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By providing the highest quality education on industry issues and creating a platform for open discussion of all sides of issues, ACTE is dedicated to driving the business travel industry toward consensus, resulting in positive change and advancement. It is in this spirit that we offer this document as a starting point for open dialogue and creative thinking.

HOTEL FOLIO
STATE OF THE INDUSTRY

Developed in Co-operation with MasterCard Corporate Payment Solutions

MasterCard

Corporate Payment Solutions

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Hotel Folio—State of the Industry

Executive Summary

For almost a decade, corporate travel managers have been clamoring for a comprehensive breakout of their hotel spend, commonly known as the hotel folio. The hotel folio itemizes the rate versus the amount spent on tax, amenities—such as mini-bar, movies, and parking—and any other extras on a particular bill. Now corporate travel managers have access to such technology. Within the last year, eFolio, the electronic version of the hotel folio, has become widely available from major hotel chains in North America.

Knowing what your company actually spent on the hotel rate, and having the charges itemized and pre-populated by the corporate card provider in the corporation's expense reporting tool, has obvious benefits. The content information provides travel managers with leverage in their negotiations with hotel suppliers. The greater accuracy of the data, as opposed to information the traveler manually inputs, also enables companies to better monitor compliance to their travel policy. The traveler meanwhile saves valuable time by having the expense report pre-populated with the detailed content.

Travel managers overseeing a global program also reap benefits from receiving the eFolio. For example, eFolio as an electronic receipt, eliminates the need for paper receipts, greatly expediting the process of reimbursement for the VAT tax. The eFolio also breaks out the varying taxes for each country, simplifying an analysis of the spend on rates.

Clearly, in today's competitive and cost-conscious environment, having comprehensive data is the key to managing a successful travel program. eFolio provides the answer, filling in the information gap on the hotel spend that has long created difficulties for travel managers. In the past, the card provider only provided reporting information on the amount spent at a property and the number of transactions. The travel agency could provide the number of room nights booked, and some hotel chains would offer number of room nights and revenue. However, it was difficult, and in some cases, impossible, for travel managers to know how much they were actually spending on the rate versus all the extras, including parking, mini bar, hotel restaurant meals, and taxes.

Three trends have accelerated the development of eFolio, transforming what might have formerly been perceived as a nice option into a necessity:

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The first trend is the overlapping of procurement with the prerogatives of travel management. The priority of controlling costs and itemizing spend has created a huge demand for data by travel managers. This is particularly true for the hotel spend, which constitutes a significant portion of the overall travel budget but falls short in the comprehensiveness of the data, as illustrated above. eFolio solves the problem.

The second trend is regulatory: to comply with Sarbanes-Oxley, corporations are required to put in place internal controls on company spending. By ensuring the accuracy and validity of the hotel spend, eFolio meets the stricter auditing standards of the new law.

The third factor is technological: data aggregators have developed the necessary systems that enable them to take content from the hotel spend and put it into a standardized format. This allows corporate card providers to deliver detailed information into a central repository for buyers, who can adapt it to their own needs as they see fit.
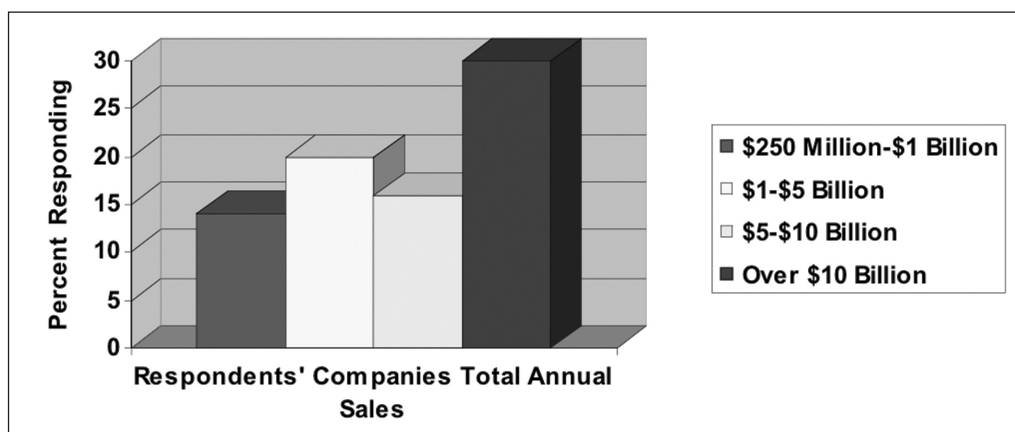

The logic of adopting eFolio is obvious. Actual utilization, however, has been a mystery. To what extent has the marketplace been embracing this long-sought-for capability? To find out the degree of penetration, as well as the future prognosis of eFolio usage, ACTE, in partnership with MasterCard, conducted a survey on eFolio usage among North American buyers in August.

The results are intriguing and show that while less than a quarter of respondents are currently receiving eFolio, a sizeable majority plan to acquire the capability in the near future, suggesting the adoption rate could rise significantly in 2006. The results are as follows:

  ✔ 12.5 percent of respondents currently receive hotel folio line item spending data from their card providers.
  ✔ 76.6 percent—more than three quarters of survey respondents—plan to obtain the content in the near future.

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✔ Almost half of respondents—47 percent—rate the importance of getting electronic transmission of hotel folio data in their expense management system as "very critical."

✔ 65.4 percent rate the importance of electronic transmission of eFolio data as either very critical or critical in terms of all the issues related to managing travel.

