CORPORATE TRAVEL MANAGEMENT & TRAVEL PRACTICES in CHINA

China continues to be a focus for significant new growth for companies across all areas in the travel industry. Many companies who have worked with Chinese companies, or those that may have never had experience working there will benefit from many insights in this report.

Prepared by PhoCusWright and one of our key technology partners, Amadeus IT Group, RADIUS is pleased to present a well-researched and insightful paper on the practices of corporate travel management in China. It identifies trends that are shaping the landscape as well as the opportunities and challenges facing overseas corporations and travel management companies.

We hope this paper will enlighten you on the unique landscape in one of the fastest growing markets in the world.

–Alan Liu, *Senior Vice President, Asia Pacific*
RADIUS

Presented by
RADIUS Technology Partner amadeus
Your technology partner

Prepared for Amadeus IT Group by PhoCusWright Inc.

Corporate Travel Management and Travel Practices in China

By Ram Badrinathan,
Tommy Tian Shu Bo

Edited by
Diane Merlino

AMADEUS
Your technology partner

PhoCusWright
MARKET RESEARCH • INDUSTRY INTELLIGENCE

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ABOUT THIS REPORT

Corporate Travel Management and Practices in China

Based on extensive research with 112 corporate executives responsible for travel procurement decisions in their companies, this report provides an overview of key elements of corporate travel programs represented in China, including spending patterns. This report also identifies major trends and dynamics shaping the corporate travel landscape, as well as opportunities and challenges facing both overseas corporations and travel management companies.

About PhoCusWright Inc.

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

PhoCusWright delivers qualitative and quantitative research on the evolving dynamics that influence travel, tourism and hospitality distribution. Its 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 America, Europe and Asia, PhoCusWright produces several high-profile conferences in the U.S., Germany and India, and partners with conferences in the U.K., 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 offices in Germany and India.

About Amadeus IT Group

Amadeus is the chosen technology partner for providers, sellers, and buyers of travel. The company provides distribution, IT and point-of-sale solutions to help its customers adapt, grow and succeed in the fast changing travel industry. Customer groups include travel providers (airlines, hotels, car rental companies, railway companies, ferry lines, cruise lines, insurance companies and tour operators), travel sellers (travel agencies) and travel buyers (corporations and travelers).

Amadeus' vision is to provide next generation travel technology that encourages collaboration amongst all players within the travel industry. To realize this, Amadeus is investing in technology that will allow the seamless integration of content, data and systems whether they are part of Amadeus or whether they are from third party suppliers. Over the coming years, Amadeus will expand its unique approach to corporate travel. By providing the technology solutions that span before, during and after all travel steps, the existing online booking tool is evolving beyond trip booking to provide the total trip experience for corporate travelers. The move towards mobile technology is an integral part of the vision of what the travel experience should be.

Amadeus' corporate travel solution, Amadeus eTravel Management, helps corporations manage their global travel programs more efficiently and cost-effectively. The solution helps business travelers plan, personalize and purchase their trip while remaining compliant with the global travel policy. Over 2,500 corporations worldwide, with more than one million active users, utilize Amadeus e-Travel Management to integrate all the elements of their programs into one intuitive and easy-to-administer solution. Customers include Altría, Huawei, Cemex, Daimler, Ericsson, Huntsman, Nestlé, Total and Thales.

FOREWARD

China is a complex and unique economy with a fascinating culture, rich history, more than 200 local languages and dialects, and distinct rules for business etiquette.

With a population of 1.3 billion people, the country has one of the world's most dynamic and fastest-growing travel markets. Although the economic slowdown in 2008 has caused it to temporarily lose some momentum, China's travel industry continues to record positive, though decelerated, growth.

The China National Tourism Administration recently reported that outbound travel has continued to increase. Almost 34.4 million Chinese travelled out of the country during the first nine months of 2008 – an increase of 14.8 percent compared to 2007.

Some industry experts predict that the impact of the economic downturn on Asia Pacific's travel industry will be offset in part by China's momentum. But there are several factors that will have a bearing on whether it can realise its enormous potential, including adoption of the latest travel technology trends, which means taking steps towards market deregulation. While the Chinese market remains tightly restricted and inaccessible for many international companies, we expect that in time the current regulatory environment will be relaxed to encourage growth.

Another key factor that will determine whether China's travel industry remains on its positive growth trajectory is the specific area of corporate travel, which has increased as the market opens up for international trade. But in the current economic climate, there is no denying that the corporate travel sector has been affected, with many companies slashing travel budgets as a cost-cutting measure. And for essential business travel, corporations are seeking ways to manage budgets more efficiently.

With corporate travel management becoming such a high priority for companies operating in China, Amadeus, a global leader in technology and distribution solutions for the travel industry, set out with global travel research authority PhoCusWright to explore this area further. This study analyses how corporate travel is managed within the organisation, the role of the Chinese travel management company (TMC), and helps to identify opportunities for streamlining the travel management process.

One of the key findings revealed a disparity between how efficient corporations perceive their travel management processes to be and the actual competence of these systems. To a large extent, Chinese companies do not take advantage of technology to automate processes and cut costs, but continue to rely on manual systems and paper processes. This is due to a lack of awareness of the tangible benefits that new technologies can bring to their business.

This study will therefore provide important insights for local TMCs as well as those looking to enter or increase their presence in the market. It will also benefit corporations by helping them to address one of their biggest challenges – how to reduce costs and increase efficiency by formalising and modernising travel policies and processes, within the boundaries imposed by government regulations.

Recognising China's tremendous potential, Amadeus first established a presence in the country more than 13 years ago, working closely with industry partners to develop a better understanding of the operating environment and the needs of its customers. Today Amadeus continues to invest in the country through local offices and research efforts such as this study, in order to share and expand its understanding of China and gain further insight into the challenges and opportunities in the market.

This is part of our commitment to delivering best-practice technologies to local companies and multinational organisations operating within the country. We hope that this study will stimulate more active discussion among stakeholders in the Chinese travel industry, as well as serving as a valuable resource for policy makers and advisory bodies, helping to pave the way for future growth.

David Brett
President, Amadeus Asia Pacific

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DEFINITIONS

1. China's Regulatory Agencies

- **China National Tourism Administration (CNTA):** The China National Tourism Administration is the government authority responsible for developing tourism in the country, and for travel agency and hotel license approvals.

  As a tourism bureau, CNTA is unique in that it also is responsible for controlling outbound tourism from China. CNTA does not have the authority of a full department to enforce regulations, but in other respects it acts as a ministry. It is subordinate to the State Council, the highest executive organ of state power and administration. Regional branch offices are located in various provinces and report to the headquarters office in Beijing.

  Travel agencies licensed by CNTA are not allowed to distribute air or train tickets without additional licenses issued by the China Air Transportation Association or a local Ministry of Railway agency, nor can they operate highway transportation or waterway transportation without the approval of local Minister of Transportation agencies.

  Licenses for joint-venture and wholly-owned travel agencies and hotels are available to foreign investors through CNTA, but they are subject to more stringent qualification standards than Chinese investors.

- **Civil Aviation Administration of China (CAAC):** As the aviation authority operating under the Ministry of Transport, the Civil Aviation Administration of China oversees all civil aviation on the mainland. It negotiates agreements with other civil aviation authorities, including those of the special administrative regions of the People's Republic of China.

  The CAAC tightly controls all aspects of the airline market in China, although it has been moving gradually toward liberalization.

- **China Air Transportation Association (CATA):** Authorized by the CAAC as a non-governmental organization in 2005, CATA issues and supervises licenses for air ticket distribution through its regional representative offices.

  All airlines in China, except China Spring, sell tickets through TravelSky, the sole CRS for the country's aviation industry. TravelSky is approved by CAAC and licensed by CATA.

  Overseas travel companies (OTCs) that want to distribute air tickets in China must obtain a license from CATA on behalf of CAAC. Currently, OTCs must partner with Chinese companies to be licensed for air ticket distribution.

- **Ministry of Railways (MoR):** The Ministry of Railways is the government agency responsible for passenger services, regulation of the rail industry, and development of China's rail network and rail infrastructure. The distribution of train tickets is controlled by local

MoR agencies that charge a RMB ¥5 service fee for each booking.

