Gillespie's Travel Policy Impact Model for Road Warriors

User's Guide with Research Findings, v1.6

This travel policy impact model helps answer three questions:

"How much would it **cost** to upgrade our road warriors' travel policies?"

"What **benefits** can we expect in return?"

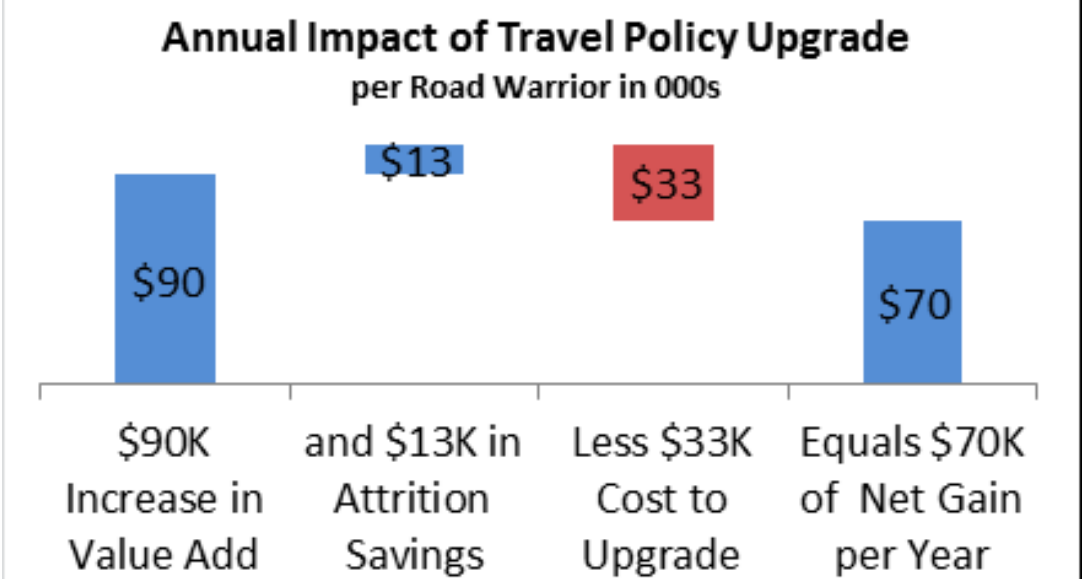
"Should we upgrade our road warrior's travel policies, or not?"

An illustrative answer looks like this:

"If we upgrade our travel policy, we can expect an after-cost return of 210%, or about $70K per year per road warrior"

Net Expected Impact per Year per Road Warrior

$	90,000	Increase in Value Add
$	13,000	Attrition Savings
$	(33,000)	Cost to Upgrade
$	**70,000**	**Net Gain per Year**
	210%	**Annual ROI rounded to nearest 10%**



This model uses concepts not typically found in other travel cost models

Value Add and the Value Add Factor

Value Add is the amount that the average employee adds to their firm's operating profits. It can be estimated by dividing the firm's operating profits by the number of employees.

The Value Add Factor is found by dividing the firm's average Value Add per Employee by the average U.S. Salary. The average Value Add Factor across many industries is about 4, but ranges by firm from 0.5 to 15.5. More information on this metric is included in the Research Findings section of this deck.

Why does this matter? Research shows that traveler-focused policies are associated with more worthwhile trips and fewer trips rated not worthwhile. This model lets you estimate by how much a road warrior's value add might change under an upgraded travel policy. The Value Add Factor and its percentage change are the two most important variables in the model.

Tenure and Attrition Costs

Traveler-focused policies are associated with lower interest in new job offers. This model lets you estimate the fully loaded cost of replacing a road warrior, and how much longer the road warriors might stay under the upgraded policy. More information on attrition cost is included in the Research Findings section of this deck.

The model's three parts and their variables

Part A Current and New Costs

Sets the average annual air and hotel costs for the average road warrior under the current travel policy, and the expected costs under the upgraded travel policy

6 Current cost variables
4 Expected cost variables

Part B Current and New Benefits

Sets the baseline for current value add, attrition costs and tenure, and their expected improvements from the upgraded travel policy

4 Current benefits variables
2 Expected benefits variables

Part C Impact and ROI

Shows the key calculated values in dollars and in ROI. Includes a waterfall chart showing the four main outcomes

This model is easy to use

Gillespie's Travel Policy Impact Model v1.6

Do change the value in any yellow cell — Variables
Then see the impact in the gray cells and chart — Formulas

Part A Costs

Est. Annual Travel Expenses per Road Warrior

Our average road warrior travels this much per year:

Trips in Short Haul markets, < 6 hours		30
Trips in Long Haul markets, > 6 hours		3
Nights away		100
Estimated Average Cost per Trip		
Short Haul ticket, current policy	$	500
Short Haul ticket, upgraded policy	$	700
Long Haul ticket, current policy	$	2,000
Long Haul ticket, upgraded policy	$	5,000
Room night rate, current policy	$	193
Room night rate, upgraded policy	$	250
Extra cost per night for black cars, meals, etc	$	100
Current estimated annual costs	$	40,000
Extra cost to upgrade a road warrior	$	**31,000**

