

CAN WE AFFORD NOT TO INVEST IN BUSINESS TRAVEL?

EXECUTIVE SUMMARY

15 SEPTEMBER 2009

Businesses and politicians across America are questioning business travel, asking whether it is a necessary expense. From a business perspective, travel is increasingly perceived as a cost to be contained and controlled during a time of economic distress. Businesses are focusing on travel as an expense rather than an investment, and are quick to restrict or eliminate business travel.

WHAT IS AT STAKE?

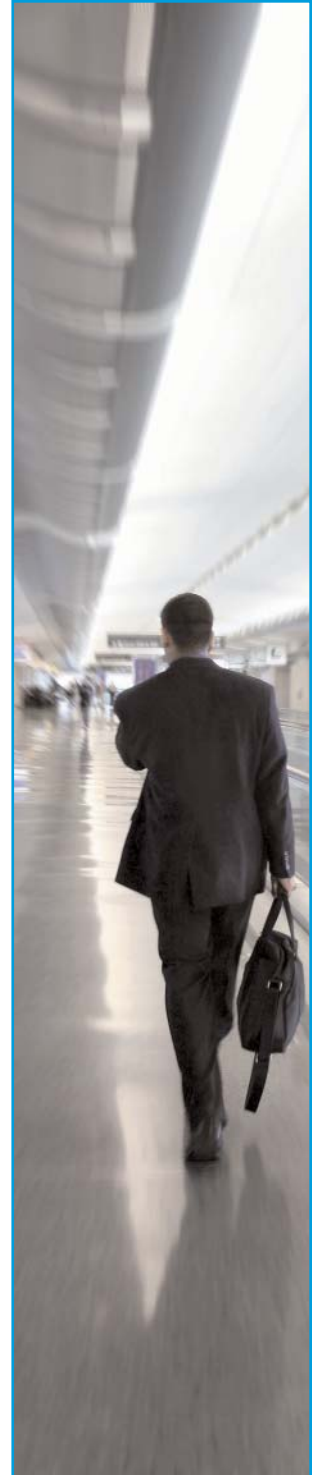
- **NEARLY \$193 BILLION IN FORE-GONE CORPORATE PROFITS**
- **NEW NET SALES OF \$810 BILLION**
- **5.1 MILLION JOBS**
- **\$101 BILLION IN TAX REVENUE**

Additionally, corporate and government business travel expenditures have recently become fodder for the press and one-liners for late-night television with stories of extravagant trips and lavish dining. Although these headline-grabbing events rarely represent the true nature of business travel, politicians and the public have been asking hard questions about the appropriateness of business travel.

The truth behind the tabloid headlines is much more startling. Conventional wisdom says that face-to-face meetings are an essential part of building successful business relationships. Now more than ever, as the economy falters and customers look to trim costs, business travel is critical to closing that next big deal or retaining that key corporate account. This study conducted by IHS Global Insight, on behalf of the National Business Travel Association, presents the incremental return on investment associated with optimizing business travel to drive sales during these challenging economic times. To accomplish this, we estimate the incremental return on investment for 15 distinct industries and demonstrate:

- **Business Travel Contributes to Sales:** A significant and measurable relationship exists between business travel expenditures and sales volumes.
- **Sizeable Returns on Investment:** An average incremental return on investment of 15:1; or for every dollar spent, the average company would realize a \$15 increase in incremental profit resulting from increased sales.
- **Returns on Investment Vary by Industry:** These returns vary across each of the 15 industry segments investigated by the study.
- **New Net Sales of \$810 Billion:** Industry-wide movement to optimal travel expenditures levels could yield \$810 billion in new net sales for 2009.
- **Massive Stimulative Effect on the U.S. Economy:** Increasing travel expenditures to optimal levels would create 5.1 million new jobs and generate more than \$101 billion in tax revenue.

As a result, we illustrate how business travel reductions are not only limiting corporate profits, but are also dramatically impacting the U.S. economy, government, and citizens.



