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Travel Management in China Challenges, Opportunities and Growth

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A Chinese riddle – China's paradoxical attitude towards business travel

There is, in Western eyes, a paradox at the heart of Chinese attitudes towards business travel. According to professionals who work in this market, Chinese business travelers are price-conscious in the extreme, exhaustively searching the Internet and other sources to find the cheapest fare for every journey.

Yet the concept of travel management, which is predominantly concerned with cost-control, has not taken hold.

Air China estimates that only 10% of Chinese companies have adopted any practices that Westerners would define as travel management. As another example, the travel management company Carlson Wagonlit Travel, until recently, only promoted itself in China to multinational companies from other countries because it felt Chinese national companies did not see the value in the service it provided.

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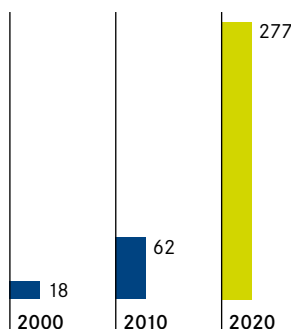
Introduction

Explosive growth

It would appear therefore that Chinese companies are interested in controlling travel costs on a tactical basis but have not yet started to do it strategically. In this white paper, we explore some of the economic, cultural, and regulatory reasons in this white paper, not the least being that business travel is still very new for China. Much of it has developed only since the country joined the World Trade Organization in 2001, bringing one-quarter of the world's population into the global trading system.

The rate of business travel growth is forecast to accelerate: according to the World Travel & Tourism Council, China is currently the third-largest business travel market in the world, and will be the second-largest by 2020.

Chinese business travel expenditure¹ in \$ billion



¹ World Travel & Tourism Council

Sea slug or Roquefort? – seeing China through Western eyes

In some parts of China, sea slug is considered a great delicacy, as is snake. The idea of eating these creatures may be repellent to Westerners, but the Chinese sometimes have similarly unfavorable views of Western food. For example, cheese has been defined by the Chinese as the “putrefied discharge of cow’s udder.”

While Chinese practices may seem strange to Western eyes, therefore, it is always worth remembering that the opposite can be true too – and that applies to business as much as cuisine. Part of the purpose of this white paper is to explore the underlying reasons for Chinese attitudes towards business travel and travel management. They are neither right nor wrong, simply different.

The great call of China – a key market to understand

The growth in business travel has been fuelled by the rapid expansion of China’s economy. In 2009, gross domestic product grew by 9.1% – and that was a slow year, held back by contraction almost everywhere else in the world.² 2009 also saw China overtake Japan as the world’s second-largest economy.

² National Bureau of Statistics



A divided market – local companies and MNCs

As a result, China is now well and truly plugged into the global corporate travel programs of multinational corporations (MNCs). “Almost every company we talk to or consolidate has operations in China,” says Bezer. “That wouldn’t have been the case a few years ago. Even our small and medium-sized clients have business in China.”

Unlike local companies, many MNCs have introduced travel management practices for their Chinese operations. As this white paper will explain, there are challenges for anyone trying to implement travel management. Nevertheless, familiar techniques such as TMC consolidation, control through policy, supplier negotiations, and use of payment systems all exist.

This white paper is intended to be of use to both local companies and MNCs:

Local companies – to suggest how and why travel can be managed strategically in China. One problem faced by those responsible for travel in China is that they do not have many other people they can talk to. The 2010 International Travel Management Study from AirPlus International, which interviewed 1,700 travel managers in 20 countries, found that Chinese travel managers exchange information regularly with only 1.5 other people on average, the joint-lowest figure for any country.

MNCs – to show the main points of difference between managing a travel program in China and other markets.

It is worth remembering at all times that local companies’ and MNCs’ attitudes on almost every point connected with travel management are likely to be different.

Signs of change?

Interviewees for this white paper say they see some evidence of Chinese companies beginning to embrace change. We expect that increased travel will lead Chinese companies to adopt travel management practices for two reasons:

Learning – As Chinese companies expand into other markets, they will absorb the principles of travel management from those markets. There is already evidence of Chinese companies with foreign subsidiaries being the first to adopt travel management, sometimes at the request of the subsidiaries.

Cost – The increasing impact of travel costs on their balance sheets is likely to make Chinese companies re-consider.

See Conclusion for more information on the barriers to evolution in travel management and the factors that are likely to lift those barriers.