A member of the State Council, the MoR is also in charge of China Railways, which manages the railway bureaus and companies in the provinces.

The train transportation market within China is not yet open to private investors, and train agency distribution licenses are not currently available to foreign investors.

- **Ministry of Transport (MoT):** The Ministry of Transport is the government agency responsible for all road, air, and water transportation regulations. A member of the State Council, the MoT was formed in March 2008 through the merger of the Ministry of Communication, the CAAC, and the China Post Bureau.

  Local MoT agencies issue licenses for car, bus, and taxi transportation activities in China.

  Overseas travel companies that want to lease cars in China must obtain a license from the MoT. Currently, OTCs must partner with Chinese companies to obtain licenses for joint-venture car leasing companies.

2. Company Ownership Structures

- **Multinational Corporation (MNC):** A multinational corporation is a legal entity set up by a foreign company or companies in a joint-venture partnership with a Chinese company.
- **Private Domestic Company (PDC):** A private domestic company is a corporation invested solely, or with majority interest, by Chinese individuals rather than government and foreign investors.
- **State-Owned Enterprise (SOE):** A state-owned enterprise is a corporation invested solely, or with majority interest, by or through the State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) and its local agencies. SASAC was established on the principle of separating government administration from enterprise management and separating ownership from management power. Among its responsibilities, SASAC acts as the investor on behalf of the state, supervises and manages enterprise assets, guides reform and restructuring of SOEs, and appoints and removes top executives of the enterprises under the supervision of the central government.

3. Travel Management Terminology

- **Chinese Booking Service Agency (CBSA):** Chinese booking service agencies are service agencies licensed by CATA to distribute air tickets in China. CBSAs solely provide air ticket booking services to corporations and do not handle any other travel management services.
- **Computer Reservation System (CRS):** A computer reservation system is used to store and retrieve information and conduct transactions,

predominantly related to air travel. CRS systems generally have inventory from a single market; in comparison, Global Distribution Systems (GDSs) include inventory from different geographical locations.

- **Self-Booking Tool (SBT):** Self-booking tools are online reservation tools that automate the booking process of corporate travel reservations for individual travelers and travel assistants.
- **Standard Web Booking (SWB):** Standard Web bookings are travel reservation bookings made through Internet travel sites, including travel portals, online agencies or supplier Web sites.
- **Travel Arranger (TA):** Individuals (such as secretaries) or departments within a corporation responsible for travel bookings for a certain department or the whole company.
- **Travel Management Company (TMC):** A Travel Management Company provides bookings, customer support, reporting, fulfillment, and other travel-related services to corporations. In this report, the term TMC is used to describe traditional, global travel agencies such as American Express, Carlson Wagonlit Travel, Hogg Robinson Group, FCm Travel Solutions, and BCD Travel, which specialize in corporate (managed) travel. In China, TMCs typically provide booking services only, rather than comprehensive travel management services.

EXECUTIVE SUMMARY

Corporate travel management in China is in its early stages, rich with opportunity for companies willing to undertake the effort to understand and respond to the unique circumstances that define this market. This report reveals five major trends that currently prevail in China's travel management landscape:

1. Use of IT systems for travel management is limited.

Automation of travel management is in its early stages in China, where paper forms and manual processes dominate the entire travel requisition, approval and payment process.

More than 80% of companies interviewed use paper forms to some extent for corporate travel management processes (see Methodology, page 27). Just 27% use an IT system, defined for this report as any system used to replace manual processes, such as Enterprise Resource Planning or Customer Relationship Management.

More than three-quarters use a manual process and paper forms for travel expense reporting. One-quarter use the Internet to book air and hotels online through leisure Web sites, and just two out of the 112 companies in the study use an SBT for bookings (one of these is currently in a test period).

Despite low IT penetration, there is a generally positive attitude about automating travel management. At least 80% of corporations interviewed consider cost savings, greater control, and increased efficiency as important perceived benefits of using an IT system to manage travel.

2. Centralized travel management is in its infancy.

Fewer than half of all corporations interviewed use a single, contracted TMC or CBSA for travel bookings. In the remaining corporations, TAs are allowed to make air bookings through a combination of sources including airline suppliers, TMCs, and CBSAs. As a result, a variety of TMCs and/or CBSAs could handle some portion of a single company's bookings.

This trend is likely to continue for the next 5 to 10 years due to a widespread perception that centralizing travel management will not yield the lowest air rates for companies or produce any other significant value-add benefits.

3. Cash is the dominant form of payment fulfillment.

Corporate credit cards are not widely used in China, although they have made some headway in MNCs. While corporate cards offer the advantage of paying travel expenses monthly, many companies are concerned that employees will abuse the cards, using them for personal transactions.

More than 90% of the corporations interviewed for this study give employees cash advances to cover travel expenses. A majority also allow travelers to pay for expenses with their own cash (79%) or with a personal credit/debit card (75%).

Bookings made through contracted TMCs and CBSAs are typically paid for with cash and invoiced and cleared each month. Pay on delivery is typically used by companies that do not have a fixed contract with a single TMC or CBSA. Cash or check is used for pay on delivery, and bank transfer is used for monthly payments. The most popular payment cycle is one month.

4. Airline commissions are the primary income source for CBSAs and TMCs, although recent regulatory changes are likely to increase the use of company-paid service fees.

The dominance of commission-based income for TMCs in China is shifting due to recent regulatory changes. The CAAC cancelled its mandated 3% commission rate on air bookings in May 2008; as a result, TMCs and CBSAs must now negotiate their own commission rates directly with the airlines. Under this system, TMCs/CBSAs with the most air bookings will have much greater negotiating power with the airlines than smaller TMCs. Consequently, service fees could grow in importance as the income source for TMC/CBSA air bookings, possibly replacing the reliance on commission income at some point in the future.

Currently, more than 80% of the TMCs and CBSAs used by the corporations surveyed are compensated by supplier commissions, fewer than 5% are compensated exclusively by service fees, and about 13% are compensated with a combination of both. Commission payments are primarily from air bookings, while service fees are charged primarily for hotel bookings.

5. MNCs, SOEs, and PDCs display different patterns of travel management and different priorities.

Although MNCs surveyed had fewer employees on average, they spent more on travel and entertainment (T&E) expenses in 2007 than PDCs and SOEs, which had the lowest average for annual T&E expenses. MNCs also accounted for the lion's share of corporations that use TMCs. About half of the MNCs interviewed used a TMC compared with only 5% of the PDCs interviewed, and fewer than 5% of the SOEs interviewed.

MNCs are the most likely to use an IT system for travel management. A greater percentage of those interviewed cited cost savings as the most important benefit of using an IT system to manage travel. More SOEs said greater control and better policy enforcement are the most important benefits they would expect from using an IT system for travel management.

CHINA'S TRAVEL MANAGEMENT LANDSCAPE

Corporate travel management, as with most industries in China, is defined by regulation. The country operates in a very strict regulatory environment, and managed corporate travel can only be understood within that context. Travel suppliers and all components of the country's travel infrastructure are regulated by the government, to varying degrees. In some cases government authorities also own suppliers, including airlines, travel agencies and global distribution systems (GDS).

"According to Chinese regulations on foreign-invested travel companies, we are not allowed to set up offices or branches in other cities. This has made it very challenging to operate nationwide in China."
– Multinational TMC

China's airline industry is highly regulated. The degree of regulation is similar to Japan, but the difference is that in Japan the government does not have an ownership role in the travel business. In sharp contrast to China's highly regulated landscape, India's airline industry is dominated by competition between private carriers following two waves of liberalization that began in the mid-1990s. From a GDS perspective, Amadeus, Galileo, Sabre and Abacus were all allowed to enter India.

In comparison, government-owned carriers run China's airline industry and the sole government-approved CRS in China – TravelSky – plays a critical role in air ticket distribution. TravelSky is approved by CAAC and licensed by CNTA.

Due to the walled nature of the airline industry and TravelSky's limited data integration capability, TMCs are forced to build local technology systems that don't interface with their global platforms. The front-office, mid-office and back-office systems of TMCs in China are all local, which make it challenging to integrate data for reporting and traveler tracking.