Part B Benefits

Road Warrior Value Add and Attrition Estimates

$ 150,000	Average compensation per road warrior
4.0	Value add factor, which multiplies compensation
$ 600,000	Estimated annual value add
How much more value will the upgraded travel create?	
15%	Expected % change in a road warrior's value add
$ 90,000	**More value add per road warrior per year**
Estimated Cost of Attrition and Tenure	
200%	Attrition costs as a % of annual compensation
$ 300,000	Attrition cost per road warrior who quits
4.0	Current average tenure, in years
5.0	Expected tenure with the upgraded travel policy
$ 75,000	Attrition cost per year, current
$ 60,000	Attrition cost per year, expected
$ 15,000	**Attrition savings per year**
$ 105,000	**Total expected benefits**

Source: Scott Gillespie

Annual dollar amounts are rounded to nearest thousand. Amounts are per road warrior per year

Part C Impact

We'll spend this much more per road warrior:

$ 31,000 for the upgraded travel policy

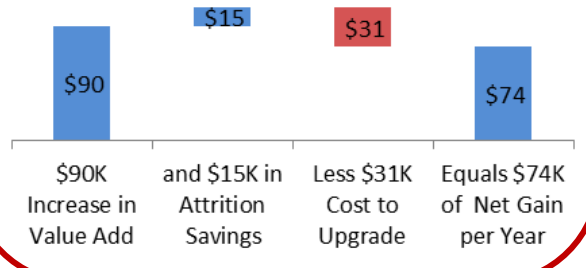
Which means we need roughly a

3% increase in value add to break even

Net Expected Impact per Year per Road Warrior

$ 90,000	Increase in Value Add
$ 15,000	Attrition Savings
$ (31,000)	Cost to Upgrade
$ 74,000	**Net Gain per Year**
240%	**Annual ROI (rounded to nearest 10%)**

Annual Impact of Travel Policy Upgrade
per Road Warrior in 000s



Change any value in yellow

See the impact of your assumptions

Using Part A

Part A Costs

Est. Annual Travel Expenses per Road Warrior		
Our average road warrior travels this much per year:		
Trips in Short Haul markets, < 6 hours		30
Trips in Long Haul markets, > 6 hours		3
Nights away		100
Estimated Average Cost per Trip		
Short Haul ticket, current policy	$	500
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Long Haul ticket, current policy	$	2,000
Long Haul ticket, upgraded policy	$	5,000
Room night rate, current policy	$	193
Room night rate, upgraded policy	$	250
Extra cost per night for black cars, meals, etc.	$	100
Current estimated annual costs	$	40,000
Extra cost to upgrade a road warrior	$	**31,000**

Enter values in each yellow cell

Estimate the average annual trip volumes and trip costs in the yellow cells.

Note that the **upgraded** costs under the new travel policy are the ticket or room rate's **total new expected** cost; they are not the incremental cost.

You can allow for higher daily costs for better ground transfers, meals, airport lounges, wifi, etc.

The estimated current cost and the **extra** cost of upgrading will show here

Part A
Current Costs

The model uses these variables to estimate the current annual cost of a road warrior's air and hotel expenses

Good sources

Travel data reports, or the travel manager's estimates

Values Needed for Part A Travel Costs	Example
Current average price of a round trip airfare in Short Haul markets (under 6 hours)	$480
Current average price of a round trip airfare in Long Haul markets (over 6 hours)	$2,450
Current average room rate booked per night, across all markets	$150
The average road warrior's number of Short Haul trips per year (in markets under 6 hours)	30
The average road warrior's number of Long Haul trips per year (in markets over 6 hours)	3
The average road warrior's number of nights away per year	90

These values can be easily changed in the model at any time.

Part A
New Costs

The model uses these variables to estimate the **new** annual cost of a road warrior's air and hotel expenses

Good sources

The travel manager or TMC

Values Needed for Part A Travel Costs	Example
Average price of a round trip airfare in Short Haul (under 6 hours) markets using the **upgraded** travel policy	$700
Average price of a round trip airfare in Long Haul (over 6 hours) markets using the **upgraded** travel policy. See Research Findings for context	$5,000
Average room rate booked per night, across all markets, using the **upgraded** travel policy	$250
Extra cost per night away for **additional allowed** expenses, such as wifi, TSA pre Check, airport lounge access, black cars, etc	$100

These values can be easily changed in the model at any time.

Using Part B

Plug in six important assumptions about your average road warrior in the yellow cells

How much does he/she earn a year?

What's a good multiplier for estimating how much value they bring in? For the average employee across ~350 firms in a wide variety of industries, the average is 4.0 to 4.4. It seems reasonable that road warriors add a higher multiple than does the average employee.

How much more value might the road warriors create if they are allowed to travel better?

What does HR say is the average fully loaded cost to replace a mid or senior executive? Research says it can be 200% of annual compensation.

What's the average tenure of a road warrior today? What might it be under an upgraded travel policy?

Part B Benefits

Road Warrior Value Add and Attrition Estimates

$	150,000	Average compensation
	4.0	Value add factor, which multiplies compensation
$	600,000	Estimated annual value add

How much more value will the upgraded travel create?