Executive Summary

Key Statistics

About business travel in China

1. Only 10% of Chinese companies have adopted any Western-style travel management practices (source: Air China estimate).
2. Chinese business travel expenditure grew from \$18 billion in 2000 to \$62 billion in 2010, and is forecast to hit \$277 billion in 2020 (source: World Travel & Tourism Council).
3. China is the third-largest business travel market in the world, but will become the second-largest by 2020 (source: World Travel & Tourism Council).
4. More than 85% of business trips within China are by air (source: AirPlus International estimate).
5. China's big three airports have the world's worst punctuality rates, led by Beijing with 29% (source: FlightStats).
6. China is investing \$239 billion in high-speed rail, including a Beijing – Shanghai line that will reduce journey times from ten hours to four (opening 2011 – 2012).
7. China's domestic air market is highly competitive. Market share for the big three airlines is: Air China, 27%; China Southern, 21%; China Eastern, 19% (source: OAG).
8. 44% of Chinese travel managers have felt increased cost pressure owing to the recession, compared with 66% worldwide (source: 2010 AirPlus International Travel Management Study).
9. 90% of Chinese personnel responsible for managing travel spend less than one-quarter of their working week on this task, compared with a worldwide average of 63%. No Chinese respondent in the ITMS spends more than three-quarters of their time on travel, against a global average of 9% (source: AirPlus ITMS).
10. At the time of writing, airline commission paid to travel agencies is between zero and 3%.
11. There are 10,000 travel agencies serving corporate clients in China (source: Air China estimate).
12. Only 31% of Chinese ITMS respondents see further opportunities to save on air expenditure. The next lowest figure for any of the other 19 countries in the study is 50% (source: AirPlus ITMS).
13. Only 13% of Chinese companies use cards for travel payments (source: Maverick China Research).
14. 8% of Chinese companies include climate protection in their travel guidelines, compared with 11% in the USA, 46% in Northern Europe, and 22% worldwide (source: AirPlus ITMS).

Key Issues

Travel management in China

Note: It is important to distinguish between Chinese national companies (CNCs) and multinational companies (MNCs). Broadly speaking, very few CNCs practice Western-style travel management, whereas most MNCs do, albeit with some different challenges than they experience in other countries.

Travel managers

The role of travel manager as understood in the West is almost entirely unknown. Those responsible for handling travel in their company rarely spend more than one-quarter of their working week on it. The lack of an assigned specialist makes it harder to create controlled travel programs or maintain supplier relations.

Travel management companies

CNCs rarely consolidate travel through a single agency, but use at least one in each city. MNCs nearly always use a global TMC, whose services are broadly similar to elsewhere in the world, although with more manual underlying processes.

Travel policy

Travel policies are much less common in China than in Western countries, and enforcement of them is lower too. Where companies do have a policy, it typically does little more than urge travelers to buy at the best price.

Technology

TravelSky is closing the gap on Western GDSs. For example, its Bluesky product allows travel policy management and data collection.

Online booking

This market is developing fast. Western TMCs report high levels of adoption for corporate booking tools and consumer websites, used by employees of CNCs, are growing in popularity.

Supplier relations

Formally contracted and negotiated deals for CNCs are rare. However, the competitive air market means carriers routinely offer larger corporate clients un-negotiated discounts of 10–15% on full-fare economy tickets. MNCs operate to the same global contracts they have elsewhere in the world and may add some local suppliers to the mix.

Cards

Card for travel remains extremely uncommon, owing to a traditional preference for cash and restrictive regulation of card issuance by financial institutions. However, anecdotal evidence suggests cards are growing fast in popularity.

Traveler security

This is an issue of low concern in China, but traveler tracking is possible.

Environment

Chinese companies pay less attention to environmental issues in their travel programs than leading regions such as Northern Europe, but are on a par with businesses in the USA.



More Insight

The Big Picture and the Barriers

How the big picture affects travel management

Economic development

Rapid growth – GDP growth means MNCs will spend more of their travel budgets on travel to, from, and within China. They need to manage this spend more actively.

Rising cost-consciousness – Rising wages could shift to a more Western-style emphasis on cost control and strategic procurement practices. This could be the catalyst for the growth of strategic travel management.

Geography

Urbanization – China will have 219 cities with a population above one million by 2025. Business travel will grow significantly to develop commerce between these numerous population clusters.

Location – Economic activity is expected to increase outside the three main cities (Beijing, Shanghai, and Guangzhou). There will be more business travel for internal company purposes and more need for a strong, centralized travel management program across different corporate locations.

Transport infrastructure

China's massive high-speed rail building program will provide relief, but for now air dominates business travel spend. Very poor punctuality means travel management must deal with traveler inconvenience as well as cost control.

Regulatory issues

Joint ventures – Foreign travel management companies can, in practice, only trade as joint ventures, arguably restricting their flexibility.

Visas – Chinese travelers require both exit and entry visas for all foreign trips, creating a considerable administrative burden for travel programs.

TravelSky – The only global distribution system permitted to operate fully in China is the domestically owned TravelSky. It is improving, but issues such as poor data reporting have held back the evolution of travel management.

Cultural issues

Insularity – After decades of isolation, China is changing very fast, but conservative attitudes linger on some issues, e.g. a strong preference for paying by cash instead of card. Chinese travelers also require more personal attention on foreign trips as it remains a novelty for many of them.

Relationship


Guanxi, crudely translated into English as “relationship,” is central to Chinese culture. Travel managers need to build relationships through personal contact and understand existing networks of relationships between their company and other businesses.

Frugality

Chinese business travelers have a marked preference for budget travel options compared with Western travelers.

Hierarchy

Understanding the sometimes opaque power structure within an organization is key to winning buy-in.

A woman in a dark business suit and patterned scarf stands by a large floor-to-ceiling window, talking on a mobile phone. She is looking out over a cityscape at sunset. The window has vertical metal frames and a handle. The city below is filled with buildings, and the sky is a mix of orange and blue.

Travel managers need to build relationships through personal contact and understand existing networks of relationships between their company and other businesses.

