Innovation and Opportunity in U.S. Corporate Travel

Written and Researched by
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Foreword

Some consistency and significant change: This is the state of the U.S. corporate travel market as captured in Phocuswright's *Innovation and Opportunity in U.S. Corporate Travel*. On one hand, things have stayed the same, including our country's thirst for business travel. "Despite the global economy's twists and turns, the U.S. corporate travel market is expected to continue on its growth path," with corporate spending on air travel projected to reach $70 billion – and $40 billion on lodging – by 2017. The strategic priorities of travel managers also remain consistent, with cost savings the top aim, followed by increasing policy compliance and fulfilling duty-of-care obligations.

On the other hand, it's *transformation*, not consistency, that best represents the state of corporate travel today – driven by technology innovation and big changes in traveler behavior, especially by the growing base of millennials. Nearly 80% of 18- to 34-year-old business travelers in the U.S. are using a smartphone to research air travel, according to Phocuswright. And 27% of business travelers are using their smartphones not just to research, but to book.

"Travelers' reliance on smartphones, while expected, has surprised many industry observers by the sheer speed at which it has occurred…" And with the explosion of powerful mobile and web-based booking channels, and new supplier marketing strategies targeted at business travelers, we're seeing more than a third of business travelers booking directly on hotel brand websites like Marriott.com, according to Phocuswright. The rapid change in traveler behavior makes it much more challenging for travel managers to address their strategic priorities.

But where there's challenge, there's opportunity, and "opportunities abound for those who adapt their strategies and take on the new reality," says Phocuswright. "As technological and behavioral changes buffet the landscape, every stakeholder will have to adapt and evolve, in order to make the most of the opportunities that lie ahead." To improve cost savings, compliance and duty of care, travel managers are looking to enhance mobile capabilities for travelers, implement expense management functionality to make things easier for travelers, and improve data analytics as sources of data multiply.

The good news is the business travel industry is innovating to meet the evolving needs of companies. "Mobile receipt capture, automated expense report creation, credit card data import and submission/approval via mobile phones are a few of the enhancements expense management companies have introduced as they look to reduce friction in the process." The entire travel and expense management process is "fairly seamless to the traveler."

But more must be done. To address the unprecedented changes in traveler behavior, business complexity and technology innovation, we must no longer accept the limitations of old paradigms. In today's world, we need an integrated ecosystem of products, services and partners that allows us to find an employee during times of crisis; write and administer one policy, not multiple; receive the support of TMC partners on all travel, not just that which is booked via the GDS; apply policy to all travel before it occurs; ensure that what was approved for travel matched what is expensed; and capture receipts directly from suppliers without asking travelers to take a picture.

The future requires a fully connected Travel & Expense Management ecosystem that adds value across the entire life cycle of employee spend. And one that works seamlessly across multiple partners and providers. We're delivering on this vision at Concur.

This forward thinking on behalf of our customers – companies large and small – has enabled Concur to lead in a time of transformation. According to Phocuswright, Concur Travel is now used by nearly 70% of U.S. businesses. We're excited about the opportunity that lies ahead.

About Phocuswright

Phocuswright is the travel industry research authority on how travelers, suppliers and intermediaries connect. Independent, rigorous and unbiased, Phocuswright fosters smart strategic planning, tactical decision-making and organizational effectiveness.

Phocuswright delivers qualitative and quantitative research on the evolving dynamics that influence travel, tourism and hospitality distribution. Our marketplace intelligence is the industry standard for segmentation, sizing, forecasting, trends, analysis and consumer travel planning behavior. Every day around the world, senior executives, marketers, strategists and research professionals from all segments of the industry value chain use Phocuswright research for competitive advantage.

To complement its primary research in North and Latin America, Europe and Asia, Phocuswright produces several high-profile conferences in the United States, Europe and India, and partners with conferences in China and Singapore. Industry leaders and company analysts bring this intelligence to life by debating issues, sharing ideas and defining the ever-evolving reality of travel commerce.

The company is headquartered in the United States with Asia Pacific operations based in India and local analysts on five continents.

Phocuswright is a wholly owned subsidiary of Northstar Travel Media, LLC.