	15%	Expected change in value add
$	90,000	**More value add per road warrior per year**

Estimated Cost of Attrition and Tenure

	100%	Attrition costs as a % of annual compensation
$	150,000	Attrition cost per road warrior who quits
	4.0	Current average tenure, years
	6.0	Expected tenure with the upgraded travel policy
$	38,000	Attrition cost per year, current
$	25,000	Attrition cost per year, expected
$	13,000	**Attrition savings per year**
$	103,000	**Total expected benefits**

Part B Benefits

The model uses these variables to estimate the **current** baseline and the **expected** benefits of an upgraded travel policy

Good sources	Values Needed for Part B Benefits	Example
Human Resources	Average road warrior's annual salary. Research* says the national average is $150K	$150,000
Human Resources	Current average road warrior's tenure with the company, in years	4.0
Human Resources	Estimated fully loaded cost, as percentage of salary, to replace a road warrior. Research* suggests it could be as much as 200% of the annual salary	200%
Travel Budget Owners, HR	**Expected** tenure under the upgraded travel policy, in years.	6.0
Travel Budget Owners, Finance	Value Add Factor, used to estimate the current annual amount of value added by the average road warrior. See the Research Findings section for more information on this metric	4.0
Travel Budget Owners, Finance	**Expected Change in Value Add**. An estimate of the improved business results gained from taking higher quality, lower friction trips. See the Research Findings section for context in estimating this value	15%

These values can be easily changed in the model at any time.

Understanding Part C

Shows the **extra** annual cost per road warrior expected under the upgraded travel policy.

Shows the percentage increase in Value Add needed by the model to generate a **break-even result**, based on the current values in each of the yellow cells.

The Net Gain (or Net Loss) is the amount of net after-cost financial value expected each year under the upgraded travel policy.

ROI = Net Gain divided by the amount of extra cost shown at the top of Part C,

The values in the gray cells will recalculate whenever a yellow cell's value changes. The new results show in this chart. The chart's values come from the gray cells above it. This is a waterfall chart, meant to be read from left to right.

Part C Impact

We'll spend this much more per road warrior:

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Net Expected Impact per Year per Road Warrior

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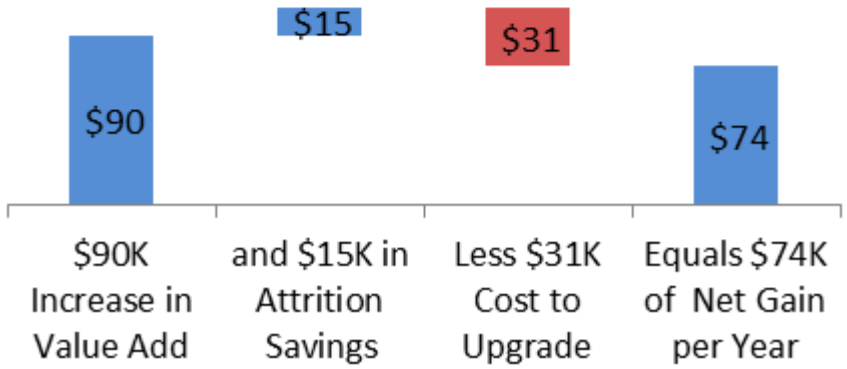
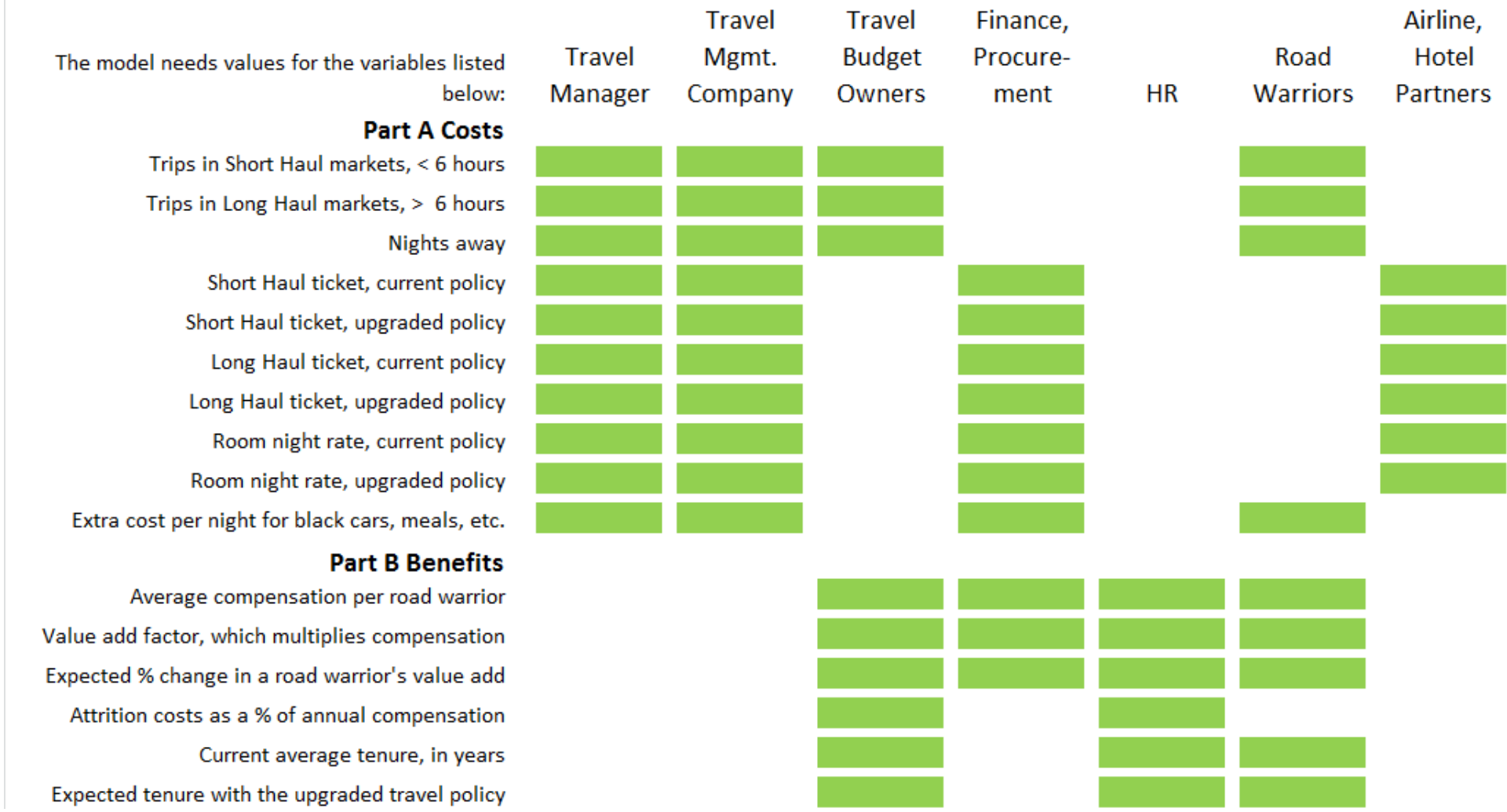