In addition, all systems must be built to interface in double byte Chinese characters with the TravelSky system, which means MNCs entering China need to make sure their TMC of choice has a strong relationship and the ability to interface with TravelSky. The online booking tools used in China by TMCs are developed locally in partnership with TravelSky, which makes it very challenging for MNCs to deploy their global SBTs unless they can easily incorporate the local specifications. As a result, they have to wait for almost a month to integrate their China travel data with the rest of their global travel management data.

Another result of China's strict regulatory environment is a fragmented retail landscape. Retail travel agencies, including TMCs, must secure a license from each corresponding authority to operate various services. These licenses are typically given by local (provincial or municipal) agencies, which means travel companies with branch offices or subsidiaries in different cities must secure a license for each office, especially for distribution of airline tickets.

"According to Chinese regulations on foreign-invested travel companies, we are not allowed to set up offices or branches in other cities," commented one multinational TMC interviewed for the survey. *"This has made it very challenging to operate nationwide in China."*

The macro-regulatory landscape has resulted in a scenario where air travel bookings are serviced primarily by CBSAs working on thin commissions. This has imposed limits on the growth of large TMCs in China, as well as limiting

In a culture where paper documents are required for tax purposes, a paradigm shift in the current paperwork culture is not likely to occur in the near future unless it is mandated by the government.

management expertise, investments in technology and process automation, and the overall sophistication of the industry.

Even global TMCs in China conduct an extremely small amount of business relative to the opportunity. However, the success of one player – Ctrip Inc. – provides a valuable lesson for TMCs interested in entering the market.

Ctrip is China's largest online travel agency, although 80% of bookings come from its call center. The company first achieved significant scale in China's fragmented leisure travel market, then invested in building its own corporate travel management system over the past two years. Ctrip is now serving several major multinational customers. The Ctrip example illustrates that a TMC can achieve significant success in the corporate market by taking the initiative to build a system from the ground up that is based on operational and technological efficiency.

The complex government system of regulatory and ownership authorities also presents a challenging environment for overseas companies doing business in China.

As one example, under China's Law of Accounting and the requirements posed by The Administration for Management of Accounting Archives, companies must produce all original vouchers (such as air tickets and travel itineraries) and retain them for 15 years. These requirements generate a significant number of manual tracking processes and a great deal of paperwork for travelers, companies, and TMCs. In a culture where paper documents are required for tax purposes, a paradigm shift in the current paperwork culture is not likely to occur in the near future unless it is mandated by the government.

Other Trends and Influences

China's approach to corporate travel management is characterized by an entrenched expectation for extremely high service levels along with extremely low prices, a challenging combination for TMCs. For example, value-conscious business travelers are driving the rapid expansion of budget hotel chains throughout the country. These, priced at US$20 per night, offer neat and clean accommodations and free broadband.

At the same time, corporations are not convinced that the services TMCs can provide will actually save them money. TMCs currently operating in China typically provide booking services only. While almost all the corporations surveyed believe that TMCs or CBSAs can provide added value, they question whether the cost of additional services will negate the cost savings. Most corporations believe that having travelers comply with travel policies will be more helpful in controlling costs than adding costly travel management services.

China's unique regulatory environment has also created circumstances that make it difficult for TMCs to provide management services that are standard elsewhere in the world. To illustrate, corporations welcome periodic booking and expense reports but are generally unwilling to pay for this service. This is because they can create these reports themselves due to the strict government

Another striking component of China's corporate travel landscape is government mandate, which means that process change can happen overnight.

requirements for producing and retaining paper invoices and vouchers for tax purposes.

In addition, due to China's unique marketplace dynamics, corporations are not convinced that TMCs and CBSAs can guarantee them the lowest possible rates for airfares or hotel bookings. Because the government-regulated airlines frequently sell highly discounted fares, companies believe they can secure rates directly from the airlines that are lower than the negotiated rates secured by a TMC or CBSA. It also happens that some contracted CBSAs will sell discounted airline tickets to their clients at full price, keeping the difference for themselves.

On the hotel front, many corporations have negotiated discounted rates directly with Chinese hotel companies, which are highly deregulated compared with the airline industry. For large corporations, no historical booking record is required to secure these rates.

Resistance to reengineering travel management systems and processes, particularly among SOEs, has also influenced China's corporate travel landscape. Despite the corporate privatization drive over the last 20 years, SOEs continue to play an important role in the country's overall economy and employment. SOEs are traditional in their approach to management processes; as a result, recognized western management paradigms are not entirely applicable in China, including concepts and strategies of travel management as defined by western TMCs.

Another striking component of China's corporate travel landscape is government mandate, which means that process change can happen overnight.

The mandated use of paper tickets plagued the domestic airline market for years, even as airline companies worldwide moved to e-ticketing adoption to meet IATA's May 2008 deadline. However, nothing changed in China until the government mandated that the airlines move to e-ticketing as the August 2008 Beijing Olympics approached. As a result of the government mandate, a market that was 90% paper tickets switched literally overnight to a 90% e-ticket market, and within six months there was 100% adoption of airline e-ticketing throughout the country.

Signs of Change

A number of forces are poised to reshape China's travel management landscape, including the strict regulatory environment, which is already showing signs of change.

Based on a commitment to the World Tourism Organization (WTO), the Chinese government has gradually eliminated some limitations on the entry of Foreign Travel Companies (FTCs) to the China market. FTCs are now allowed to establish majority holding joint-venture companies with Chinese partners, or wholly-owned foreign companies, to operate tourism or hotel booking services without regional limitations. Approvals from the Ministry of Commerce and CNTA are required.

The under-35 generation has grown up in a completely different environment from earlier generations, and they are technologically savvy, ambitious and driven.

Wholly-owned foreign companies are not yet allowed to handle air distribution in China, although this could change in the future as a test case was recently approved for a wholly-owned Hong Kong company to operate air distribution.

The deregulation of airline commission payments by CAAC earlier this year could move the industry toward a zero-commission environment, forcing significant change in the market as did the introduction of mandatory e-ticketing in 2008.

At the same time, the growth of corporate credit card adoption and the expansion of broadband infrastructure in the region are expected to boost IT penetration. These two factors will push automation of the corporate travel market, but with locally developed systems.

In addition, the under-35 generation has grown up in a completely different environment from earlier generations, and they are technologically savvy, ambitious and driven. The rapid growth of this population working in urban centers will drive technology usage both outside and within the corporate environment and could alter existing travel management processes in a relatively short time span.

China's corporate travel market has expanded significantly over the past two decades alongside the country's overall economic growth. The country's increasing importance as a consumption market and manufacturing base is driving employee growth and a resulting increase in travel spending. There are currently several MNCs in China with a US$100 million annual travel spend, which is driving travel management along global lines.

PATTERNS OF TRAVEL MANAGEMENT

With the dominance of the cash payment mode, MNCs in China have adopted a hybrid model that relies on both cash and corporate cards to purchase travel and reimburse expenses.

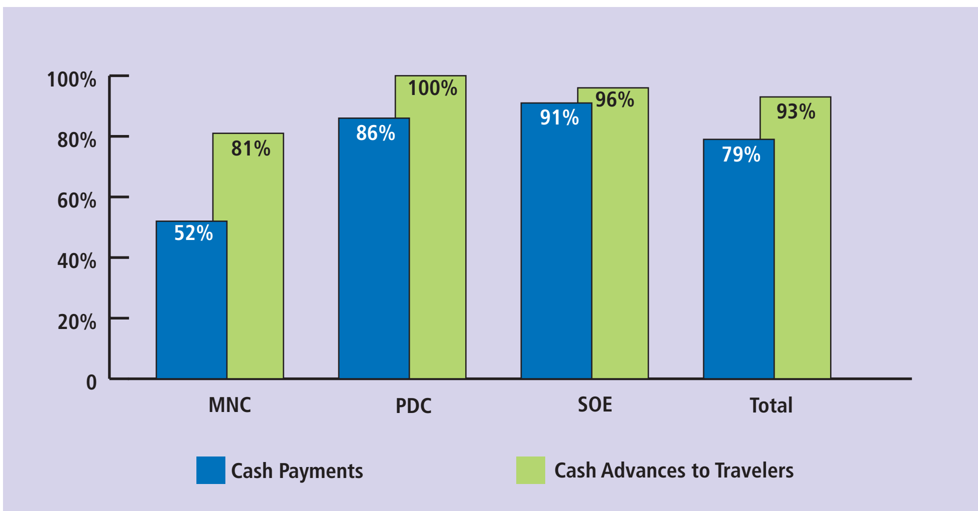
1. Payment patterns

- Cash is the dominant form of payment for traveler advances and expense reimbursement. The use of corporate credit cards in China is extremely limited and will remain so for the foreseeable future, although there is widespread use of personal credit cards for travel transactions.