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Introduction

Corporate travel[1] in the U.S. has seen a steady resurgence over the past few years as the economic recession slowly melts away. Rising business confidence is reflected in an uptick in business travel spend for five straight years since 2011. There is little sign of slowing down: Despite clouds looming over the global economy at the beginning of 2016, the U.S. business travel outlook remains healthy.

In the years since the last recession, when cost savings dominated the conversation, priorities have shifted. The business travel industry is experiencing changing consumer behavior and technological innovation – and trying to understand how each, individually and in tandem, will challenge the status quo. Corporations are taking a fresh look at travel policy in response to this complex environment.

Travel policy, once dictatorial in nature, is morphing into a softer version of itself where travelers' behavior exerts more influence than ever. Travelers' reliance on smartphones, while expected, has surprised many industry observers by the sheer speed at which it has occurred, and has resulted in mobile turning into the cornerstone of every industry stakeholder's strategy. And when travelers book directly on supplier or aggregator sites – often because they have few, if any alternatives – companies are increasingly implementing solutions to capture the data and manage these transactions.

As generational and technological change continue apace, the industry will continue to evolve rapidly. Opportunities abound for those who adapt their strategies and take on the challenges of this new reality.

Methodology

This report synthesizes information from Phocuswright's *U.S. Corporate Travel: Market Sizing and Trends*, and is based on the following four key research components:

1) Corporate or Managed travel refers to business travel governed by a formal travel policy which may include elements such as preferred suppliers, preferred booking channels, travel authorization or trip pre-approval, and an expense policy/system.

Market Sizing

This report sizes the total corporate travel market in the U.S. and includes the value of bookings made through online and offline channels, including supplier-direct channels and intermediaries such as travel management companies (TMCs). Corporate travel spend is represented in gross travel value (US$B) and defined as U.S. supplier revenue (air, hotel, car, ground transportation and rail) generated from managed travelers. Total U.S. market size figures are per Phocuswright's *U.S. Online Travel Overview Fifteenth Edition*. Corporate travel spend estimates and projections are compiled from U.S. supplier revenue, industry interviews with travel providers and data from Phocuswright's *Travel Manager Survey 2015*. This report contains actual figures for 2014 and forecasts for 2015-2017.

Managed Traveler Survey

Phocuswright fielded an online survey of managed travelers from October 17-24, 2014. To qualify for the study, respondents must have taken at least one business trip at least 75 miles from home in the past 12 months that included paid lodging and/or air travel on behalf of a company with a managed travel policy. Phocuswright received 520 qualified responses, and the respondent pool can be projected with confidence onto the U.S. online corporate traveler population.

Travel Manager Survey

Phocuswright fielded an online survey between April 30 and July 30, 2015 targeting respondents with oversight of, at a minimum, their firms' U.S. travel program, including but not limited to setting corporate travel policy, negotiating corporate rates or supplier discounts, managing business travel expenditures and ensuring compliance with travel policy. Phocuswright received 159 qualified responses to this survey.

Industry Executive Interviews

Additionally, Phocuswright conducted more than 20 in-depth interviews with stakeholders from across the corporate travel industry to obtain insights into the trends and dynamics shaping the industry. These stakeholders include suppliers (airlines, hotels and car rental companies), intermediaries (TMCs, GDSs, content aggregators), and technology companies (OBT providers, expense management companies, data and reporting service providers).

Key Findings

Size of the Market

- The managed segment represents about one third of the total U.S. travel market and is projected to have reached US$112 billion in 2015, a 4% gain over the previous year. Growth will moderate slightly to 3% annually through 2017, when the market will reach $119 billion.

- Online channels will continue to expand their share of U.S. managed travel spend, albeit at a slow pace. Online bookings of $74 billion in 2017 will represent 62% of the total corporate market.
- Intermediaries' share of total managed spend will improve marginally, rising from 78% in 2015 to 79% in 2017. However, as ancillary distribution through NDC and similar schema become more widespread, intermediaries are likely to make further gains.

Survey Findings

- Online booking tools are nearing saturation, with 92% of corporates using at least one such tool. Many smaller players have exited the market in recent years to the benefit of Concur Travel. Nearly seven in 10 (69%) of corporates use Concur's OBT.
- Cost reduction (59%) and policy compliance (47%) remain top of travel managers' strategic priorities followed by duty of care considerations (39%).
- Enhancing mobile capabilities for travelers remains a key focus for travel programs with 77% of travel managers placing it among their top three technological priorities. Expense management functionality is a close second at 73%.

