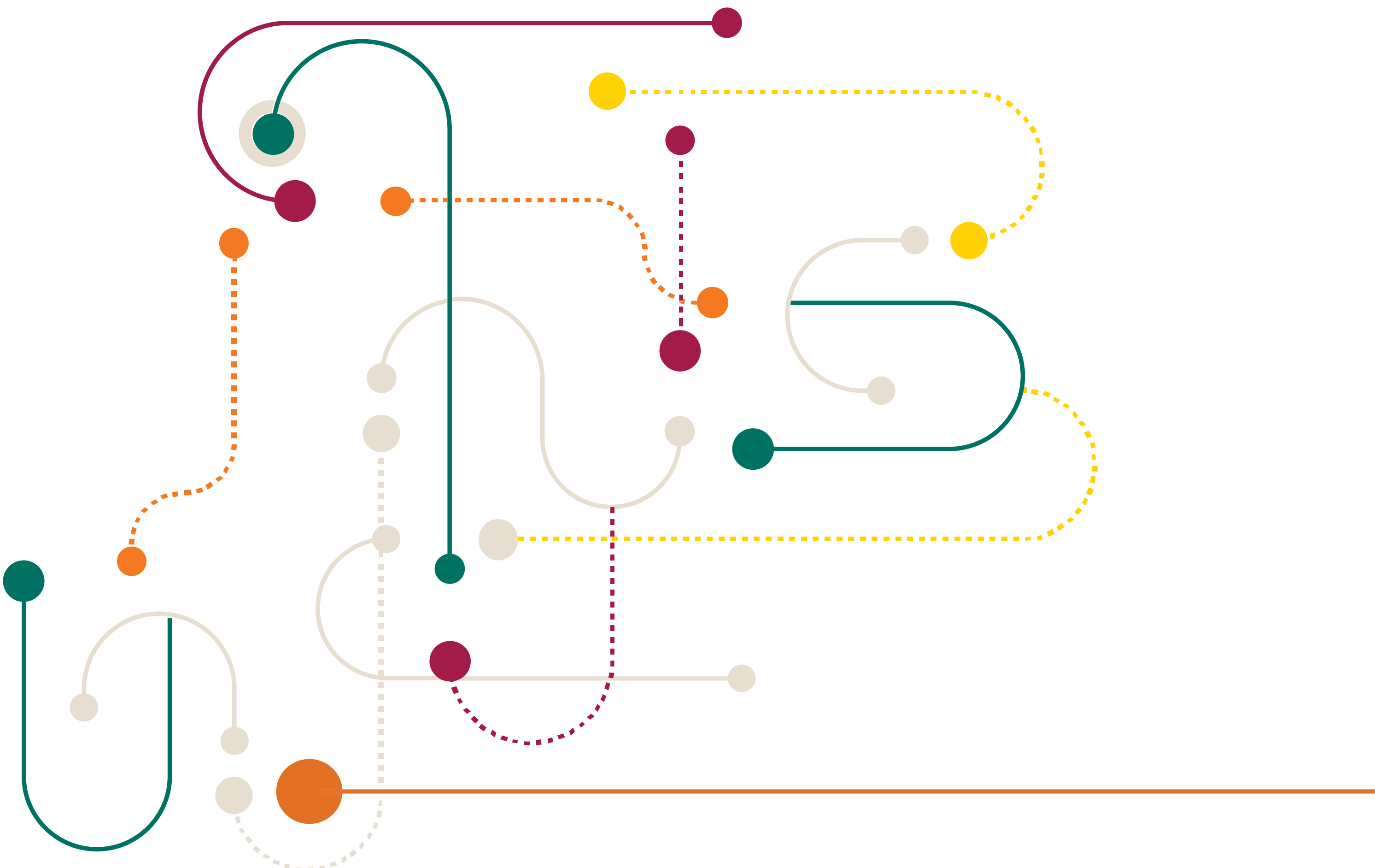
Going places: A snapshot of the corporate travel industry

November 2016



Introduction

The ‘outsourced’ or managed corporate travel market, despite its size is still relatively immature, in the sense of headroom for outsourcing penetration growth and fragmentation of the competitor base.

