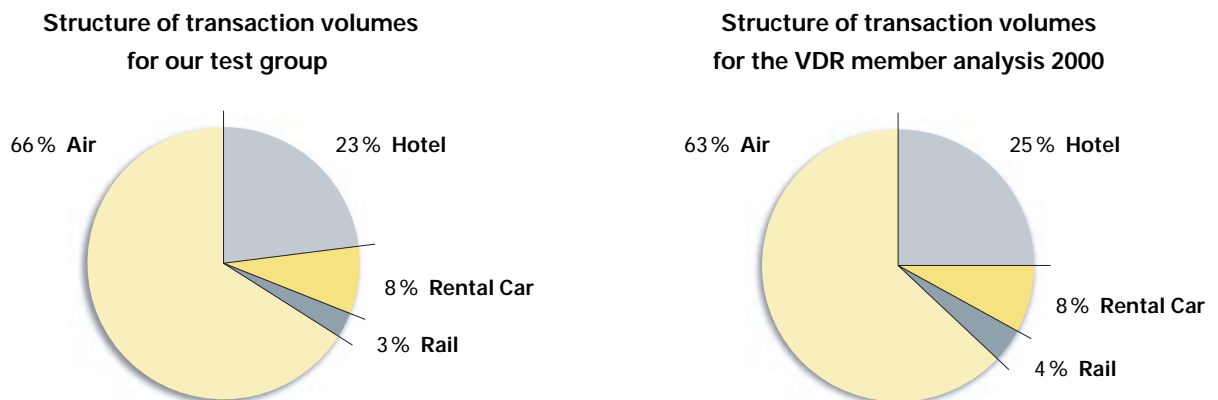


Figure 2: Total transaction volumes by service categories in our test group and in the VDR member analysis<sup>1</sup>

In the choice of study participants, we paid attention to having a representative cross section of the branch and a certain heterogeneity for the structure of the Travel Management. The companies in our test group showed a total transaction volume of approximately 65.2 million euros for travel in the year 2000<sup>2</sup>. On average, the proportion of travelers made up 40 percent of total company employees<sup>3</sup>. Their respective Travel Management supported an average of approx. 2,800 employees as travelers<sup>4</sup>. Contracts in the air travel and hotel sectors account for a high portion of the total transaction volume and a relatively large number of contracts. Therefore, the balance of further analysis will focus on these service categories. As you will notice in the following table, there is not only a wide array of contract types but also an increasing contract complexity.

<sup>1</sup> At present, the VDR member analysis incorporates 189 companies. It served as the representative comparison group for the transaction volume structure in the test group.

<sup>2</sup> Business travel transaction volumes range between 5 and 36 million €.

<sup>3</sup> The percentage of travelers in the respective companies lies between 25% and 65%.

<sup>4</sup> Travelers per company number between 700 and 5,500 employees.

Service Category	Air	Hotel	Rental Car	Rail
Average Number of Contracts	13	80 <sup>5</sup>	3	1
Contract Negotiation	Centralized	Decentralized	Partially Decentralized	Centralized
Contract Complexity*	High	Low	Low	Low
Degree of Satisfaction with Contract Accomplishment*	Satisfied	Very Satisfied	Satisfied	Dissatisfied

\*in the opinion of the experts

*Table 1: Contract management by service categories*

We show in the following paragraphs that the number of contracts together with the contract complexity or the decentralization in the structure of negotiations represents an increasing problem for contract control. Frequently, Travel Management is only inadequately informed about locally negotiated contract agreements or contract terms and conditions. Experts evaluate the degree of satisfaction for the air travel sector as acceptable. However, this can primarily be attributed to a lack of data for the purpose of comparison or reference.



<sup>5</sup> The respondents could only tentatively quantify hotel contracts, the numbers are in part minimum estimates.

### 3.1 Contract Negotiation

The pre-existing process of contract negotiation is only analyzed to the extent that its results influence the process of contract implementation. In this context, we observe that companies do not currently execute the outlined concepts for sub-processes to the required extent.

