The Business Value Formula for Ground Transportation

Idea in Brief

The formula for unlocking business value from ground transportation has shifted. Single factor models are out. More sophisticated models have arrived, and they can be catalysts for greater cost savings, workforce productivity, and employee engagement. This paper highlights the emerging business value formula for ground transportation and lays out a path for assessing your company's return on investment.

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Challenging Trends for a Mobile and Diverse Workforce

The challenges for organizational leaders today are daunting. Do more with less. Grow the business and innovate, yet be efficient and cut costs. These realities are especially challenging for driving performance with an increasingly diverse and mobile workforce.

Globalization and intense competition place a premium leveraging mobile talent who can travel to: solidify business relationships, collaborate with colleagues, and network into new resources. For these reasons and more, business travel continues to rise, and work is more virtual than ever.[1] Furthermore, for the first time in history, there are now five generations working side-by-side, each having expectations from their employers about how they can be most productive and engaged at work.[2]

[1] Holma, Anne-Maria, Anu Bask, and Katri Kauppi, (2015) "Ensuring Corporate Travel Compliance – Control vs. Commitment Strategies," Tourism Management (51).

[2] Knight, Rebecca (2014), "Managing People from 5 Generations," Harvard Business Review.

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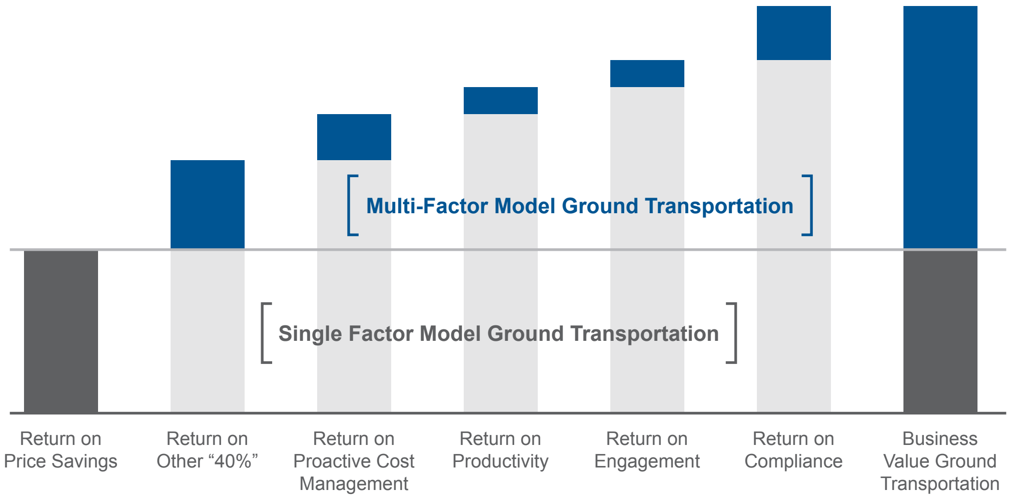


Investment and Return on a Mobile Workforce through Ground Transportation

Despites these challenges, employees are still the organization's most indispensable asset. Employee-related costs account for 70% of operating expenses, and yet employee's ability to execute the strategy also accounts for 85% of the value creation.[3]

To drive productivity, companies have historically dedicated significant resources to building workplaces that optimize working conditions. Far less focus, however, has been invested into optimizing the "mobile workplace." As employees travel in planes, trains, and automobiles to conduct business, organizations face new pressures for driving productivity, engagement, and achieving important work objectives.

To date, business travel has largely been viewed as an expense. However, experts are now highlighting the need to balance both cost control and revenue-generating perspectives on travel, as well as apply more advanced approaches. For example, statistical models by Oxford Economics, across 18 years and 14 industries, demonstrate that U.S. companies have generated $9.50 in revenue for every dollar invested in business travel, and results from other countries are even higher.[4] In short, achieving a return on the mobile workforce means adopting a new formula for unlocking business value, and this paper unpacks this new approach for ground transportation travel.

Quick Summary

Big Idea

A new formula for business value in ground transportation can act as a catalyst for optimizing cost savings, workforce productivity, and organizational engagement.