However this is changing, accelerated by the economic slowdown, as corporates increasingly seek to manage their travel costs and travel management companies (TMCs) look for consolidation opportunities to capture scale benefits.

We studied the UK and US markets to assess the market opportunity and outlook for TMCs.

The business travel market is large and growing, on both sides of the Atlantic

The business travel market is significant, and as figure 1 demonstrates, showing single digit growth. As a proportion of GDP, it is 1.7% of the US and 1.6% of the UK.

UK data (see figure 2) suggests that three big sectors account for the majority of spend: professional services, property and construction and public services.

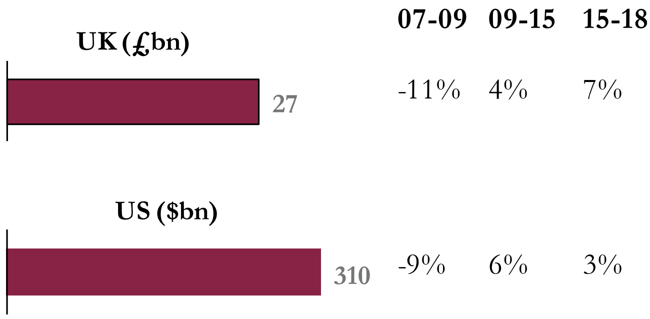
Business travel spend was sharply hit during the global financial crisis, but has since recovered – though the UK only barely reached 2007 levels in 2015. The cuts in travel spend were reflected both in the volume of air travel and a downgrading in cabin class, as shown in figure 3. Many corporates also shifted to using more videoconferencing technologies to replace air travel.

TMC's revenue model typically comprises:

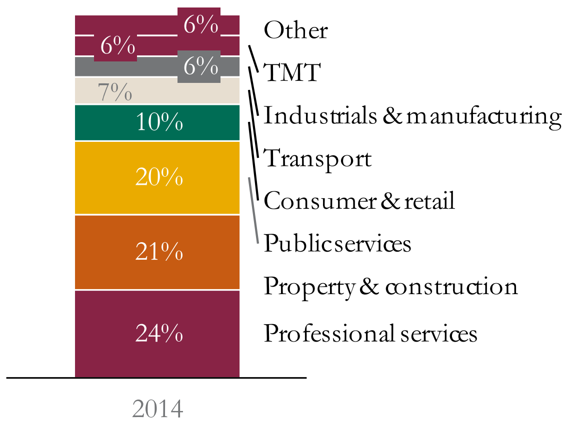
- An annual management fee (reflecting a level of dedicated TMC staff to provide an 'on-site' desk to the client) and/or transaction fees, which vary depending on the itinerary and whether booking through an online 'self-booking' application or a customer service rep
- Supplier income from airlines and hotels – which can be in the form of reduced 'nett rates' which the TMC marks-up, or some form of commission income

This revenue model provided TMCs with some economic resilience to the extent that they are focused on management fees. In addition, during the downturn, supplier income increased as airlines and hotels sought to fill capacity