Barriers to the development of strategic travel management

- > Business travel is in its infancy
- > Strategic emphasis on sales growth instead of cost-control
- > Effective, tactical buying of best-on-day fares reduces need for strategic intervention
- > Heavy regulation of supporting sectors, including GDSs, TMCs, and payment systems
- > Conservatism on issues such as payment methods

Why the barriers are likely to lift by 2015

- > **Education** – China is learning quickly and its business executives are spending more time studying best practices in other countries.
- > **Procurement** – Strategic purchasing will gain importance as GDP growth slows, wages rise, and attention shifts towards cost control.
- > **International travel** – The increased cost and complexities of fast-growing international travel volumes will heighten pressure to introduce controls.
- > **Technology** – China is becoming a technologically highly advanced society.



Under the “Macro-Scope” Development, Geography, and Issues

Economic development

Rapid growth

GDP growth in China averaged 10% between 1995 and 2009. Although this rate is expected to slow over the next few years, estimated growth will still be 7%.³ China is forecast to become the world’s largest economy by as early as 2032.⁴ There is little doubt, therefore, that there will similarly be continued growth in corporate travel, both into and out of China. “Business travel will increase,” says Michael Suesser, General Manager Hong Kong, South China, Taiwan & Macao for Lufthansa. “Asia, and particularly China, is recognized by the whole world as the new motor for the global economy, not only as a center of production but also as a market.”

The global recession did not hit travel in China as hard as the rest of the world. Although international travel ex-China fell sharply, domestic travel continued to grow. Air China increased its domestic capacity by 22% in 2009, yet load factors still increased by 2%.

Implication for travel management

An increasing proportion of travel budgets for MNCs is likely to be spent on journeys to, from, or within China. Although the challenges of managing travel within China are, if not greater, then different from Western markets, it is increasingly important to face these challenges and start managing Chinese travel programs more actively.

Cost-consciousness could increase

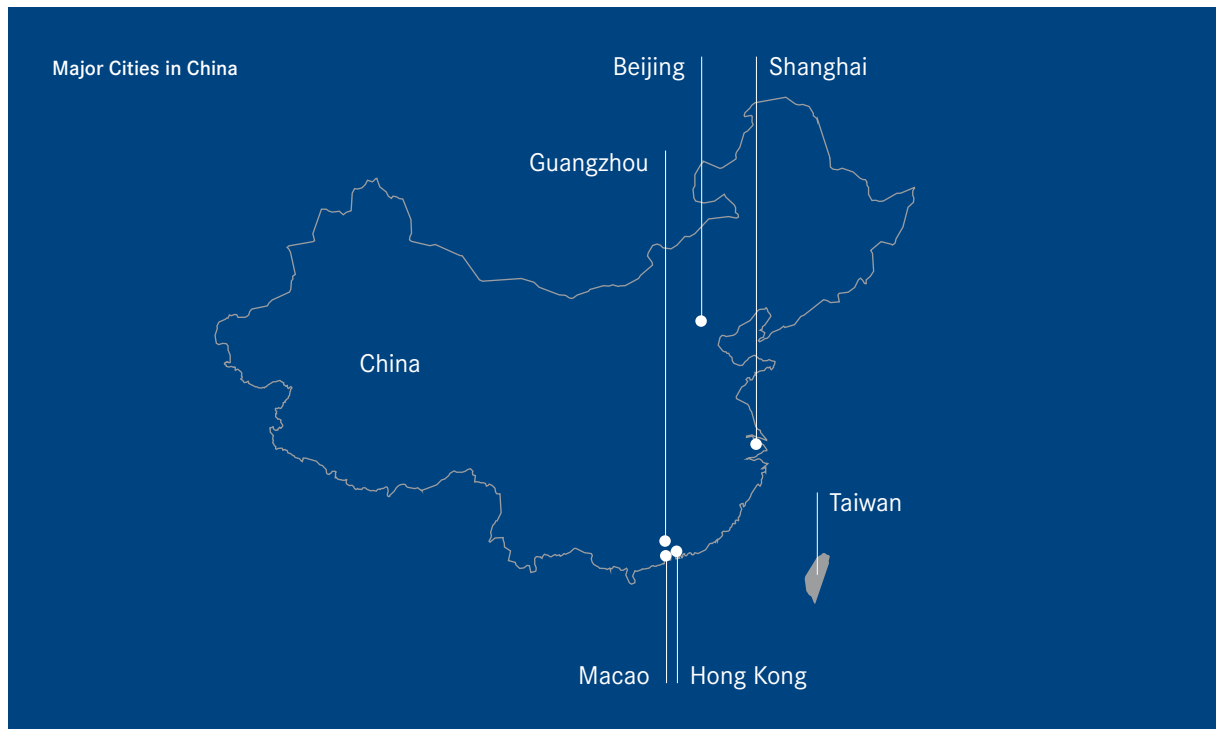
Travel professionals working in China observe a distinction between private and state-owned Chinese national companies, with the former more price-sensitive than the latter. However, as discussed in the introduction, there has been little evidence so far of interest from any Chinese national companies, regardless of ownership, in travel management. In part, this is because of lack of knowledge about travel management, but it could also be because of lack of motivation. The Chinese economy has expanded so fast that corporate strategies have focused on sales growth instead of cost containment, especially as the greatest cost of all, labor, has been extremely cheap.

