PhoCusWright's WHITEPAPER

The Hidden Cost of Fragmentation

Written by Susan Steinbrink

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The Hidden Cost of Fragmentation

Susan Steinbrink

Executive Summary

Overview

Every managed travel program, regardless of how sophisticated or rigorously it is managed, is subject to a certain degree of fragmentation. Fragmentation is defined here as purchases made within the travel program that are not secured, fulfilled, or managed through a company's preferred process. This threatens to undermine program savings and efficiencies that buyers have worked hard to create and adds another layer of complexity and costs that buyers must manage.

Unlike noncompliant, or rogue, purchases – in which travelers purchase airfares outside of company-mandated processes – content fragmentation involves purchases for which shopping, booking, and payment are not fully available through a company's preferred or optimized booking path.

Businesses and their travel management companies (TMCs) must monitor airline fragmentation risks and address them as they arise. Corporations, TMCs, and suppliers should work collaboratively not only to achieve shared objectives, such as spend consolidation and traveler satisfaction, but also to address other buyer needs, such as purchasing transparency, fragmentation cost reduction, and processing efficiency. Simply stated, managing fragmentation is now a part of managing travel.

This white paper defines air content fragmentation, explains how to recognize it within a managed travel program, outlines the added costs to buyers and TMCs, and offers best practices on how to address fragmentation.

For the purposes of this document, the terms "managed travel," "managed business travel," "business travel," and "corporate travel" will be used interchangeably to refer to travel spend under management. Unless noted, no distinction will be made between lightly or heavily managed programs. Although many kinds of fragmentation exist, this white paper will focus primarily on air fragmentation from multiple booking sources, partial or restricted content, and airline ancillary fees in the total cost of trip.

Key Findings and Implications

Though fragmentation exists in most managed travel programs, the costs and burden of that fragmentation may not be readily discernable. Based on PhoCusWright's calculations of a well-managed program, trips involving fragmentation incur additional costs of roughly US$89.00 per ticket. In instances where a fragmented booking may result in a lower fare, the average fare savings is only about $17.30 per ticket. The net result equates to an added cost burden – the hidden cost of fragmentation – of $13.44 per trip across a company's entire set of air transactions. Put in perspective, a company with 20,000 air trips would likely incur average fragmentation costs of around $269,000 throughout its travel program. Most of these costs are borne directly by the corporate travel program rather than by the TMC.

All companies that seek to optimize their travel programs must be aware of and measure four areas of fragmentation risk: operational inefficiency, program dilution, traveler productivity, and technology investment. Listed below are some of the key findings, implications, and inefficiencies associated with these four areas, as derived from a PhoCusWright analysis:

- Higher air spend occurs when travelers are not presented with the lowest fare options and preferred suppliers and cannot comparison shop among various offerings.
- Manual workarounds that address content outside of preferred booking paths generate higher offline service fees, increase technology costs, and increase data entry errors.
- Traveler security, duty-of-care responsibilities, and auditing compliance may all be compromised when air purchases are fragmented.
- Reporting and oversight may be diluted without the ability to easily consolidate all air activity from each carrier, creating new opportunities for fraud, waste, and abuse.
- Weakened negotiating position with suppliers results when the volume and value of air spend

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cannot be tracked with existing processes and solutions.

- Online booking tool adoption—and the subsequent value of quick and inexpensive self-bookings—decreases when travelers can no longer access the best fares or have to check more than one booking source.

- Agent productivity decreases when additional steps outside of the existing workflow are taken to construct and complete reservations.

There are several actions buyers and TMCs should take to reduce the costs of fragmentation. These are listed at the end of this whitepaper.

Fragmentation Uncovered

Market and distribution dynamics contribute to fragmentation in corporate travel. Though fragmentation from many different sources may exist, there is no single issue driving its occurrence. This section provides a brief historical perspective, defines fragmentation, and identifies the overriding issues causing fragmentation in the managed business travel market.