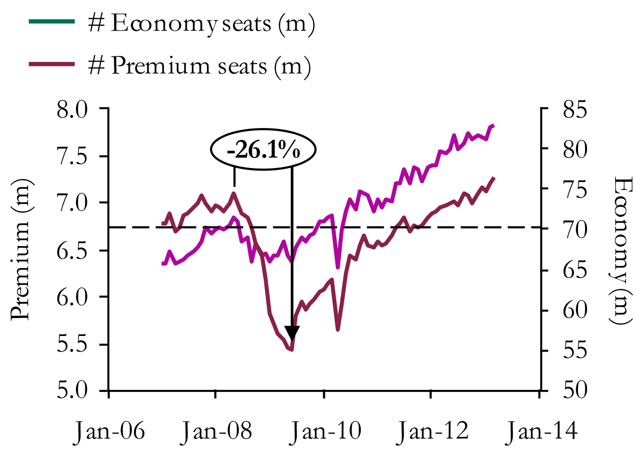
1. Business travel spend, 2015



2. UK business travel spend by sector, 2014



3. Global international air passengers by seat class



Source: IATA, GBTA

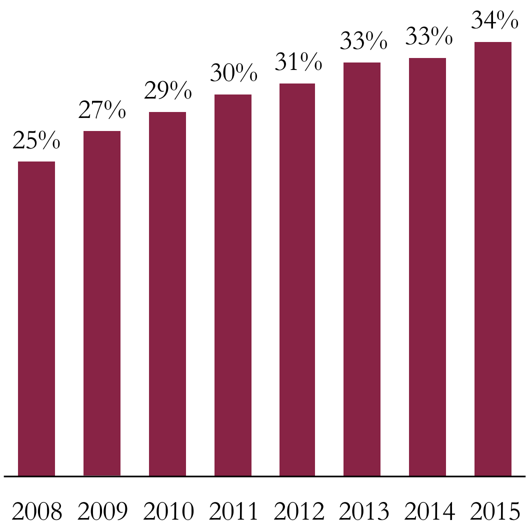
The managed travel market has been steadily increasing penetration of overall business travel spend

To perhaps state the obvious, business travel can either be booked directly online by the individual or through a company-appointed travel management company (TMC).

A surprisingly large volume of business travel is booked directly by the individual. This is because a large number of corporates either do not have a TMC arrangement or do not strictly require employees to use the adopted TMC. Figure 4 shows the UK share of the top 50 TMCs of UK business travel market. TMC penetration has been on an increasing trend, accelerated by the 2009 financial crisis, as corporates both try to gain control over their travel expenditure and recognise their responsibility to be able to know employees' whereabouts in the case of an unforeseen event.

TMCs have already penetrated large corporates but a significant penetration opportunity clearly remains predominantly in the mid-market space.

4. Top 50 UK TMCs share of GBTA UK business travel spend



Note: * Figures may be understated slightly as GBTA data includes subsistence costs not normally captured by TMCs

Source: Buying Business Travel, 50 leading TMCs, 2009; Mintel 2014, Business Travel – UK, August 2014

Choosing a TMC

Key purchase criteria vary by company size and type. Larger companies tend to have a procurement professional focused on cost savings and the data analytics which technology brings

Key purchase criteria

Service

- *'You can price and price but it all comes down to the agents on other end of phone and whether they are polite, friendly and willing to help. You are negotiating for a service– it can't be all price driven'* – Travel Procurement Manager, Professional services
- *'We wanted a supplier who has the technology but still are operating a high touch service'* – Travel Procurement Manager, Professional services
- *'Our tender has 85 questions. What we are looking for is a partner that can drive down travel cost, provide Business Intelligence instead of data, have a keen understanding of industry and can balance service, security and cost'* – Procurement Consultancy

Technology

- *'Increasingly the focus is on the tech for booking online, trip interruption processes, safety and security. It used to be about how many travel counsellors – increasingly now it is about which online tools you integrate – mobile apps, ability to change on route – live, real time alerts and so on'* – Travel Procurement Manager, Insurance

Price

- Transaction fee is relatively low compared to ability to reduce costs through negotiated rates with airlines and hotels
- TMCs are knocked out in the earlier tendering stages as a result of price
- *'When we looked at cost – we don't look for the lowest but two of the five were hundreds of thousands more expensive'* – Travel Procurement Manager, Financial services

Reporting and analytics

- *'Reporting and analytics are very important – more procurement people are involved in TMC decisions nowadays so there is a lot of emphasis on that'* – TMC
- *'Reporting is key – particularly risk reporting pre-trip and post-trip – as we have a duty of care to our employees'* – Travel Procurement Manager, Law firm