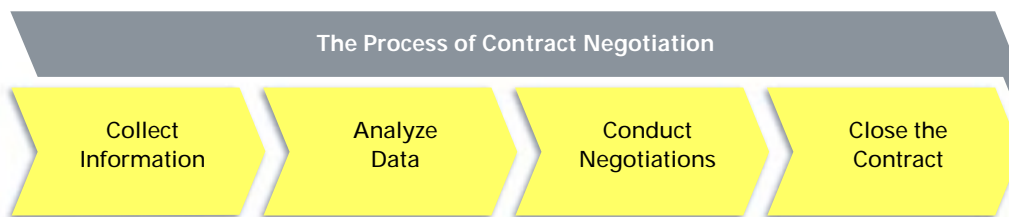


Figure 3: Sub-processes of a Contract Negotiation

To this point, we note that contract negotiations are predominantly initiated by the service provider rather than actively by the company. Contract negotiations commonly follow a yearly rhythm.

The compilation of necessary information and the analysis of data are often a problem. Company-generated data is not available and therefore, different sources for information have to be used. The presentation and relevance of this information varies widely, and its usefulness in the negotiation process is very limited.

In the air travel sector, contract terms and conditions are determined to a high degree by the service provider. For this service, Travel Management will often adopt the contract offer from the service provider. The contract design and the presentation of contract conditions rarely allow a performance comparison with other providers. Thus, Travel Management loses an important element of control, the transparency of contracts and services.

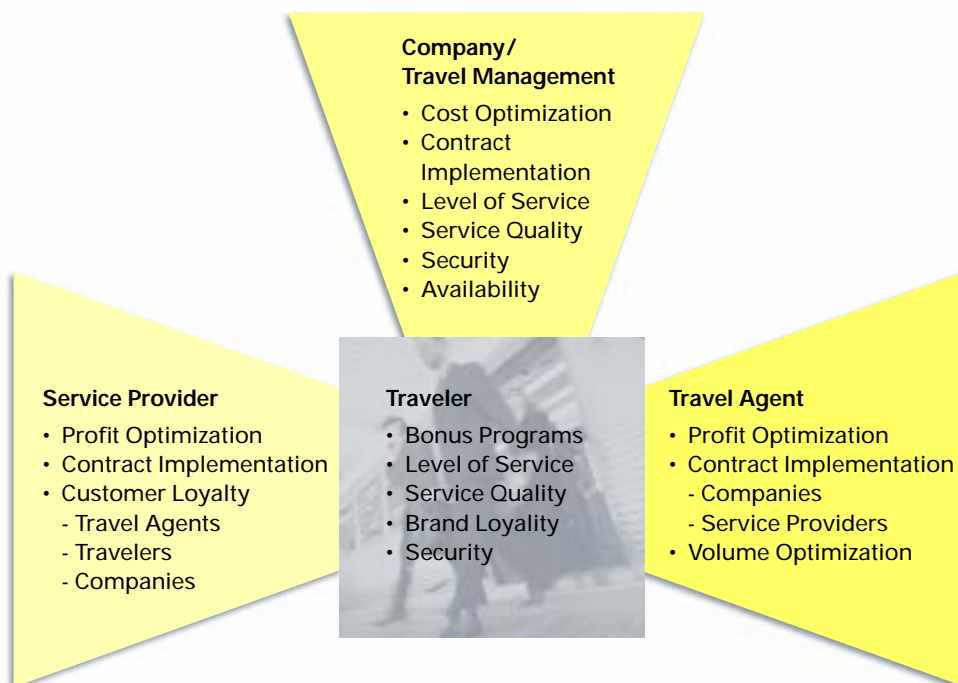
Contract negotiation within the hotel sector can be described as highly decentralized. Aside from master contracts with hotel chains, there are many one-on-one agreements with regional or local providers. Travel Management can only make approximations for the number and structure of individually negotiated contracts.

Thus, approximately 90 percent of the business travel transactions in the air travel and hotel sectors together are executed without structured contract negotiation through the Travel Management.

A situation of this nature calls for actions to establish uniform tendering procedures. This ensures that future service agreements and contract conditions will have a structure, which can be evaluated and followed up by the Travel Management. The tendering procedures must result in exactly defined contract contents to serve as the basis for contract control.

### 3.2 Contract Implementation

The various interests of the contract partners define the process of contract implementation to date. The decisive factors for the process conclusion and outcome are the motivations and objectives of the four process participants (traveler, company/Travel Management, travel agent and service provider). Presently, all participants put their own interests in the foreground and thereby prevent an optimum implementation of contracts.