Likely Sources of Credible Estimated Values



tClara

Research Findings and Estimates

What is a reasonable average ticket price (ATP) for an upgraded travel policy? Programs in the 99th percentile have ATPs of less than $700 and $5,000 in their short and long haul markets, respectively

Average Round Trip Ticket Prices

Net of discounts. Excludes taxes and fees

Percentile among ~2,000 corporate travel programs	Short Haul under 6 hours	Long Haul over 6 hours	Use of First and Business class cabins
99%	$ 694	$ 4,990	Very high
95%	$ 599	$ 4,140	High
90%	$ 562	$ 3,816	Fairly high
50%	$ 482	$ 2,980	Average
10%	$ 431	$ 1,640	Very low

Source: ARC data, tClara analysis of over 10 million tickets issued in Q3 2017

What is a reasonable estimate for the cost of replacing a road warrior?

"Very highly paid jobs and those at the senior or executive levels tend to have disproportionately high turnover costs as a percentage of salary (**up to 213 percent**)"

Center for American Progress, Nov. 12th, 2012 (emphasis added)

Consider these cost components when a road warrior leaves:

Severance pay
Practically irreplaceable skills and relationships
Lost revenue and productivity while the position is open
New-hire and on-boarding expenses (executive search fees can be 30% of salary)
Lower revenue, productivity while the new hire gets trained, often 1-2 years
Lost revenue, productivity of colleagues needed for training the new hire
Negative impact on co-workers' morale
Damages to existing and prospective customer relationships

Ask your HR colleagues who look after recruiting and retention of mid and senior level talent for their estimated fully loaded cost as a percentage of the employee's annual salary

Our approach to estimating the value add factor from public data

Illustrative data	Per Year
Firm's Gross Revenue	$5,000 MM
Minus its Cost of Revenue	($3,000) MM
Equals the Firm's Value Add (Also known as Operating Profit)	$2,000 MM
Divided by Number of Employees	10,000
Equals Value Add per Employee	$200,000
Divided by Avg. U.S. Salary	$45,000
Equals the Firm's Value Add Factor	**4.4**

So this firm's average employee adds 4.4 times the average U.S. salary in operating profit per year

So What's a Reasonable Value Add Factor?

tClara analyzed ~350 publicly traded firms across a wide variety of industries

- Aerospace, Defense
- Automotive
- Advertising
- Banking, Insurance
- Consulting, BPO
- Consumer Goods
- Distribution
- Food, Beverage
- Industrial Goods
- Medical, Healthcare
- Oil and Energy
- Pharma and Bio
- Technology
- and Others

