

CASE STUDY

Driving Consolidation for a Highly Fragmented Business

The client is an industrial products manufacturing business that operates in the United States and throughout Europe and Asia.

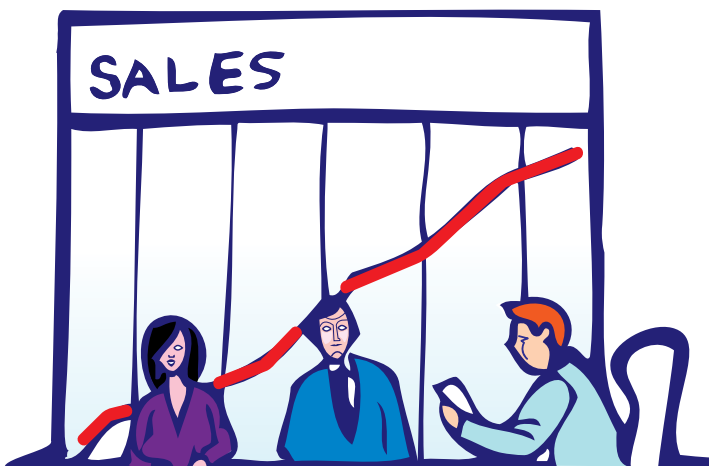
THE CHALLENGE

Since the late 1990's the organization grew almost exclusively through acquisition. In addition to expanding its core business it diversified into a wide variety of products, each separately operated and maintained. Not only did each business unit maintain its own P&L but also managed its key third party relationships independently without a significant level of regard for cost savings or optimization that would result from combined buying power. By early 2007, KesselRun proactively approached the client with one key question to the company's CFO: "How much does your company spend on corporate travel?" While accessing the data was not easy based on multiple back office configurations and reporting methods, the results were intriguing. Against a larger than expected program, generally accepted industry metrics forced the client to a single conclusion: opportunity existed.

THE SOLUTION

Based on initial discussions with the client and providing some industry metrics against its current spend, it was not difficult to position the idea that a well managed program, consolidated under a single travel agency with a preferred vendor program in place would reap financial rewards. Given its fragmented operating structure and knowledge that a consolidated program would, most likely, not enjoy a strong mandate by its senior management, KesselRun knew it must deliver a compelling value proposition throughout the company at the divisional level or its efforts would be meaningless.

KesselRun performed spend analysis exercises at the business unit level of the organization and provided ROI statements against program optimization initiatives. KesselRun quickly learned that ROI was defined by business unit leaders in different ways depending on the actual business requirements or job function of those organizations within a particular team. In short, ROI came to be defined as a mixture of personal ROI and financial ROI. To meet the needs of as many people as possible, KesselRun established an internal Travel Advisory Committee made up of business unit stakeholders and key representatives from across the company. KesselRun spearheaded a comprehensive corporate travel agency search to include a written RFP, bidder's conferences, financial modeling, and best and final presentations.



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The Travel Advisory Committee played a key role throughout the process in terms of contributing to the RFP itself, developing business unit specific requirements, and participating in scorecard and agency evaluation efforts. Once the agency was selected each business unit felt well represented and part of the process. In addition to the agency RFP process, KesselRun sourced preferred air, car, and hotel vendors based on the company's historic travel habits. This initiative ran concurrent to the agency search process.

THE VALUE

As a general rule, organizations that move to a consolidated program with a well supported preferred vendor program should expect at least 10% year one savings based on total program spend. After more investigating, KesselRun discovered significantly more leakage and poor program decision making than it first expected. Streamlining the program brought these inefficiencies to light and by integrating the new program, even more positive results were realized. For example, through the implementation process KesselRun was able to uncover very unfavorable contracts the organization had signed for its bi-annual all employee meetings as well as its yearly sales award meeting that cost the company several hundred thousand dollars in penalties after one event was cancelled and one poorly attended due to budget cuts.

After 3 months of operations the company enjoyed a 70% compliance rate with its new agency and vendor programs due largely as a result of the process. Additionally, KesselRun continued to provide benchmarking data to the various business units as a way to "prove the model" and continue the trend of increased program adoption across the organization.



KESSELRUN 
CORPORATE TRAVEL SOLUTIONS LLC

8215 Roswell Road
Suite 925 Atlanta, Georgia 30350
770.640.9100
www.kesselrunconsulting.com