That could be about to change. Growing social unrest among Chinese workers, especially in factories, is increasing the pressure for significant wage rises to enable a more equitable distribution of the country’s new-found prosperity. Although China is responding by starting to produce high-value goods so that it no longer relies heavily on low-cost, low-price production, it is also likely to pay more attention to controlling non-labor costs in future.

Implication for travel management: A growing desire to control costs could be the catalyst to introduce Western-style levels of travel management.

³ World Bank

⁴ Carnegie Endowment for International Peace, World Bank, PricewaterhouseCoopers, among others



Geography

Urbanization

In July 2010, China passed a significant milestone when more than half the population was living in cities for the first time – 700 million out of a population of 1.39 billion.⁵ It is estimated that China will have 219 cities with a population above one million by 2025. That compares with 35 cities above one million in Europe today.⁶

Implication for travel management

The explosion in large cities indicates how much potential there is for business travel growth as airlines and the high-speed rail system create networks to connect these population clusters.

Location

China is roughly the same size as Europe but its economic prosperity is concentrated within a strip approximately 150km wide extending down its eastern seaboard. However, there are signs of this concentration dissipating slightly as wages rise in the more prosperous “Golden Triangle” between Beijing, Shanghai, and Guangzhou and some production is moved farther inland or to secondary or even tertiary cities. Many companies have headquarters, factories, sales offices, and other facilities located in different parts of the country.

Implication for travel management

The dispersion of economic activity outside the big three conurbations increases the need for business travel for internal company purposes. It also increases the need for a strong, centralized program to consolidate policy, data, and supplier negotiations.

Transport infrastructure

Air

Although China’s road system is improving, it is still poor compared with Western nations. As a result, AirPlus International estimates more than 85% of business trips are by air. There is frequent service between the three Golden Triangle cities, including 35 daily departures from Beijing to Shanghai.

However, the air traffic control system is grossly inefficient, a situation that is not helped by much of Chinese airspace being reserved exclusively for military use. In June 2010, the three airports with the worst on-time departure rates worldwide were Beijing (29% of flights on time), Guangzhou (35%), and Shanghai (36%).⁷ “I have yet to take a flight that has departed on time – and the situation is getting worse,” says Richard Hopkins, who heads corporate projects for Kongsberg Automotive and is based in Shanghai.

⁵ National Population and Family Planning Commission

⁶ McKinsey Global Institute

⁷ FlightStats analysis of world’s 50 busiest airports

Rail

Rail has also been a slow and uncomfortable option for business travelers until now, but China has embarked on a \$239 billion investment program in high-speed rail. The national government plans to expand its rail network by 19,000 miles by 2015, of which 8,000 miles will be high-speed track. Some high-speed lines have already opened, such as Guangzhou-Wuhan, which opened in December 2009, reducing the journey time from ten hours to 3.5 hours. A high-speed rail link between Beijing and Shanghai is expected to open in 2011–2012, reducing the journey time from ten hours to four.

Implications for travel management

- a) The Beijing–Shanghai high-speed rail service is likely to be a big step forward, and looking further ahead, the Ministry of Rail wants high-speed links to all cities with more than 500,000 inhabitants by 2020, linking 90% of the population. Until then, companies in China will rely heavily on air travel, which will remain the overwhelming focus of any Chinese travel program.
- b) The inconvenience of domestic travel, and finding ways to mitigate it, is an important consideration in travel programs.

Issues

Regulatory issues affecting travel management

Joint ventures

In practice, foreign TMCs can only trade in China as joint ventures. Some observers believe this restricts their flexibility and is therefore holding back the progress of travel management in the country.

Visas

Chinese citizens require entry visas for almost all other countries. They are also obliged to obtain exit visas to leave China. This administrative burden is therefore a significant aspect of any travel program.

TravelSky

The only global distribution system permitted to operate fully in China is the domestically owned TravelSky. It is of inferior quality to Western GDSs, although the gap has narrowed significantly over the past couple of years. Resulting challenges such as poor quality data have held back the evolution of travel management (for more information, see section 3).

Cultural issues affecting travel management

Insularity

China has been culturally, economically, and politically isolated for much of its recent history. Cities such as Shanghai have changed very quickly over the past 15 years, but attitudes on some issues may still look conservative to Western eyes. For example, many companies still prefer to pay by cash instead of card.

Travel, especially overseas, is still a new phenomenon for many Chinese, so they may require more personal attention on business trips than a Western business traveler would expect. It is also more common for Chinese business people to travel abroad in groups, for example in trade delegations. However, the situation is changing fast as China increases its

foreign investment and a younger generation that is more inter-connected with the outside world moves up the business hierarchy.

Relationship

The phrase *guanxi*, translated very crudely into English as “relationship,” is central to Chinese culture. It describes the networks of trust and influence that persuade or oblige people to render services to each other. Since travel management is in many ways about influence, such as in supplier relations or changing employee behavior, it is vital to build relationships to make any progress with a travel program.

A more challenging aspect of *guanxi* is when influence deteriorates into outright corruption. This can affect travel directly. In 2010, there was a wide-ranging investigation into corruption in the aviation industry, including officials from airlines, airports, and the Civil Aviation Authority of China. Travel managers may also find that their efforts to provide greater transparency of travel expenditure and the expense management process meet resistance.