The overall average is

4.0 to 4.4

excluding the top and bottom **10%** of the ~350 firms

excluding the top and bottom **5%** of the ~350 firms

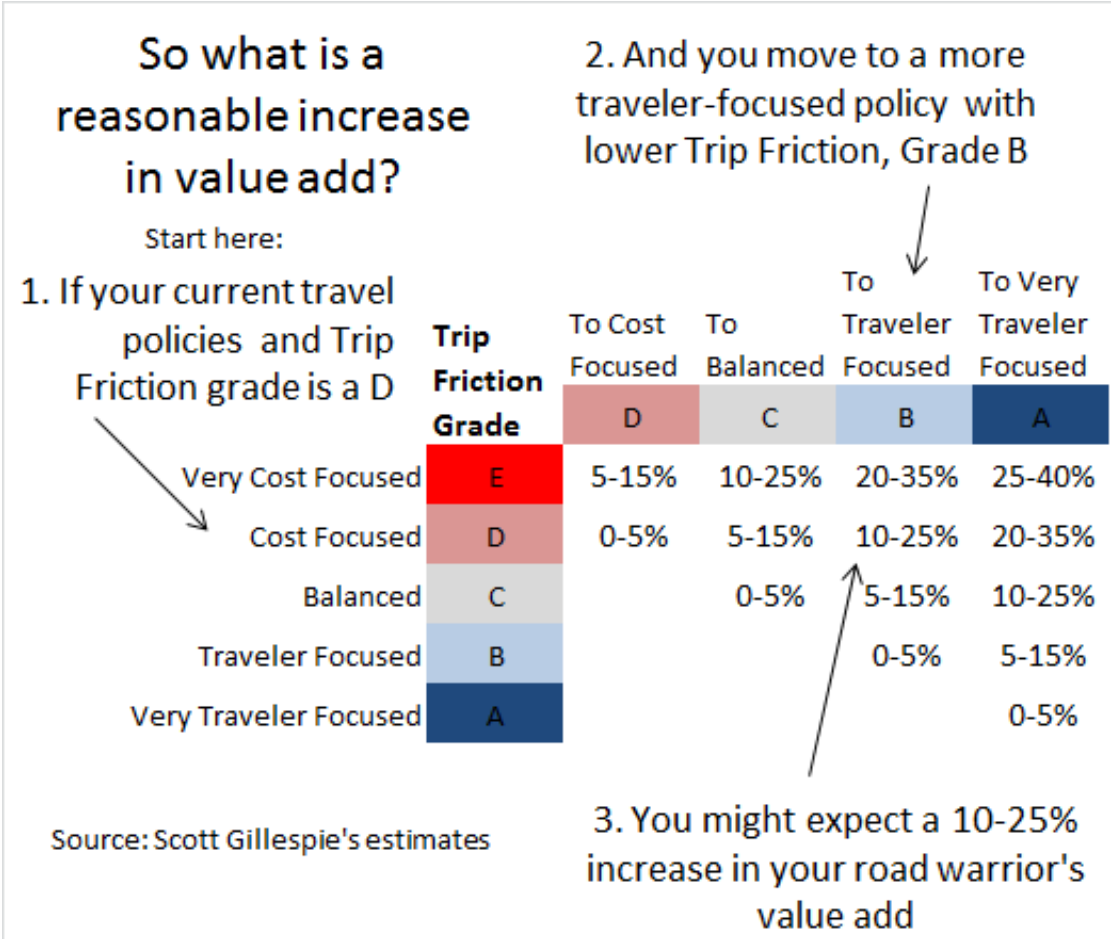
The range across the ~350 firms is between **0.5** and **15.5**

Sources: Yahoo Finance, Google Finance, company websites and their Wikipedia pages. Most financial data was as of Dec. 2016

So what's a reasonable estimate of the increase in value add?

It depends on how cost-focused your current travel program is today, and how much more traveler-focused the upgraded policy would be.

Here's a suggested matrix to consider…your mileage may vary.



Wondering what your program's current Trip Friction benchmark grade is? tClara can tell you. Visit tClara.com or email scott@tclara.com

Why Focus On Road Warriors?