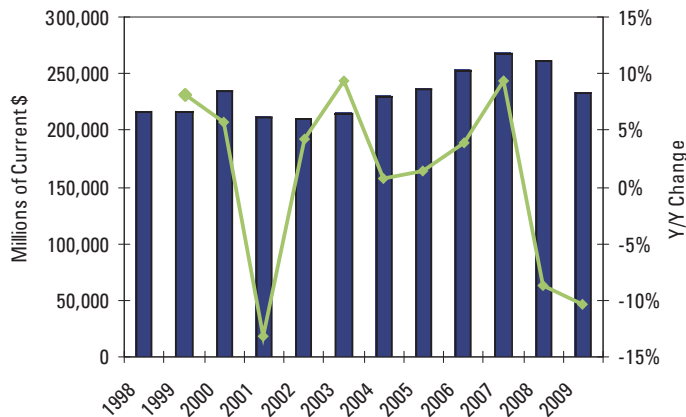
ARE WE INVESTING ENOUGH IN BUSINESS TRAVEL?

Until now, a scientific study showing the economic benefits of business travel has not been done. As a result, businesses and politicians across America are questioning business travel as a luxury that cannot be afforded during a time of economic stress. In order to address the issue directly, IHS Global Insight examined industry-level data on business travel, business expenses, revenues, and profitability to establish whether there is a link between business travel and corporate profits, and if so, what is that relationship.

The analysis shows a clear link between business travel spending and corporate profits, one that varies from industry to industry. Furthermore, the study also identifies the point at which increasing business travel spending no longer increases profits, but instead cuts into them. Armed with this industry-by-industry analysis, businesses can now ask themselves: "Where are we on the business spending curve?"

Business Travel in the United States: A Quarter-Trillion-Dollar Industry

Chart 1: U.S. Business Travel Spending



Sources: IHS Global Insight, D.K. Shifflet, OTTI, and NBTA

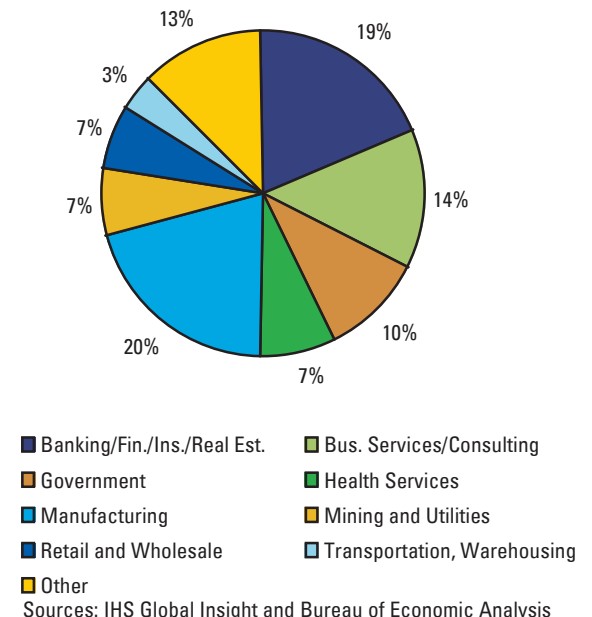
the industries with the highest levels of business travel spend are manufacturing and professional services.

The level of business travel spending in an industry depends on two major factors: the size of the industry and the need, by the industry, for business travel. Professional and Business Services require business trips to sell, fulfill, and manage the services they offer to their clients. This industry is very travel intense and shows a high level of business travel. Construction, on the other hand, uses travel much less intensely. Even with its size, the level of business travel spending in construction is much smaller.

Business travel in the United States is expected to top \$234 billion in 2009, down 10.3% from 2008. As the economy grew during 2002-07, business travel spending also increased. With the economy weakening throughout 2008 and eventually falling into recession, U.S. businesses began cutting travel spending. A few high-profile cases of business travel excess in a time of government bailouts made rationalizing business travel all the more difficult without observable facts to demonstrate its importance.