Cash as the primary payment mode: Cash is the dominant mode of corporate travel payment in China for cash advances and expense reimbursement. This pattern holds true for all types of companies including MNCs, which have adopted the Chinese payment model to a large extent (*see Table 1*); 52% of the MNCs interviewed reported making cash advances and using cash payments for travel expense reimbursement, a striking contrast to the reliance on corporate cards as the dominant payment gateway in other parts of the world. With the dominance of the cash payment mode, MNCs in China have adopted a hybrid model that relies on both cash and corporate cards to purchase travel and reimburse expenses.

Reliance on cash payments is much higher at SOEs and PDCs; 86% of PDCs interviewed reported making cash payments for expenses. SOEs had the highest reliance of cash for expense payments, with 91% of respondents reporting the use of cash for advances and payment of expenses.

Table 1 – Use of Cash for Advances and Payments



Note: Number of Respondents, N=112
(MNC=31, PDC=36, SOE=45, Total=112)
Source: PhoCusWright Inc.

With few corporate credit cards in China, business travelers prefer cash advances to avoid paying for travel expenses themselves.

Travel advances: More than 90% of the corporations interviewed give employees cash advances to cover travel expenses.

The companies interviewed reported that travelers also cover their own travel expenses with cash (79% of companies surveyed) or a personal credit or debit card (75% of companies surveyed; *see Table 2*). In both cases, travelers are reimbursed for their expenses within 30 days.

With few corporate credit cards in China, business travelers prefer cash advances to avoid paying for travel expenses themselves. While it is important to note that at 75% of the companies interviewed travelers use their personal credit cards for travel purchases, indicating a high penetration of the card payment option, in reality the dominant payment method is cash.

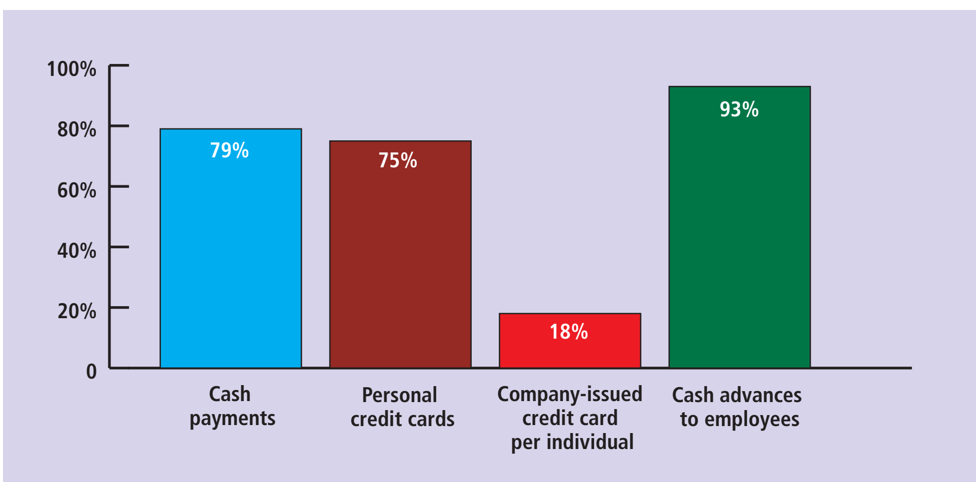
Use of corporate cards: While corporate credit cards offer companies the advantage of paying travel expenses monthly, their current use for travel management is extremely limited.

The primary reason for this is based on company concerns that employees will use the cards for personal business. *"We don't have corporate credit cards because it is very difficult to control their abuse for personal transactions. However, we encourage their use for cash management,"* according to the TA for a large industrial MNC surveyed.

In addition, corporations in China pay TMCs and CBSAs on a 45- to 60-day billing cycle. This cycle will not change and must be supported by corporate cards.

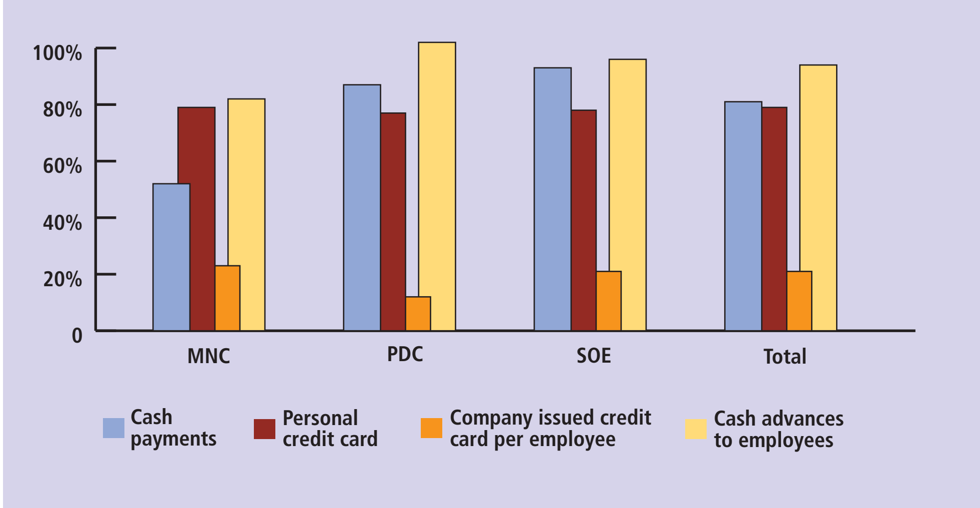
Given these two dynamics, the use of corporate credit cards is expected to remain quite limited for the foreseeable future. MNCs currently have the highest rate of use (about 20% of companies interviewed use corporate cards), and PDCs have the lowest rate (fewer than 10% of companies interviewed use corporate cards; *see Table 3*).

Table 2 – Travel Payment Modes



Note: Number of Respondents, N=112
Source: PhoCusWright Inc.

Table 3 – Travel Payment Modes by Type of Company

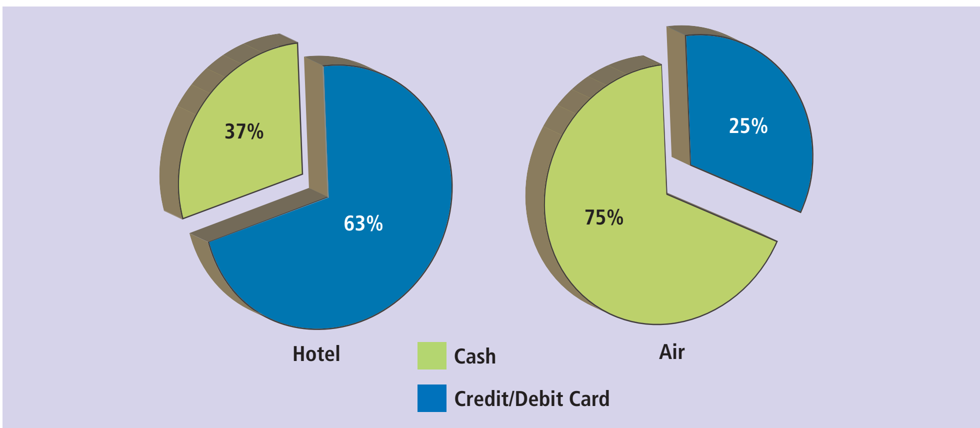


Note: Number of Respondents, N=112
(MNC=31, PDC=36, SOE=45, Total=112)
Source: PhoCusWright Inc.

Payment at the time of booking: All online bookings performed by corporations using SBTs are paid for with the traveler's credit/debit card.

Payments for offline bookings are typically made by cash and credit/debit card; cash payment is favored for air bookings and credit/debit cards are used more frequently for hotel bookings. Seventy-five percent of offline air bookings are paid in cash, compared to 37% of offline hotel bookings. More than 60% of offline hotel bookings are paid with a credit/debit card, versus just 25% of offline air bookings (*see Table 4*).