~10%
of all business travelers

~50%
of all travel spend

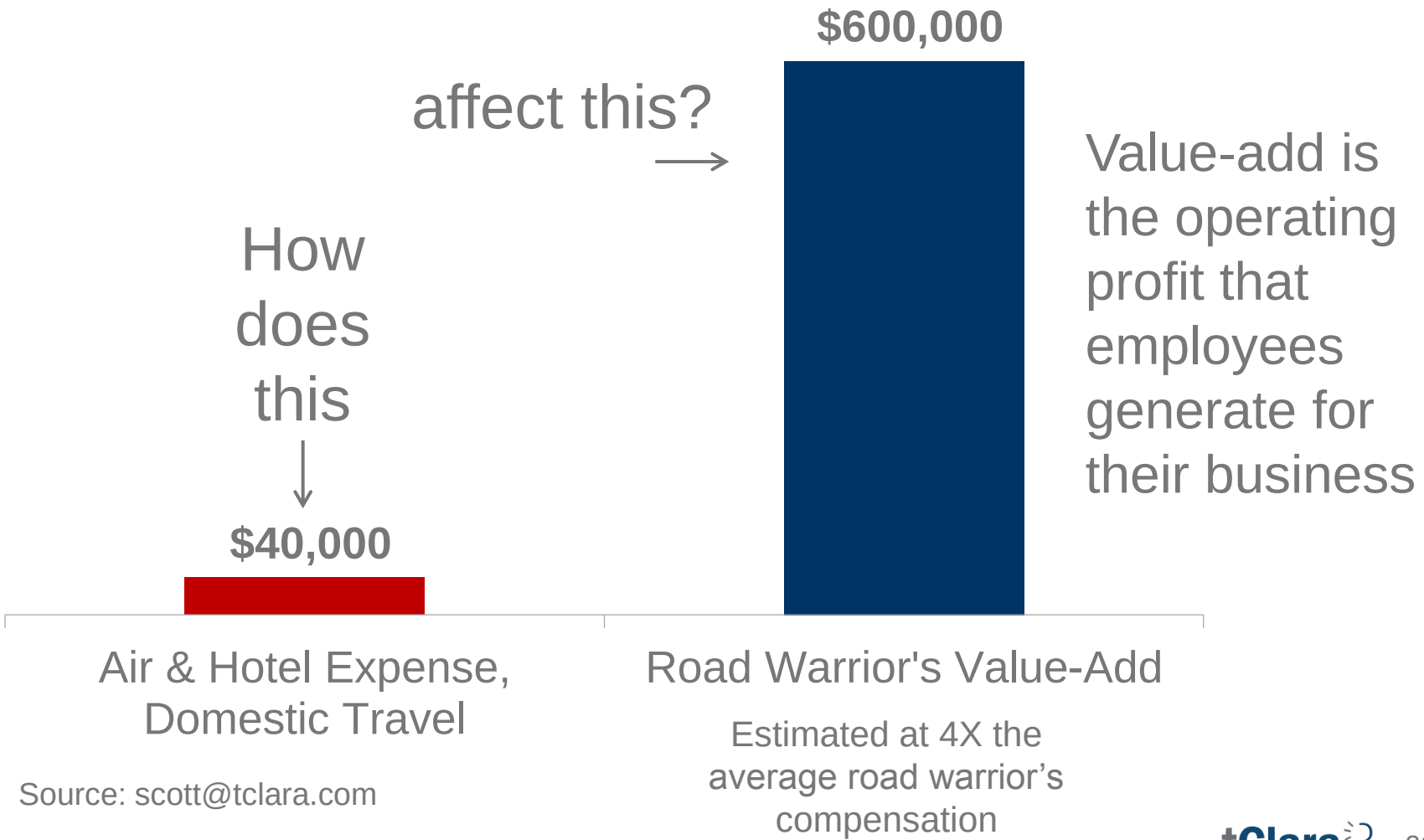
~**80**%
of all travel value-add

Road warriors travel at least 35 nights a year

Source: ARC Data, tClara analysis; value-add is Scott Gillespie's estimate

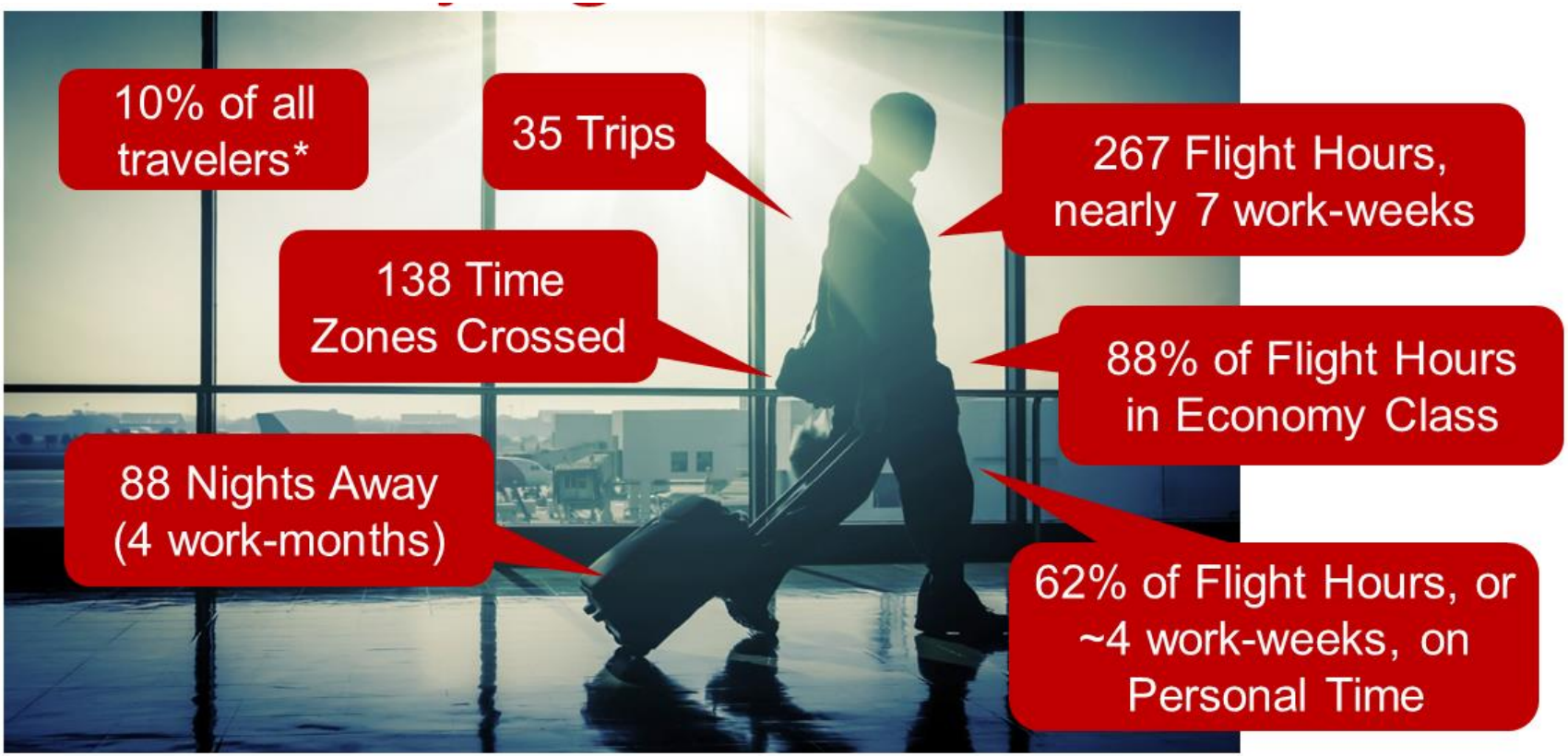
How Does Travel Policy Impact the Value Add?