*Figure 4: Motivation and objectives of the process participants, who influence the implementation of contracts*

The participants act in a field of contrasting objectives, which considerably influence the process of contract implementation from the point of view of travel management. In the center of these contrasting objectives is the traveling employee who initiates the process through his/her need for travel services. The traveler as decision-maker is also instrumental in the determination of the process outcome.

The quest to satisfy the interests of Travel Management requires the use of efficient methods of control. Control means the active influence at the point of sale because that is the point where the influence on buying decisions is significant.

The objective is to implement master agreements with service providers and thereby realize the negotiated contract content.

In this study, emphasis is given to the sub-processes relevant to contract control. These sub-processes are part of the complete contract implementation and determine the start of the process.

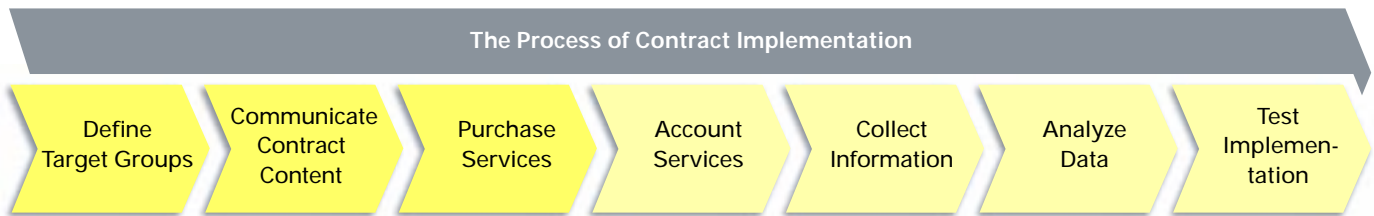


Figure 5: Sub-processes of contract implementation

We will look at the following crucial sub-processes for contract control: Definition of target groups, the communication of contract contents and the purchase of services. In the time frame those steps are close to each other or happen at the same time.

### 3.2.1 Definition of Target Groups

The basis of a successful contract implementation is the identification and establishment of target groups. Criteria for the definition of target groups are, for example, travel routes, travel times and the individual requirements of travelers. In this study, we did not detect knowledge of target groups or tools for the definition of criteria. In other words, Travel Management considers all traveling employees to be a single target group. There are no further distinctions. This leads to considerable scatter losses.

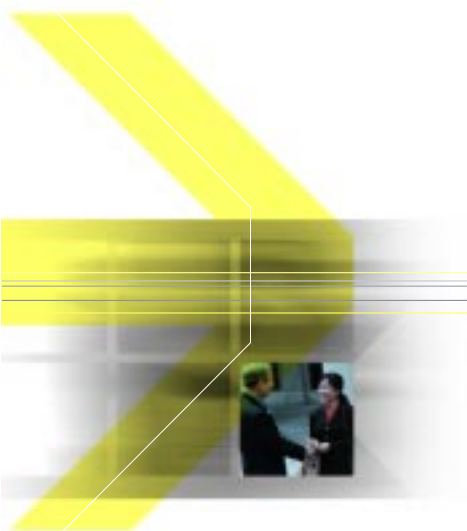
### 3.2.2 Communication of Contract Content

Contract content must be communicated at the right time in a comprehensible form so that the purchasing decision-maker can avail himself of the negotiated contract services. The communication of contract contents serves to influence the purchase decision under consideration of various parameters. In this study, we could observe the communication of contract contents or the control of single contracts only in a limited way. Presently, Travel Management uses mostly media, which inform the purchasing decision-maker at one single occasion. There is no assurance to satisfy the demand for timely information during processing.

The only exception is the travel agent. Booking transactions bring him/her closer to a time-relevant process integration. The following media are at the disposal of Travel Management:

- Travel Policy
- Print Media/E-mail
- Intranet
- Travel Agent

Media utilization varies with the service categories. For air and rail, the travel agent is the primary source of information; for hotels and rental cars it is the Intranet.



*Information through travel policy:* The travel policy provides the framework for the contract implementation. It consists of general travel guidelines. The formulations in the travel policy are only conditionally restrictive. Therefore, they are unsuitable as a tool for control. Unambiguous control settings are missing in the travel guidelines, e.g. the specification of a booking channel according to service categories.

*Information through Print Media/E-mail:* Information about contract details or results from short-term contract negotiations are communicated to all employees via circular, company-internal messages or e-mail. There is no segmentation by target groups.