Evolution of Content, Connectivity, and Complexity

For years, a full-service airline distribution model defined the industry. Low-cost carriers (LCCs) and the Internet evolved this model as an alternative distribution approach. The global distribution systems (GDSs) accessed the airline's computerized reservation system, integrated content into the shopping and booking path, and (along with other intermediaries) created tools for direct connectivity to support non-hosted airline content. And air content was simply defined as the fares and schedules associated with seats. Rising labor expenses, high fuel costs, aging aircrafts, and intense LCC price competition placed additional strain on legacy carriers and an industry already fraught with operational inefficiencies. Global economic instability in 2008 exacerbated this situation and caused business travel demand to drop sharply. Some airlines went bankrupt and those that didn't teetered on financial insolvency. Airlines again reverted to reducing several areas of cost while simultaneously creating new revenue opportunities. By expanding the definition of content beyond priced availability, airlines imposed fees for a menu of services ancillary to the sale of airline seats (e.g., baggage check, seat upgrade). Whether sold as a la carte services or branded fares (services bundled with tickets), these services required airlines to create their own nonstandard ways to access (and possibly license) this content, and the rest of the market to catch up. This confluence of forces has created an air shopping process that is defined not only by a company's optimal or preferred pathway, but by a complex web of connectivity, distribution models, and payment processing options (see Figure 1).

Definition of Fragmentation

Fragmentation is defined as purchases made within a travel program that are not secured, fulfilled, or managed through a company's preferred or optimized process. Fragmentation occurs when agents or travelers try to purchase travel compliantly through the preferred booking path, but must access multiple content sources for shopping and purchasing outside that path to complete the transaction. This occurs not only during the initial shopping step but after shopping, prior to the day of departure, en route, and on the plane. Because a workaround solution is often required to facilitate the transaction, content fragmentation adds real costs to a travel program. Some of these costs are apparent; others are hidden.

There are numerous forms of content fragmentation in the corporate travel arena. This white paper examines fragmentation for air travel purchases and includes both base fares and ancillary service fees that comprise the total cost of the trip. Air fragmentation commonly results from the following three activities: purchasing airline ancillary services, searching for partial or restricted content, and accessing content directly or outside of the GDS and other intermediaries.

Airline Ancillary Services

Airline ancillaries are individual products and services beyond basic air transportation that are sold for additional fees directly or indirectly by airlines. Ancillary services are also known as ancillary content and are available as both bundled and unbundled content. Unbundled content is commonly known as a la carte or ancillary services. This refers to the menu of products and services airlines have historically provided to travelers at no or minimal additional cost above the price of airline

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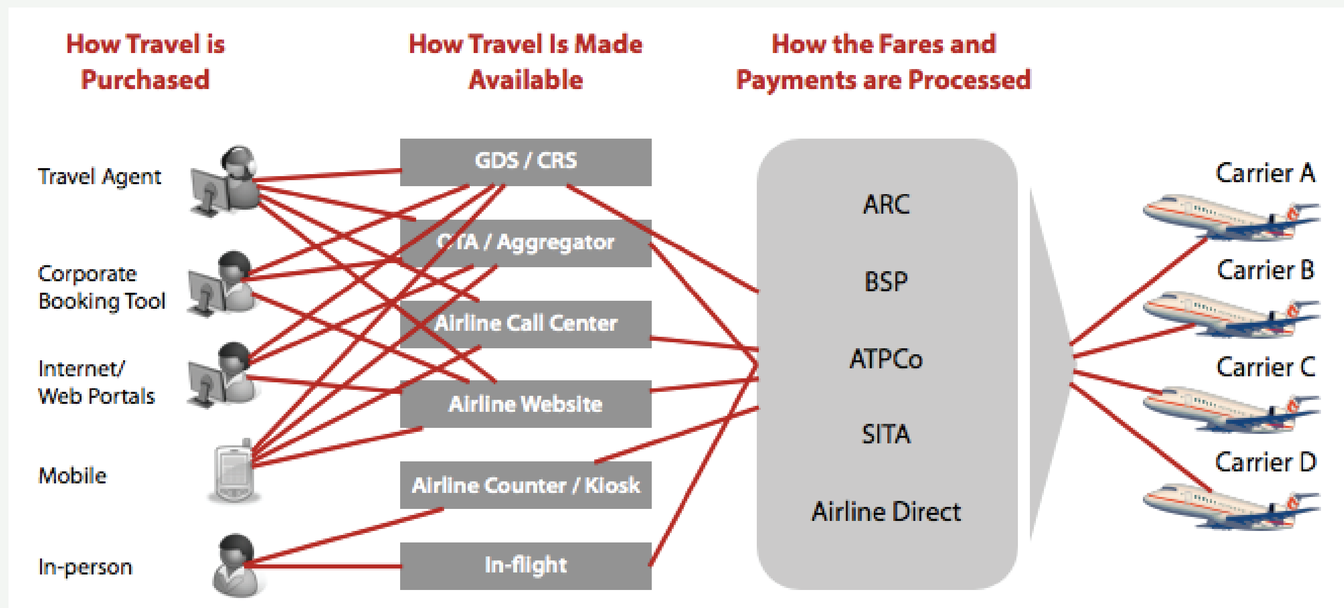
Figure 1: Corporate Air Distribution - A Maze of Complexity



