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EXECUTIVE

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By William Atkinson

Fundamentally, the chauffeured transportation industry hasn't changed. But managed travel has. In many cases, a well-written contract will help the two worlds work well together.



Time Warp

These days, according to Matt Harrison, there are about 13,000 ground transportation companies in the US. "It is very much a mom and pop industry."

He should know. Harrison is The Goodwill Guy, a Phillipsburg, NJ-based consultant to the ground transportation industry. He knows his constituency well: "Of the 13,000, only about 1,000 do more than three to four million in sales a year." A few companies can do a little bit of business cost-effectively and give excellent service, he says. But few can handle a high volume of business and still maintain a good service level.

"There is only a handful," he says.

As such, says Harrison, long-term contracts can make sense. They are helpful tools for cost control. They can also make it easy for travel departments to keep track of expenses. And, since service is at least equally important, they can help guarantee high quality standards.

A contract can also simplify travel planning. Since many ground transportation companies provide service nationally, a contract gives the travel department a single point of contact. "For example, they

can arrange car service for a traveler going to the airport in New York, as well as car service when he or she arrives in Los Angeles," he points out.

"Any company with a significant amount of travel business should consider a contract," states Harrison.

Not all ground transportation companies agree. (See sidebar.)

Breaking The Old Mold

"There aren't any good reasons not to have contracts," states John Olinger, president of RockStar Limo. "I think, at this point, they aren't just that common. It is just not something that has been done a lot in the past." RockStar encourages contracts, although, at this point, only about 10 percent of its business is covered by them. However, Olinger believes, the concept is growing in popularity.

About 70 percent of RockStar's business is corporate. "A lot of this is airport, but a lot of it is also group work, such as meetings and other events," he explains. "Once we get the airport business, it often expands to meetings and other services."

"We always embrace the opportunity

for a contract when it presents itself," says Ray Gallagher, vice president of sales and marketing for Flyte Tyme. He agrees that contracts are valuable and useful tools for both parties. "It allows us to sit down with clients on a number of occasions to identify and discuss their expectations and put together what is essentially a partnership."

About 95 percent of Flyte Tyme's business is corporate; about half of that is under contract.

Between 95 percent and 97 percent of Harrison Global Transportation's business is corporate, estimates Joshua Vermillion, vice president of sales. About 70 percent of this is traditional airport business. The other 30 percent is meetings and other group events, including shuttles.

Sixty percent of Harrison Global's corporate business is managed via negotiated contracts. The other 40 percent is pulled in from existing relationships, where a current customer recommends it to someone else. "Over time, the travel department notices that we are being used more often, and they give us a call to discuss consolidating the business and setting up a contract," states Vermillion.

And like Olinger and Gallagher, Vermillion sees the popularity of contracts increasing. "I have seen a big increase in general in the last three years, largely the result of the increase in global travel," he states. "US companies don't want to have to negotiate with partners that are outside of the US."

Role Of RFPs

"When a customer wants this type service, it makes sense to have a contract in place," Olinger states. "They want to rely on the ground transportation company 100 percent. They don't want to have to worry about going out and selecting different transportation vendors in different markets, most of which they have no familiarity with, and thus no knowledge of the quality of service."

To ensure consistency of service, ground transportation companies growing globally vet the companies with which they affiliate. The practice both insures that their clients' service expectations are met and it protects their own reputations.

"Overall, we feel contracts offer a safer way to do business, because we and our clients end up knowing what to expect," says Gallagher. What's in it for Flyte Tyme? "Let's say we have a two-year contract," he replies. "If all goes well, we know that we will have that client for another two years."

Customers are also promoting the concept of contracts. In fact, for RockStar, a traditional RFP usually ends up becoming a contract. "For customers that don't use the RFP process, though, we will normally ask them if they are interested in a contract," he states. "We think it is in everyone's best interest."

On the other hand, very few of Harrison's contracts have started out with a cold RFP, before a customer has had experience with the company.

Does Size Matter?

"Contracts can make sense for clients of just about any size," says Olinger, adding that "a lot of people are surprised at just how much transportation smaller companies use."