*Information via Intranet:* Information via Intranet is mostly communicated on travel pages. Travel pages are a service. They offer general travel information and are currently not used in an active control process.

*Information through Travel Agents:* Travel agents mediate the information flow and service purchasing especially in the air travel and rail sectors. In this way, the control functions and contract implementation and accomplishment are handed to the travel agent. Despite diverging interests, POI and POS are deliberately delegated to the travel agent and become his responsibility.

Companies do not recognize that additional costs occur when the control function is transferred to the travel agent. Increased consulting services and the assumption of the time consuming control functions reduce the volume of sales per travel agent by 10% –15 %.

### **3.2.3 Purchase of Services**

Travel services are purchased in the form of bookings. The intensive integration of the travel agent in the purchasing process is in principle based on the fact that he is privileged to access the purchasing systems and the relevant booking information.

The study has shown that air and rail transport services are booked via the travel agent, while rental cars and hotel rooms are purchased locally from service providers. When service providers offer direct booking, the travel agent is no longer considered the exclusive point of information, and accordingly no longer functions as point of sale. In terms of control considerations, Travel Management should determine and actively influence the choice for the POI and POS in the air travel and rail sectors as well. Appropriate and sufficient information for the purchase of rental car services and hotel rooms is not available at the POS. Particularly in the hotel sector, contract control was evaluated as deficient by the test group.

Service Category	Air	Hotel	Rental Car	Rail
Evaluation of Contract Control <sup>6</sup>	Satisfactory	Deficient	Good	No Data
Status of Contract Control	Control	No Control	Partial Control	No Control

Table 2: Status of contract control

Currently, Travel Management does not have suitable tools to make the required information available when and where it is needed to make a purchasing decision. Therefore, Travel Management is unable to assume throughout the process of contract implementation a leading role in communications and effectively influence the POS.

That makes it possible for other market participants to occupy the main communications channels to the purchasing decision-maker. In conjunction with customer loyalty programs and through the use of well developed communications structures, service providers have developed a highly efficient influence on purchasing decision-makers, while travel agencies obtain a mandate from companies to occupy the channels of communications.



<sup>6</sup> Evaluations are presented as German school grades [very good, good, satisfactory, sufficient, insufficient, failing grade (insufficient is also a failing grade)]



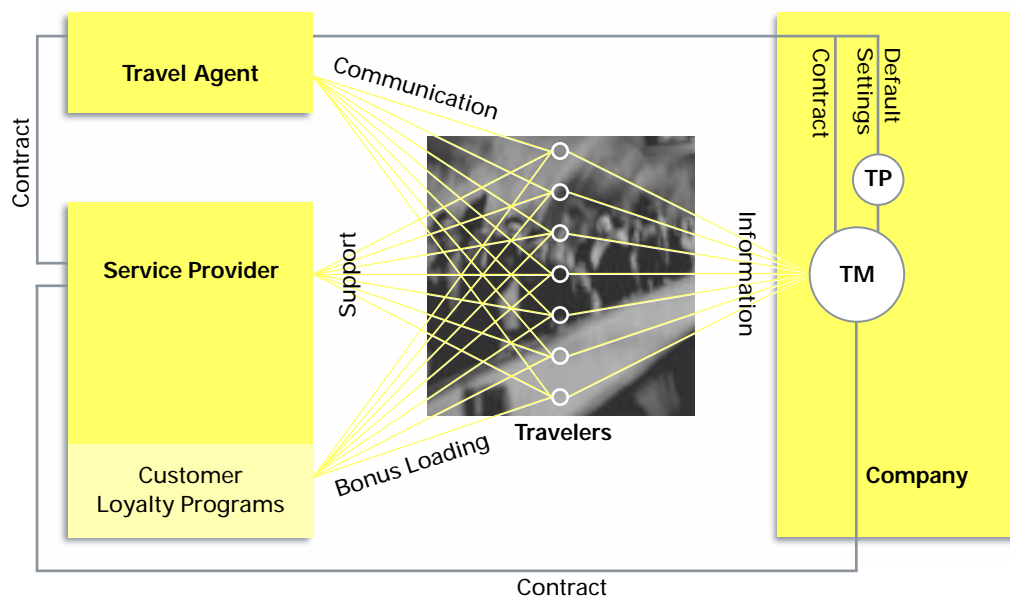


Figure 6: Structure of communications and customer loyalty programs in business travel management to date

Travel Management did not develop a leading role throughout the process nor did it develop communications structures and has therefore left the accomplishment of travel policy and contract specifications to travel agencies and travelers. Communication as the most important component for a control mechanism is company external.