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ticket. These include items related to the sale of a ticket (e.g., premium seat selection and baggage allowances) as well as those never viewed as part of the base fare (e.g., priority boarding and one-day lounge access). Ancillaries may appear as a separate fee, separate fare or bundled as part of the total fare. Here, fragmentation occurs as a result of:

- Company-imposed parameters, or when corporate policy prescribes that travelers purchase applicable seat upgrades directly from an airline at airport check-in and not via the preferred corporate or self-booking tool (SBT) or travel agent. This approach may be advocated when the discount for pre-purchasing the ancillary service at the time of booking is not worth the change fee and the poor reconciliation process if the trip is cancelled.

- Traveler-defined parameters, or when a traveler purchases an airline ticket via the SBT but decides to add an ancillary service, such as checking bags, at the airport counter or kiosk.

- Airline-imposed parameters, or when a carrier enables the purchase of ancillary services, such as premium seats, only through its call center, website, or check-in procedure.

Bundled content refers to the recombining or packaging of base fares with select airline services. This is commonly referred to as fare families or branded fares. These bundles can include services that are associated with a ticket/coupon (e.g., pre-assigned seat and premium seat) as well as those that are not (e.g., lounge pass, pillow, and blanket). Air Canada's Tango and Tango Plus Fares are examples of branded fares. Content fragmentation occurs when:

- An airline offers a corporate customer a specific package that includes free checked baggage and a seat assignment that is not available through the GDS or other intermediaries

- Current airline systems are unable to support the packaging, shopping, and merchandising of fares, fare families, and/or fees through the GDS

Because industry standards have not yet been widely implemented, GDSs must broadly facilitate the shopping, booking, fulfillment, and

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reporting of ancillaries. At the same time, an increasing number of airlines are looking to generate additional revenue and to differentiate their product offering through ancillary services. Without technology standards, broad and rapid deployment of ancillaries through intermediaries is hindered, and thus additional fragmentation could result.

Content Outside of the GDS

Content outside of the GDS refers to carriers that do not participate in the GDS at all. When a carrier's content is not available in the primary booking source, corporations must miss out, book directly with the carrier, or use technology workarounds to access the content. Accessing the content through airlines directly or through technology workarounds seldom provides buyers with a clear understanding of their spend with those carriers, consolidated reporting, or traveler tracking for security purposes. In some cases, there may be additional fees associated with the technology workaround, as well.

Carriers that do not participate in the GDS are more common in leisure travel, but this does also occur in the business travel market. Here, carriers either make a commercial decision to opt out of the GDS or do not yet have the technology in place to distribute their content through the GDS.

Partial or Restricted Content

Partial or restricted content refers to the ability to access only a portion of the relevant fares, necessary or only certain types of content. Fragmentation occurs when attempting to gain access to full content and the plethora of private fares, consolidator fares, net fares, promotional Web fares, LCC fares, and charter fares in the market. Like content available outside the GDS, partial or restricted content is often a strategic business decision made by airlines rather than a technical limitation. This type of fragmentation occurs when:

- More than one booking source is used to compare content not present in all systems
- Limited fare buckets are made available in the GDS, or the more complex net fares (or other fare types) are not offered through an SBT and agents must manually create itineraries segment by segment
- Direct connects or supplier-direct purchasing is required for specific content, or when a booking can only be made directly with the carrier for access to live availability, last seat inventory, low-fare searching, loyalty program support, deferred ticketing, or reservation cancellations and exchanges
- A carrier offers a specific fare, fee or predefined route through one channel or GDS that is not available through other channels or GDSs

This illustrates that fragmentation exists in the corporate travel market as a result of a combination of market conditions and strategic reasons.