"We can have a contract with a client doing \$25,000 worth of business a year, or one doing three million a year," agrees Gallagher. "We also have clients in both ranges that don't require contracts."

Both agree that industry, rather than size, is the more important factor. The

Contracts? Who Needs Them? **While many ground transportation companies are strong believers in the value of contracts, others feel they are essentially irrelevant. Two such providers are London Town Cars and Valera Global.**

As much as 80 percent of London's business is corporate, and about half of that is airport-related. "Only about 20 percent of our business is on contract," states Steve Spencer Jr., president. "We do have some contracts in response to RFP situations. These are because the corporate clients want contracts in writing, regarding rates, service, etc. ..."

According to Spencer, contracts are probably more important for the middle market – and this is not the niche in which London specializes. "Contracts don't make sense for most of our clients," he states. "Most come to us because of our reputation for reliability and expertise. We are in the high-end chauffeured business, where 'the proof is in the pudding.'"

You can offer a contract and a corporate discount and promise a lot of things, he says, but if the car is not on time for the CEO, the contract means nothing. "At the upper end of the market, which is what we serve, a contract is not as important as providing top-level service. Our customers tend to be two or three travelers from each company who are the top people in the company, and maybe also members of the board of directors." These people, Spencer has found, want the higher end service.

"In fact, service is how our clients judge us," he continues. "Our clients are so demanding that we might provide excellent service 100 times. But, on the 101st time, if the car is 15 minutes late, they may not want to use us again."

While Spencer has found that contracts don't make sense for London's clients, they don't make sense for London, either. The reason: a lot of contracts are based primarily on price. "If the only differential is price, we won't be the choice, because we are more expensive," he states. For example, one client called Spencer to state that they don't always call London for all their needs, because it is more expensive than some of the other services. "They said that they call us when they need everything to go right," he reports.

Second, about 98 percent of London's business is repeat business, and it has had a lot of clients for 40 years. "From our perspective, we don't need a contract," states Spencer. "Our 'contract' is the customer's loyalty."

However, he admits, the 20 percent of clients that do have contracts see it as a good thing. So if a customer wants Spencer to sign a contract, he has no problem doing so. "In essence, their requirements are usually things that we automatically provide anyway," he explains. "It's just a matter of the formality of putting it in writing."

"They like the fact that, if we have given them a discount as a result of a certain volume of business, we won't suddenly take away the discount. They also have all of our insurance information and other data, which gives them the comfort of being able to 'cross their t's and dot their i's,'" he adds.

Contracts are also eschewed at Valera Global. In fact, ZERO percent of its business is covered by contract. "We do \$27 million a year in business, and in our 20 years in business, we have never had a contract with a client," states Bob Mackasek, CEO. One hundred percent of the company's business is corporate. About one-third of that is airport, 10 percent is meetings/events, and the balance is to and from homes.

"We do receive RFPs, and we do respond to them," states Mackasek. "However, even when we are successful with RFPs, we have not been asked to sign contracts."

The reason? As is the case with London Town Cars, Valera Global focuses on high level executives, such as chief executives, directors, and board members, rather than lower echelon employees. "Senior executives tend not to have any interest in contracts," states Mackasek. "In fact, they tend to go outside of the 'corporate buy.'" That is, if the client company does have a contract, it is generally with another provider for the rank and file employees, and does not include the senior executives.

Another reason for lack of contracts: Mackasek agrees that contracts can make sense for international, and even national, business. However, most of his company's clients are interested primarily in local service: "As such, they don't have a need for contracts."

"We are only as good as our last ride," Mackasek agrees with Spencer. "We have to prove ourselves every day, and this is the way we have always run our business."

industries Olinger has found most interested in contracts are financial and pharmaceutical companies.

"We find that contracts are very common for pharmaceutical companies, tech companies, consulting companies and even universities," concurs Vermillion.

The common factors are globality and cost. Pharmaceutical companies often take people all over the world. Tech companies are also expanding their business globally. University sports teams are extremely expensive to move. "Outside of these industries, though, few companies would need contracts, because their travel is so varied," states Vermillion.

