

BALANCING ACT: SUPPORTING GROWTH WHILE CONTROLLING TRAVEL COSTS

With brighter economic prospects on the horizon, many companies are altering their spending plans to ensure they are able to take advantage of emerging opportunities. Results of the 2010 CFO Research/American Express Global Business and Spending Monitor indicate that companies are cautiously restoring spending in order to support growth and secure their competitive positions. In particular, finance executives anticipate that their companies will increase spending on business travel in 2010 compared with 2009. Twenty-six percent of respondents to this year's survey say their companies plan to increase business travel spending, while only 2% of respondents to the 2009 survey said the same.

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ABOUT THIS REPORT

In late February 2010, CFO Research Services launched a study among senior finance executives on how they plan to help position their companies for future growth as the world economy improves. We gathered 479 responses from finance executives around the world and conducted in-depth interviews with 27 senior finance executives at leading companies for this study. This piece is one in a series of three essays reporting on these interviews. Complete survey results are available in *Optimistic outlook, cautious spending: CFOs on managing through the recovery*, available for download at www.cforesearch.com.

But survey results also reveal that not all travel spending will be restored equally. For example, over one-quarter of respondents to the survey say their companies plan to loosen policies related to travel for business development. In contrast, only 14% of respondents expect to loosen travel policies for staff meetings. These results are a positive sign that the pressure to further restrict travel is beginning to ease. These results also indicate that companies are increasing spending on travel that will support growth, including travel for business development, while continuing to keep more discretionary forms of travel, such as travel for internal meetings, to a minimum.

Maintaining travel to protect customer relationships

Finance executives in our interview program say their companies are continuing to balance the need to control spending with the need to support growth. Many executives tell us that they've found this balance in the travel arena by making distinctions among different types of business travel. By restricting travel for non-revenue generating activities such as internal meetings, they say their companies are able to conserve scarce travel resources for trips that will help grow the business. “I think internally we've really focused on trying to limit travel until it's absolutely necessary. The customer-focused aspect, though, is an area where we've tried not to cut back,” explains Jim Thompson, VP and controller of Honeywell Aerospace.

Successful businesses depend on solid relationships, and some sources indicate that their companies will continue to spend on travel and meetings in order to cultivate critical relationships. Vice president and financial controller Jeral D'Souza says that at Cargill Asia-Pacific Holdings Limited (a division of Cargill, Inc.) the need to develop strong relationships with customers often outweighs cost savings benefits. “The message to our employees is that we still need to be very mindful about our spending. We need to make sure we're thinking about whether large meetings or lots of travel are essential to our business success. At the same time, we realize that you ‘have to spend money to make money’ and that certain spending may actually generate new business or revenue.” Companies remain willing to spend substantial sums to foster relationships with one of their most important constituencies—their customers. “A couple of weeks ago we had a large and very successful meeting with about 60 key customers,” says Mr. D'Souza. “This was an investment in our future and money well spent. The return this meeting generated in terms of our customers' trust in the relationship was immense,” Mr. D'Souza says.

Regional CFO Angie Lim of Jones Lang LaSalle agrees that companies need to spend money to make money, especially now that the economy is starting to improve. “I think now that the company is in a better position, we can allow our business development

executives and revenue-generators to spend a little bit more on T&E, after a long period of curtailment. If not, some of our business development people will complain that if they don't get to go see our clients now, then how do we expect to meet our target for the rest of the year? So, I think we need to balance that need cautiously and not stifle growth," she says.

“There’s no question that the power of face-to-face conversations is very important for business development. I think videoconferencing is very powerful for maintaining relationships, but I think for developing new ones, it’s very hard to beat the power of in-person [communication],” says the CFO of Ernst & Young in Canada.

At Japanese diversified manufacturer Ashai Kasei Corporation, a maker of a wide range of products from chemicals to prefabricated homes, strong partnerships have become increasingly important to develop as the company seeks to expand operations globally, says Morio Sako, general manager of corporate accounting and control. For this reason, the company has remained committed to business travel throughout the downturn. “Face-to-face communications with our partners and stakeholders are crucial for the success of our business, and so we haven’t reduced [our spending] on such activities,” he says.

When it comes to developing strong business relationships several sources confirm that there are few adequate substitutes for in-person communications. “There’s no question that the power of face-to-face conversations is very important for business development. I think videoconferencing is very powerful for maintaining relationships, but I think for developing new ones, it’s very hard to beat the power of in-person [communication],” says CFO Alan Smith of Ernst & Young Canada.

The divisional CFO for a global software company says that face-to-face communications are often necessary to ensure that customers have a positive experience: “[Although we scaled back travel to some extent,] I don’t think we saw any impact on our sales because we were still very dedicated to the customer experience and to our customers’ results.” This CFO explains that customer satisfaction is critical, which is why the company employs staff in the same regions as their customers. By doing so, the company is able to maintain consistent customer contact without incurring significant travel costs. But he adds that the company allows executives to travel when a particular expertise is needed or if the situation calls for a face-to-face meeting. This focus on maintaining strong business relationships helped the company manage

through the downturn with its customer base intact. “[Over the past year,] we wanted to make sure that our customers didn’t feel like they were being left alone to get through the downturn. I think what happened as a result is that we were able to drive a positive customer relationship coming through [the downturn],” he says.

Effective substitutes for internal meetings

While finance executives recognize that few substitutes yield the same benefit as a face-to-face meeting with a customer, several of our sources say that they have found travel substitutes such as videoconferencing adequate for internal communications. At International Flavors and Fragrances, videoconferencing technology is used to keep employees in remote locations connected, says finance director Roger Blanken. “Like a lot of companies, we’ve gone to more videoconferencing, and we’ve got some pretty sophisticated videoconferencing facilities in our offices around the world. A lot of the [internal] face-to-face meetings are now sitting in front of a monitor or a camera somewhere and having those discussions,” he says. While Mr. Blanken finds virtual meetings valuable, he does wonder what effect reduced internal travel has had on collaboration. “What we’re missing now is maybe sending a group of perfumers from New York to Paris, or sending some perfumers from Holland to Indonesia and sending people around to [collaborate with one another.] We can handle a lot of these communications through better voice and video connections. But there’s no substitute for face-to-face meetings in many cases. I think everybody would agree with that,” he says.

As companies continue to grow internationally, they will seek ways to enable employees around the world to work together effectively. Mr. Thompson says that at Honeywell Aerospace they’ve adopted videoconferencing technology in order to keep employees in remote locations connected. “I think that videoconferencing technology has improved and that it can be very effective. Now that we have a lot of far-flung operations, we will be utilizing that [technology] quite a bit more in order to keep the teams connected,” he says.

Participants in our interview program tell us the pressure to keep travel costs under control has forced them to seek alternatives to business trips for some situations. Executives agree that travel substitutes such as videoconferencing are not appropriate for all forms of business communication, but when it comes to internal meetings, videoconferencing is emerging as a more robust, effective, and reliable way to maintain internal relationships than the typical combination of telephones and email.

Finance executives say their companies plan to spend more on business travel as the recession ebbs, but with a clear focus on travel that impacts growth and helps maintain their competitive positions. Discretionary travel spending remains largely on hold, especially as companies embrace more cost effective technology substitutes—a shift that may not end with the recession.

