



Connecting the Business Travel World

Factors in Assessing the Online Travel Management Company Model
Developed by NBTA Technology Committee
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“According to a survey of 220 corporate travel buyers conducted by the National Business Travel Association (NBTA), 21% of respondents said their companies are considering exclusively using an online travel management company such as Travelocity Business, Orbitz for Business or Expedia Corporate Travel.” Travel Weekly, February 4, 2004

“In today’s increasingly connected business environment, the integration, or lack of integration, of an online travel management solution can have powerful implications on total cost of ownership for IT systems across the enterprise.” Lori Jones Whitted, Worldspan, in an article written for the CFO Project.com

“According to The Orbitz Business Travel Survey conducted online by Harris Interactive®, ... The survey also found that business travelers prefer to go online to book their travel almost 2 to 1 versus using a traditional corporate travel agency. Thirty-five percent of business travelers plan to use an online agency like Orbitz to book business travel in 2004, while only one in five (19%) said they would use their company's in-house corporate travel agent. Less than one in ten (8%) would use leisure travel agents for their business travel needs.” Orbitz press release, March 29, 2004

“Travelocity Business is already helping companies save significantly on travel costs by dramatically lowering airfares and agency transaction fees,” said Ellen Keszler, president of Travelocity Business. *“Now, by leveraging Travelocity's relationships with leading hotels, we're also securing special rates and more flexible terms designed for business travelers, rather than giving companies deals originally intended for leisure travelers.”* Sabre Holdings news release, April 6, 2004

“Companies that migrate from a traditional agency to Expedia Corporate Travel can reach savings of up to 20% off transaction fees and air tickets, as well as save up to 50% off published rates with our industry-leading hotel program.” Expedia Corporate web page, Expedia.com

Abstract

This document will identify and discuss critical travel management components where the online travel management company (OTMC) strives to outperform the tradition travel management company (TMC), as well as areas where this relatively new business model may still require maturity before it can compete with the TMC.

This is not a scientifically based study; rather it is a review of a developing business travel distribution model and its effect on business travel programs as perceived and observed by the National Business Travel Association’s Technology Committee.

During the past year, the three largest Internet-based travel agencies Orbitz, Travelocity, and Expedia--- entered the corporate travel management arena in a very big way and presented themselves as OTMCs. Targeting the small to medium-size organizations, these companies have morphed into online travel management companies by increasing their ability to better manage customer service, using their merchant model to obtain

significant rate discounts on travel purchases and incorporating all of this into their existing low cost per transaction, easy-to-use structures.

Traveler Perception

“Meanwhile, corporate travel managers are battling to keep their well-informed employees booking through the company site, where in-house travel management policies and accounting are easier to monitor.”¹

Many travelers in today’s business environment were probably first introduced to online travel through the three largest online travel companies: Travelocity, Expedia, and Orbitz. Many of the users of these systems were undoubtedly booking personal travel and witnessed the ease of identifying flight and fare comparisons. The corporate self-booking tool (SBT) was viewed as much more restrictive as many had non-preferred supplier travel options filtered-out, and web-only fares were seldom, if ever, shown. This created a negative perception, however unfair, that has been instilled in many users of the SBT. Now with the introduction of the OTMCs with familiar brand names, the users will have the initial perception of more choices, comparisons, and less system policy restrictions as compared with the more comprehensive corporate online booking systems.

A key element missing from the traditional TMC’s ability to successfully compete with the OTMCs was the OTMC’s offering of web-only discounts/pricing. This was later mitigated by companies such as FareChase, as some SBTs were able to aggregate data from a variety of sources from the Internet and provided much more detailed offerings to the user. However, it should be noted that companies like Orbitz were designed in the aggregator mold whereby many discounted and disparate air fare types were offered through that system from its very beginning. This, in effect, put a handicap on all other travel systems until most recently when the global distribution systems (GDS) used by nearly all TMCs and OTMCs, were able to negotiate their own customer and provider agreements to include web-only type air fares from most carriers.

This paper evaluates the online travel management company concept using three main criteria: account management, functionality and savings.

Account Management

Customer Service

One of the primary aspects a company is required to investigate during any evaluation of an online travel management company (OTMC) is the customer service associated with this business model.