Table 4 – Payment for Offline Bookings without TMCs/CBSA



Note: Number of Respondents, N=94
Souurce: PhoCusWright Inc.

"Although we typically contract with our clients for a payment term of one month, our clients frequently pay us two or three months later."
– A Multinational TMC

In China, bookings made through contracted TMCs and CBSAs are typically paid for with cash and cleared on a one-month or 45-day cycle. Contract terms do not always hold fast. One multinational TMC surveyed noted that, *"Although we typically contract with our clients for a payment term of one month, our clients frequently pay us two or three months later."*

Pay on delivery is typically used by companies that do not have a fixed contract with a TMC or CBSA. Cash or check is used for pay on delivery, and bank transfer is used for monthly payments.

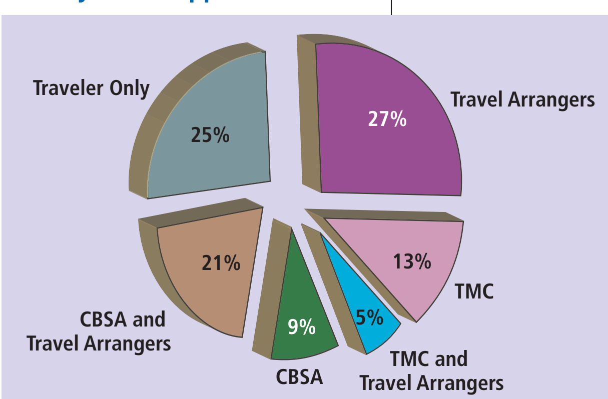
2. Fulfillment Channels

- Distinct channels for corporate travel fulfillment have emerged in China, with CBSAs currently playing a key role.

Slightly fewer than half of the corporations interviewed had contracted with a single TMC or CBSA to handle air bookings in 2007, including about 20% who used a TMC and 30% who used a CBSA. About half of these corporations allow their travelers to interact directly with the contracted TMC or CBSA, while the other half uses a travel arranger to interact with the booking entity.

Expectations for single-contract providers are high. *"We have a very large number of air bookings every month, so the CBSA we are using has one staff working in our office every day,"* according to the TA for a large industrial multinational company surveyed. *"We don't need to pay her salary. We are very happy to have this service. I think if they stop this service, we will find a new CBSA."*

Table 5 – Who Makes Bookings Directly with Suppliers?



Note: Number of Respondents, N=112
Source: PhoCusWright Inc.

MNCs accounted for the lion's share of corporations that use TMCs. About half of the 31 MNCs interviewed used a TMC; only 5% of the 36 PDCs interviewed, and less than 5% of the 45 SOEs interviewed used a TMC. In China, TMCs typically provide booking services only, rather than comprehensive travel management services.

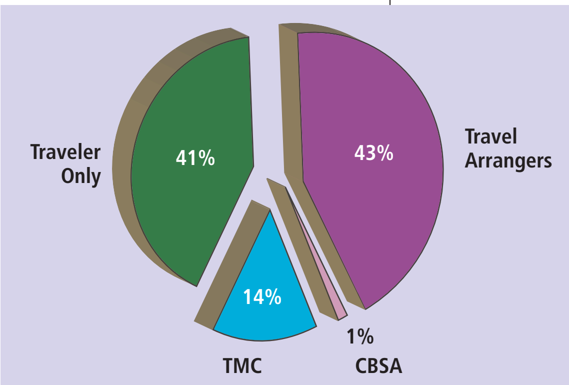
Nearly 52% of all corporations interviewed use more than one source for their travel bookings. At these companies, travelers and travel arrangers are allowed to make air bookings with a mix of different airline suppliers, TMCs, or CBSAs at any time. As a result, it's possible that a variety of TMCs and/or CBSAs handle some portion of a single company's bookings (*see Table 5*).

3. Origination of Air and Hotel Bookings

- Bookings are made by TMCs/CBSAs, travel arrangers and individual travelers, with TMCs/CBSAs handling the greatest share of air ticket bookings and a very small share of hotel bookings.

TMCs and CBSAs accounted for nearly 50% of total air ticket bookings and just 15% of all hotel bookings among the corporations interviewed. Travelers made

Table 6 – Hotel Booking Breakdown by Makers



Note: Number of Respondents, N=111; totals may not equal 100% due to rounding.
Source: PhoCusWright Inc.

30% of all air ticket bookings, while travel arrangers accounted for less than a quarter of the total air tickets booked.

The air bookings made by CBSAs and TMCs refer to bookings made through them as a channel, while air bookings made by travelers and travel arrangers here refer to bookings made directly with airlines or through non-contracted CBSAs.

With regard to hotel bookings for the corporations interviewed, TMCs and CBSAs represented 15% of the total, travelers made more than 41%, and travel arrangers accounted for 43% of bookings (*see Table 6*).

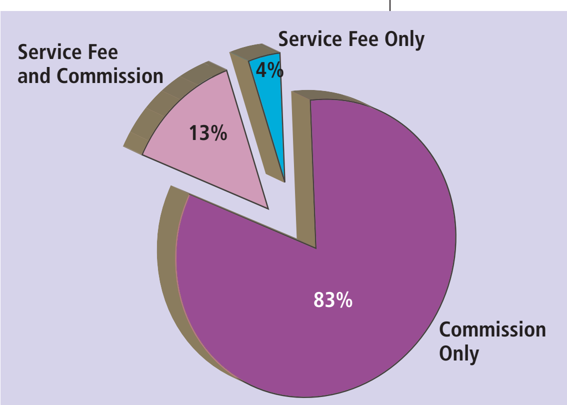
Public portals were the most popular method for making both online air and hotel bookings by travelers and travel arrangers at the corporations interviewed, followed by supplier Web sites. SBTs were used in a pilot program by one corporation for overseas bookings and by another corporation for domestic bookings.

4. Payment for Travel Management Services

- The dominance of commission-based income for TMCs and CBSAs is shifting due to recent regulatory changes.

More than 80% of the TMCs and CBSAs used by the corporations interviewed are compensated exclusively by supplier commissions; fewer than 5% are compensated exclusively by service fees (*see Table 7*). About 13% of the TMCs/CBSAs used are compensated with a combination of commissions and service fees. TMCs and CBSAs usually derive compensation through supplier commissions on air tickets and service fees charged to the corporation for hotel bookings.

Table 7 – Financial Relationship with TMC/CBSA



Note: Number of Respondents, N=54
Source: PhoCusWright Inc.

In May 2008, CAAC cancelled its mandated commission rate of 3% for air ticket bookings, a regulation that had been in place since 1987. In practice, airlines have paid an additional commission to high-performing TMC and CBSA air ticket distributors on top of CAAC's mandated 3%. This system fostered reliance on commission payments rather than service fees for income from air bookings.

With CAAC's cancellation of the mandated 3% commission on air bookings, TMCs and CBSAs must now negotiate commission levels directly with the airlines. Under this system, larger TMCs/CBSAs with the most air bookings have much greater negotiating power with the airlines than smaller travel management companies. Corporations will directly benefit from the volume discounts that the larger TMCs can negotiate.

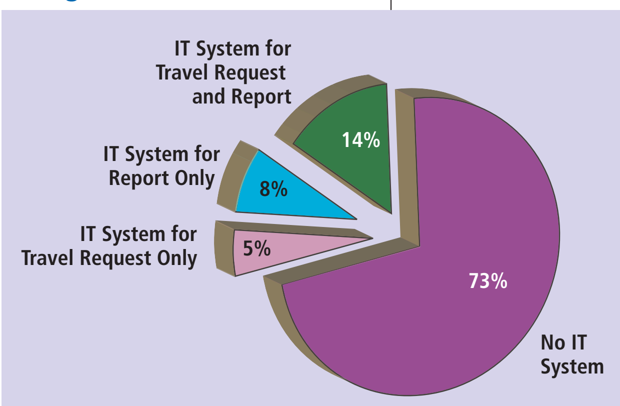
At the same time, this shift has driven more transparency in the service fee model. As a result, service fees could grow in importance as the income source for TMC/CBSA air bookings, possibly replacing the reliance on commission income at some point in the future.