The above mentioned divergence of interests leads to a conflict of interests for the travel agent as he executes control tasks on behalf of the Travel Management.



## 4 P O T E N T I A L   A N A L Y S I S

Based on deductions from the preceding analysis, we will develop and present in the following potential analysis the major opportunities for optimization arising from the contract management process and from proposals for a technology assisted process flow. First, we will outline the design model for a future travel management structure and then derive from it the various optimization potentials.

### 4.1 Design Model

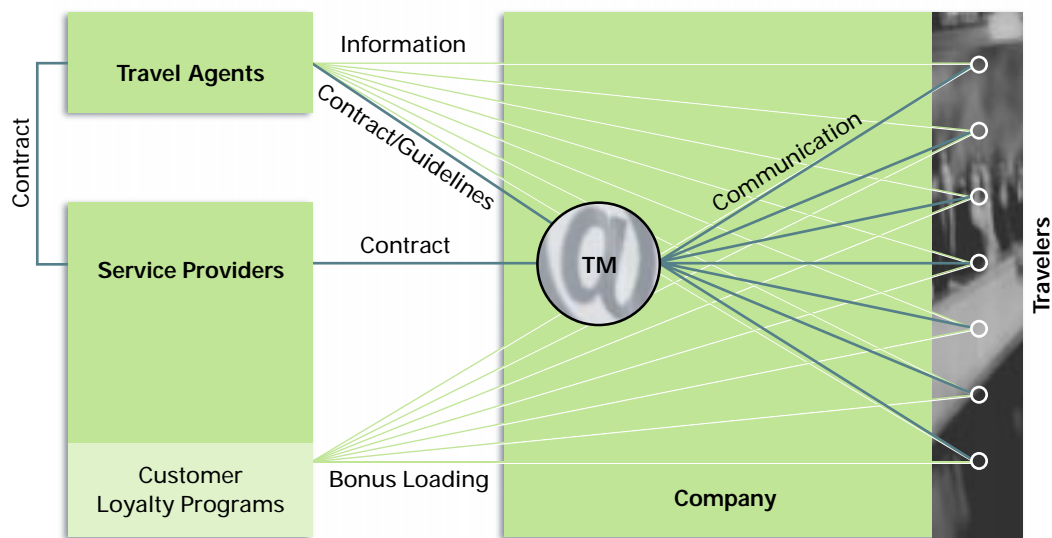
The essence of the design model presented here is the consolidation of the point of information (POI) and the point of sale (POS) into the purview of Travel Management. The two functions are combined to achieve a close tie-in between purchasing decision-maker and employer. To this end, the conventional information and communications structures between provider (service provider/travel agent) and purchaser (traveler) are dissolved. For the traveler, Travel Management becomes not only the POI, but through its purchasing function, it is also the POS. The dominance of Travel Management over the POS is of crucial importance because it opens opportunities to control highly decentralized purchasing processes. POI and POS are integrated in the company.

Combining the two functions – POI and POS – provides a decisive success factor. Appropriate information at the moment of purchase controls purchasing behavior. From the Travel Management's perspective, purchases of travel services by the company's own employees are sales to internal customers, and the information and communications pathways are distribution channels. The coordination and control of these channels is of high strategic importance for a successful outcome. The Travel Management determines the choices for travelers and provides uniform access to information and services.

The consolidation of POI and POS will have the following advantages:

- Direct communications, but also Travel Management-controlled communications, between travelers and service providers,
- Grouping of all travel-relevant information and fast, target group-oriented distribution of information,
- Default preferences set directly by the Travel Management and
- Universal digitized information without media break, which can be processed (data management) and used for timely control activities.

The integration of these functions eliminates the component of control by external providers, and Travel Management attains the necessary structure for a competent implementation of contracts. The creation of information and communications channels allows a purposeful control of contracts, despite complex conditions and diverse interests on the part of the process participants.



