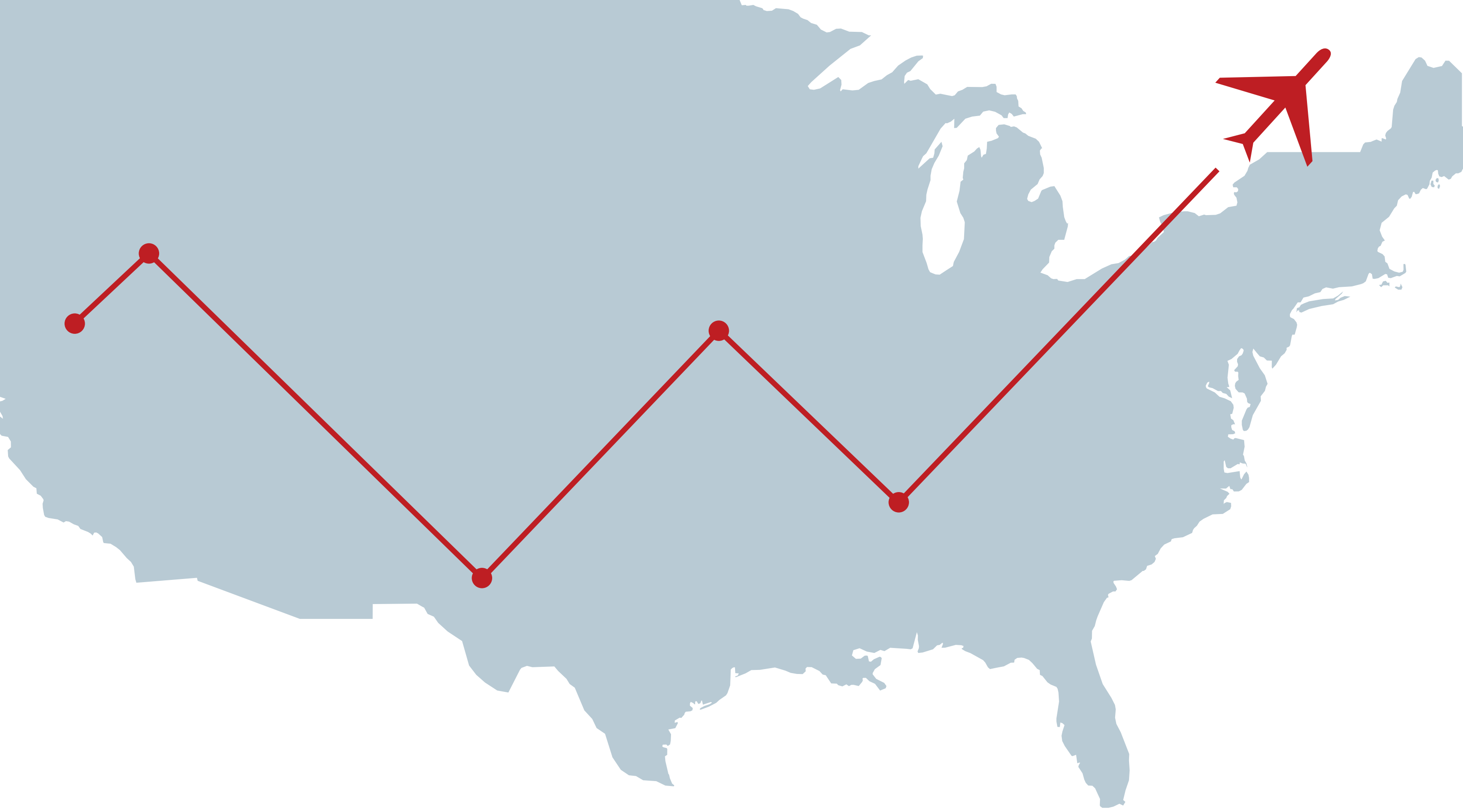

THE RETURN ON INVESTMENT *of* U.S. BUSINESS TRAVEL

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Executive Summary

Business travel is under scrutiny. Corporations, responding to weakening profits, have targeted travel as an immediate candidate for cost savings. In addition, meetings and incentive travel have been recently maligned in public forums as excessive. Perhaps more than at any other time in recent history, business travel is being evaluated from all sides.