Frugality

Although China is rapidly becoming more affluent, obtaining the lowest price lies at the heart of business dealings. One advantage for travel managers is that even the most senior managers are content to fly in economy class.

Hierarchy

It can be difficult for a Westerner to determine the hierarchy within a business organization, but it is important to know who sits where in the pecking order and to respect the power structure to win buy-in, both internally and from external partners.

Tips on adapting to Chinese culture

Observe

There is much to learn.

Communicate

This is a two-way process and it is crucial for building those all-important relationships. As well as listening, it is vital to explain not only what you are doing, but why you are doing it. Issuing a diktat without explanation will not succeed.

Be there

There will be no deal after only one meeting. The deal will happen once the relationship is established. Do not disappear once the deal is done or it will not be seen through successfully.

Don't patronize

China has come a long way in a short time, but is also an ancient civilization. Many of its people are well educated, hard-working, and quick to learn. If they do things differently, it is neither better nor worse – just different.

Be patient

Like anything else in China, establishing a travel program is not an overnight process. There must be a long-term plan.

The Supplier Landscape

Market Partners

Airlines

Growth

The scale and growth of Chinese aviation is huge.

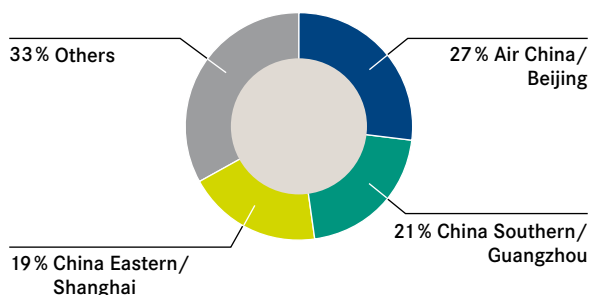
- > In June 2010, Beijing overtook London Heathrow to become the second-busiest airport in the world in terms of seat volumes.⁸
- > Chinese airports handled 486 million passengers in 2009, an increase of 19.6% on 2008.⁹
- > In the first quarter of 2010, seat capacity was up 17% on the same period in 2009.¹⁰
- > In 2009, 51 different airports handled more than one million passengers each. According to Air China, 90 new airports are under construction at the time of writing, of which 42 are in locations not currently served by a civilian airport.
- > Chinese airlines have 1,100 narrow-bodied aircraft, a figure which is expected to double over the next ten years.

Domestic competition

Three airlines dominate the Chinese market: Air China, China Eastern, and China Southern. Although all three have state ownership, competition between them is robust:

Major airlines in China¹¹

Total: 100 %



Naturally, each of the three has a higher market share at its primary hub. For example, Air China says it has 53% market share in Beijing, but only 12% in both Guangzhou and Shanghai.

Hotels

International hotel companies

As with the aviation sector, the hotel market is growing rapidly in China. Many international chains have established a presence in the country. As a snapshot example, in June 2010 alone, Marriott, Carlson (owner of the Radisson brand), and InterContinental Hotels Group all announced plans to double their coverage by 2015.

Domestic hotel companies

The international chains are expanding into secondary and even tertiary cities, where they are encountering growing competition from domestic lodging brands. Names such as Han Ting and Home Inns are becoming increasingly well known. Hotels aimed exclusively at the domestic market tend to be in the budget range. They present problems for travel management in that they are usually not bookable through a GDS, requiring more manual reservation methods such as phone or fax. This has knock-on effects for collecting data and supplier negotiations.

⁸ OAG

⁹ Civil Aviation Authority of China

¹⁰ OAG

¹¹ OAG, based on number of scheduled departures



Travel Management Awaiting the Revolution

Awaiting the travel management revolution

A consistent picture that emerges among the interviews conducted for this white paper is that consolidated, strategic travel management is still largely unknown among Chinese national companies. This is in spite of it being standard practice for travelers, office assistants, or a local travel agent to make lengthy searches for the lowest fare for every trip.

The great leap forward to strategic travel management has not yet happened, and perhaps that is because, in terms of core strategy, Chinese companies are too busy dealing with rapid expansion to make cost control a key priority. The 2010 AirPlus International Travel Management Study (ITMS) found that 44% of “travel managers,” in the loosest sense of the term, in China have felt increased cost pressure owing to the recession. This compared with an average for 66% for all 20 countries in the study and was the lowest figure for any market.

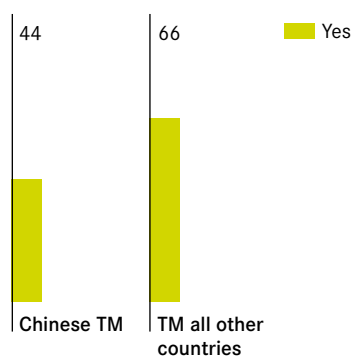
Once again, it is crucial to remember the distinction between different types of companies in China:

Multinational companies – practice travel management in China as elsewhere in the world, although with some additional challenges

Large Chinese companies – beginning to show interest in travel management

Smaller/local Chinese companies – little interest at present

Did you feel increased cost pressure
owing to the recession?
in percent



Case-study – Kongsberg Automotive

Air

Kongsberg Automotive, a Norwegian-based company providing systems solutions for vehicle manufacturers, is a good example of the challenging environment for managing travel in China.