With the traditional travel management company (TMC), customer service is a huge selling point. Account managers are tasked with making sure that there is a living,

¹ Joe Sharkey, The New York Times, April 15, 2003

breathing, albeit sometimes telephonic, point of contact for all customer service issues for the corporation. OTMCs use a variety of means to accomplish customer service, including, but not limited to, e-mail, telephonic, and online/web-based help pages.

Under either scenario, customer service could be handled through offshore contracts, which means that the person handling the issue may be located in a different country. While this may not be an issue within a global organization, many smaller companies may feel a culture shock. While a traveler may be accustomed to picking up the phone and talking to a travel agent that he has known for years, this new model may take the personal touch out of customer service. *Travel Weekly* reported in an article dated February 12, 2004 that one online travel management company, “Citing high staff attrition and competitive pressures from other online players, told the Securities and Exchange Commission that it ‘regrettably’ had contracted to outsource a portion of its customer services overseas.” As more OTMCs enter the market, the competition to keep the transaction costs low may cause many to take this route. Some traditional travel management companies are offshoring, but most continue to have large account management staffs to handle problems immediately.

In assessing the customer service benefits of either the traditional or online scenario, the corporate travel manager needs to ask the following questions of his or her company’s culture:

- Are my travelers/arrangers fairly “travel-savvy”, or do they need quite a bit of handholding?
- Are the travelers technically (Internet related) savvy?
- What are the charges associated with customer service, including 24-hour access, telephonic or e-mail requests? Will we be paying more than we would for a traditional 24-hour service?
- Does my company have an e-commerce initiative and will they be willing to support usage of an online booking tool?
- Does my company routinely require quick (as in “I need this information yesterday”) responses to requests for travel management information? Do they provide customized reporting and at what cost?
- If my travelers have any vendor service issues, such as hotel no-show billings, will the online travel management company be willing to support my organization? Do they have a vendor-relations department?
- Where do I go if I need a duplicate copy of my invoice for my expense statement?

- Is my company used to working with a designated group or onsite travel agents? If we have a dedicated team of agents, are we charged more?
- What sort of global capabilities do I need? Most traditional TMCs have global capabilities for those customers that are multi-national. Currently, existing OTMCs are U.S.-centric. Is reliable Internet access readily available in the locations where my company routinely does business? If not, how will my travelers make changes to their itineraries while enroute?
- Does the tool support complex international travel bookings? What alternatives do they provide and at what cost?
- Who will help configure and provide training on the tool and at what cost?
- Ask if they have modeling tools that would compare transaction costs between the TMC and the OTMC
- Do they have modeling tools that would compare transaction costs between the TMC and the OTMC?
- Moving to one of the OTMC solutions will be a travel agency change. It may also mean a change in GDS. Are you willing to lose your relationship with your TMC or GDS?
- Are low cost carriers important to your program? The LCC's (low cost carriers) do not participate in the large OTMC booking tools. You will need to have an alternate solution for fulfilling tickets for the LCC's if those carriers are part of your program.

The traditional TMC environment prides itself on its ability to obtain the necessary “waivers and favors” for its corporate accounts. These items include, but are not limited to the following: low fare matching, time limit waivers, penalty waivers, overbooking, etc. What sort of “value-added” benefits will I be able to get from the OTMC, such as visa/passport processing, blocked seat clearance, airline seat upgrades, executive desk, etc.? Do these services exist in the OTMC model? Are these things my company would miss if they weren't available?

Basically, the biggest question is, “What benefits provided by my current TMC configuration are we willing to change and/or compromise in order to reduce our agency transaction fees?” As most people know, change within any organization is not an easy concept for most to accept. However, if the changes are minimal, communicated early and clearly, and the basic expectations of the travelers are met, the impact could be minimized.

Savings

All of the OTMCs charge transaction fees. Five dollars (U.S.) a booking is only a part of the story – what if the traveler wants to change the ticket, what is the cost of a refund? Is the fee per booking, trip, or invoice?

The OTMC does not provide most corporations a return of commissions and/or overrides. Each organization will need to determine the impact of this as it may affect overall costs, savings, and the very nature of the existing travel management program.