To be useful, this evaluation should center on a fundamental business question: what is the relationship of business travel to company performance? Of course business travel generates significant economic value through its direct injections into the transport, hospitality, and other service sectors. This is not to be ignored. But the real value of business travel relates to its impact on individual company performance and, by extension, the performance of the U.S. economy. This study seeks to define exactly this.

The approach is based on a combination of two separate surveys of corporate executives and business travelers, a review of related research, and an econometric analysis of the effects of business travel on corporate performance. The results of this collective analysis show a robust and irrefutable relationship between a company's investment in business travel—including internal meetings, trade shows, conferences, incentives, and sales—and its profitability.

Key Research Findings

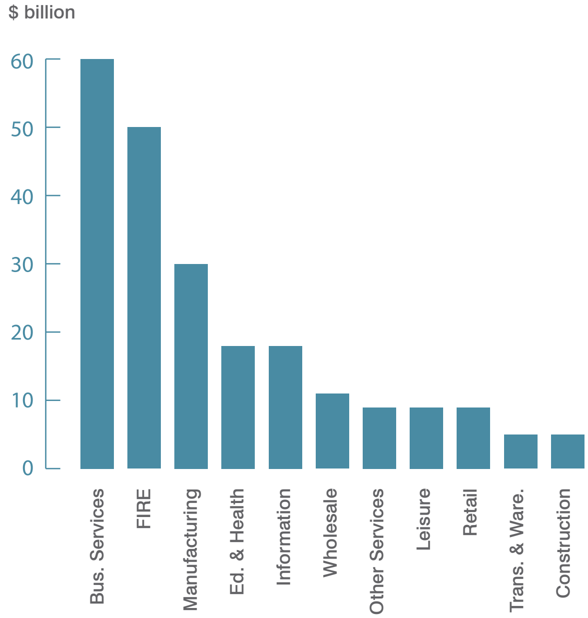
- Econometric analysis and surveyed executives confirmed a similar magnitude of business travel ROI: for every dollar invested in business travel companies realize $12.50 in incremental revenue.
- Curbing business travel can reduce a company's profits for years. The average business in the U.S. would forfeit 17% of its profits in the first year of eliminating business travel. It would take more than three years for profits to recover.
- Both executives and business travelers estimate that 28% of current business would be lost without in-person meetings
- Both executives and business travelers estimate that roughly 40% of their prospective customers are converted to new customers with an in-person meeting compared to 16% without such a meeting.
- More than half of business travelers stated that 5-20% of their company's new customers were the result of trade show participation.
- Executives stated that in order to achieve the same effect of incentive travel, an employee's total base compensation would need to be increased by 8.5%.
- An increase in government travel spending of $1 million will increase government worker productivity and therefore output by between $4.6 million and $6.3 million.

What is at issue?

U.S. companies spent $229 billion on business travel in 2008[1]. Over 90%, or $206 billion, was spent on travel within the United States. This represents slightly less than 1% of the average company's revenue and about 2% of U.S. companies' expenses not including labor or capital.

In terms of absolute expenditures, the top business travel spenders are: business services ($60 bn); finance, insurance, and real estate (FIRE) ($48 bn); manufacturing ($31 bn); and education and health care ($18 bn).[2]

Business travel expenditures by sector, 2008



Source: Oxford Economics, BEA, U.S. Travel Association

Companies are limiting travel...

As corporate profits have fallen over the past year, companies have reacted with an array of cost-cutting measures related to travel. According to a February 2009 survey of 400 corporate executives:[3]

- 51% majority report that their organization has decreased the amount of business travel in recent months.
- Those who have made cuts have reduced their budgets by an average 35%.