Size of the Market

U.S. Total and Corporate Travel Market

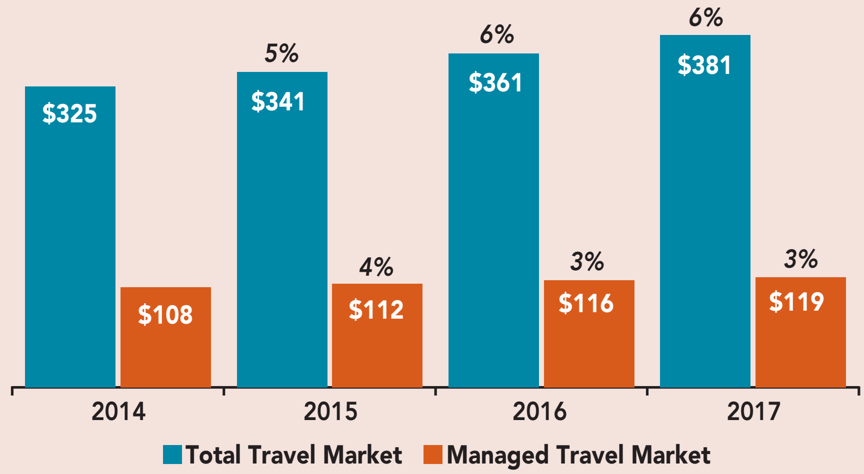
The U.S. travel market continues its post-recession recovery. Improved consumer confidence, a stable job market and low unemployment have all contributed to the willingness of the consumer to expend their travel dollars. Seventy-two percent of U.S. adults took at least one leisure trip in 2015. Over a third (34%) plan to spend more on travel next year.[2] Total travel revenue was projected to reach $341 billion in 2015 (see Figure 1).

The global economy had some setbacks in early 2016, and uncertainty made a comeback. But, U.S. indicators remain mixed, and with unemployment at an eight-year low and overseas travel more attractive due to the U.S. currency's strength, the travel industry remains optimistic. The market is forecast to grow at a steady 6% annual growth rate over the next two years taking it to $381 billion by 2017.

The corporate travel market has also seen a resurgence as companies sent their travelers back on the road. Corporate travel is projected to have grown by 4% to $112 billion in 2015. However, practices like curbs on premium class travel and lowest logical fares remain prevalent. Travel spend will also be impacted as corporate airfares, continuing their recent trend, remain flat or decline and hotel revenue growth moderates as more supply comes online. By 2017, the managed travel market will be valued at $119 billion, a 3% annual rate of growth.

2) Phocuswright's *U.S. Consumer Travel Report Seventh Edition, August 2015*.

FIGURE 1: U.S. Total and Managed Travel Market Gross Bookings (US$B) and Growth (%), 2014-2017



Note: 2015-2017 projected.
Source: Phocuswright's *U.S. Online Travel Overview Fifteenth Edition*; Phocuswright's *U.S. Corporate Travel: Market Sizing and Trends*

Online and Offline Managed Travel Market

The U.S. corporate market saw sustained growth in online bookings in the recessionary years. Driven as much by corporations' intent on cost reduction – bookings made via an OBT are significantly less expensive than those made offline – as by changes in traveler behavior, online booking has become the norm in the U.S. Most travelers turn to online first when booking their business travel. From just about half of the market in 2009, online bookings will have grown to 60% in 2015 and account for $67 billion of the $112 billion managed travel market (see Figure 2).