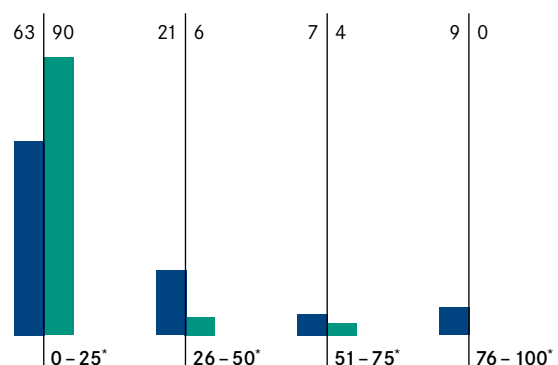
It has 1,000 employees in China, of whom 99% are Mandarin Chinese. Only a small number travel regularly. They book flights through numerous small travel agents that are established through *guanxi*, or relationships. This is much less formal or transparent than traditional Western procurement, but to some extent it works. “We get good fares from the local agents because of the relationships,” says Shanghai-based Richard Hopkins, who leads corporate projects for Kongsberg. “We are planning to roll out an online booking tool but I am not sure how good the Western booking tools are at getting the best fares in China. They are not as cheap as the local agents.”

However, the problem that Hopkins finds with the local agents is lack of transparency. “It is very hard to validate and reconcile invoices,” he says. “There is no closed loop system. We have no payment system yet, but if we could introduce one, it would have a significant impact.”

Hotel

Kongsberg is able to negotiate discounted rates with a preferred hotel in Shanghai, based in China, but the rate is not honored during periods of ultra-high demand, when prices can go up 60%.

Lack of time in percent



* Proportion of working week spent managing travel

China
Worldwide

Travel managers

The ITMS provides more clues as to why travel management has not yet made significant progress in China. It paints a picture of a vicious circle, with the people within Chinese organizations who are responsible for travel being frustrated by lack of time, status, and recognition. As a result, there is little progress in travel management, which means there are no tangible results to justify more investment in success.

The person assigned the role of managing travel in China spends far less time on this job than the global average. Ninety per cent of Chinese travel managers in the ITMS spend no more than one-quarter of their time on it, and none spends more than three-quarters of their time.

This may explain why 90% of respondents worldwide say they enjoy their travel management tasks, but only 57% of Chinese respondents enjoy them – a far lower figure than for any other country.

Who manages travel?

Within Chinese companies, the role of travel manager as understood in the West is almost entirely unknown. Bookings are often made independently by travelers or their secretaries. Larger companies and multinational companies are most likely to have an indirect materials procurement manager whose portfolio will include travel. Alternatively, the task will fall to administration. If an MNC does have a designated travel manager, only a few from pioneering companies are based in mainland China. Instead, they are more likely to have responsibility for the whole of Asia-Pacific and be based in Hong Kong or Singapore.

The lack of a dedicated travel manager clearly affects the ability of companies to set up detailed, controlled travel programs or to maintain relations with suppliers, who find it hard to set up a conventional account management plan because of the lack of contact and responsibility.

Travel management companies

Chinese national companies

Chinese businesses rarely consolidate their travel through a single agency. Instead, they use at least one in each city. The agencies they use work for low fees supplemented by the small amount of commission still paid by airlines (varying from 0–3% at the time of writing). “Using numerous agencies is a common problem that makes it hard for companies to negotiate with airlines because they have no

management information,” says Lucy Wang, General Manager for AirPlus Payment Management, the Chinese subsidiary of AirPlus International.

According to Air China, there are 10,000 agencies serving corporate clients in China, but this number could fall as airline commission is eliminated.

MNCs

MNCs nearly always use a global TMC. Global TMCs are present in China through joint venture arrangements and offer broadly the same services as they do elsewhere in the world, although some of their processes are more manual in China.

Travel policy

Low levels of implementation

According to the ITMS, 51% of Chinese companies have a policy covering all aspects of the travel management program – the second-lowest figure for any country. This may explain why, when asked what single aspect is most missing or could most be improved in their travel program, the most commonly chosen answer by Chinese respondents was “travel guidelines” (34%). Only one other country, Italy, ranked travel guidelines as its top answer.

Anecdotal evidence from interviewees for this white paper suggests travel policy has even less of a foothold in China than is indicated by the ITMS figures. The interviewees say that small and medium-sized companies tend not to have a policy, except perhaps to buy the best price on the day – and there is little wish for the greater transparency a policy brings to travel buying habits.



Best buy

In cases where a company does have a policy, it often concentrates exclusively on encouraging travelers to buy at the best price. In one sense, this is welcome for travel managers, as they can generally rely on travelers to make financially prudent booking choices. However, it can be difficult to drive travelers towards preferred suppliers unless their up-front price is the cheapest available.

Low enforcement

Even those companies that do have a policy have problems. When asked whether they check if travelers comply with policy, 62% of Chinese respondents said “yes.” This was by far the lowest figure for any country, the average being 88%. It might explain why 46% of Chinese respondents think their policy is going to become tougher and none thinks it will become easier.