AUTOMATION OF CORPORATE TRAVEL MANAGEMENT PROCESSES

- Automation of travel management is in its infancy in China. Fewer than one-third of companies surveyed use any sort of IT system to manage corporate travel processes, 25% book travel online through external Web sites, and SBTs are virtually unknown, used in limited fashion by just two of the 112 companies surveyed.

Limited Use of IT Systems: More than 80% of companies interviewed use paper forms to some extent for corporate travel management processes. Just 27% of companies interviewed use an IT system (*see Table 8*). Within the context of this report, IT system is defined as a system used to replace some manual processes, such as Enterprise Resource Planning (ERP) or Customer Relationship Management (CRM).

Table 8 – IT System for Travel Management



Note: Number of Respondents, N=112
Source: PhoCusWright Inc.

ERP was most commonly used by corporations interviewed for this study. ERP functions include travel request/approval and report processing, and travel expense management; they do not include management of travel activities such as scheduling, booking and tracking.

Of the 27% of corporations surveyed that have installed an IT system, the majority use it for travel requests and approvals, as well as financial reporting. PDCs and SOEs are the least likely to use an IT system for travel management.

a) **Requests and Approvals:** One-quarter of the corporations interviewed exclusively use a manual process and paper forms for travel requests and approvals; an additional 56% use a combination of paper forms and email communication for requests and approvals.

   Corporations that use emails for travel requests and approvals can also file paper forms. However, in companies that use an IT travel management system for travel requests and approvals the process is fully automated and no paper forms or e-mails are used.

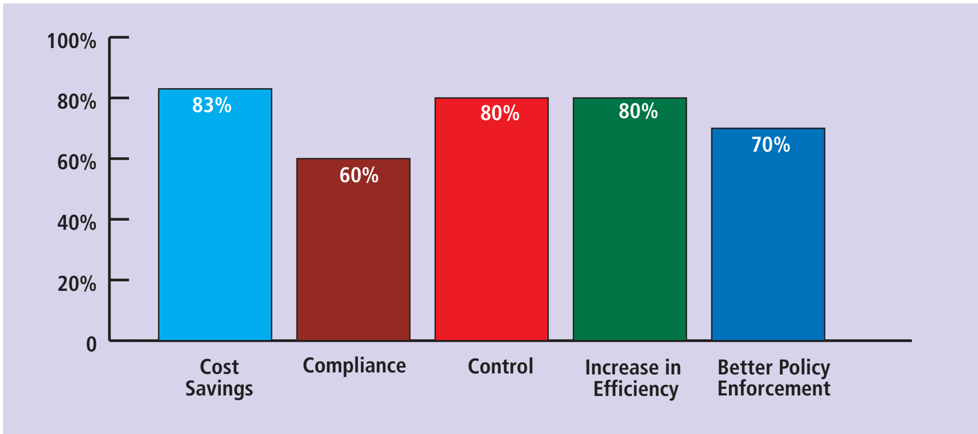
b) **Expense Reporting:** More than three-quarters of corporations interviewed (78%) use a manual process and paper forms for travel expense reporting.

   The Law of Accounting and the Administration for Management of Accounting Archives in China require travelers to file paper travel expense reports accompanied by all original receipts. Most travelers submit the required paperwork within three to five days after returning from a trip. For the 27% of corporations with IT systems, travelers are required to submit their travel expense reports electronically through the system.

Expected Benefits of Using an IT System: At least 80% of all 112 companies surveyed consider cost savings, greater control and increased efficiency as the most important benefits of using an IT system to manage travel (*see Table 9*).

A 60% majority of the companies interviewed considered compliance an important benefit of IT use for travel management.

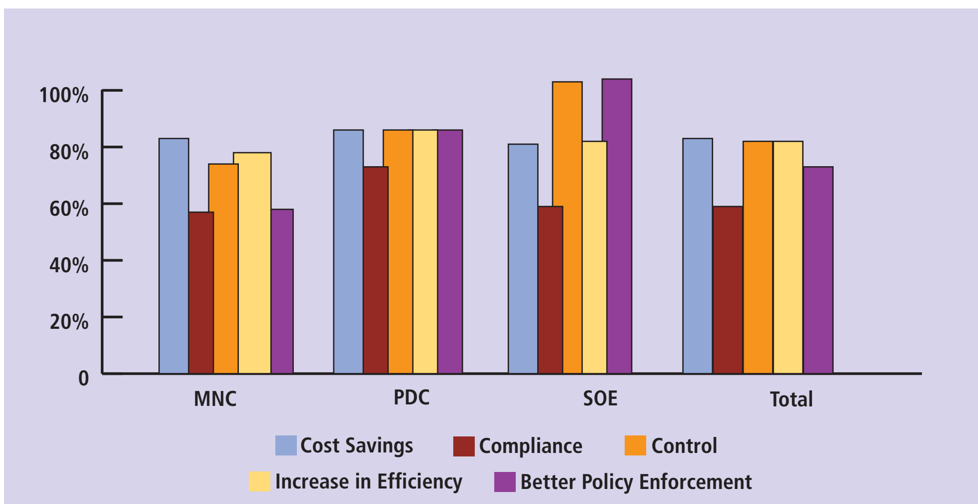
Table 9 – Benefits of an IT System



Note: Number of Respondents, N=30
Source: PhoCusWright Inc.

While for MNCs interviewed cost savings is the most important benefit of using an IT system to manage travel, for SOEs greater control and better policy enforcement are more important (*see Table 10*).

Table 10 – Benefits of an IT System by Type of Company



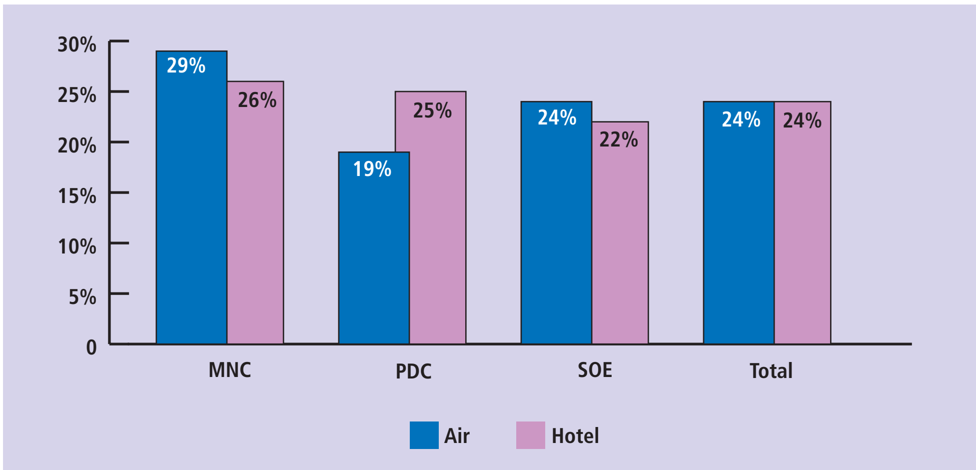
Note: Number of Respondents, MNC=18, PDC=7, SOE=5, Total=30
Source: PhoCusWright Inc.

"Most corporate employees don't like online travel booking, they like to be served."
– A Multinational TMC

Online Travel Bookings: Overall, 24% of companies interviewed allow their employees to make air and hotel bookings online, with online travel bookings defined as independent bookings through external Web sites rather than managed SBT bookings (*see Table 11*). Compared with the averages, a higher percentage of MNCs (29%) allowed employees to book air travel online, and a lower percentage of PDCs (19%) allowed employees to make online air bookings.

"Most corporate employees don't like online travel booking, they like to be served," according to one multinational TMC surveyed. *"Another issue is online travel bookings require that travelers are sophisticated enough to go through the whole booking process themselves, and training for this is necessary. Employees of IT companies are better at this than employees at other types of companies."*

Table 11 – Use of Online Bookings by Type of Company



Note: Number of Respondents, N=112 (MNC=31, PDC=36, SOE=45, Total=112)
Source: PhoCusWright Inc.

Global SBTs do not work in China with their current design; they have to be in the Chinese language and must have the capability to integrate with the TravelSky CRS.

Self-Booking Tools: SBTs are virtually unknown in China as very little product or market development has occurred.

Global SBTs do not work in China with their current design; they have to be in the Chinese language and must have the capability to integrate with the TravelSky CRS. The leading TMCs have recently begun to build their own SBTs for the China market, but this is still in its early stages. In addition, SBTs are built for online payment, and credit card penetration in China is low.