Security and risk management

- *'Duty of care is a priority when looking at traveller programmes'* – Travel Procurement Manager, Professional services
- *'We have a pretty mature managed travel programme – travel booked through central agencies by making one call to book. We have a duty of care and robust security – it is key to have a point of contact'* – Travel Procurement Manager, Financial services

Source: Grant Thornton interviews

Competitive landscape in the UK

The UK market is highly fragmented, characterised by a top-tier of 5 global players, a large mid-tier of (often high-touch) players, and smaller, fast-growing online players

Global and national generalists have a network across a large number of countries, enabling them to service multinational corporates, and tend to be sector agnostic. A large number have grown through acquisition, to capture economies of scale, and increase their geographical presence.

They can offer a more standardised solution to customers, although some do have dedicated teams if clients require a more "high-touch" service.

Generalists tend to have a relatively high online booking % by users.

High-touch specialists are largely UK based – though some have opened overseas offices in major cities (London, New York, Paris), or are members of international networks.

These TMCs offer a solution tailored to specific industry sectors, such as entertainment, legal and finance, who may require a more bespoke and fuller range of services, pre, during and after travel, although it is in the TMCs' interest not to have too much exposure to one industry.

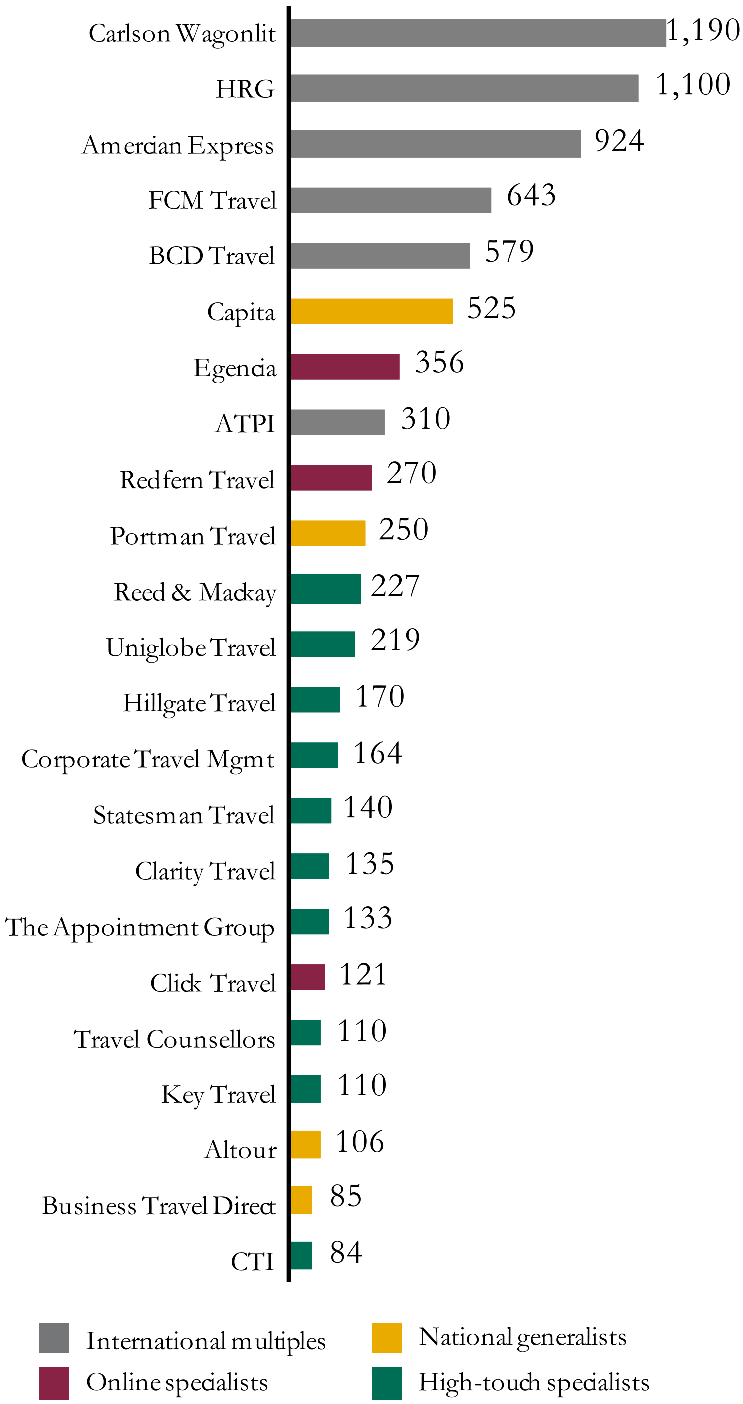
Higher fees reflect the higher level of service offering, and they tend to have a low online booking %, with more last minute, complex trips.