Larger companies are more likely to have a policy but, even so, it is likely to be implemented and enforced variably by different departments and legal entities, with some keen to be compliant and others less interested.

Technology

TravelSky improving

TravelSky, the only GDS authorized by the CAAC to sell air tickets in China, is used by 8,000 agents. It has its limitations, but the situation is improving. It has introduced mid-office and desktop products which, for example, permit quality checking and profile management. In 2008, it introduced Bluesky, which allows travel policy management, data collection, and data connections to third parties for traveler tracking.

Another indication of progress came with the signature in June 2010 of a deal by InterContinental Hotels Group. The agreement made IHG the first international hotel chain to distribute all its Chinese properties through TravelSky.



Only 13% of Chinese companies use cards for travel payments.

Online booking

When asked if online booking is a strong business travel trend, only 23% of Chinese respondents to the ITMS said yes, by far the lowest for any country, the average being 57%. Only 19% thought the issue will become more relevant over the next 12 months (an average of 44%).

However, travel professionals based in China report high adoption rates for online domestic travel booking among multinational companies, although booking international flights online remains problematic. Carlson Wagonlit Travel has developed its own corporate booking tool for China that can handle all domestic hotel reservations and air trips. It is available in both the English language and Chinese characters. “China is where we have some of our highest adoption rates,” says Mike Bezer of CWT.

The market is evolving quickly. China has overtaken the USA as the country with the most Internet users, and there is evidence that young Chinese citizens are becoming highly web-savvy, booking online after first using social media tools to research their trips. Websites are springing up to meet the demand, partly from business travelers, who, as has been discussed, are not obliged by policy to book through a designated TMC.

Airlines are also beginning to deploy Internet tools to reach out directly to corporate customers. In June 2010, Amadeus signed a deal to provide the booking engine for Air China’s small and medium-sized enterprise program, Air China Rewards, offering real-time bookings and discounts of 3 – 5%.

Supplier relations

Chinese companies

In the ITMS, only 31% of Chinese respondents said they see further opportunities to save on their air expenditure. Once again, this was a much lower figure than for any other market, the next lowest being 50%.

The optimistic explanation why this figure is so low is that Chinese companies already achieve a good price because they carry out low-fare searches for each itinerary. They also benefit from intense competition in the domestic marketplace, which means that airlines routinely assign unnegotiated discounts of 10 – 15% on full-fare Y class tickets to larger corporate clients, while smaller companies are enrolled in loyalty programs with much smaller discounts. Few corporate deals are negotiated formally, and often they are agreed on the basis of little more than a verbal understanding rather than a formal contract. TravelSky now has the ability to load corporate fares, but it is still often the case that the discount is applied manually by the travel agent, although the client often buys directly from the airline instead.

The question remains whether Chinese companies could obtain better prices through more rigorous contracting, based on sound data and a transparent travel policy. Since few companies have detailed data or policies, this happens rarely, so more comprehensive supplier agreements as are understood in the West are few in number.

Multinational companies

MNCs work with global supplier contracts in China as much as anywhere else. They are likely to add some local supplier deals to the mix as well. MNCs typically involve their appointed TMC more heavily in contracting in China than in other countries owing to a lack of experienced travel managers on the ground.

Case-study: Novartis – pioneering hotel supplier relations

Hotels

The Switzerland-based pharmaceuticals giant Novartis has 5,000 employees in China, 3,000 of whom work in sales. Since 2009, the company has started to consolidate its hotel bookings in China through HRG, its globally appointed TMC. As a result, Novartis is gathering comprehensive hotel spending data for the first time. It is using the data to set up quarterly reviews with preferred properties to discuss service levels and whether pricing should be revised to reflect the number of room nights the company is delivering to the supplier. Hotels that are not prepared to adapt risk being removed from the preferred supplier program.

“We are creating an earthquake in the hotel industry in China,” says Hanson Wang, a Beijing-based sourcing category manager for Novartis Pharma Greater China Region.

Airlines

Novartis employees in China book 200 air tickets daily. HRG validates each ticket to verify that it is compliant with policy and that the fare is acceptable.

Data

Novartis has unusually high-quality data for the Chinese market. There are two primary sources for the data:

- > Central billing payment system – AirPlus International
- > TMC data – HRG

It uses the data directly for negotiations with both local and global suppliers and feeds the information into its expense management system. Novartis also finds the central billing very helpful for cash flow.

Payment

Only 13% of Chinese companies use cards for travel payments. The rest pay with cash or through bank transfers. Anecdotally, however, travel professionals based in China have observed a significant upturn since 2009 in the willingness of Chinese businesses to use cards and of merchants to accept them.

Apart from lingering socially conservative attitudes about cash, another inhibiting factor in the development of card usage is that the market remains tightly regulated. Financial institutions are not able to issue their own payment products freely, preventing MNCs from using the same cards in China as they do in the rest of the world.

Fa piao – a uniquely Chinese layer of bureaucracy

Both Chinese nationals and expatriate workers have to contend with an additional layer of expense-related bureaucracy known as “**fa piao**.” Designed to prevent tax evasion by suppliers, **fa piao** is a monetary receipt that customers are required to ask of vendors, including restaurants and even landlords. The receipts provide a paper trail to help the government track and tax supplier income, but business travelers also need them to receive reimbursement for their expenses. An added incentive to use them is that **fa piao** are also lottery scratchcards with money prizes – an incentive that was introduced by the Chinese government to increase usage.