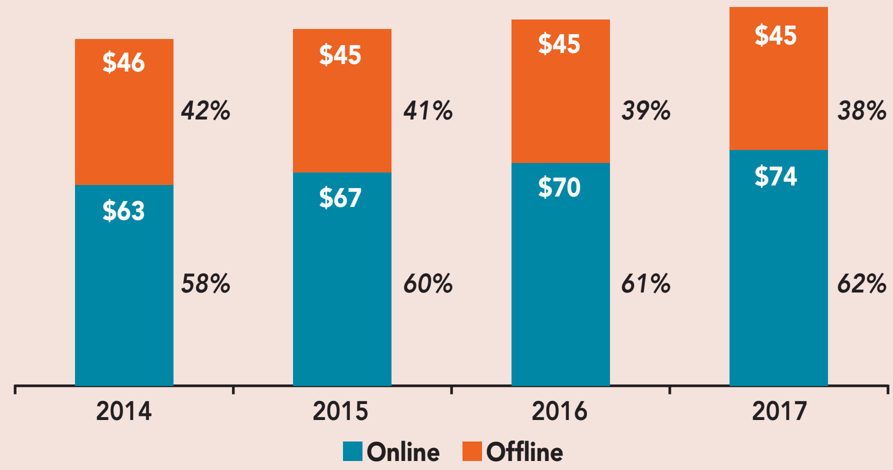
This shift to online has been aided by consistent improvements to the tools and content offered online by TMCs and OBTs. However, with the low-hanging fruit of easy, simple itineraries now all but converted, online booking is reaching saturation. Over the next two years, online share of the managed travel market will grow at a meager 1% annually, reaching 62% or $74 billion in 2017.

Intermediary vs. Supplier Direct Share

Despite suppliers' concerted efforts to attract direct bookings, intermediaries – TMCs and travel agencies — continue to constitute the majority of the managed travel mix. In 2015, more than three quarters ($87 billion or 78%) of managed travel spend is projected to have been booked through an intermediary. This share will grow by a hair to 79% by 2017.

Intermediaries account for a far larger portion of online managed travel than bookings made directly with suppliers. (The exception is ancillary spend, which flows through

FIGURE 2: Online vs. Offline Managed Travel Gross Bookings (US$B) and Share (%), 2014-2017



Note: 2015-2017 projected. Totals may not add to 100% due to rounding.
Source: Phocuswright's *U.S. Corporate Travel: Market Sizing and Trends*

supplier-direct channels, as distribution standards for ancillaries are still in the early stages of roll-out.) This variation is unsurprising given that many suppliers do not offer an online portal that allows for booking of corporate rates and in-policy travel. In 2017, the TMC channel will represent 83% of online managed travel spend.

Segment Size and Growth

Airlines and lodging have always accounted for the majority of corporate travel budgets. More than 90% of corporations' travel spend[3] goes toward airlines and lodging. In 2014, corporations spent nearly $65 billion on airfares. Since then, despite record load factors, airfares have stagnated as airlines' ability to increase fares has diminished amid lower oil prices and increasing capacity. Nevertheless, demand remains strong and corporate spend on airlines is forecast to increase at a CAGR of 3% to $70 billion by 2017.

On the lodging front, the lag between supply and demand has benefited hotels, which will continue to see strength in occupancy as well as revenue through 2017. Corporations will spend over $40 billion on hotels and lodging in 2017 at a CAGR of 5%. The ground transportation sector, meanwhile, is forecast to grow from $1.4 billion in 2014 to $1.8 billion in 2017. The success of Uber and Lyft have given this traditionally overlooked segment a boost in visibility.

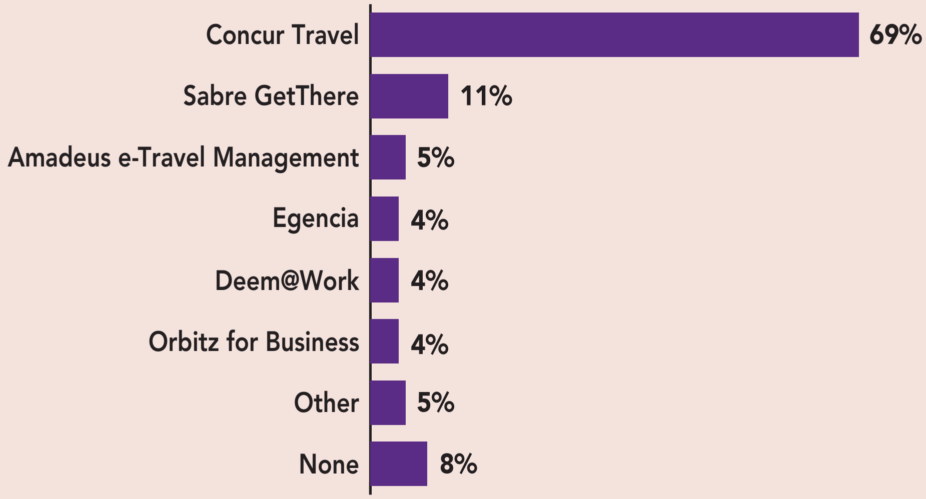
3) Phocuswright's market sizing methodology takes into account only spend on travel segments. It excludes meals, entertainment and other miscellaneous spend.