Urgency

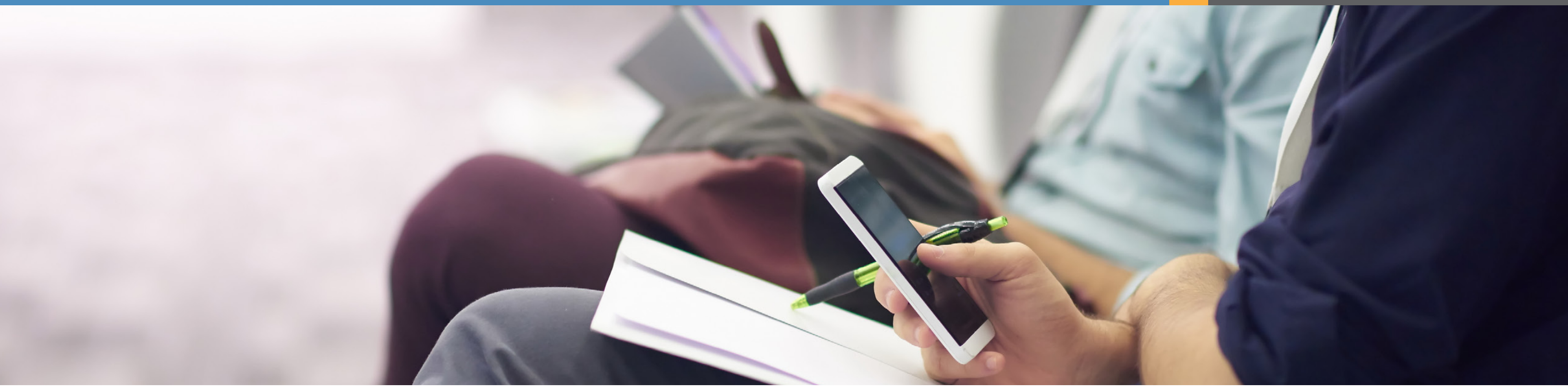
Organizations are losing financial savings and strategic value with conventional models. Evidence now points to approaches that balance proactive cost control and a friction-less traveler experience.

Taking Action

Next steps lay out pathways and metrics for re-thinking total cost control, traveler productivity, traveler engagement, and the science of travel compliance.

[3]Berggren, Erik and Keith Messick (2009), "Moving Mountains," SuccessFactors Research.

[4](2013) "The Role of Business Travel in the U.S. Economy," U.S. Travel Association.



The Conventional Approach

The conventional approach for deriving business value from ground transportation has locked on to negotiating larger savings from a single factor: lower daily rental rates.

$$\text{Business Value (ROI) from Optimizing Ground Transportation} = \frac{\text{Return on Price Rate Reduction} - \text{Ground Transportation Investment}}{\text{Ground Transportation Investment}}$$

Studies show that travel can lead to greater productivity, retention of customers, and much higher chances of landing new customers.

This approach has been prevalent in part because the daily rental price is the most visible, comparable, and trackable metric for ground transportation. Unfortunately, this single factor approach neglects significant sources of cost savings as well as return on investment. Furthermore, although relying on this formula might help finance-related stakeholders do their job, the travel-related concerns of stakeholders in operations, human resources, sales, marketing, as well as travelers themselves are passed over.

Business Value Formula for Ground Transportation

To address the limitations of the conventional approach, organizational leaders are finding new ways to unlock business value through tracking total cost savings as well as drivers of revenue growth:

$$\text{Business Value (ROI) from Optimizing Ground Transportation} = \frac{\text{Return on Total Cost Savings} + \text{Return on Revenue Growth} - \text{Ground Transportation Investment}}{\text{Ground Transportation Investment}}$$

Research by Oxford Economics using a multi-factor measure of productivity provides strong evidence that every $1 invested in business travel is correlated with a return of $2.10 to $3.80 in profitability