OTMC Fees per transaction (sample fees)²

Book online	\$5-\$10
Call to change	\$15
Refund	\$10-\$40
Negotiated fare surcharge	\$20
Manual Profile Registration	\$2
Upgrades	\$15
Agent-assisted booking	\$30-\$40

Vendor Negotiations

In the OTMC model, vendor contract negotiations, including RFP creation and support, apparently reside with the Travel Managers. Negotiated contracts are loaded into the software provided. For the most part, the OTMC relies on the merchant model to provide the bulk of the savings to be realized. As reported in *Corporate Travel Management in the Internet Age*, by Norman L. Rose, dated August 2003, “The online TMC negotiates a net rate and marks it up for resale on their site. While it was designed for the leisure traveler, unveiling these rate fences have had a significant impact on the corporate traveler.”

²

Data obtained as of Summer, 2004

Merchant Modeling

One perceived benefit that the OTMCs have provided with their service is their ability to offer discounted or wholesale-like products and services through their merchant model environment. This means that companies like Expedia, Orbitz, and Travelocity have negotiated preferred pricing for their clientele, buying at wholesale and reselling to their customers with significant discounts. This has given them the ability to sell these products and services at lower costs and create an inducement to process the transaction through their sites. This translates into significant savings for both individuals and organizations using these systems while generating significant revenue for the OTMCs. However, take into consideration the following: Will the merchant model affect your corporation's direct discount programs? Will your negotiated market share be impacted by travelers purchasing through the merchant model environment?

A conflict can arise where a business client can find, for example, better lodging pricing at a particular property through the OTMC than through their own preferred lodging program. This raises the issue of how to manage the preferred lodging program within an organization if the online OTMC can offer it at a lower cost. Does the organization's preferred lodging program become irrelevant? This is a dilemma for the business client's lodging program, as rates obtained through the merchant model can undercut a business's preferred travel supplier programs in all categories. Air fares once thought to be at the best discount level through a business's preferred air program may be undercut by the purchasing power of an Expedia, Travelocity, or Orbitz and the same can be easily applied to other segments of travel such as car rental companies.

Another consideration is the reliance of this type of program on the current economy. As occupancy rates rise, discounted inventory may be reduced. Additionally, merchant model rates usually do not allow loyalty program point accumulation. In addition, typically, the merchant model rates require prepayment of rooms and carry significant cancellation penalties.

Corporate Discount Program Impact

While it is generally understood that the special pricing obtained through the merchant model environment will undoubtedly save money for organizations during certain times, on certain services, etc., these savings might not be pervasive enough to warrant the elimination of company-negotiated discount programs. These internally negotiated programs generally offer more discounts applied to services than purchasing either distressed inventory or the currently offered discounted rates through the OTMCs. This yields yet another travel management dilemma. How does a business manage the discount programs negotiated directly with the suppliers while allowing its travelers to take advantage of discounted services offered by the OTMC? Is there a way to balance the use of both and maximize the T&E savings?

Functionality

Reporting Capabilities

OTMCs researched currently report offering “robust reporting templates”³ and Travelocity will “soon offer” 22 such reports that are generated by the travel manager. Until that time, a limited report containing information on service fees can be obtained by contacting a toll free number.⁴

Expedia offers standard reports that include “credit card transactions, online adoption, airline market share, ARC reconciliation date stamping and detailed hotel reports.”⁵ Their reports can be used for policy compliance, hotel policy support, contract volumes, cross-selling and to track savings. Reports can be exported to programs such as Microsoft Excel for customization.

Orbitz offers a “business travel dashboard” where the traveler can review and manage itineraries and communicate with other travelers through a message center. “Flash Traveler Reports” allows a travel manager or arranger to display all travel itineraries at once.⁶

Configuration Potential

In assessing the need for a given level of functionality in an OTMC, the potential for configuration must be evaluated. The agency-managed SBT can accommodate complicated contract and policy requirements to offer different carriers in each as required by contract goals. In contrast, most OTMC tools currently allow limited travel policy configurations.

Extremes exist, from tools that offer a nearly unlimited number of policy configurations to as few as three policy levels. Selecting the right tool for any corporation, however, requires some foresight into the likelihood of the travel policy changing without needing to change the SBT.