Online Booking Tools

Online booking tools gained traction during the downturn as a way of cutting booking fees, and have since become the norm for corporates. Ninety-two percent of travel managers said their companies use an online booking tool (see Figure 3). Of the 8% who do not, a large proportion are firms with annual travel spend of $3 million or less.

In recent years, several companies have either sunset their tools or exited the OBT market entirely. Concur Travel has been a large beneficiary of these market transformations, increasing its share to 69%, up from 44% in 2010. In addition to market consolidation, these recent gains are also attributable to the close linkages between travel and expense – Concur being one of the key players in the U.S. expense management market. Sabre's GetThere tool was used by 11% of companies, followed by Amadeus e-Travel Management with 5%. Egencia's share of 4% is expected to nearly double as it migrates Orbitz for Business clients to its platform.

FIGURE 3: Online Booking Tool Incidence, 2014



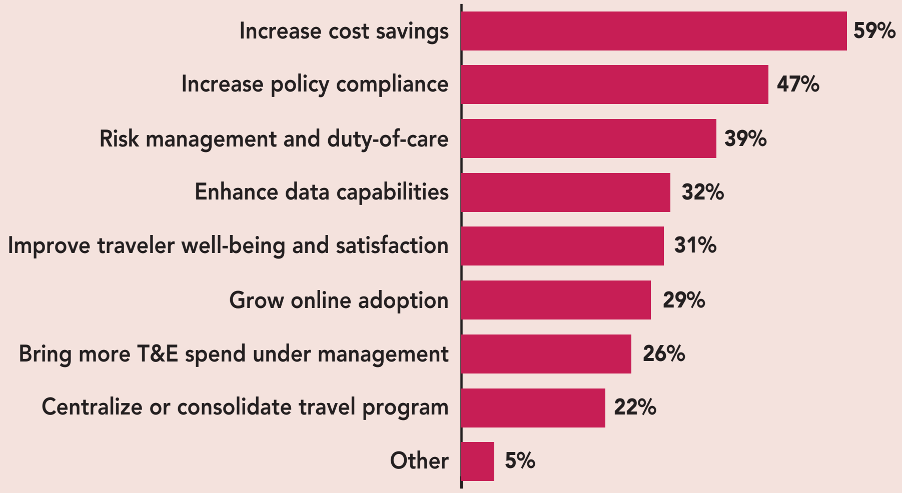
Question: Which online booking tools do your company's U.S.-based travelers use to book their business travel? Select all that apply.
Base: Companies with a managed travel program (N=159)
Source: Phocuswright's *Travel Manager Survey 2015*

Travel Management Priorities and Traveler Behavior

Strategic Priorities

Increasing cost savings remains the primary strategic aim of most travel programs, with 59% of travel managers saying it is among their top three strategic priorities (see Figure 4). Other advantages such as the ability to drive policy compliance at the point of sale and capture data have also come to the fore, tying in nicely with other program goals.

FIGURE 4: Travel Managers' Top Strategic Priorities



Question: What are your top three strategic priorities for your company's managed travel program?
Base: Companies with a managed travel program (N=159)
Source: Phocuswright's *Travel Manager Survey 2015*

Nearly four in 10 (39%) travel managers rank duty of care and risk management among their top three program priorities. Improved awareness of their obligations has made the travel manager community mindful of the need to manage risk. Traveler safety remains the primary factor in these risk management programs, and geopolitical strife across the world as well as disruptive models like ride-hailing and private accommodations will keep them high on the agenda for some time.