In fact, contracts are so useful to Flyte Tyme that, if a client doesn't mention a contract, Gallagher will consider initiating the discussion, especially if it is a large client with a potentially complex relationship. "We even have a draft that we will share with them," he says. "If they are comfortable with that, great. On some occasions, though, they will want to add their own language to it."

Contract Contents

The best way to develop contracts, Vermillion believes, is to communicate. "You have to keep communication lines open," he emphasizes. "The more information customers can provide to us about their needs, the better we will be able to provide them with the best 'number.'"

A contract should obviously cover price and service, points out Olinger, as well as usage of subcontractors. In addition, some customers have specific usage reporting requirements; others don't care about that. Some want consolidated billing every month, while others provide individual credit cards to their travelers.

"When we develop pricing, we first want to know what their most common destinations are, as well as their estimated spend, so we can put together the most aggressive discount program," Gallagher states. In terms of service, Flyte Tyme will often enter into service level agreements (SLAs) with customers, and it is happy to do so.

With chauffeured transportation contracts still a new idea for many clients, and technology just beginning to make major inroads into the sector, it's happened that some details have been overlooked. According to Gallagher, Flyte Tyme has found that the implementation process would bring up subjects that the clients

hadn't thought to put into the contract. Now the company guides discussions in those directions.

"We discuss the technology we have available, such as billing that is tailored to mesh with the client's accounts payable technology system, reservation technology system, etc.," says Gallagher.

If contracts do make sense for you as a client, Goodwill Guy Harrison has his own considerations to add:

Rates/Pricing: This should include hourly pricing for certain types of business, as well as flat rate pricing for primary to-and-from locations. It should also



cover waiting time, because air travel is unpredictable. "Some providers charge an exorbitant amount of money for time spent waiting for clients at airports," he cautions.

Service Standards: "It is important to make sure the contract covers more than things such as cost and expense tracking," he states. "Service levels are very important." According to Harrison, there are a lot of providers that will offer a very cost-effective rate in an RFP. However, he believes, travel departments can end up "shooting themselves in the foot" by accepting these, because the service usually ends up being very poor.

"You need a good balance between cost and service, where the provider can give good service and still be profitable," he states. If travelers don't get good service, they will sidestep the contracts and find other providers on their own. "A lot of travelers don't take kindly to waiting in an airport for 30 minutes when they could be at their kid's baseball game."

Service standards are often generic, such as requiring a clean, reliable, late-model sedan. However, some can get very detailed. "I've seen contracts where the client requires that a certain type of water be available in the car," reports Harrison.

Insurance Requirements: "This may even get down to the A.M. Best rating of

the provider's insurance carrier," states Harrison. He recommends a minimum of \$1.5 million coverage. (A.M. Best publishes credit ratings and analysis of bonds, notes and other credit instruments issued by insurance, re-insurance and financial services organizations around the world.)

Background Checks On Chauffeurs: Most reputable companies in this business already do this anyway, according to Harrison, but it is still important to cover it in a contract. On a related note, the contract should also require random drug testing, beyond the pre-hire drug test.

Billing Procedure & Authorization: If you have a specific invoicing procedure that your company follows, make sure that the provider can and will follow it.

Event Details: Some clients have three or four large events a year, and they want to outline in the contract what their expectations are for each of those events. "For example," says Harrison, "if the board of directors is coming in, the contract can specify what types of vehicles have to be on stand-by."

Complaint Process: In case there are complaints or discrepancies, the contract should delineate a formal process for resolving these. "If there is a total breach of the contract, I think arbitration is a good tool, because it can eliminate the cost and time associated with litigation," Harrison adds.

Looking Ahead

This group of ground transportation companies expect to see an increase in the use of contracts for chauffeured services. "We are always looking for new customers, and contracts are part of what we offer," states Olinger.

The signs are clear to Gallagher: "We are seeing more and more RFPs that either have embedded contracts, or where contracts will follow the RFPs."

"The popularity of contracts will grow in the future, and it should," affirms Harrison. The value to corporations is self-evident in the very issues that are covered. "Contracts also provide value for service providers, because they give the providers the opportunity to build goodwill and then renew the contracts year after year."

And when that time comes, he adds, corporate customers should be ready to discuss the unexpected increases or decreases in volume that occurred during the previous year. **BTE**