



Runaway travel costs got you flying blind?

Hire a Purchasing Professional



BY ROBERT MENARD, CPP

Ask a travel pro about the costs of business travel and the answer is a resounding, *“They are enormous and out of control!”*

What is the solution, not to travel? While email contact and video conferencing may be an acceptable option in isolated cases, business travel for customers, suppliers, conventions, trade shows, and intra-company needs is not going away. On the contrary, burgeoning global commerce makes travel a more pressing need than ever before.

Professional purchasing management is the one stop solution to controlling the high cost of business travel. It is an under utilized resource that you may not have appreciated

In our experience with corporate travel accounts, many companies are still using accounting departments to manage travel costs. In effect, they are managing costs after the fact. Finance professionals are just that, finance professionals. We find that the client organization accepts price discounts offered by the providers, maybe some suggestions about on line booking, but these suggestions are *price*, not *cost* driven.

Purchasing pros are masters of sourcing, negotiation, and *cost* reduction. Suggestions from travel suppliers about on line booking, leverage of the supplier from multiple client consolidation, and other price centered discounts do nothing to reduce the underlying costs, the root of high cost business travel.

How is Price different from Cost?

The Price paid to the supplier covers all its costs plus a mark up for overhead and profit. In competitive environments, the mark up is limited by the competition. So if we are to reduce the Price, we have two choices:

1. Drive down the supplier's price
2. Examine the more fertile ground of reducing costs from the system. Since Price is a function of Cost in most cases, this second option bears closer scrutiny.

Take the example of a travel services supplier (agency) with a 10% mark up. The agency may be willing, in the face of hard bargain-

ing, to reduce its mark up to 8%, perhaps in return for a longer contract term. Such Price bargaining, while necessary, is not sufficient. It does nothing to identify the underlying system costs. For instance, the supplier may not be addressing in any effective fashion, the cost structure of the travel service providers. Rather than have a hotel chain offer a 10% discount off the rack rate, it is far better to negotiate a deal where the hotel chain needs of room rate occupancy ratio are met.

The three main categories of suppliers

There are three major cost categories for travel, Hotel, Air, and Ground, affectionately called HAG. It is far better and cost effective to negotiate directly with the HAG groups or in concert with your chosen supplier partners than to accept perfunctory price discounts.

Professional purchasing negotiations conducted with HAG, either directly or in concert with your supplier agency will yield far greater savings than can be achieved by beating on Price alone. Pro buyers understand negotiation for better than a finance pro and are far more expert in cost and price structures.

Hotels

In general, hotel chains use the Yield/Revenue Management pricing model developed by the airline industry. This is the reason retail buyers pay more for the same room when the hotel is almost full than when occupancy rates are low.

Hotel suppliers offer the unsophisticated buyer a discount off the rack rate. Purchasing pros negotiate deals that are based upon the cost up, not the price down. The savings harvested can be stunning.

Air

Air fare pricing systems are a mystery. An airline's fare to the same designation and for the same date can change 40 times within one day and vary by 100%. The arcane system used by most of the major airlines is the Yield/Revenue Management model. Others may use Pricing Optimization models. These

systems force the walk up business traveler to pay up to ten times the super saver leisure travel fare.

Airlines are primarily interested in putting butts in the seats, raising seat occupancy ratios, and maximizing revenue miles. They will sell blocks of seats to “consolidators” at huge discounts just to raise the occupancy ratio. Buying pros know how airlines price their services and they know how the airlines calculate their costs. To negotiate effectively, a buying pro can reduce the cost of airfare travel by multiples more than an unskilled negotiator beating on the Price alone. Professional buyers will eliminate the penalties for walk up business fares, last minute changes, and help the airline to meet its requirements at the same time; all of which is virtually unheard of in results of non pro negotiators.

Ground

Ground transportation means rental cars. The rental car industry observes many of the same practices as do their Hotel and Air counterparts. A skilled purchasing professional again ignores the “Price down” discount and negotiates on the costs. Not only will you obtain better rates, but you will eliminate drop charges, and most grievously, the outrageous add-on insurance paid by the retail buyer will be negotiated into the deal.

To control the high flying costs of business travel, get a purchasing pro to help with your travel negotiations. At the American Purchasing Society, this is our field of expertise. Contact us at support@american-purchasing.com and we'll assign an expert to solve the problem.



ROBERT MENARD, Certified Purchasing Professional, is a purchasing & negotiation expert, author of *You're the Buyer—You Negotiate It*, professional trainer and consultant with clients in the U.S. and abroad.