The formula above recognizes areas of cost savings beyond just the daily rental rate. Furthermore, it identifies pathways for organizational growth. In more specific terms, a contemporary business value formula for ground transportation examines a return on the following emerging areas (in blue) to create value:

$$\text{Business Value (ROI) from Ground Transportation} = \frac{\overbrace{\left[\text{Price Rate Reduction} + \text{Ancillaries “other 40\%”} + \text{Proactive Cost Management} + \text{Employee Productivity} + \text{Employee Engagement} + \text{Enhanced Compliance}\right]}^{\text{Return on:}} - \text{Ground Transportation Investment}}{\text{Ground Transportation Investment}}$$

To elaborate on this formula, opportunities to re-think total cost control, productivity, engagement, and the science of travel compliance are explained below. The differences between a conventional approach and the new approach are displayed in the **Business Value Formula for Ground Transportation chart.**

Re-thinking Total Cost Control and Savings

Ancillaries, the "Other 40%." Although daily rental rates are an important metric, industry analysts point out that rates only make up 60% of the overall rental costs. So, if rental price is the only metric in focus, then roughly 40% of what determines the total cost for a given number of transactions (arising from ancillary taxes, fees, optional services) will be overlooked. In some cases, these fees can be eliminated or drastically reduced – either contractually, via a program, or through employee communication. In other cases, program policy differences, such as availability guarantees for an entire car fleet or only a specific car group, can translate into significant financial differences for total costs.

Taking action: to optimize total cost of ownership, organizations should model this "other 40%" into their cost models and coordinate with their provider to reduce them.

Proactive Cost Management. Organizations are increasingly sophisticated at building total cost of ownership (TCO) models for major areas of spend, especially during a bid process. However, the difficulty is that truly achieving lower TCO is a dynamic – not a static process. Doing so involves access to quality data, user-friendly tools, and ongoing analysis to proactively identify pockets of inefficiency. Furthermore, organizations can also face invisible costs with the lack of transparency and complexity of booking channels to ensure proper execution of the travel program. When organizations lack this know-how or the capacity to track these systems, they look for ground transportation partners to carry out this analysis. For example, a participant in a recent study remarked that their partner "educates us on where the buying patterns…can be changed to decrease costs…they are very proactive."[5]

Taking action: to optimize total cost of ownership, organizations should assess how well their team and their ground transportation provider is prepared to conduct ongoing proactive cost management with robust analytical insight.

Re-thinking Productivity and Engagement for the Mobile Workforce

Organizational leaders know that workforce productivity and engagement go hand-in-hand, especially with an emerging class of employees who are pushing consumer-grade expectations for technology and service at their workplaces.

Traveler Experience and Workforce Productivity. As employees travel, they want to justify their time away from home by advancing their professional goals and the goals of their company. Studies show that business travelers believe an increase in their travel can lead to greater results (60%), productivity (50%), retention of customers (72%), and that their chances of landing new prospects double.[6] Furthermore, similar to revenue statistics cited previously, research by Oxford Economics using a multi-factor measure of productivity provides strong evidence that every $1 invested in business travel is correlated with a return of $2.10 to $3.80 in profitability across various countries.[7]

Taking action: for these reasons, organizations should factor in metrics for desired productivity gains and preventing productivity drains associated with their policies and the service experience offered by transportation providers.

Yet, attaining these type of returns is not a sure thing. For example, travel delays can translate into lost revenue to billable clients and loss due to idle time and lower productivity. In fact, one study quantified an additional $24 in costs and $108 in lost revenue per trip (a gap of $116,000 across 881 trips tracked).[8]

Even without delays, travelers can have lower productivity based on their experience with transportation service providers. To optimize their productivity, business travelers want less "friction," more speed, and less waiting and haggling along the way. Friction is a key factor in the Traveler Sentiment Index, and unfortunately, studies show that 40% of business travelers fall into the categories of fairly high to extremely high friction, using annual metrics for their travel.[9]

40% of business travelers fall into the categories of fairly high to extremely high friction

[5] Baker, Michael B. (2015), "Business Travel News Ground Transportation Survey."

[6] (2013) "The Role of Business Travel in the U.S. Economy," U.S. Travel Association.

[7] (2013) "The Role of Business Travel in the U.S. Economy," U.S. Travel Association.