Fa piao creates numerous complexities for business travelers, including:

- > Vendors are reluctant to issue them because it means the amount paid instantly becomes taxable income. They often try tricks to avoid handing over the receipts.
- > Employers often set their employees minimum targets for collecting **fa piao** receipts and can even withhold salaries for failing to reach them.
- > Reaching **fa piao** targets is made even harder because there are complicated rules governing which type of expense a traveler can be reimbursed for, with caps on various spending categories. Employees sometimes swap **fa piao** with each other to help hit their category targets. There can also be absurd cases of business travelers going out for expensive meals at the end of a month to hit their dining **fa piao** target.

Traveler security

In the ITMS, only 37% of Chinese respondents considered increased attention to security while traveling to be a hot topic. Yet again, this was the lowest figure of any country, the average being 60%.

However, some multinational TMCs do provide traveler tracking services familiar to companies in the West, allowing clients to pinpoint which travelers are scheduled to be at a given location in the event of a crisis. At present, much of this information is sourced manually.

With a limited threat of terrorism and generally low crime rates, duty of care issues in China tend to focus more on dealing with frequently delayed journeys. However, one issue for Western travelers to be aware of in large international cities is problems with taxi drivers. These include:

- > Manipulated meters
- > Getting lost – many taxi drivers are recent economic migrants who do not know the city in which they are operating
- > Falling asleep at the wheel – drivers often work dangerously long hours

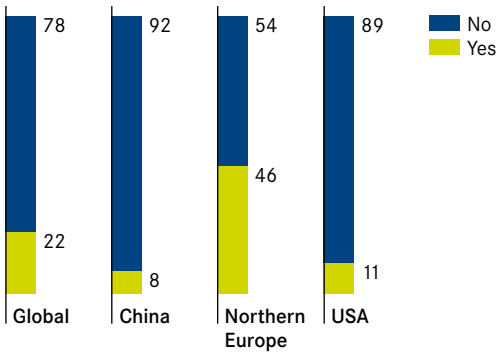
Environment

Figures from two questions asked in the ITMS suggest China trails much of the rest of the world in terms of environmentally aware travel programs, especially Northern Europe, which leads globally in this respect. However, it is also true that the figures for China are very similar to those for the USA.



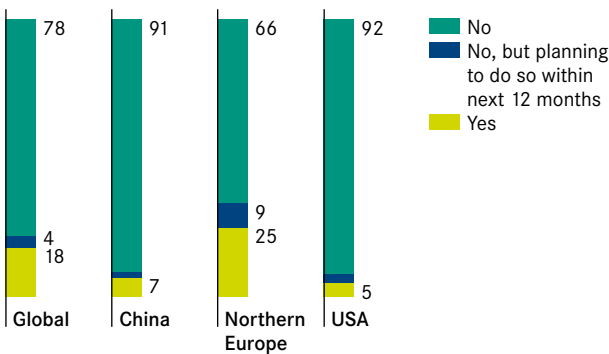
Has the issue of climate protection/climate-neutral travelling found its way into your travel guidelines?

Total: 100 %



Does your company make donations to a climate protection organization to offset its business travel-related CO₂ emissions?

Total: 100 %



Conclusion

2015: An Optimistic Future

Barriers ...

As has been discussed, travel management as it is understood in the West is only in its early stages in China. Factors inhibiting its progress include:

- > The infancy of business travel in China and therefore the lack of a supporting travel management infrastructure
- > Intense cost-consciousness at an individual level but a focus at corporate strategic level on growth rather than cost control
- > Effective, tactical buying of best-on-day fares by travelers, low-paid support staff, or local travel agents
- > Heavy regulation of supporting sectors, including GDSs, TMCs, and payment systems
- > Conservatism over issues such as payment methods

... and how to lift them

There are also good reasons to believe the situation will change and travel management will be much better established by 2015.

Education

China is proving quick to learn which Western business practices work well and which do not. Fittingly, business travel is aiding that process, as Chinese citizens spend more time studying and working abroad. Travel industry professionals are convinced that the main inhibitor to the spread of travel management so far has been lack of knowledge rather than lack of interest. In a rapidly developing economy such as China, it is unsurprising that travel management has not been a top priority, but the proven ability of travel management to control costs and deliver other strategic goals (such as risk management) in the West means it is only a matter of time before it is adopted in China as well.

Procurement

Strategic procurement is also in its infancy in China but is expected to gain in importance as GDP growth slows, wages rise, and attention shifts more towards cost control.

Increased international travel

Foreign travel is expected to grow fast as Chinese companies and Chinese capital begin to expand outside their domestic market. The increased cost and complexities of international travel will heighten the pressure to control costs.

Technology

The populous, industrialized eastern seaboard of China is as advanced technologically as anywhere else in the world, as is the computing ability of younger workers in particular. The only constraints on improving travel management technology are regulatory ones.

However, there will continue to be differences as well, with the Chinese tending to prefer lower-cost travel suppliers than the average Western business traveler. The different way of doing things will also continue to affect how Western companies manage their travel programs in China, but we are confident that by 2015, travel management in China will look much more like it does in the rest of the world.

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