Chart 1 details the 2009 forecast of U.S. business travel by major industry sector. Among

Chart 2: 2009 Business Travel Spend by Industry

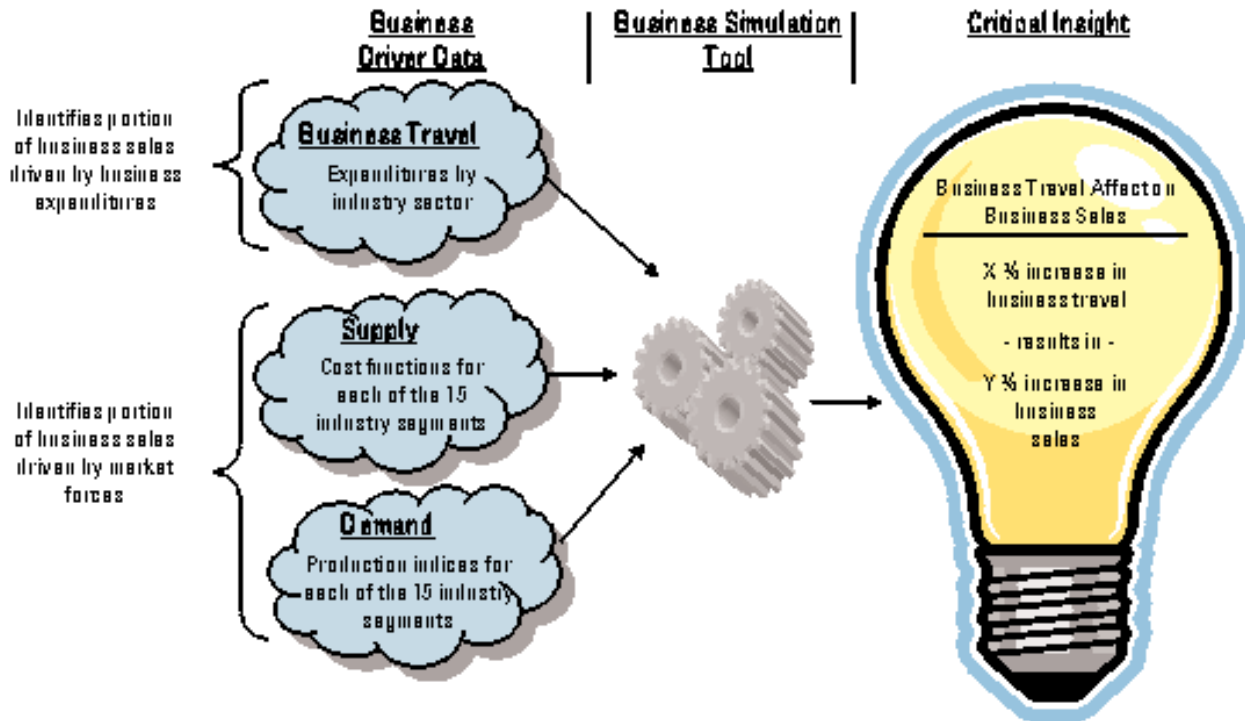


Sources: IHS Global Insight and Bureau of Economic Analysis

Modeling the Relationship Between Travel Expenditures and Sales Revenue

Examining 10 years of data over 15 industry sectors covering the entire U.S. economy, this paper presents the most rigorous and comprehensive econometric-based analysis of business travel's incremental return on investment. In order to address the issue directly, we analyzed industry-level data on business travel, business expenses, revenues, and profitability to establish the link between business travel and corporate profits. In the following, we illustrate the critical components of this business simulation tool and their corresponding relevance to understanding how business travel contributes to business sales.

This model allows us to isolate the contribution of business travel to business sales.



The Goldilocks Effect: Are businesses spending too much, too little, or just the right amount?

WHAT DOES GOLDBLOCKS HAVE TO DO WITH BUSINESS TRAVEL BUDGETS?