Travelers, on the other hand, exhibit ambivalent feelings toward policy. Approximately three quarters agree that their companies' policies are easy to comply with and they understand the benefits derived from them, and two thirds say their favored suppliers are included in their firm's supplier list. However, 48% would prefer to book outside of their policy but do not, and just over half do so on occasion.

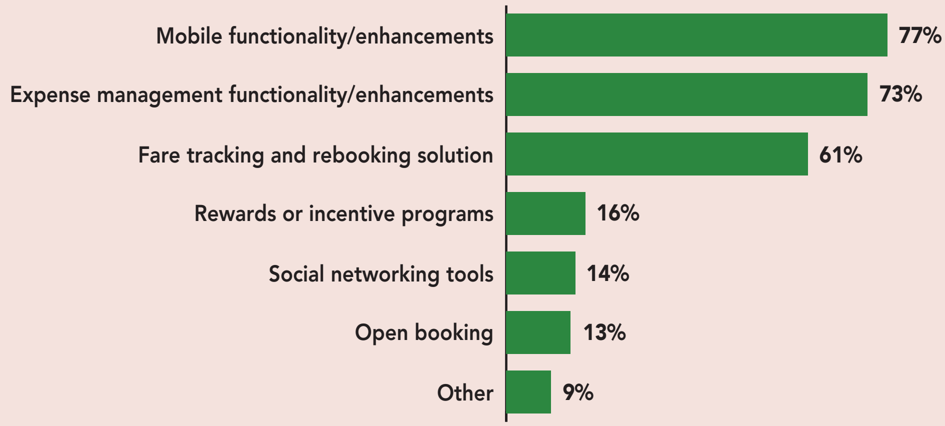
Among millennials, the proportion who expressed a desire to book out of policy rose to 58%, and 64% actually did so at times. This demographic tends to book travel roughly equally on OTAs, supplier sites and through the TMC channel. What really differentiates them from other age groups is that a higher proportion use multiple modes of purchase.

This preference for going outside policy guidelines poses an interesting conundrum for travel managers in terms of driving compliance among younger travelers, especially as they become a larger proportion of the managed traveler population. If sustained, these behavioral patterns bode well for alternatives which aim to strike a balance between allowing travelers to choose their booking channel while enabling travel managers to fulfill other important program goals such as duty of care.

Technological Priorities

Technology adoption has changed the business travel market in a few short years. A prime example is the shift from mobile as a novelty to mobile as a necessity. Today, every task from shopping and booking travel all the way through expense management can be completed on a mobile device. Travel managers have taken note, and more than three quarters (77%) emphasize enhanced mobility functionality as a key technological priority for their programs (see Figure 5).

FIGURE 5: Top Technological Priorities



Question: What are your top three technology priorities for your company's managed travel program?
Base: Companies with a managed travel program (N=159)
Source: Phocuswright's *Travel Manager Survey 2015*

Expense management functionality is also top of mind for travel managers (73%) as they look for easy-to-use solutions for their travelers. Mobile receipt capture, automated expense report creation, credit card data import and submission/approval via mobile phones are a few of the enhancements expense management companies have introduced as they look to reduce friction in the process.

Millennials are at the leading edge of the shift to mobile. Their comfort level with mobile devices is apparent in that 79% have used their smartphones to search for airline tickets, 56% for hotels and in-destination activities, and 51% for car rentals. Booking, however, still lags significantly behind search; despite millennials' lead across age groups in booking via smartphones, the rate remains below the 50% mark in all categories.

Managed Travel Trends

Distribution Trends

Intermediaries rejoice – Ancillary distribution is (almost) here!

Using NDC and other similar schema, GDSs are enabling ancillary product distribution through intermediaries. As these solutions come online and are seamlessly integrated into intermediaries' air booking paths, travel managers will gain greater visibility into ancillary spend.

Try, try and try again – Suppliers continue to plug away at direct distribution

That does not mean, however, that suppliers have given up on ramping up direct distribution. Recent initiatives include Lufthansa's strategic decision to introduce a €16 distribution cost charge (DCC) for all bookings made via intermediaries. While the move has been met with near-universal opposition from GDSs, travel agencies and TMCs, the jury is still out on its success.

TMCs go beyond travel

TMCs, meanwhile, have also upped the ante to stay relevant in the corporate distribution chain. Many have been rethinking their offerings beyond booking and service. Adding and integrating new features that create value and remove friction for their clients – enhanced reporting solutions, expense and traveler tracking, and more – has become a key focus.