Estimated per road warrior per year



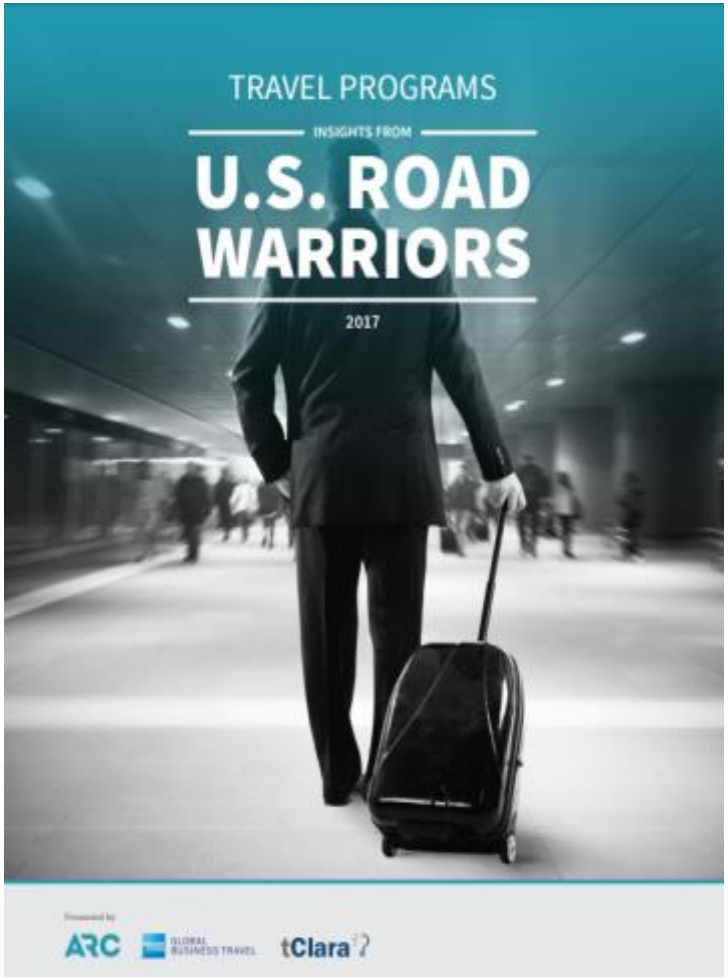
Source: scott@tclara.com

Here's what the annual traveler friction looks like for those in the top 10% of business travelers studied by ARC and tClara in 2015



*Averaged across 10,564 travelers who each were at or above the 75th percentile for each metric shown above as measured by the ARC 2015 Trip Friction® Benchmark Database, covering 110,000 travelers in 2015

Personal time is defined as all hours outside of 8am to 6pm, Monday through Friday



Sponsored by American Express GBT, ARC and tClara

How does the type of travel program affect the business, beyond the cost of travel?

Survey of 757 US-based road warriors done in 2016 by MMGY Global

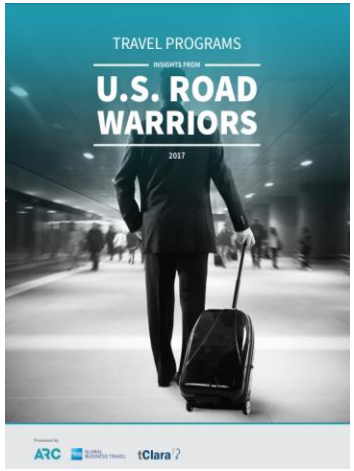
Findings show that the travel program's focus impacts a wide variety of business-related outcomes

Cost-focused travel programs are worse than those focusing on travelers for recruiting, productivity, willingness to travel, and most importantly, the results of the trip

