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Procurement Practices

Buyers Seeking More Precise,

BY SETH HARRIS

While an increasing amount of procurement-oriented travel buyers are using service-level agreements in some of their supplier contracts, some buyers, as corporations increase scrutiny of IT spending in the current economic environment, are reevaluating their SLAs to make them more stringent and including risk-related criteria in the form of financial incentives for exceeding goals and penalties for shortfalls. In fact, about half of those who responded to Business Travel News' survey include financial incentives or penalties as part of their agreements.

Meanwhile, procurement's increasing influence over corporate travel management has brought forth further metrics-based analysis for management and buying decisions, especially for air, car and hotel, where steady measured key performance indicators primarily focus on such price analysis as average cost per mile, average total price and average total room rate. Likewise, measuring travel management company KPIs has proved more difficult, as they are more subjective, subjective and at times dependent on a firm's business priorities and service needs.

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Q&E Systems, which manages travel through its procurement organization, has SLAs in place for some travel suppliers but doesn't put much stock in them for its travel management com-

pany relationship, as changing business needs and patterns often render SLAs obsolete. "The SLAs just serve the purpose of being able to point a finger and then not what it's about," said Q&E Systems manager of travel administration Melissa Grimes. "Through partnership, we can achieve the goals without referring to arbitrary numbers. It has to be a win-win for both. American Express is given SLA standards in the marketplace, but when if the company is not a good partner and doesn't allow them to hire the staff needed to meet the SLA? You have to be in a place where you can help them be successful."

Buyers who do use agency SLAs often focus measurements on office agent service metrics, which are seen by many as the hallmark of agency customer service. "It's the leading indicator and the crown-in-the-crown sort of thing," said Tom Wilkison, president of Flemington, N.J.-based TRW Travel Consulting. "If telephone calls are fast, the rest of the service is probably suffering."

Although Corporate Travel 100 company Q&E Systems does not take a hard-and-fast approach to travel supplier SLAs, its procurement orientation brings with it a metrics-oriented mindset. The company focuses its agency service levels by using phone stats in concert with KPIs derived from internal traveler surveys administered by its agency, American Express Business Travel. As part of the travel process, the survey is issued to travelers 30 to 60 days after trip completion and results are reviewed with the supplier quarterly.

"The client survey to me is the most important KPI that we have," Grimes said. "In and of itself, looking at it doesn't tell you much, but when you step it up and put it with our phone stats, that's when the data becomes a lot more robust."

Midmarket travel spender National Semiconductor also manages travel through purchasing and applies similar agency measurement practices. Mark Vitousek, senior purchasing manager of travel services, said he also judges agency service-level metrics through internal traveler surveys, office agent KPIs and general traveler feed-

Procurement Practices

Stringent SLAs, KPI Metrics

backs to ensure subject to service-level metrics. Vitousek, a longtime procurement-oriented buyer, uses a vendor scoring system from 10 to 100 and renews high-volume contracts quarterly and lesser volume agreements annually.

While procurement's proliferation into corporate travel management has increased the use of financial incentives and penalties for suppliers based on SLAs has remained constant among survey respondents, with about half using neither. Consultant Wilkison attributed some of the risk-averse non-use to the complexity of assessing a penalty or bonus and reluctance to distribute financial incentives, even though buyers initially are keen on the idea.

"Ultimately, those discussions tend to bog down because the same financial procurement guy who really likes the idea of linking it to a vendor who doesn't come through may not have the budget authority to write a check if the vendor beats their target," he said.

One SLA risk-averse method that is growing in use is the more partnership-oriented practice of gainsharing, in which suppliers receive a share of a corporation's savings to offset some of the cost and make successful with providing customized services, technology, support staff and infrastructure, or as vice president of American Express advisory services Frank Schur called it, "having someone else in the game in terms of driving results."

Where contracts include more stringent SLAs, gainsharing can be an alternative to the procurement-driven all-or-nothing monetary rewards or penalties.

"The SLA should be a mutual incentive," said BlackRock vice president and global travel manager Mera McSorley who reports through corporate finance. "It has to have a shared opportunity in order for it to be an incentive. If they help us reach our mutual share agreements, that could represent a rebate to the agency or an issue of opportunity for them to generate a little bit more revenue. If the agency, for example, helps us

achieve our goal of 70 percent online adoption, then we are going to share in the cost of the process improvement as well. It is not only beneficial to us because we have cut down the processing costs but the client has a positive impact on the agency's actual fixed cost, so it should lead to a process improvement."

McSorley plans to bring SLAs back to the forefront of BlackRock's travel supplier contracts and include stronger guidelines to reduce ambiguity and to align SLAs with department-level goals for accounts program.

Use Of Service-Level Agreements For Travel Suppliers

	2008		2007	
	All respondents	More than \$5M	All respondents	All
Yes, for all travel suppliers	12%	23%	13%	
Yes, but not for all	42%	65%	41%	
No	46%	12%	46%	

Use Of Volume And/Or Marketshare Commitments In Service-Level Agreements, 2008

	2008		2007	
	All respondents	More than \$5M	All respondents	All
Yes, volume commitments	13%	17%	13%	
Yes, marketshare commitments	6%	8%	13%	
Yes, both	34%	29%	27%	
No, neither	47%	51%	47%	

Use Of Financial Incentives Or Penalties To Suppliers Based On Service-Level Agreements

	2008		2007	
	All respondents	More than \$5M	All respondents	All
Yes, incentives only	8%	7%	7%	
Yes, penalties only	17%	17%	20%	
Yes, both	26%	19%	23%	
No, neither	49%	61%	50%	