...presenting business implications

For each type of business travel, corporate executives and travelers confirmed a wide range of benefits realized by their companies. The benefits can be organized into four categories: keeping customers, converting prospects, building relational networks, and investing in people.

The table below identifies the intersection of each of seven types of business travel with their respective primary benefits.

Business Travel Return on Investment Matrix

TRIP TYPE	TRIP BENEFIT: Keeping Customers	Converting Prospects	Relational Networking	Investing in People
Customer visits	+			
Sales and marketing	+	+		
Internal meetings				+
Employee training				+
Conferences, conventions	+	+	+	+
Trade shows, exhibitions	+	+	+	+
Incentive and reward				+

[1] Source: Oxford Economics, U.S. Travel Association, and BEA. For reference, U.S. Travel Association analysis indicates that $246 billion was spent in the U.S. economy including U.S. private sector and government spending, as well as international inbound business travel. Oxford Economics analysis includes only private sector business travel in the U.S. and abroad.
[2] Source: Oxford Economics analysis of BEA supply-use tables
[3] Source: Kellogg School of Management

Business implication #1: Keeping customers

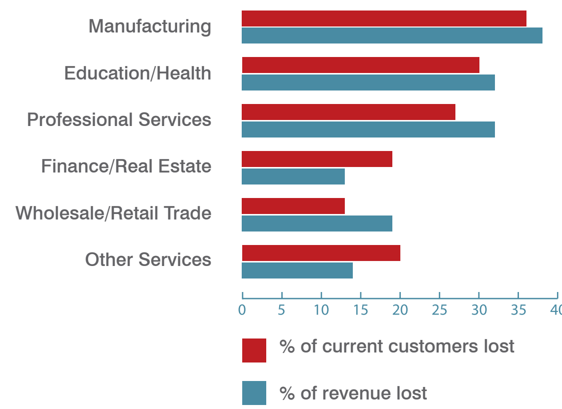
More than 75% of customers either require or prefer in-person meetings, according to business travelers surveyed in April 2009. And an overwhelming majority of corporate executives (81%) believe a slow economy calls for more contact with clients, not less.[4]

Clearly, cutting back on business travel poses significant business risks. According to business travelers across all industries, 25% of existing customers and 28% of revenue could be lost to competitors if customers were not met in-person. This risk appears to be most acute within the manufacturing sector, where 36% of customers and 38% of revenue could be lost to competitors.

These losses do not relate only to client-specific travel. One-third of business travelers indicated external conferences to have a significant impact on customer retention.

Corporate executives confirmed what business travelers asserted: 28% of their business would be lost without in-person meetings.

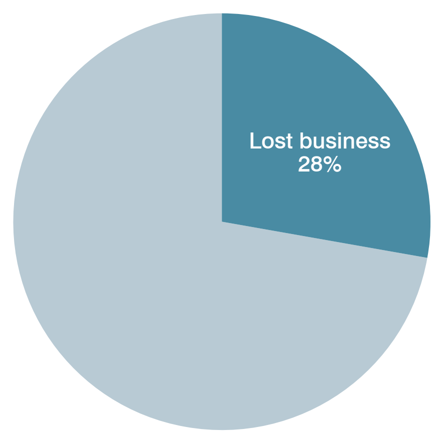
Potential loss of current customers and revenue from not meeting in-person



Source: Survey of business travelers (n=500)

Percent of existing customers that would be lost without in-person meetings

weighted average of responses



Source: Corporate executives survey (n=300)

[4] Source: Kellogg School of Management

Business implication #2: Converting prospects

Travel and sales are inextricably linked. Prospects are more than twice as likely to become new customers with an in-person meeting. Separate surveys asked the same question of corporate executives and rank-and-file business travelers and the results were nearly identical.