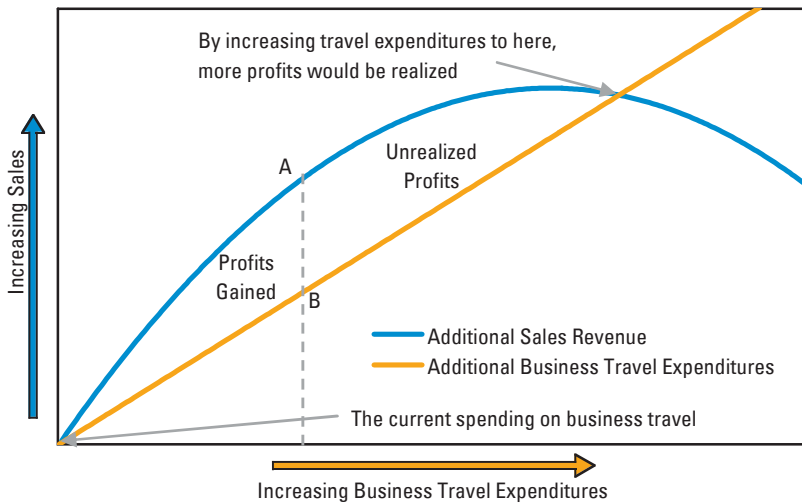
- **BUSINESS TRAVEL BUDGETS NEED TO BE JUST RIGHT —NOT TOO MUCH, NOT TOO LITTLE.**
- **MOST INDUSTRIES ARE WELL BELOW THE OPTIMAL THRESHOLD.**

U.S. businesses spent \$261 billion on travel expenses in 2008. But was that enough? More importantly, what is the right amount to spend going forward? Until now, it has been difficult to quantify how business travel affects the bottom line of corporate profits. While certainly it is easy to measure the costs, measuring the effect on sales is not as simple. Whether business travel expenditures are too much, too little, or just right is often a case of trial and error.

Using a careful examination of average industry cost functions and travel expenditure data, our analysis eliminates the guesswork and identifies optimal levels of business travel investment for the U.S. economy as a whole, and by 14 individual industry segments. These "just the right

amount" points occur when increasing business travel no longer yields additional profits and decreasing the investment actually cuts into the profits. Chart 3 illustrates how increasing travel expenditures too little results in some profit gains, but leaves unrealized profit opportunities. Chart 4 illustrates how increasing travel expenditures too much results in losses that offset your profit gains. Finally, Chart 5 illustrates the optimal amount of travel expenditures. At this point, companies realize the greatest profit.

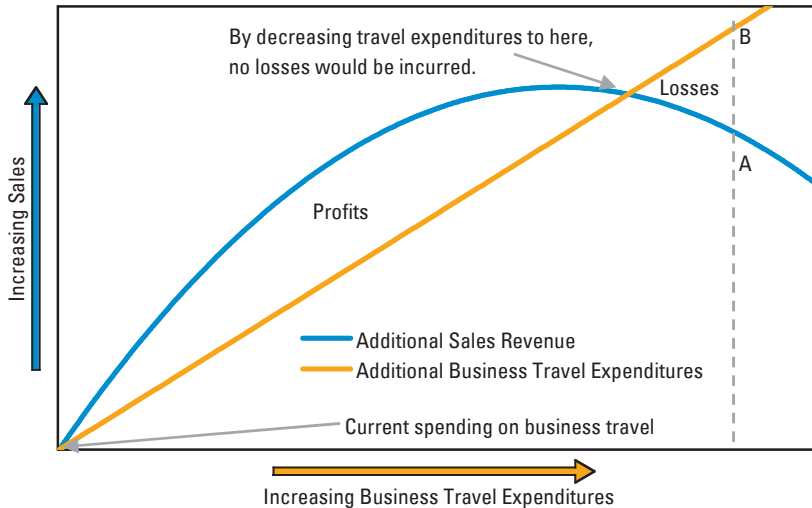
Chart 3: Too Little



TOO LITTLE

- INCREASING BUSINESS TRAVEL EXPENDITURES INCREASES PROFITS AND SALES OVER CURRENT LEVELS
- HOWEVER, UNREALIZED PROFITS ARE LEFT IF SPENDING IS CURTAILED BEFORE THE OPTIMAL LEVEL IS REACHED.