Fragmentation also occurs when there are no industry standards for the purchase of new types of content at the POS (point-of-sale) or when the content has not been available in the GDS or other intermediaries. This is best exemplified by ancillary services. The composition of the market is also a contributor. Markets that have either one dominant carrier or high levels of LCC penetration are prone to content fragmentation. This is because a dominant carrier more readily experiments with direct distribution to increase wallet share (the amount a traveler or corporation spends with one airline rather than with a competitor), while an LCC will likely do so to lower its cost structure.

Lastly, fragmentation is a byproduct of the preemptive and competitive approach an airline may take when it strategically decides what content to make available through which channels/sources. This may be done to differentiate a carrier's offering or brand, to stimulate demand for direct purchasing, to reduce costs, and/or to directly attract higher-yield business travelers to purchase through the carrier's website without comparison shopping. This reduces agent commissions or GDS bookings, and shifts distribution costs to TMCs and corporations in the form of fragmentation costs.

Each instance of fragmentation adds layers of complexity by requiring agents or travelers to supplement the prescribed booking path with manual, nonintegrated, nonstandardized, and/or nonpreferred processes, sources, and websites to shop, purchase, and service air travel. This creates additional costs because corporations and TMCs must invest, develop, and integrate third-party tools and processes into front-, mid-, and back-office procedures.

Understanding what content frag-

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mentation is also means understanding what it is not. Content fragmentation is not rogue purchasing, which occurs when travelers purchase outside the company-defined process due to lack of awareness or for personal gain. It can include travelers' use of (1) off-contract methods of purchase (e.g., leisure travel agency and nonpreferred suppliers); (2) unauthorized purchases (e.g., seat upgrades and nonrefundable rates); and (3) unsanctioned methods of payment (e.g., personal credit cards and rewards miles). These scenarios threaten a firm's ability to meet contractual obligations with preferred partners, aggregate data for reporting, and enforce company policies Travel buyers and TMCs have worked tirelessly to curb out-of-policy spend through pre-trip approval, POS messaging, and expense-reimbursement enforcement.

Impact of Fragmentation

Understanding fragmentation and the sources that cause it is a critical first step to gauging its impact on your program. This section reveals the implications of fragmentation for your travel program, highlights fragmentation's potential impact, and reviews the range of key costs that surface when fragmentation exists.

What's at Stake?

The incidence and impact of air content fragmentation varies by company. This is because of the different ways in which content is sourced and accessed; the various methods by which bookings are made; how expenses are processed; the type of travel data collected and integrated; and the rigor and discipline with which the program is managed. However, when evaluating the effect of fragmentation on a managed travel program, there are a number of costs or areas of risk that all companies must be aware of and measure. These costs fall into four areas: operational efficiency, program dilution, traveler productivity, and technology investment. These are described below:

Operational Inefficiency

Operational inefficiency pertains to the factors that disrupt the effectiveness of the processes and people supporting business travel transactions as a result of accessing content that is not integrated into the prescribed process. These inefficiencies stem from lost agent productivity, increased processing time, increased resources for (re)training, higher error rates, and higher transaction fees.

The most obvious way that fragmentation leads to operational inefficiency is by reducing the productivity of agents charged with completing bookings. This stems from the additional time agents need to shop for and complete bookings and the post-purchase work involved in finishing transactions. When airline content is not available in the GDS, TMCs must secure fares from airline websites (either directly or through an alternative content aggregation tool), make changes by phone, and manually satisfy billing, audit, and reconciliation requirements. This often means that agents circumvent the normal workflow to complete a booking and then manually re-enter data into accounting, profile, and other systems. While not a direct out-of-pocket expense for the TMC, this approach adds operating costs and time, and cuts into overall margins. To compensate, some TMCs differentiate service fees, with higher fees applied to bookings that require work outside of the preferred workflow.

Program Dilution

Program dilution can usurp the effectiveness of a firm's contracts with a supplier, GDS, SBT, or card partner. Program dilution occurs when there is less than complete visibility into a travel program dynamically throughout the travel process. These inefficiencies are the result of missed opportunities (e.g., lost credits, rebates, incentives, waivers, and favors), lost or delayed data management, risk to other corporate initiatives, lost negotiated discounts, and duplicate payments. For example, the value of using an SBT is compromised when users cannot access all fare content. Late adopters in mid-sized companies, in particular, are reluctant to learn and use these tools if they believe better fares are available on the Internet than through the company's booking tool. This phenomenon undermines the value of any lightly or tightly managed program.