It has not been typical for OTMCs to accept data feeds for authentication, profiles, single sign-on, or other similar feature sets. This fact keeps it relatively simple to implement and maintain an OTMC tool. However, many companies may require this functionality. It is important to understand that obtaining Human Resources data feeds for the SBT is not as simple a task as frequently portrayed by these providers.

Just as some SBT products can receive feeds, some are able to populate enterprise resource planning systems (ERPs) and/or financial systems. Since this allows companies

⁴ Travelocity Business TOC

⁵ Expedia 2003 CST 2029030-40

⁶ Orbitz 2003 ORB0001

to communicate travel data from the TMC to the corporate systems, IT staff are required to be involved during the setup processes. Traditionally, this is not the case with the OTMC as there have been no interfaces available. Some online travel management companies are just beginning to offer this functionality.

Travel Authorization

Some organizations require pre-approval of travel. The majority of SBTs provide the capability for pre-trip approval based upon varied and complex conditions. Most OTMC tools do not offer pre-approval workflow-type applications, possibly ruling it out for those companies requiring this process.

Administration

Due to the fact that many OTMCs do not offer administrative capabilities, they may be more appropriate for companies that have less sophisticated policies and few, if any, preferred vendors.

By selecting a more robust tool such as GetThere.com, ResX, Cliqbook, or eTravel/Aergo, the administration module will provide such tools as passport renewal alarms and class of service policies by region. To administer these tools requires labor resources from either the travel manager or the TMC working on behalf of the travel manager. Some TMCs charge a fee for this while others perform this function for their clients at no fee, especially in the area of mid-market corporate travel budgets.

Ease of Use

Due to the fact that many travelers have used these products for their leisure travel, the layout of some OTMCs may be familiar to them. Based upon the depth of policy management built into the SBT, it may appear confusing to the average traveler.

System Upgrades

Some upgrades of agency-managed SBTs may require additional training for the traveler. These upgrades may require companies to test extensively before releasing them to the company's general population. This can cause corporate governance issues. These upgrades may include some significant feature improvements and may affect current customization. It is important to note that upgrades with the OTMC are not controlled by the corporation, forcing users to adopt the new tool.

Data Security

Data exchange occurs when a corporation provides employee information to an outside vendor. Where there is data exchange, there may be data security issues. This means evaluating both a corporation's and the software vendor's IT data and security standards. Some companies' IT departments require due diligence every place where user data

might fall, while others include that in the service level agreement provided by the technology vendor. The IT department may ask travel managers to learn if the provider has adequate fall-back and redundancy in cases of natural disasters or system outages. This requirement is not differentiated between OTMCs and traditional agency tools. Legal requirements of the Patriot Act, Sarbanes-Oxley, and governmental privacy issues also may make security more of an issue.

Global Capabilities

A consolidated global travel program is the goal of many multinational organizations. This can be achieved in many ways, one of which is a common technology platform along with consolidated data collection. The traditional agency SBTs are more capable of tying together the aforementioned global platform. In the countries most ready for online booking, the SBTs are starting to achieve success. The OTMCs are more North America-centric in nature, so will only be able to penetrate in North America in the short term.

Conclusion

The online travel management company concept has garnered a great deal of travel management industry attention during the past 12 months, primarily due to the OTMC's perceived low cost per transaction fees, as well as their ability to offer well known, user-friendly environments, providing a complete array of offerings including web-only air fares and other discounts available through the merchant model environment.

It is a fact that these providers have made great strides in adding and/or improving their customer service organizations, emulating the tradition TMC environment in as many ways as possible including offering travel counselors at the ready and data reporting tools, all at fees that are exceedingly competitive.

Limitations to the OTMC model such as the finite number of corporately-negotiated travel programs an OTMC system can accept or their current limitations on obtaining and transmitting data feeds from/to customer systems, should not diminish the value these systems have had in creating the competitive transactional fee environment the corporate travel managers currently enjoy.

It can be concluded that the OTMC business model will continue to mature and its service portfolio will continue expand and this will become as traditional a method of procuring business travel as the traditional TMC provides today.