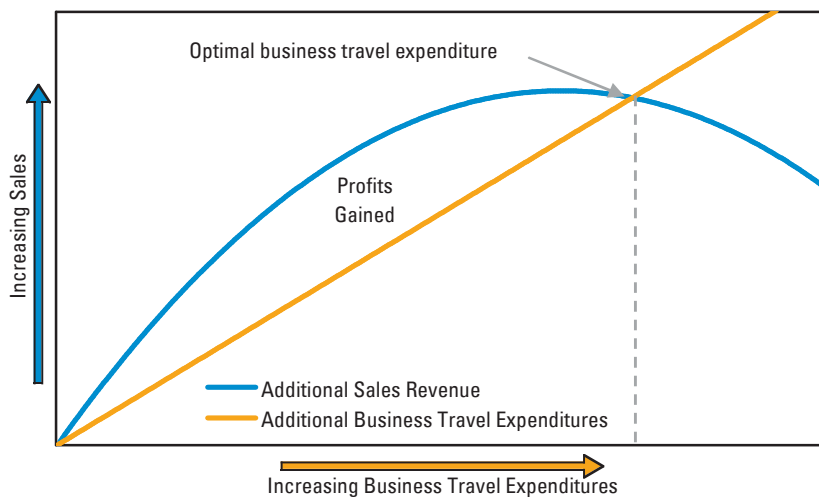
Chart 4: Too Much



TOO MUCH

- INCREASING BUSINESS TRAVEL BEYOND THE OPTIMAL POINT ALSO LEAVES PROFITS BELOW THEIR HIGHEST POSSIBLE LEVEL.
- AFTER THE OPTIMAL POINT, LOSSES—INCURRED AS TRAVEL EXPENSES EXCEED NEW SALES—CUT INTO PROFITS.

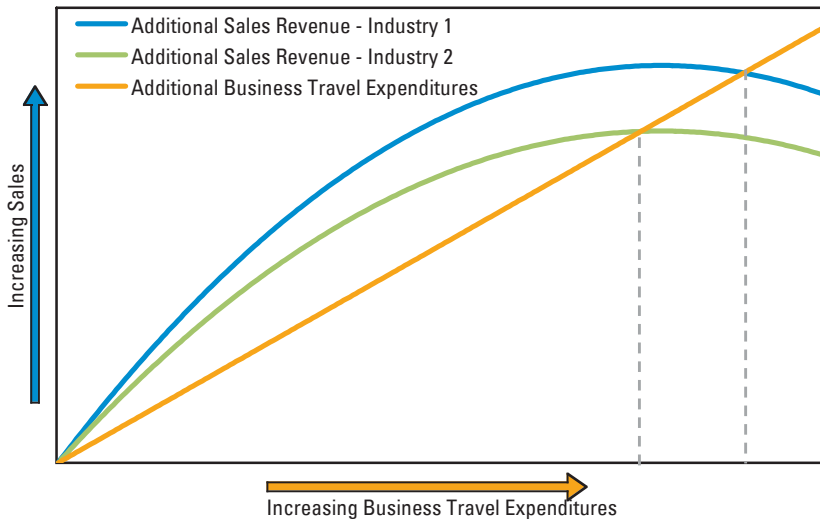
Chart 5: Just Right



JUST RIGHT

- WHEN BUSINESS TRAVEL EXPENDITURES ARE OPTIMIZED, THE MOST PROFITS POSSIBLE ARE REALIZED.
- MOST INDUSTRIES ARE WELL BELOW THE OPTIMAL THRESHOLD.

Chart 6: Sales and Business Travel Spending Relationship - Multi-Industry



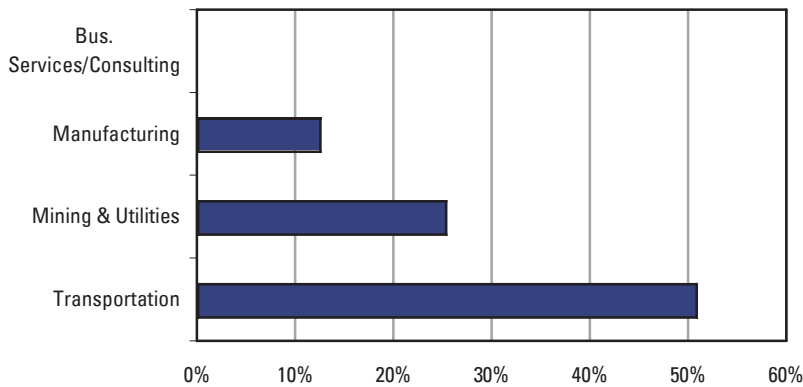
Our analysis found that nearly all industries are currently expending below their optimal threshold. On average, some industries need to increase current travel expenditures by as much as 3.0%, while other industries require a more modest increase of 0.5%. Chart 6 illustrates how the just right amount for one industry is not necessarily the same for another industry. These industry differences in optimal travel expenditure points are caused by variations in each industry's underlying travel cost and sales relationships. Additionally, each industry will have different profit opportunities associated with increasing business travel expenditures.