When programs are diluted, buyers' negotiating positions with suppliers are weakened. Content and channel fragmentation displaces spend data across many sources that require integration. Without the benefit of a corporate card program and/or integrated expense management system that can address fragmented data, the value and volume of a firm's supplier agreements will be splintered. Without a firm grasp on how

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much is being spent or where and how often purchases are being made, travel managers may not be able to rationalize the value of airline discounts, price variations, savings-at-risk scores, program savings options, carbon emissions trade-offs, and policy implications.

Program dilution also compromises traveler security, corporate compliance, and travel program analytics. Purchases made outside a prescribed path create unnecessary gaps in traveler security, corporate duty-of-care responsibilities, and financial and auditing compliance requirements. This lack of data preempts real-time visibility and hinders proactive management of the travel program. It also impairs a company's ability to understand the implications of these choices; to gauge fraud, waste, and abuse; and to compile benchmark comparisons.

Traveler Productivity

Traveler productivity erodes when travelers must spend additional time completing the air transaction during the travel process. This translates to increased time spent traveling or planning travel (e.g., research/shopping, purchasing, and/or exchanges) when content is not available through the agent desktop or SBT.

Travelers who do not have access to all available in-policy air options in the booking path may not be presented with the lowest fares, and companies will likely overpay for travel. This lack of access hinders the ability to make the informed choices and may minimize the effects of "visual guilt," or the pressure travelers feel to select one of the lowest fares presented. Traveler productivity further decreases when travelers are required to purchase fares through a booking path that does not provide the benefit of comparison-shopping (for example, when a traveler is required to book directly on an airline's website). The same dynamic exists with agents, and can also lead to operational inefficiency.

Technology Investment

Technology investment pertains to the additional IT outlay companies or TMCs need for technology to support fragmented processes. This includes up-front costs; per-transaction costs and maintenance fees associated with the use of third-party, off-the-shelf, or customized systems; and applications or tools needed during the shopping and booking processes.

Fragmentation may create the need for multiple technologies or technology relationships. This often includes building APIs for each supplier or building desktop applications to transact through a supplier. These additional technologies require updates and desktop integration, time and training, increased call-handling time, use of potentially unstable systems, and assumption of the technology risk associated with working with numerous smaller companies.

Each of these four areas corresponds to the overt or embedded incremental costs of fragmentation for corporations and TMCs. As a result, any differential in airfare has to be significant enough to offset the downstream costs incurred to support a fragmented booking. These areas also underscore that the effect of fragmentation is not limited to the POS, but actually extends throughout the life of a transaction and across the business travel value chain (see Figure 2).

Case Study Methodology

Even though no two managed travel programs are identical, it is important to broadly understand the average fragmentation costs impacting a travel program. To help quantify this risk, PhoCusWright developed a series of hypothetical case studies to model the varying costs and levels of content fragmentation in managed programs. While the companies represent a composite of programs, the costs and nuances are derived from real-world examples and experiences, PhoCusWright trending data, industry sources and Sabre time studies. These case studies typify five different managed program scenarios. Together, the scenarios present a continuum of different practices based on the degree to which:

- Manual vs. automated shopping, booking and quality control (QC) processes/methods are used for new and exchanged air reservations (and related ancillary services)
- The agent, supplier or traveler performs shopping and booking tasks
- The GDS and non-GDS travel and non-travel sources are integrated into the shopping process
- Third-party vs. customized technology is used
- Agent tool or account-specific training is required

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Figure 2: Examples of Fragmentation Across Business Travel Value Chain

*Note: Includes settlement and reconciliation

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- Data capture, documentation, management and reporting practices are employed

- Corporate discounts are eligible and applied

- Travel policy is enforced

To identify and gauge the impact of fragmentation in each scenario, a detailed analysis of the costs associated with key activities across the reservation life cycle was performed. Activities centered on shopping, booking, procurement management/program administration, data management and reconciliation, and customer care.