*Figure 7: Consolidation of POI and POS as strategic success factor for Travel Management*

This approach involves a new positioning of Travel Management and a resulting extensive new role perception. The model requires the integration of the two functions, none of which are currently managed by Travel Management in an active way. The use of vast, time-sensitive information streams and the management of large assortments of data characterize these new tasks. To accomplish them, the model falls back on the use of a web-based eProcurement system.

eProcurement provides electronic support and integrates the purchasing workflow, using information and communications technologies. Technically, the system is a travel content tool. Aside from its service spectrum (multiservice listing) as an Internet booking engine (IBE), it features further functionality for the control of the business travel process. Features include the digital provision of booking-relevant information, a workflow component with the opportunity for individual communication with the traveler as well as functions for administrative tasks and reporting.

Travel Management will use the eProcurement system to meet the infrastructure requirements for a successful contract control process in its future role.

However, Travel Management's new strategic role, accompanied by the necessary technology infrastructure, does not by itself guarantee a successful contract implementation. Vital for an efficient control of contracts are the development

of the POI from a content-related point of view and the development of the POS by responsible managers. The optimization potential is determined by the implementation and processing of these tasks.

## 4.2 Optimization Potential

The interests of all participating parties must be harmonized to realize the optimization potential. This harmonization of interests is an essential success factor. We have already briefly outlined the tension field of diverse interests. In this tension field, it is particularly important to level the interests of Travel Management and travelers. This must not exclusively involve restrictive guidelines and flanking measures. The Travel Management must additionally increase the value-added balance for the traveler, because it will create greater acceptance for the Travel Management and for the restrictions on personal choices.

A pivotal criterion for the depth of the value-added component is the provision of attractive information for travelers. Four aspects determine in the view of the traveler whether content is interesting:

- Information at the right time
- Information to the right/interested person
- Information with correct/up to date content
- Information in comprehensible form

Further conflicts of interest must be put into perspective by means of intensive communication during the process flow. Target group oriented information at the beginning of the process seriously disturbs current communications structures between service provider and traveling employee.

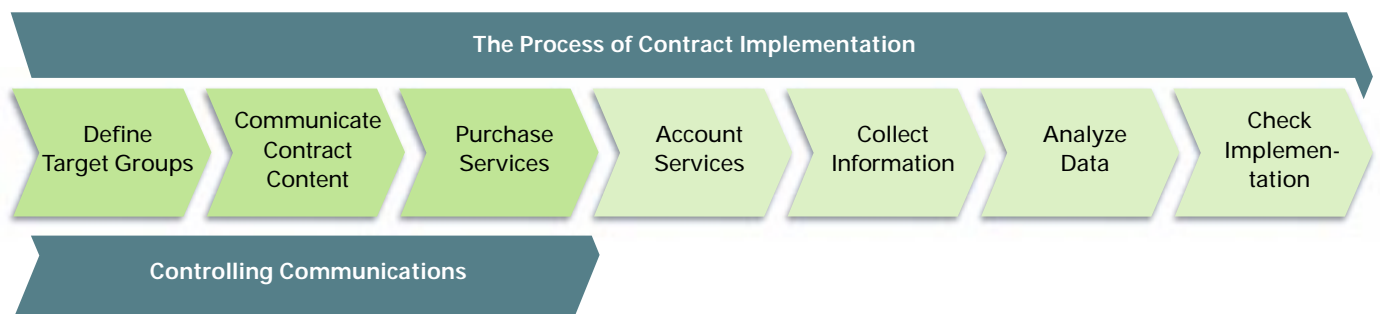


Figure 8: Communication at the beginning of the process flow as a tool for control

Travel Management will upgrade the information and communications structures and through this upgrade considerably improve the control function for the contract implementation.

Essential components for contract control are awareness of the contract contents and transparency of contract contents. They are also the basis for a technology-supported communications structure, where we recognize a considerable need for optimization. Services are predominantly purchased without a tendering procedure. The contract structure is therefore very heterogeneous, even for identical service categories. Travel Management itself is frequently unable to compare services on the basis of existing contracts.

An extraordinarily high measure of control can be achieved for the direct purchase of services. It is possible to put together an individual itinerary for the employee through precise processing of the multitude of available data.

This degree of control can no longer be achieved, however, with conventional tools of control or well-trained administrative assistants.