Online specialists provide a low cost, lower service solution through an online booking solution.

They are becoming more popular as online adoption increases amongst millennials, and often operate a SAAS payment model, which appeals to the SME market.

Itineraries will typically be simple point-to-point sources, but their capabilities and flexibility of service is increasing.

5. Top TMCs in the UK



Source: BBT, Grant Thornton interviews

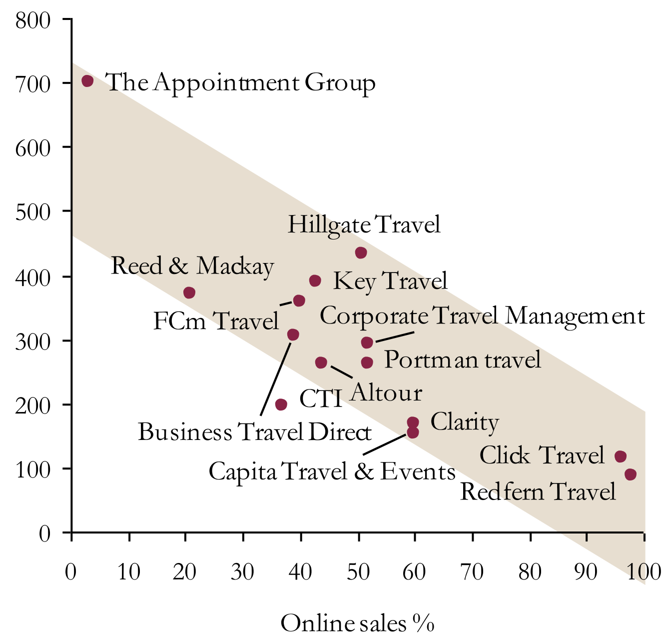
Online focused players typically have a lower ATV and earn lower fees per transaction

The majority of bookings through online-focused players will generally be less complex, lower cost journeys such as domestic train journeys or flights. Fees are likely to be transaction-based, with the corporate making the majority of bookings through an online tool. Revenue margins are subsequently lower because the value of these transactions is lower.

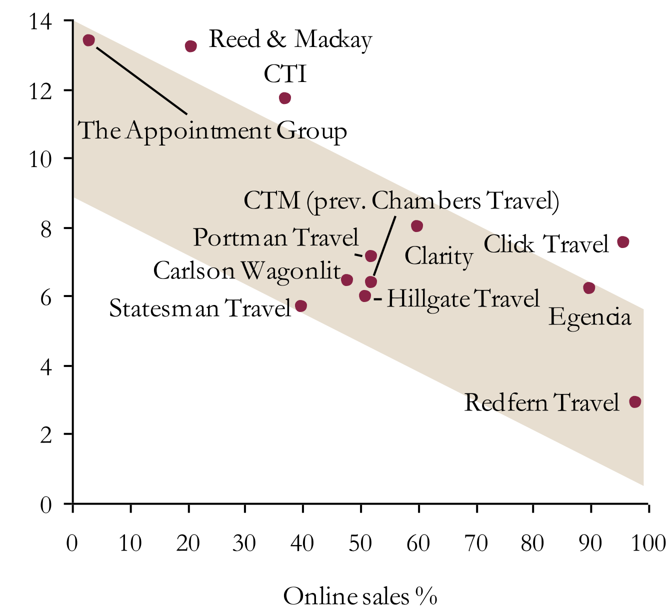
Bookings made largely offline will tend to be on behalf of either key personnel booking higher-class, more expensive travel or for complex itineraries. These TMCs will tend to provide a dedicated account manager to clients, with fees more of a hybrid between fixed fees and transaction fees to pay for this extra level of service. TMCs who focus on these types of bookings will have higher revenue margins because of the increased value of the journeys being booked driving supplier income streams, as well as higher fees.