Technology Trends

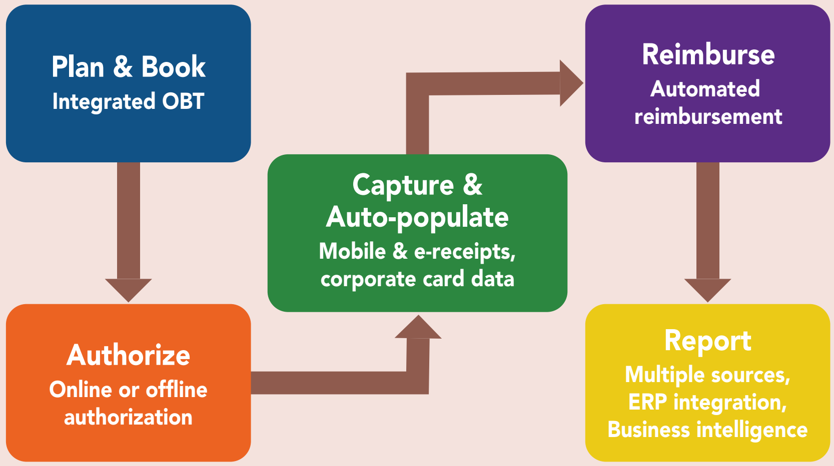
The future is (still) mobile

Mobile remains the most significant technological development affecting the corporate travel marketplace. Long touted as the next big thing, it has become part of the landscape. Conversion rates on smartphones, while low for now, are expected to improve, and no supplier or intermediary can eschew a mobile solution for fear of being left behind.

End-to-end T&E is here

Business travel has become inextricably linked to expense management during the past few years. End-to-end T&E solutions are prevalent across corporates whether or not the two are provided by the same vendor (e.g., Concur) or have been enabled through technology integration. The result is that the entire process — from planning and booking travel, through authorization, expense capture, reimbursement and reporting — is fairly seamless to the traveler (see Figure 6).

FIGURE 6: End-to-End Travel and Expense



Source: Phocuswright's *U.S. Corporate Travel: Market Sizing and Trends*

Dealing with direct bookings

As a result of the increase in corporate travelers booking directly, companies face significant challenges in applying policy, leveraging discounts and providing critical duty of care. Many companies are implementing new ways to manage and capture data from direct bookings when they do occur, without necessarily encouraging this behavior. Specifically, there are solutions and tools available to help capture direct bookings when travelers book directly on participating supplier or aggregator sites, so corporate rates and discounts still apply. The associated expense then flows into the company's expense management system, thus allowing for complete visibility into the cost of the trip. Figure 7 illustrates this open booking process.

A payment revolution is coming

Contactless payments and other forms of mobile payments like e-wallets have gained significant attention but little adoption – Apple Pay was the primary showcase for contactless payments when it was launched in 2014. However, so far, only two airlines – JetBlue and Delta – have enabled the payment system for their customers, and hotels are lagging far behind. As digital strategies evolve around mobile-toting travelers, this innovation is an area that will garner attention from travel companies and the wider ecosystem.

FIGURE 7: Example of Direct Booking Solution

Source: Phocuswright's *U.S. Corporate Travel: Market Sizing and Trends*

Data will be king

Data analytics – the ability to draw meaningful, actionable conclusions from data – is getting increasing attention as transaction data is supplemented by multiple other sources including credit cards, expense reporting, HR and industry-benchmarking, among others. Added complexity comes in the form of the global flavor of many programs and the need to incorporate data feeds from multiple countries.

Conclusion

Despite the global economy's twists and turns, the U.S. corporate travel market is expected to continue on its growth path. Online growth has slowed in recent years and is slowly reaching saturation. As standards for ancillary distribution come into the market, intermediaries will wrest some share away from suppliers, though in the near term, this will be a gradual shift.

Travel managers must figure out ways to maintain the core of their programs while making them flexible enough to appeal to a generation of travelers. As technological and behavioral changes buffet the landscape, every stakeholder has to adapt and evolve, making the most of the opportunities that lie ahead.

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