[8] Sherry, Lance (2015), "A Method for Quantifying Travel Productivity for Corporate Travel Managers," Journal of Air Transport Management, 42, p. 118-124.

[9] Gillespie, Scott (2014), "Trip Friction: A Traveler-Centric KPI," GBTA Convention.

Traveler Experience to Workforce Engagement. Employee engagement is now a central priority for senior executives, and 71% of executives view it as a critical factor for overall success. Beyond cultivating a positive sentiment and identification with the organization, engagement focuses on providing employees with the “tools and environment they need to succeed to feel good about their personal growth opportunities, and to receive the appropriate rewards and recognition for their contributions.”[10] Unfortunately, when the traditional workplace shifts to a mobile workplace, the friction experienced by employees as they travel to conduct business can lower employee engagement and create greater reluctance for travel. Recent studies from ground transportation are concerning in this regard as current levels of dissatisfaction are quite high for car rental (37%), including for choice of car (44%), and car rental travel policies (47%).[11]

Taking action: to align the mobile workplace with strategic initiatives for employee engagement, organizations should factor in metrics for the traveler experience and potential friction associated with their policies and the service experience offered by transportation providers.

Part of this dissatisfaction is baked into the expectations that employees now have for business travel. In particular, employees expect business travel to have an element of personal enjoyment, especially given their felt sacrifices of added stress (“feel of working all the time”), work-family tensions, and the demanding long hours associated with business trips. These expectations play out across the entire travel experience. That said, some aspects such as car rental can be especially important episodes of the emotional journey. Furthermore, these anxieties are more pronounced for international travel, especially when safety is a concern. In particular, a recent study indicates that 35% of business travelers are concerned about the safety of ground transportation while traveling.[12]

17% of U.S. and 23% of U.K. participants in a recent study reported that they chose to go out of policy to upgrade the type of rental car.[15] Interestingly, of those participants, the vast majority (79%) linked their car upgrade to business purposes

For these reasons, organizations that promote positive travel experiences for their employees can boost morale and a sense that employees are appreciated and supported. Beyond this, happy travelers generate far fewer complaints which has real cost savings. Specifically, one study of 1,600 business trips estimated the hidden cost of complaints to amount to $33,600 ($21 per complaint) and 160 minutes wasted per complaint.[13] In this example, improving satisfaction by 10% yields a 25% reduction in these costs.

Re-thinking the Science of Travel Compliance

One of the most frustrating realities for managers who oversee travel costs is the problem of non-compliance. A recent study suggests that 59% of business travelers conduct their travel out of company policy, and this behavior increases overall costs by around 14%, with an average of $28 more per trip and $314 more annually per out of policy traveler.[14] Needless to say, non-compliance can quickly erode the anticipated savings from a ground transportation solution.

Taking action: in contrast to a conventional approach of zeroing in on the lowest daily rental rate, organizations need to consider the potential savings that can be reaped from enhanced compliance associated with their policies and the service experience offered by transportation providers.

In the case of ground transportation, business travelers go out-of-policy twice as often as travel managers think they do, and 17% of U.S. and 23% of U.K. participants in a recent study reported that they chose to go out of policy to upgrade the type of rental car.[15] Interestingly, of those participants, the vast majority (79%) linked their car upgrade to business purposes, e.g., accommodating more business associates in the car or wanting to make a good impression with a customer.

One approach to shore up non-compliance is the motivational “stick,” that is, mandating compliance through company policy and rejecting reimbursements for non-compliant travel. However, in an age of increased competition for talent, organizations are more reluctant these days to mandate the policy, and a recent study indicates only 31% of organizations doing so.[16]

75% of respondents believe improvements to traveler service can improve compliance and lead to greater savings[18]

Instead, more organizations are adopting the “carrot principle” and considering ways to allow business travelers “more choices...recognizing the personal and corporate benefits (e.g., employee retention) it could have” on the workforce.[17] In short, organizations are re-thinking the science of compliance to make it easy and enjoyable for employees to do “the right thing” and have delightful travel experiences. Corporate travel managers seem to agree with this perspective, as a recent study showed that 75% of respondents believe improvements to traveler service can improve compliance and lead to greater savings.[18]

10 (2013), “The Impact of Employee Engagement on Performance,” Harvard Business Review, Analytics Service Report.