Online sales tend to have lower revenue margins as, not only are fees lower given their self-service nature, they apply to travel bookings that either do not offer supplier income (e.g. train) or where such income is limited (e.g. economy airfares) as the carriers don't need to provide the same level of incentives to sell this type of inventory.

6. Online sales and average transaction value – 2015



7. Online sales and revenue margin – 2015



Source: Buying Business Travel, 50 Leading TMCs, 2016

The US market structure is also fragmented but consolidating

In the US, there has been a trend away from global TMC arrangements to a best-in-region approach which has allowed mid-sized agencies to take market share from the global multiples

The industry can be segmented into:

- **The 'Big six'** – AMEX, Carlson Wagonlit, BCD, FCM and Egencia **-** dominate the market for multinational companies, with over $1bn per year travel expenditure
- **'Super-regionals'** – e.g. Travel & Transport, Ovation, Frosch, Altour and Direct Travel - focus on the next tier of corporates, that may get less attention from the 'Big Six', and will typically be part of global networks (e.g. Radius)
- **Specialists** – e.g. Valerie Wilson, Professional Travel and Shorts Travel – tend to focus on a particular sector such as entertainment, legal, or sports, and offer a more flexible, high touch service. These TMCs will target corporates with an annual travel spend of $1-30m

There is increasing consolidation in the US TMC market, with both the larger and mid-market agencies acquiring smaller companies in order to enter a new geography or expand their client base. Examples include:

- Carlson Wagonlit acquired California-based Worldmate in 2012
- BCD acquired Texan-based Tbiz in 2013 and Knoxville-based World Travel Service in 2015
- Frosch, a mid-sized player, acquired a number of smaller TMCs in recent years, including New York-based Willett Travel, Florida-based Adventure Travels, and Atlanta-based Teplis Travel enabling it to grow rapidly.

Source: Grant Thornton interviews

Conclusion

As corporates look to increase their operations and supplier network globally, the role of the TMC becomes key. The TMC industry is fragmented in both the UK and the US, with a continuing trend towards consolidation as a route for TMCs to grow revenues and market share, and provide services across geographies.

Technology is becoming increasingly important: from an employer's perspective, online-booking can be more cost effective and offers better tools for security and risk management. With the rise in online adoption, employees are willing to book their business travel online, as they do so with their leisure travel. Our research suggests that even the high-touch players are shifting towards a two-tiered approach – offering online booking tools to the majority of employees, and a more bespoke service to a small number of key personnel.

Brexit could prove to be beneficial for TMCs in the short-medium term as corporates seek to more closely manage travel costs and as professional service consultants travel, to support their clients manage Brexit risks. Additionally a weaker pound may help to boost exports for some UK businesses, which could stimulate business trips to their overseas markets. In the longer term, if Brexit means (hard) Brexit, then there may be a shift in travel behaviour away from the traditional London hubs to European cities, which will need to be carefully anticipated and managed through building a presence in key European hubs.

Contacts

Ven Balakrishnan
Partner | Strategy Group
T +44 (0)20 7865 2695
E ven.balakrishnan@uk.gt.com

Richard Parkin
Associate Director | Strategy Group
T +44 (0)20 7865 2164
E richard.m.parkin@uk.gt.com

Rachel Patton
Executive | Strategy Group
T +44 (0)207 728 3207
E rachel.patton@uk.gt.com