Such analysis ensures that direct and indirect factors, purchases and cancelled transactions, and hard and soft dollar savings are examined. Because of the proprietary nature of the information, this analysis did not factor the effect of fragmentation on the firm's override agreements, missed and achieved thresholds, risk associated with regulatory noncompliance, duty-of-care responsibilities, lost traveler data, or lost commissionable revenue associated with hotel and rental car. These should, of course, be considered in your own analysis.

While five program scenarios were examined, this white paper presents one—a "well-managed" managed travel program—and is referred to as Company ABC. This information will provide you with a litmus test by which you can gauge the cost of fragmentation within your own program or that of your corporate clients. Obviously, variations in program management, automated processes, incidence of fragmentation, and other factors will alter results and the potential costs of fragmentation to a program.

Below is a profile of Company ABC and its TMC:

Company ABC Profile

- Comprehensive travel program management, pursuing full services such as data consolidation and seeking company-wide efficiencies

- Shopping and purchasing are targeted at lowest fares

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- Policy deviations require the difference in fare (between negotiated and fragmented) to exceed a predetermined fare threshold
- Travelers often validate low-fare options with LCCs, nonpreferred airlines, and metasearch results
- Travel is mostly concentrated in North America but there is modest and meaningful international travel as well
- Has preferred airlines and receives an average corporate discount of 10%
- Online booking tool adoption rate averages about 51%

Company ABC's TMC Profile

- Large, full-service agency with efficient automation and processes to handle straightforward transactions
- Currently provides comprehensive reports and reconciled data to Company ABC
- Partially automated to handle fragmented bookings, but also relies on the expertise of agents for data capture
- Operations and finance departments may have to manually audit bookings to ensure these processes meet client standards
- Account managers and agents are well regarded and have contributed to Company ABC's decision to renew its contract
- Some, if any, incremental investments are made in proprietary automation but many are also made in third-party solutions

Potential Costs to Your Managed Travel Program

While effective in many regards, this approach to managing corporate travel is not without its fragmentation costs. These costs stem primarily from operational inefficiencies, dilution of negotiated programs, and lost traveler productivity. The agent in this case bears the brunt of the additional steps involved in proactive management. However, the cost of this inefficiency pales in comparison to the lost integrity of the program. The greatest risk associated with content fragmentation for this company is in the dilution of the preferred programs. This is the result of lost savings (e.g., missed discounts), lost documentation, and lost visibility (e.g., missed performance targets and weakened negotiating position in future supplier negotiations). Program dilution also occurs because the negotiated corporate discount is not applied to fragmented bookings, which occur outside of the prescribed process. Even when the fare savings threshold is met, it is not great enough to offset the workaround costs associated with supporting a fragmented booking.

The costs and burden of fragmentation in this company's program may not be readily discernable, but PhoCusWright's analysis indicates that trips involving fragmentation incurred additional costs of approximately $89.00 per ticket and produced savings of only about $17.30 per ticket. The result is a net loss of $71.70 on each fragmented trip.

This equates to a blended cost of $13.44 per transaction across the company's entire fragmented and nonfragmented air transactions. Figure 3 illustrates how these costs are allocated on a per-transaction basis for Company ABC. Of the $13.44, $10.23 is the result of program dilution, $2.77 is due to operational inefficiency, and $.44 is due to lost traveler productivity. If Company ABC had 20,000 air trips, it would pay roughly $269,000 in fragmented costs. Most of these costs are carried by the company rather than by its TMC.

It is important to note that not every company will incur the $13.44 modeled in this example, but all of the scenarios PhoCusWright modeled produced a blended cost of fragmentation between approximately $10.00 and $14.00 per transaction. Variations in TMC automation, exposure to carriers with direct connect models or content, company travel policy, and traveler behavior are just some examples of what cause the amount to vary.

The total cost of fragmentation to your program is difficult to measure as program dilution is not measured on a day-to-day basis. But t understanding that cost is still essential. Travelers and agents cannot opt for fragmented content based merely on the fare differential. The cost of fragmentation extends far beyond the rate paid and must reflect the impact (cost and risk) associated with operational inefficiency, program dilution, traveler impact, and, when applicable, technology investment.