11 (2015) “GBTA Business Traveler Sentiment Index,” October 2015, in partnership with American Express.

12 (2013) “Business Traveler Mishaps: The Real Risk of Business Travel,” GBTA, sponsored by TravelGuard.

13 Dolce, Frank et al. (2014), “A Numbers Game: Using Strategic KPIs to Demonstrate the Value of Travel Management to Senior Management.

14 (2013) “Out-of-Policy Business Travelers and Their Impact on the Bottom Line, GBTA, sponsored by Concur.

15 (2013) “Out-of-Policy Business Travelers and Their Impact on the Bottom Line, GBTA, sponsored by Concur.

16 (2016), “The Digital Business Traveler,” GBTA, sponsored by Sabre.

17 (2013) “Out-of-Policy Business Travelers and Their Impact on the Bottom Line, GBTA, sponsored by Concur.

18 (2015) “The Evolution of Travel Policy: A Global View on the Future,” Association of Global Travel Executives.

Assessing ROI on Ground Transportation

Unlocking greater business value from ground transportation is a process that requires exploring the appropriate metrics and partners. The following audit questions can be used to assess the current strengths and weaknesses of the existing organizational approach and to implement an action plan.

- [ ] **Price Rate Reduction: Daily rental rate**
  - How is your organization tracking daily rental rates to ensure alignment with the anticipated average rate across the course of the year?
- [ ] **Ancillaries "Other 40%": Taxes, fees, and optional services**
  - Have ancillary fees been modeled into the total cost of ownership model for ground transportation?
  - Does the organization's ground transportation partner have a process for preventing unnecessary optional services (e.g., GPS) being added ad hoc?
  - Can your organization's ground transportation partner provide communication assets, e.g., emails, videos, events, etc. to support internal communication efforts?
- [ ] **Proactive Cost Management: Organizational process and capability for lowering total cost of ownership through regular analysis and decision-making.**
  - What kinds of traffic data is your organization currently using to optimize inefficiencies among your traveler base?
  - Are there tools, in your organization or from the organization's ground transportation provider, that can provide robust insights into potential cost reductions, such as mileage reimbursement comparisons, one-way rentals, etc.?
  - What is the current cadence of meetings with your organization's ground transportation provider account team and do these meetings provide the necessary insights for optimizing the travel program?
- [ ] **Employee Productivity: Optimizing the Mobile Workplace to enhance desired productivity gains and prevent productivity drains.**
  - Does your organization currently recognize the effect of travel on productivity, including potential gains (revenue, new/existing customer interactions, supply chain optimization, learning, etc.)?
  - What metrics does your organization use for measuring productivity and how can this apply to work conducted while traveling?
  - How might your organization measure traveler friction and identify opportunities to proactively address it?
  - Are there operational and sales leaders that need to weigh in on ways to optimize mobile productivity for the workforce?
- [ ] **Employee Engagement: Enhancing the employee work environment with opportunities for growth and success**
  - Who in the organization is tasked with driving employee engagement, and how are they monitoring engagement in the "mobile workplace"?
  - How can metrics like internal net promoter score, Glassdoor ratings, absenteeisim, and turnover be correlated with measures of traveler friction, satisfaction, and employee engagement?
  - How can the cost and time impact of traveler complaints be measured?
  - What impact might gains in traveler satisfaction have on overall mobile workforce engagement and productivity?
  - In what ways can the travel program be infused with greater flexibility and autonomy without significant increases in total cost?
- [ ] **Enhanced Compliance: Increased level of compliance based upon providing an easier, more enjoyable travel experience**
  - How does your organization currently track non-compliance, and is there a consistent model for calculating the financial impact?
  - Does the organization have strong evidence for the reasons for non-compliance?
  - What data could be gathered to assess the degree to which compliance might be higher if greater flexibility, autonomy, and enjoyment was present in the current policy and transportation provider offers?
  - Are there ways that the organization's ground transportation provider can support compliance efforts through communication assets?