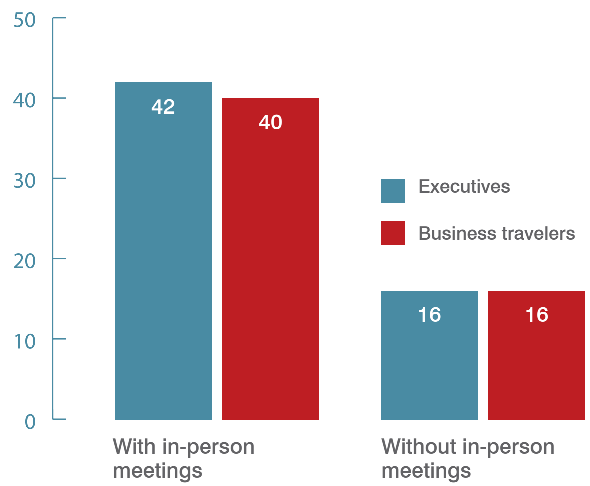
Both executives and business travelers estimate that roughly 40% of their prospective customers are converted to new customers with an in-person meeting compared to 16% without such a meeting.

From a competitive standpoint, this has significant implications. Three-quarters of businesses believe that increasing travel, while competitors are reducing it, can build market share and customer relationships. Half (53%) say reducing business travel will give their competition an advantage.[5]

The relationship between business sales and trade show participation is particularly strong. More than half of business travelers stated that 5-20% of their company's new customers were the result of trade show participation.

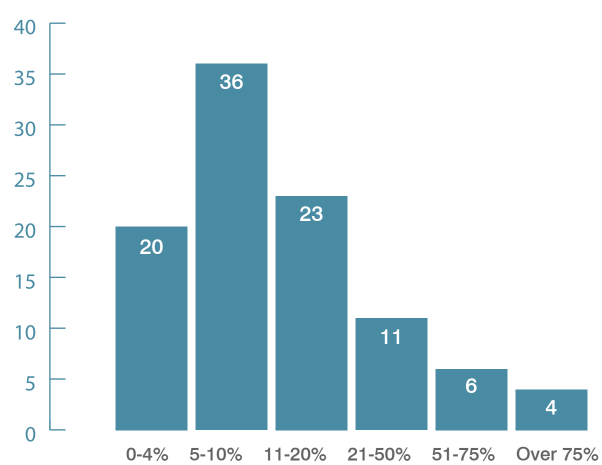
Conversion rate of prospects to customers with and without in-person meeting

% (weighted average of responses)



Source: Survey of business travelers (n=500) and executives (n=300)

Percent of new customers gained from participation in trade shows



Source: Survey of business travelers (n=500)

[5] Source: Kellogg School of Management

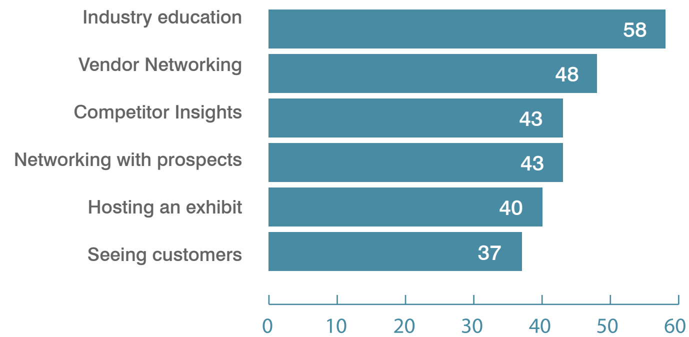
Business implication #3: Building relationships

Cooperative relationships are integral to company performance. And both executives and travelers confirm travel to be a catalyst to the development of relationships on every level. For example, networking with vendors (48%) and prospects (43%) were among the top cited purposes of attending trade shows.

Internal company meetings also offer a range of benefits to company performance. Corporate executives most frequently cited idea sharing, better communication, and staff morale as a significant impact of internal meetings.