While this example provides insight into the cost of fragmentation for

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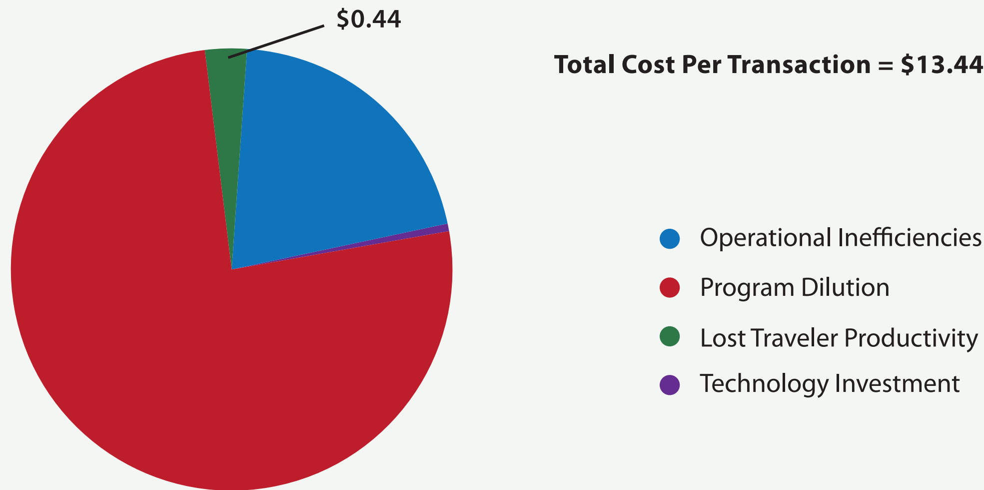
Figure 3: Potential Costs of Fragmentation, Per Transaction



*Reflects cost per transaction across the total program (not fragmented transactions)
Note: Program dilution applies to card, GDS, supplier, and SBT agreement where available.

Source: PhoCusWright Inc., Sabre.

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a single company, the reality is that fragmentation exists in all managed travel programs, regardless of program sophistication, management rigor, or geographic location.

Fragmentation requires attention, measurement, and management not only because these costs are embedded in existing travel processes, but because (1) air content is no longer defined only by the fare and schedule associated with an airline seat, but also by the ancillary services that customize the business traveler's experience; (2) air content availability may differ across a network of both comprehensive GDS participation and fragmented (or direct) distribution channels; and (3) each business model and point of distribution for shopping and purchasing carries a unique and finite set of benefits, risks, and inefficiencies that must be evaluated.

Addressing and Preventing Content Fragmentation

To optimize managed travel programs in these economic times, procurement strategies have become sophisticated and pervasive. These include tightening travel policy, judiciously using demand management practices (e.g., Web conferencing and telepresence technology), and leveraging expense management systems to preempt spend at the POS and catch fraud, waste, and abuse during post-POS audits. Gaining visibility and measuring the impact of fragmentation from shopping to reconciliation represents another strategy by which travel buyers and TMCs can optimize travel programs. This section identifies the best-practice strategies companies and TMCs may implement to address and prevent content fragmentation.

Corporate Next Steps

Corporations should seek greater transparency from suppliers and better visibility into their own travel program performance. If they achieve these objectives, they can minimize the inefficiencies of fragmentation and mitigate its cost impact on their program. This requires travel managers to:

- *Examine Your Contracts and Your Contract Performance.* Encourage suppliers to make full content and services available through your prescribed process so that the program can deliver on market share hurdles and be managed effectively. This should include not only fares and schedules but ancillary services and fees. Also encourage suppliers to track and regularly review your company's performance. This visibility will help you assess the significance of fragmented content in your program, gauge your ability

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to satisfy supplier agreements, and allow you to implement corrective action to prevent contracts from being compromised. Consider negotiating contracts with carriers with whom you anticipate increasing volume. You may also want to negotiate ancillary spend into your agreement, either by including it in the base fare or by negotiating for a greater number of loyalty program status awards where the ancillary is already included.

- *Gauge the Risk.* When it is not possible to integrate content into the preferred process, gauge the impact or costs associated with obtaining content from outside the established booking path. Accurately calculating the cost of managing travel can be a complex but worthwhile process. In isolated and strategic instances, fragmented content may actually be most effective, as long as the airfare is just one of many cost impacts evaluated.

- *Use Metrics to Find the Money.* The metrics you already use to gauge the effectiveness of your program can provide clues about whether fragmentation exists. Aberrant agent productivity and an increase in the number of exceptions are just two indicators of fragmentation. A fragmented booking requires almost twice as much time to comparison-shop (source: Sabre), and agents will have higher look-to-book ratios and fewer completed transactions per day. Fragmented bookings will require policy to be manually applied, prevent the application of policy, and/or necessitate a separate process to manage unused tickets. This will be reflected in heightened activity on exception reporting.