What is the incremental return on investment?

Our analysis demonstrates a clear link between business travel expenditures, corporate sales, and consequently, corporate profits. Our findings also indicate that these linkages vary from industry to industry. Across all industries, the average incremental return on investment was roughly \$15 for every \$1 spent on business travel. We observed some industry segments with incremental return on investment opportunities as high as 50.7:1, while other industry segments had relatively lower return opportunities at 5.3:1. Additionally, our analysis indicates that it is not necessarily the industries with high levels of business travel that may experience the highest return from increasing business travel expenditures.

Chart 7 illustrates how the incremental return on investment from moving from the current level of business travel investment to the optimal level varies from industry to industry. It is important to note that this incremental return on investment gain is different from the return that firms in the industry are currently receiving from business travel investment. For example, the Mining and Utilities industry could see returns 25% higher from business travel spending if it were to increase spending to the optimal level.

Chart 7: Incremental ROI of Business Travel for Selected Industries



Sources: IHS Global Insight and NBTA

Additionally, there may be a misperception about the potential gains from business travel investment based on the current level of returns that firms in these industries see. For example, if firms in the transportation industry observe that their incremental return on business travel investment is low, they may not realize how significant of a gain they could achieve by increasing their travel spending. The chart shows the incremental returns on investment that would occur if the industry as a whole invested just the right amount in business travel. Similarly, industries

where the incremental return on investment is low may already be experiencing significant returns on investment from business travel. As seen in Chart 7, the Business Services and Consulting Industry is already investing the

right amount in business travel in order to achieve the most profits and would likely not benefit from increased business travel spending. It is also important to be aware that these results are for the industry as a whole and that the results will vary by sub-industries and even from business to business.

WHAT IS THE BOTTOM LINE FOR BUSINESS?

This study focused on broader industry-wide relationships. However, there are opportunities for individual businesses to leverage this knowledge in their day-to-day operations. The findings surrounding industry averages provide a benchmarking foundation from which companies can compare themselves. The study implication is that that, holding other conditions constant, an average firm in an industry found to be well below its optimal level (see Chart 7) has opportunities for investments in business travel that can have a positive affect on both sales and profits. This is most true for businesses in industries farthest from optimal levels. Companies that are in sectors who are currently closer to their optimal thresholds, such as Business Services and Consulting, could also receive a positive ROI, but the findings suggest these gains would be more difficult to attain. In either case, companies would need to make individual evaluations using methodologies identified through this study, as results are based upon industry averages. The following two cases studies demonstrate the results of optimization for an average firm within two different industry segments.

Hypothetical Trade and Transportation Company Case Study

Table 1. Business Travel Driven Changes to a Hypothetical \$1-Billion Trade and Transportation Company

(Millions of \$)	
Sales	32.49
Cost of Goods Sold	
Labor Cost	9.40
Material and Service Purchases	13.36
Business Travel	0.44
Other Costs and Expenses	3.37
Total Cost	26.12
Gross Operating Profit	6.37
ROI Ratio	14.3 to 1.0

Sources: IHS Global Insight and NBTA

Our analysis of the trade and transportation sector shows that the average company in this industry could capture an additional profit through increasing travel expenditures. Table 1 presents a hypothetical billion dollar company in the trade and transportation industry. In 2009, this typical company is spending \$8.8 million on business travel. Increasing business travel expenditures by \$440 thousand would increase sales by nearly \$32.5 million and profits by \$6.37 million. These gains reflect an incremental return on investment of business travel to profits of 14.3 to 1. In other words, for every dollar invested in business travel, the company could receive \$14.30 in profits.