Purpose of attending external trade show

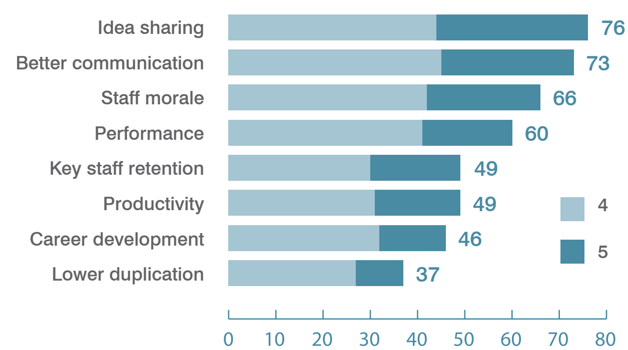
% of respondents



Sources: Survey of business travelers (n=500)

Impact of travel for internal company meeting

% of respondents indicating high impact on a 1–5 scale



Sources: Corporate executives survey (n=300)

Business implication #4: Investing in human capital

Business executives and travelers also affirmed a strong relationship between travel and employee performance and satisfaction.

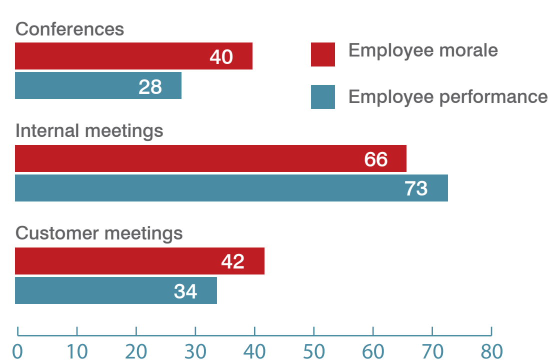
The majority of business travelers identified internal company travel as key to professional development (66%), job performance (58%), and morale (56%). And more than 40% of travelers perceive a strong relationship between travel and staff retention.

Corporate executives confirm the connection between travel employee performance and morale. Internal meetings receive the highest marks with 73% of executives indicating a significant impact on employee performance and 66% confirming the importance of travel to employee morale.

And nearly 80% of executives indicate that incentive travel has a significant impact on employee morale and job satisfaction. More than 70% believe that incentive travel has a real impact on employee performance.

Benefits of travel to employees

% of executives indicating 4 or 5 on a 1-5 impact scale



Sources: Corporate executives survey (n=300)

The ultimate implication: What does travel mean for the bottom line?

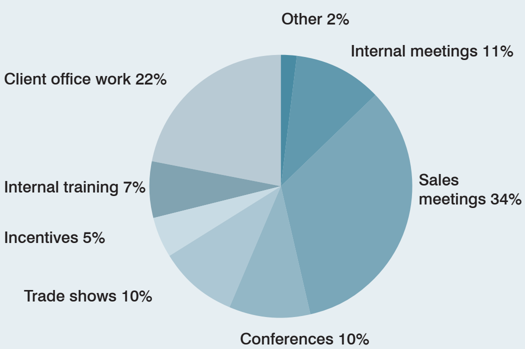
Given the central importance of this question to corporate strategy, two independent analyses were conducted to quantify the return on investment of business travel. We first sought the answer directly from corporate executives. We then developed an econometric model to assess the relationships between business travel spending and company performance.

Executives indicated that the average return of business travel on revenue was between $10 and $14.99 per dollar invested across four types of trips.

Not surprisingly, customer meetings were cited as having the greatest returns, in the range of $15-$19.99 per dollar invested. Executives indicated returns for conferences and trade shows in the range of $4-$5.99 for each dollar spent. Incentive travel investments yield an ROI of more than $4:$1.

Corporate Executives: ROI of Business Travel

Business Travel Spend
% of total travel budget



Total sales return for each dollar of investment on travel
Median of responses

$10 – 14.99

Trip type	% of travel budget (Average)	Return on $1 of investment (Median of responses)
Customer meetings	34%	$15 –19.99
Conferences	10%	$4–5.99
Trade shows	10%	$4–5.99
Incentives	5%	$4+
All other	42%	NA

To test the perspectives given by corporate executives, a parallel econometric analysis was conducted to assess the overall impact of business travel on financial performance. The advantage to this approach is that it captures both direct and indirect benefits of business travel and is rooted in industry data covering a longer period of time. A model was developed to quantify the impact of travel spending on productivity and, by extension, on sales and profits using a combination of time series and cross-sectional panel econometrics.