- *Understand Your Costs vs. Fees.* Where company reports and trending data indicate fragmentation exists within your program, isolate the greatest costs (e.g., operational inefficiencies, program dilution) and calculate their downstream impacts. If corporate travel policy is designed to discourage fragmented behavior (as in rigorously managed programs), travel buyers and TMCs should structure compensation around a differentiated fee scale, whereby the fee for processing a fragmented booking is different from the fee for processing a nonfragmented booking. This will ensure both partners are similarly motivated.

- *Establish Strategic TMC Partnerships.* Partner with an experienced TMC that is willing to be more transparent with service costs and processes, offer strategic advice on different strategies to deploy, and guide the corporation through the transition period of new processes. For example, exception processing looks seamless, but that may be because costs are embedded in agency fees or because TMCs have proactively and complimentarily provided this service for some proportion of your transactions. Simply stated, cost transparency provides greater opportunities to control costs.

TMC Next Steps

This next evolution of fragmentation creates new and rekindles old challenges in the corporate travel market, and encourages TMCs to:

- *Know Thy Costs.* Costs will vary by distribution channel. Revisit the costs associated with direct and GDS bookings for both SBT and agented methods. This will enable you to update and optimize processes that are the most cost-effective and beneficial to you and your corporate clients.

- *Drive Cost Transparency.* Over time and due to market conditions, TMCs created blended service fees to prevent itemizing and charging individual and incremental costs. However, increased content and fare disparity between channels and additional workaround solutions have boosted costs and reduced productivity. This requires TMCs to re-allocate commercial terms with corporate clients wherever these costs are identified.

- *Evolve Supplier Partnerships.* Solidify partnerships with preferred suppliers by reconfirming your commitment to work together, but also discuss your dissatisfaction with procuring content outside of the standard processes, especially if it results in higher fees or costs to your program. This open dialogue may reveal mutual challenges, shared costs, and duplicative processes that will spark improvements for both companies.

- *Uncover Hidden Costs.* In addition to offering spend and demand management practices to lower travel expense at the point of purchase, TMCs must help companies identify the additional and downstream costs associated with content fragmentation. This will help

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mitigate risk, fraud, waste, abuse, and process inefficiencies.

- *Dig Beneath the Surface of the Iceberg.* Operational (and agent) costs are often scrutinized when program effectiveness is in question, improved efficiencies are required or content integration is necessary. This is because these can represent the most visible costs and are often a direct measurement of a TMC's performance. Ensure agents are properly trained to support manual changes and cancellations through a separate booking path and leverage the capabilities of new technology. The less automation is involved in processing a trip, the higher the incidence of agent errors. This stems from a combination of incorrect and omitted data. The more transactions booked directly through the supplier, the less frequently travelers access itineraries via the SBT or mobile devices to make changes. This results in a surge in agent pre-trip and en route reservation support.

- *Leverage Automation.* Offset content fragmentation by using technology to automate tasks that agents must complete or remember to complete in a manual environment. Consider technologies that facilitate multisourcing at the POS, standardized technology across regions, consolidated back-office systems. Offer tools to drive higher SBT adoption. Weigh the costs of these solutions against the benefits to see if a company can recover automation costs.

- *Reinvent Thyself.* With each economic downturn, contract renegotiation, and changing set of market dynamics, TMCs have reinvented their services and processes. The current shift to fee-based business models and direct travel distribution options reveals incremental costs that again require TMCs to re-evaluate their strategies to minimize internal and buyer costs.

As market dynamics become more complex, fragmentation is more likely to occur in managed travel programs. To be successful, you must recognize and anticipate four ongoing trends: (1) suppliers will seek to efficiently offer content across a host of platforms, devices, and channels, and even directly with business travelers; (2) GDSs will embrace new forms of content, measurement, and technology; (3) TMCs will integrate the services and tools that provide a seamless, end-to-end solution; and (4) corporate procurement and travel buyers will seek out centralized sourcing and purchasing through a defined procurement process in an effort to demonstrate ongoing incremental improvement and embrace their duty-of-care and fiscal responsibilities.

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