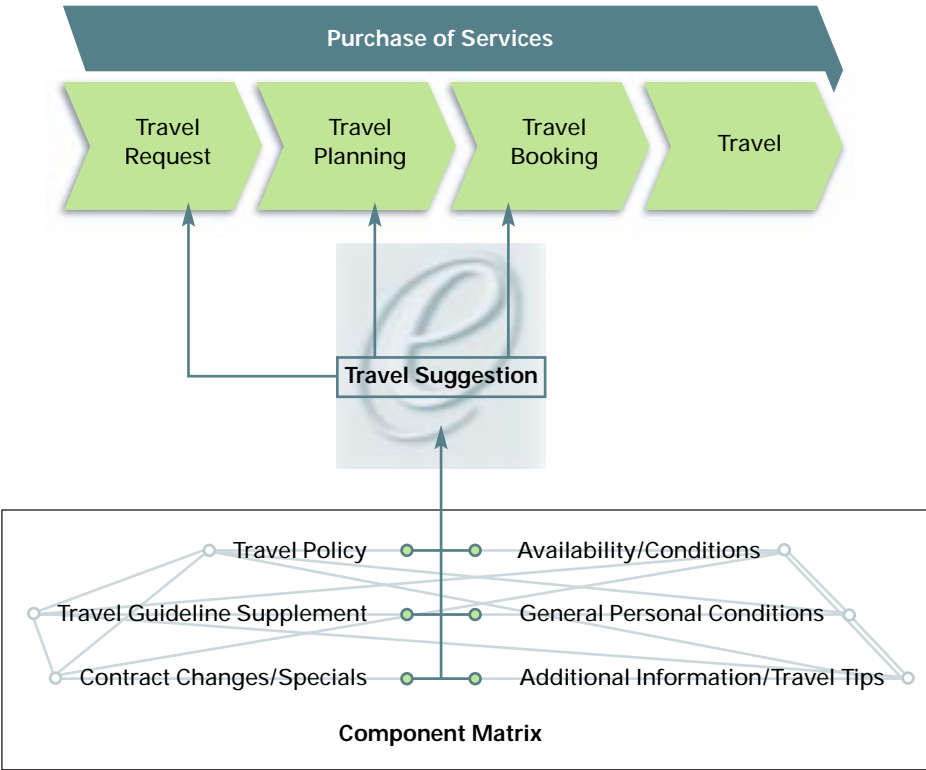


Figure 9: Contract control through an eProcurement solution

## 5 O U T L O O K

Systems support allows the fast and reliable processing of different parameters to yield a qualified suggestion for a decision. This opportunity for selective steering towards a specific service segment without experiencing scatter losses of information offers a high potential for increased purchasing power. Contract control allows flexible sales volumes. This makes the company more attractive for service providers and leads to a better utilization of negotiated purchase conditions. The mechanisms for selection and control in this much detail are an important argument in every negotiation with service providers and can be used accordingly.

The compilation of the contents for the POI and the workflow design for the POS creates the infrastructure for the Travel Management. The infrastructure is necessary to actively influence and control the purchasing behavior of travelers.

However, Travel Management needs technology support to perform its new tasks.

The administration of the complex communications systems requires suitable tools. The content display and the timely delivery of information to the traveler require the use of systems, which can serve the complex communications structures.

Prerequisite for the realization of the tool-assisted optimization potentials is the support by Company Executive Officers, their mandate as well as a high degree of acceptance by the potential users.

The Travel Management must increase its efforts to adapt to market conditions and adjust its role perception accordingly. To be successful, Travel Management must develop from its present operative style to an entrepreneurial management for purchasing and acquisition and accept strategic control functions and appropriate tools.

Early integration of information technology in the flow of the business travel process leads to the development of a company-owned digital database – the basis for effective contract control.

New forms of communications and a seamless flow of information between internal purchasers and external service providers will facilitate the advancement of Travel Management. It is important for Travel Management to develop good management qualities on its own. This will strengthen their position within the company.

Travel Management should expand the functionality of its eProcurement system to include automated tendering procedures for the company itself and service providers. This would provide seamless systems support for the processes of contract negotiations and contract control and would eliminate the current media breaks during these processes.



## 6 A P E N D I X

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### 6.3 Abbreviations

Internet Booking Engine	IBE
Information Technology	IT
Point of Information	POI
Point of Sale	POS
Travel Policy	TP
Travel Management	TM
Verband Deutsches Reisemanagement e. V. (Association of German Travel Management)	VDR



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