Hypothetical Manufacturing Company Case Study

Table 2. Business Travel Driven Changes to a Hypothetical \$500 Million Manufacturing Company

(Millions of \$)	
Sales	19.73
Cost of Goods Sold	
Labor Cost	1.38
Material and Service Purchases	15.42
Business Travel	0.22
Other Costs and Expenses	0.19
Total Cost	16.99
Gross Operating Profit	2.74
ROI Ratio	12.4 to 1.0

Sources: IHS Global Insight and NBTA

Our analysis of the manufacturing sector demonstrates that the average company is not profiting as much as it could from business travel investments. By increasing investments in effective business travel spending, the typical manufacturing company would see an increase in sales and profits. Table 2 presents a simple balance sheet for a hypothetical \$500 million manufacturing business. This company is spending \$4 million on business travel in 2009. Increasing business travel expenditures by \$220 thousand would increase sales by nearly \$20 million and profits by \$2.74 million. These gains reflect an incremental return on investment of business travel to profits of 12.5 to 1; that is, for every dollar invested in business travel, the company could receive \$12.50 in profits.

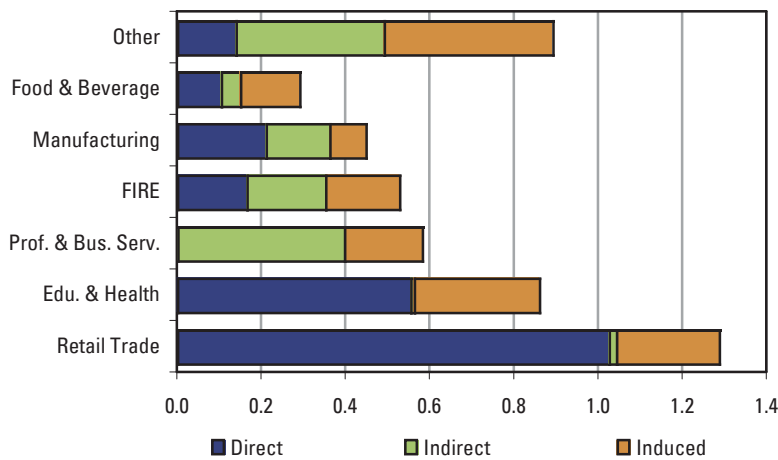
HOW DOES OPTIMIZING BUSINESS TRAVEL STIMULATE THE U.S. ECONOMY?

Sales of products and services are what drive the U.S. economy. The success of every business in America depends on its ability to continue and grow sales of its products and services. One way businesses can increase sales is through investing in business travel. Our analysis shows that almost every industry would increase sales by increasing business travel investment to the just-right level. As business increases sales, jobs are created in the business itself, as well as in businesses that provide supplies and support services. This cascading effect would result in the creation of 5.1 million jobs if all business were to grow their business travel spending to the just-right level.

CAN BUSINESS TRAVEL CREATE MORE JOBS THAN THE AMERICAN RECOVERY AND REINVESTMENT ACT?

- OPTIMAL BUSINESS TRAVEL RESULTS IN ONE JOB CREATED FOR EVERY \$158,823 SPENT.
- ARRA RESULTS IN ONE JOB CREATED FOR EVERY \$314,800 SPENT.

Chart 8: Employment Impact of Maximized Sales
(Millions)



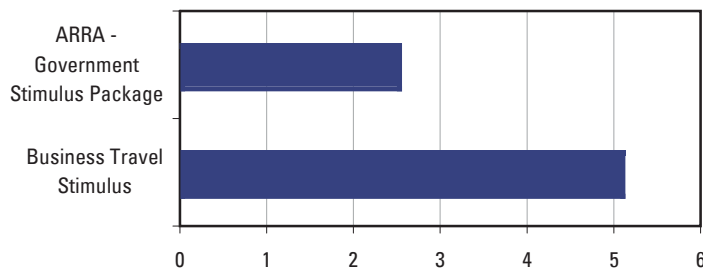
Source: IHS Global Insight

created support the businesses and people who are in the first two types; for example, an increase in food service workers as restaurants move into the area.

As seen in Chart 8 on the Employment Impact of Maximized Sales, the number and types of jobs created will vary from industry to industry. Retail Trade and Education and Health Services would be the main job generators from the optimal use of business travel. The *direct* jobs created result from the immediate production and sale of the good or service, for instance hiring people to build the product. The *indirect* jobs created come from the supporting business, such as suppliers needing to increase staff to support the first business' growth. The *induced* jobs

How Big Is the Stimulative Effect of Business Travel Investments?