Most of the companies surveyed knew very little about SBTs, and only two of the 112 companies interviewed used SBTs for bookings. One of those corporations is in a SBT pilot program for overseas bookings; the other has made SBT use mandatory for domestic air ticket bookings.

The two corporations report very different rates of adoption. The corporation in the pilot phase reported very low SBT adoption, versus an 80% adoption rate for the corporation that had internally mandated the use of the SBT for domestic air bookings as a travel management policy issue.

That company, a large industrial MNC, commented on the importance of

"Without the mandatory use policy, I don't think we would volunteer to use the SBT."
– *Industrial MNC*

its mandatory use policy: *"We have very strict policies regarding use of the SBT within our company. If we don't use the SBT for bookings, we will have to specify the reasons, pay the expenses ourselves in advance, and go through a complicated procedure to get reimbursement. Without the mandatory use policy, I don't think we would volunteer to use the SBT."*

As with the use of IT systems overall for corporate travel management, companies interviewed identified greater control and cost savings as the two most important perceived benefits of using SBTs.

"Cost savings will be the most important driver for us to use a SBT in our company," commented one large media MNC surveyed. *"Use of a SBT will result in a significant decrease in labor costs for our CBSAs, and it is reasonable to expect that they will return part of those cost savings to us. Greater control resulting from use of a SBT would be very useful for us as well. We could mandate that our subsidiaries in different cities use the SBT, so that we can better control their travel expenses."*

"Cost savings will be the most important driver for us to use a SBT in our company."
– *Media MNC*

The primary reason why travel management is still in such early stages is the country's complex regulatory environment, which shapes every aspect of China's travel industry and infrastructure as well as many of the tracking and reporting procedures.

CONCLUSIONS

As we have discussed, centralized travel management is in its infancy in China. The basic systems and processes employed in North America and Western Europe are just gaining a foothold in the country, and global TMCs are in the early stages of establishing themselves in the market.

Automation of travel management is extremely limited and a paperwork culture prevails, with most companies relying on manual processes and paper forms for travel approvals, transactions, and reporting. Cash continues to be the dominant form of payment and the limited use of corporate credit cards is likely to continue in the near future, unless the government mandates change.

The primary reason why travel management is still in such an early stage is the country's complex regulatory environment, which shapes every aspect of China's travel industry and infrastructure as well as many of the tracking and reporting procedures. Government-owned carriers run China's airline industry and TravelSky is a government-approved entity that controls air ticket distribution.

Based on these realities, MNCs seeking a travel management partner in China should seek out a company with the following capabilities:

- A comprehensive understanding of the country's unique corporate travel landscape and its corporate culture, as well as experience working with China's regulatory structures and mandates.
- Localized process, operation and technology capabilities to fulfill transactional and reporting requirements. Specifically, the partner must have the technological ability to interface with TravelSky as well as individual licenses from the appropriate government agencies to issue air tickets in each city where the corporation has offices.
- The ability to drive monthly, if not weekly, reports. While this is a basic requirement for most MNCs, even monthly reporting is not yet common practice in China due to difficulties TMCs have integrating their systems with TravelSky's.
- Experienced and service-oriented local staff that can provide strategic travel management services. At TMCs staff turnover is generally high, so it is necessary to evaluate the quality of employees and their customer-service capabilities. CBSAs in China generally focus on handling transactions only and do not provide comprehensive travel management services.
- A strong working relationship with TravelSky. Any specific travel management application a global corporation may want to implement, will have to interface with their system; for example, implementing a SBT will require an Internet Booking Engine provided by TravelSky.

China's approach to corporate travel management is characterized by an entrenched expectation for extremely high service levels along with extremely low prices, a challenging combination for TMCs.

TMCs interested in entering the travel management arena in China to service MNCs, PDCs or SOEs should be prepared to handle a number of challenges unique to the market:

- Build local technology systems rather than implement their own existing travel management platforms used elsewhere. All technology systems must interface with TravelSky's which makes it challenging to integrate data for reporting and traveler tracking.
- Introduce entry-level automation platforms for their corporate clients. Extremely low IT penetration for corporate travel management in China means IT should be easy to use, and work well with standard email and spreadsheet applications. Avoid sophisticated pre-to-post-trip IT systems and employee training should be provided.
- Work with corporations on a cash-based payment model. In China, most corporations pay in cash by monthly invoice. While the most popular payment cycle is one month, corporations often pay two or three months late. TMCs must have a large amount of operating capital available, since payments due to the airlines are cleared twice a week.
- Develop different offerings for each type of company (MNCs, PDCs and SOEs) as they all have different travel management priorities. MNCs are more sophisticated; they are most interested in improved efficiency and a TMC's ability to provide global services. PDCs are extremely price-sensitive; they are always looking for the lowest price. SOEs are more traditional and bureaucratic; they want better services and increased policy adherence among employees.
- Develop operational, service and compliance procedures and systems that address China's unique corporate culture. China's approach to corporate travel management is characterized by an entrenched expectation for extremely high service levels along with extremely low prices, a challenging combination for TMCs. In addition, most corporations believe that having travelers comply with travel policies will be more helpful in controlling costs than adding costly travel management services.
- Demonstrate the ability to secure the lowest rates for airfares and hotel bookings. Due to China's unique marketplace dynamics, most SOEs and PDCs are skeptical that TMCs can guarantee them the lowest possible rates for airfares or hotel bookings. Because the government-regulated airlines frequently put highly discounted fares on the market, companies believe they can secure rates directly from the airlines that are lower than the negotiated rates secured on their behalf by a TMC.

There is no question that China's emerging corporate travel market poses a number of unique challenges to MNCs seeking a travel management partner in the country, as well as to TMCs interested in entering the market. None of these challenges are insurmountable because there is a dynamic energy and tremendous potential in the market that parallels China's growth as a global economic power.

TMCs that successfully establish themselves in the corporate marketplace now will be best positioned to tap into significant, additional business opportunities in the future.

MNCs can look forward to benefiting from the ongoing evolution of travel management capabilities and technologies offered by domestic and international travel management firms. TMCs that successfully establish themselves in the corporate marketplace now will be best positioned to tap into significant, additional business opportunities in the future. In either case, companies that want to achieve success in China's corporate travel arena in the near and long term must begin with a commitment to invest the time, effort and resources required to understand and respond to the specialized circumstances that define the market.

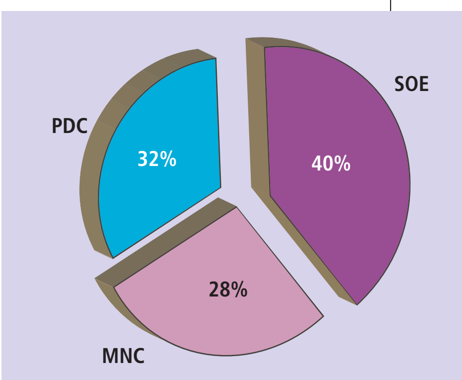
METHODOLOGY

PhoCusWright conducted 112 interviews with corporate executives involved in the decision-making process for travel procurement. Fifty interviews were conducted face-to-face; 62 interviews were conducted by phone.

The targeted companies included 2007 Fortune 500 multinational corporations with large offices in China and the top 500 Chinese companies, including SOEs and PDCs. Each corporation interviewed was questioned about its travel management program for entities in China, i.e., travel management and practices for employees in China. Domestic and overseas travel was covered, with emphasis on domestic travel.

The percentage of interviews completed by type of corporation is shown in *Table 12*.