For a copy of this report

Text TCLARA to 22828
or email Scott@tclara.com

Travel policies are very important to road warriors

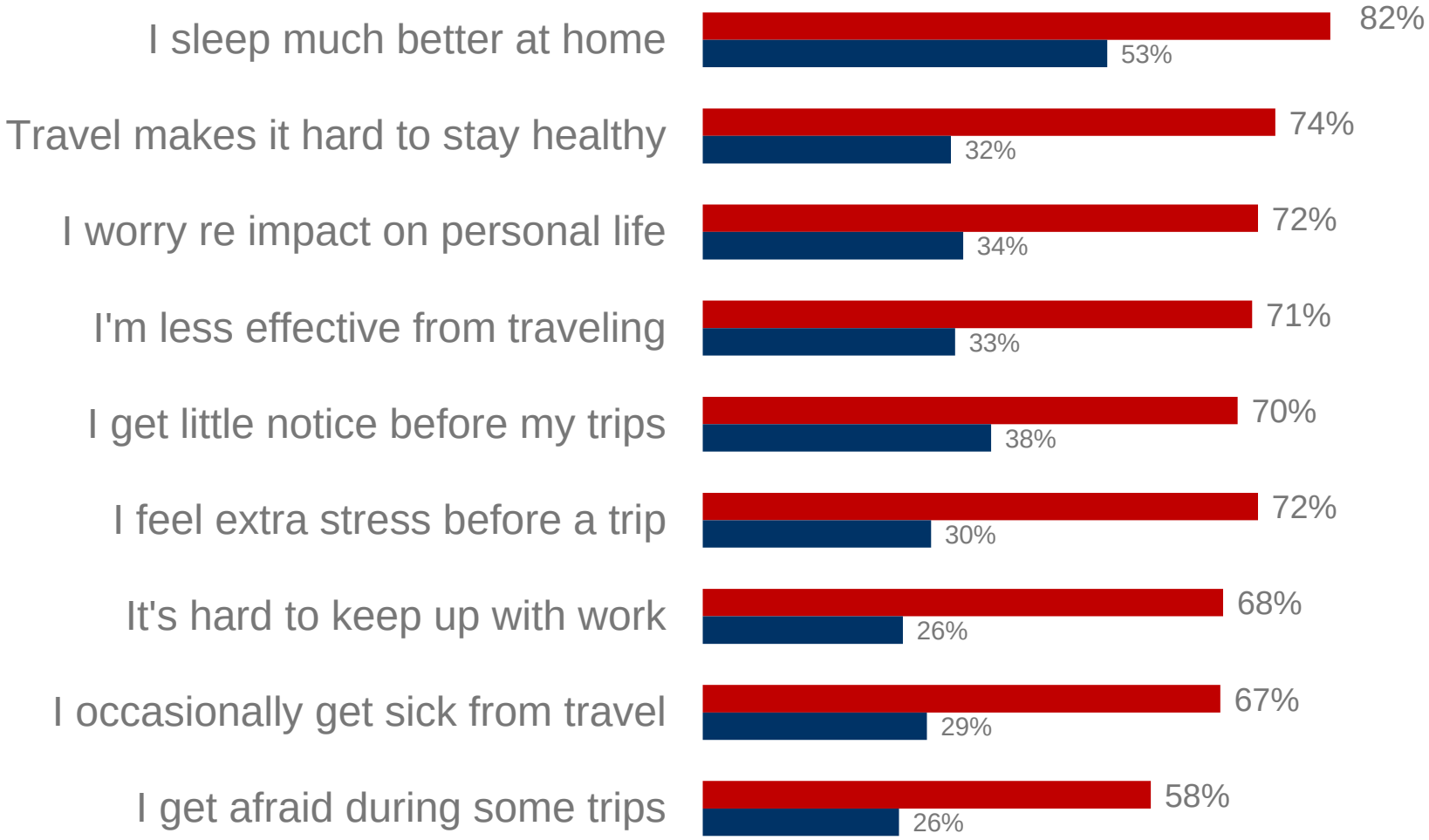


84% of road warriors said they'd be very interested in a job offer from a new company if it had a significantly better travel policy

83% of road warriors said the new company's travel policy would be equally important, if not more important, as the new job's responsibilities and pay

Cost-focused travel programs cause twice as much traveler friction

Share of road warriors who agree or strongly agree



Source: "Traveler Friction: Insights From U.S. Road Warriors", tClara's analysis

The type of travel policy determines what road warriors want

Top Requests from Road Warriors Managed Under

Cost-focused Policies	**Traveler-focused** Policies
1. Non-stop flights	1. Paid Time Off
2. Premium Economy	2. Work from home
3. Business Class	3. No-travel weeks
More productivity	**Recharge, re-engage**

Source: "Travel Programs - Insights From U.S. Road Warriors", ARC, GBT and tClara, May 2017

Benefits of **Traveler-focused** Policies

22% **More trips are rated "Worthwhile"**

12% **Fewer trips are rated "Not worthwhile"**

40% **More productivity while traveling**

39% **Fewer want to travel much less in two years**

38% **Lower sickness rates**

40% **Report lower stress**

15% **More want to travel significantly more in the next 12 months**

13% **Fewer are interested in a new job with a very good travel policy**

Road warriors in traveler-focused programs, when compared to road warriors in cost-focused programs. Source: Travel Programs: Insights from U.S. Road Warriors, tClara analysis

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