Chart 9: Stimulus Package Comparisons
(Millions)



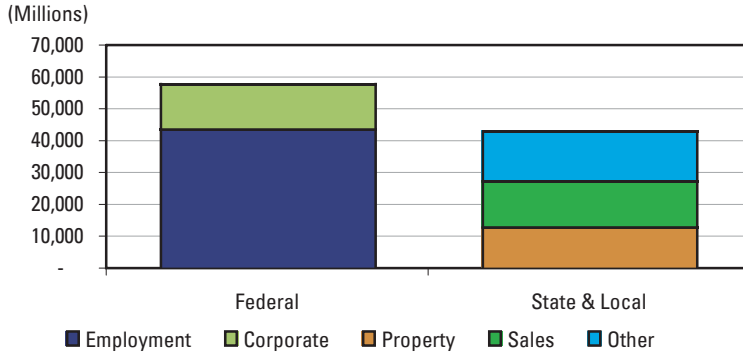
Source: IHS Global Insight

jobs across America. Additionally, business would be operating more efficiently, increasing profits and tax receipts for the governments at all levels. Consequently, unleashing the power of business travel could prove to stimulate the U.S. economy more than current measures that are being undertaken by the U.S. government.

One way to assess how effective business travel investments are at creating jobs is to compare it to the jobs created through the American Recovery and Reinvestment Act (ARRA), popularly known as "The Stimulus Bill." ARRA consists of a package of \$787 billion in investments, and is expected to support 3.6 million jobs. As we have just seen, if businesses were to spend just the right amount on business travel, a \$14 billion investment would create a stimulus of \$193 billion and 5.1 million

Increased Tax Revenue

Chart 10: Tax Impact of Maximized Sales

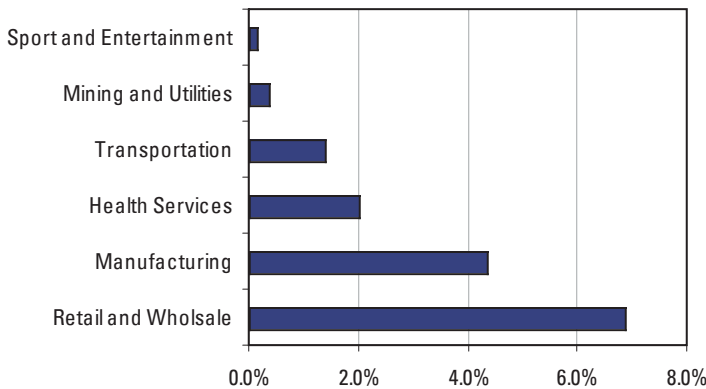


Along with the employment gain that the increase in business travel investments would bring, there would be gains in tax receipts by all levels of government. A total of \$101 billion in new tax receipts would flow from the increase in economic activity from optimizing business travel economy wide. This is in contrast to ARRA, which creates a tax liability of \$787 billion. This increased tax revenue could represent a savings of \$863 per household.

Chart 10 illustrates where the increased tax revenue would come from and how much the Federal and state and local governments would benefit. The Federal government would see an addition of over \$58 billion in tax receipts from the increased economic activity, much of it from wage taxes and social security collections. State and local government would see over \$43 billion in tax receipt gain, a third in property taxes, a third in sales taxes, and the final third in other collections areas.

A CALL TO ACTION: WHAT BUSINESSES SHOULD BE DOING?

Chart 11: Increase in Net Sales Under Optimal Travel Expenditures for Selected Industries



Sources: IHS Global Insight and NBTA

Conventional wisdom says that face-to-face meetings are an essential part of building successful business relationships. Even in a world where technology allows for teleconferencing and video conferencing, in-person interactions are an essential part of developing and maintaining business relationships, as well as learning, marketing and presenting information. Without a direct way to show how these personal interactions result in increased profits, it is easy to focus on business travel as an expense rather than an investment every bit as important as upgrading technology.

Now, more than ever, as businesses seek to operate more effectively and efficiently, they are competing on analytics in order to thrive and survive. Firms that understand the relationship between business travel investments and increases in sales and then act on that knowledge will be able to capitalize and reap significant rewards. As the figure shows, there are substantial increases in sales that can be had for a relatively small investment in business travel.



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