Table 12 – Percentage of Interviews by Type of Company

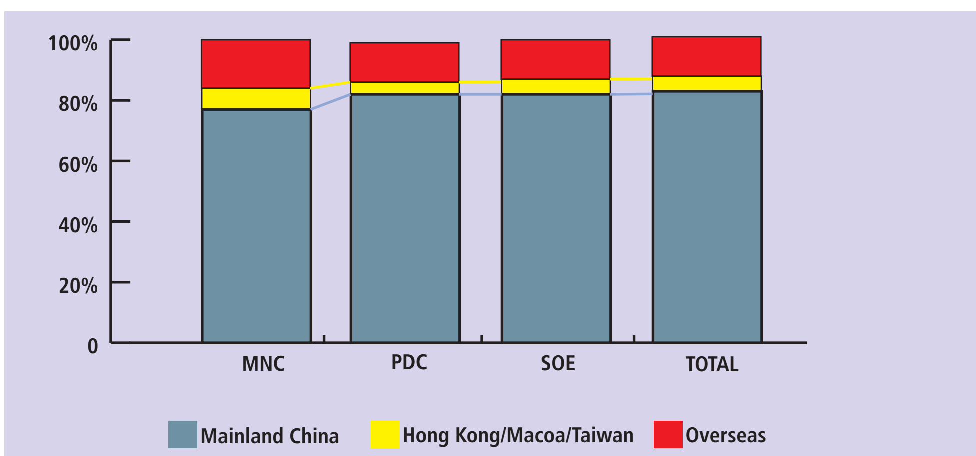


Note: Number of Respondents, N=112
Source: PhoCusWright

PhoCusWright estimates that 2007 T&E expenses for the 112 corporations interviewed totaled more than ¥4 billion (more than US$600 million). Ninety-six of the corporations interviewed (about 85%) had reported their annual T&E expenses for 2007 at the time of the survey. The following survey data presents travel spending patterns of the research participants.

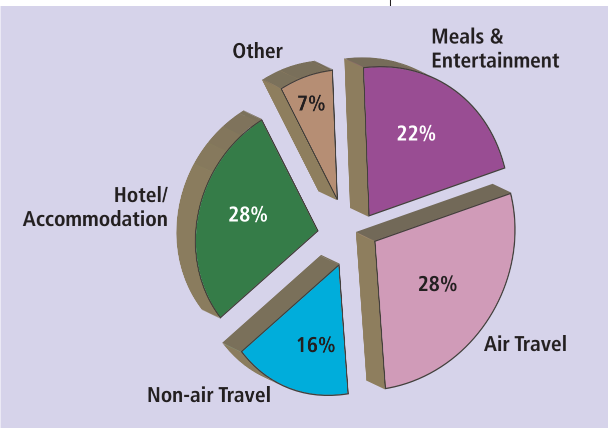
T&E Expenses by Spending Location: About 80% of total 2007 T&E spending by the companies interviewed was in Mainland China (*see Table 13*); 8% was in Hong Kong, Macao, and Taiwan; 13% was overseas. There were no significant differences between MNCs, PDCs and SOEs in the amount of T&E spending in each of the three locations.

Table 13 – Where T&E Expenses Were Spent by Type of Company (2007)



Note: Number of Respondents, N=108 (MNC=27, PDC=36, SOE=45)
Souurce: PhoCusWright Inc.

Table 14 – T&E Expense Items (2007)



Note: Number of Respondents, N=108 (MNC=27, PDC=36, SOE=45)
Source: PhoCusWright Inc.

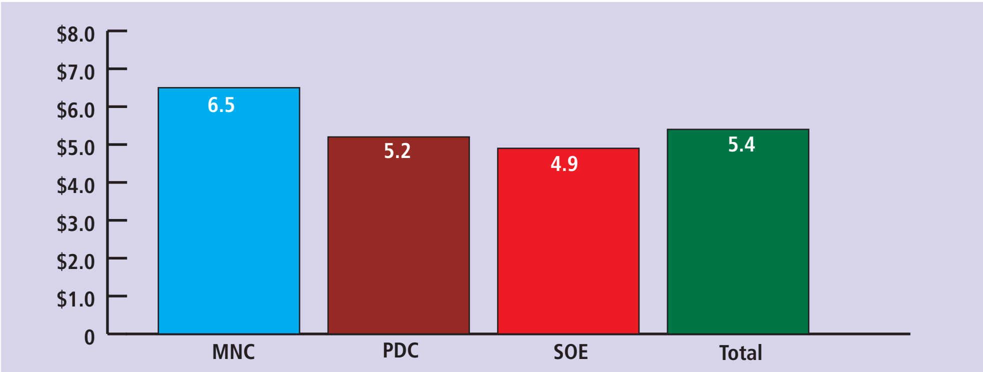
T&E Expenses by Travel Category: For all companies interviewed, transportation expenses, including air travel and non-air travel, accounted for about 44% of annual 2007 T&E expenses (*see Table 14*). Hotel and accommodation expenses accounted for about 28% of the T&E expenses, meals and entertainment accounted for 22%, and 7% of the expenses went to miscellaneous items (such as telephone).

T&E Expenses by Company Type: Although MNCs surveyed had fewer employees on average, they spent more on T&E expenses in 2007 than PDCs and SOEs.

More than 40% of the MNCs interviewed spent more than ¥50M (about US$7M) on T&E in 2007; fewer than 30% of SOEs spent more than ¥50M.

MNCs also had the highest average annual 2007 T&E expenses, spending ¥46M (about US$6.5M; *see Table 15*); SOEs had the lowest average annual T&E of ¥35M (US$4.9M). The survey average for 2007 T&E expenses was ¥38M (about US$5.4M) per company. *See Table 16* for breakout of overall responses.

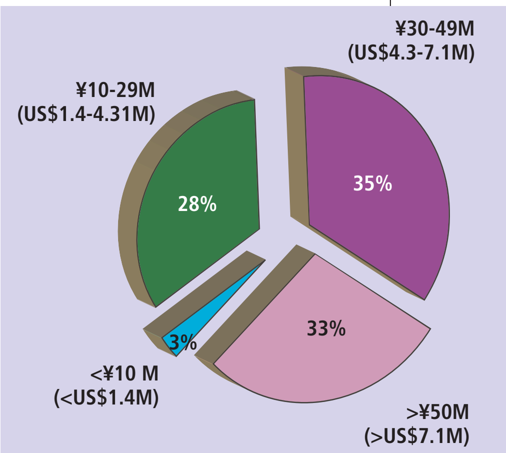
Table 15 – Average T&E Expenses by Category (2007) (US$M)



Note: Number of Respondents, N=96 (MNC=24, PDC=31, SOE=41)
Source: PhoCusWright Inc.

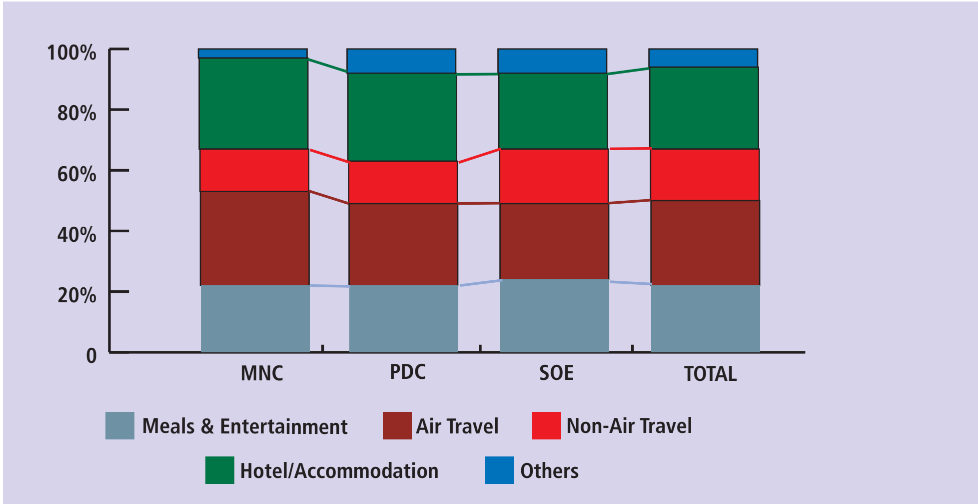
MNCs also spent a larger percentage of their overall T&E expenses on air travel and hotels/accommodations compared to PDCs and SOEs (*see Table 17*, following page). There were no significant differences in the percentage of overall T&E spending by PDCs and SOEs for air, hotel/accommodations, non-air travel, meals and entertainment.

Table 16 – Breakdown of T&E Expenses (2007) of Companies Interviewed



Note: Number of Respondents, N=96; total may not equal 100% due to rounding.
Source: PhoCusWright Inc.

Table 17 – T&E Expense Items by Type of Company (2007)



Note: Number of Respondents, N=108 (MNC=27, PDC=36, SOE=45)
Source: PhoCusWright Inc.

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