The econometric model confirmed a similar magnitude of impact as indicated by the executive survey: for every dollar invested in business travel, U.S. companies have experienced a return of approximately $12.50 in revenue and $3.80 in profits. These results encompass all types of business travel and yield a slightly broader range.

The model found the effects of business travel on corporate performance to be realized in the medium term, with the majority of the impact realized over approximately 3 years.

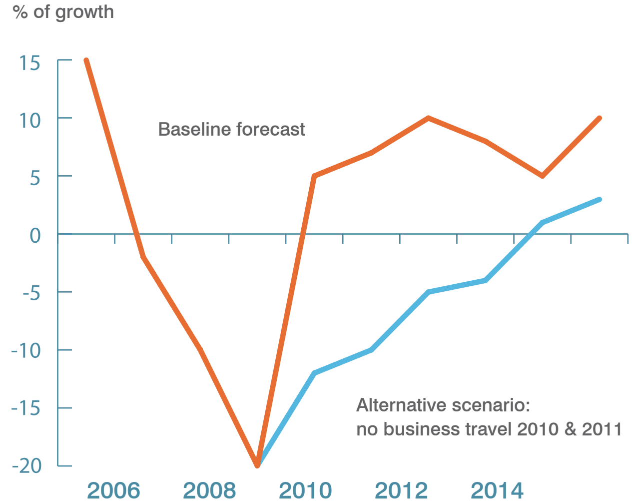
Econometric Analysis: ROI of Business Travel
Impact of $1 mn increase in spending

	Minimum	Maximum	ROI (midpoint)
Revenue	$8.5 mn	$16.4 mn	12.5
Profits (without wage increase)	$7.5 mn	$15.4 mn	11.5
Profits (with wage increase)	$2.5 mn	$5.1 mn	3.8

The analysis was then extended to estimate the impact on corporate performance if a company eliminated business travel for two years (2010 and 2011). The adjacent chart shows the declines in profits which would be realized by an average U.S. company. In the first year of a complete shut-down of travel, the company experiences a profit decline of 12% instead of a 5% increase. The negative impact on profits peaks in the year after the two-year travel hiatus. It then takes several years after travel is reinstated for profits to stabilize.

This has critical implications for business leaders facing decisions about their investment in business travel. As with any cost, there are likely savings to be realized through more careful allocations of business travel. However, the evidence points to substantial risks associated with cutbacks in this particular area. And companies that continue to invest in travel, experience returns that more than warrant the investment.

US Profits: alternative scenarios



Source: Oxford Economics

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About Oxford Economics

Oxford Economics is one of the world's leading providers of economic analysis, forecasts and consulting advice. Founded in 1981 as a joint venture with Oxford University's business college, Oxford Economics enjoys a reputation for high quality, quantitative analysis and evidence-based advice. For this, its draws on its own staff of 50 highly-experienced professional economists; a dedicated data analysis team; global modeling tools, and a range of partner institutions in Europe, the US and in the United Nations Project Link. Oxford Economics has offices in Philadelphia, London, Oxford and Belfast.

This study was conducted by Oxford Economics USA and its partner company, Tourism Economics. Tourism Economics combines an understanding of travel dynamics with rigorous economics in order to answer the most important questions facing destinations, developers, and strategic planners. By combining quantitative methods with industry knowledge, Tourism Economics designs custom market strategies, destination recovery plans, tourism forecasting models, policy analysis, and economic impact studies.

Questions regarding this study may be directed to:

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About The U.S. Travel Association

The U.S. Travel Association is the national, non-profit organization representing all components of the $770 billion travel industry. U.S. Travel's mission is to promote and facilitate increased travel to and within the United States. For more information, visit www.ustravel.org.

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