Hotel Folio Line Item Spending Reports

Rating of Importance of Electronic Transmission of Folio Data
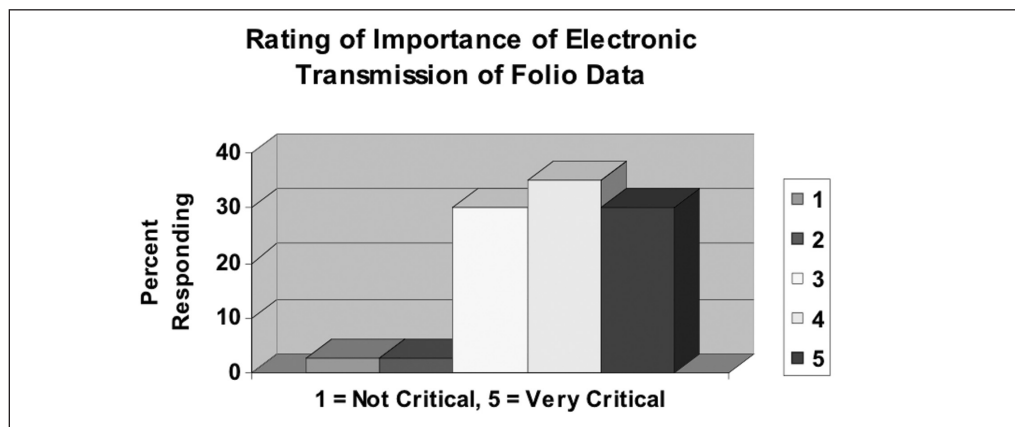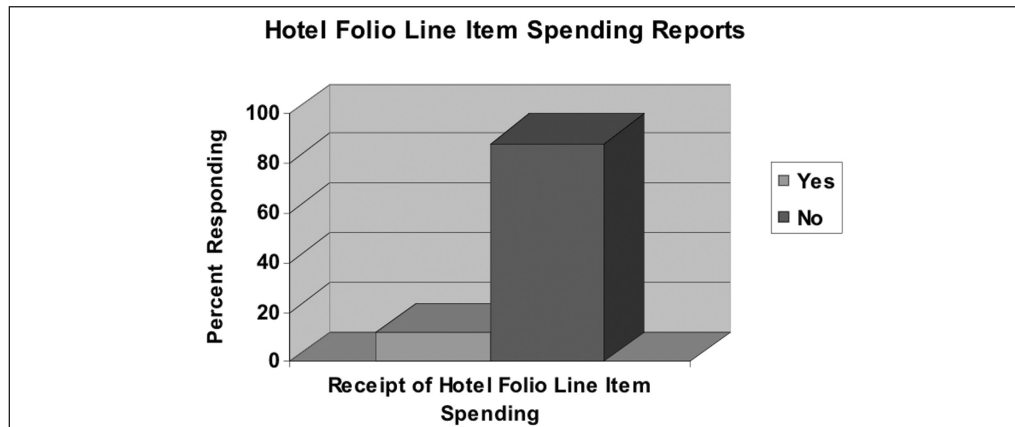
In addition to conducting the survey, ACTE interviewed numerous buyers and representatives in the hotel, corporate card, and expense reporting industries to obtain an in-depth look at the benefits, implementation challenges, and other pertinent issues related to the adoption of eFolio, summarizing the results in this report.

The Benefits
Respondents in the survey rated the various benefits of eFolio to the travel management program, the traveler, and the company organization. Under travel management, the results were as follows:

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- ✔ 52 percent of respondents rated "expands hotel negotiations based on all spend, not just room" as very critical.
- ✔ 51 percent rated "enhances decision support through deeper levels of reporting and analysis" as critical.
- ✔ More than a third noted the following benefits were either critical or very critical:
  - ✔ "provides detailed metrics to track compliance and improve policies" (42 percent)
  - ✔ "enhances value proposition to travelers along with price, location, services, etc." (44 percent)
  - ✔ "sustains/grows traveler adoption of travel tools" (42 percent)
  - ✔ "streamlines pricing cycle via more accurate and detailed data" (39 percent)

Indeed, early adopters and those in beta testing validate the survey response of perceived benefits to managing hotel spend.

ON Semiconductor, based in Phoenix, is currently in a beta test with its corporate card provider. Strategic sourcing manager Colleen Guhin said she has already identified instances in which the hotel did not charge the traveler the negotiated rate. Previously, Guhin relied on the travel agency and the corporate card provider for the data. "I could not audit the hotels to see if we were getting the preferred rates or see the spend per night," Guhin said. Now "I can better see what we need to do when negotiating. Also, it is a way to monitor policy compliance." eFolio "is going to be a requirement once it gets rolled out," she concluded.

The travel manager at a global provider of cleaning solutions noted that since getting the eFolio, the company had been over-charged an average of $11.20 USD per person per night, resulting in over $600,000 USD in over-charges in a year.

Another travel manager summed up the benefits: "First, it validates what we are actually buying. Is it close or not to the corporate discount? Second, we will be able to sit down with the supplier at these hotels and see that we are paying this much for the restaurant and other amenities. If we spend $10 million USD with a given chain and $2 million USD of that is for high-speed Internet access, we will want to negotiate that expense."

Five years ago, the eFolio initiative got its first big boost from IBM, which became the first corporation to obtain the data. IBM began requiring its preferred properties to provide the e-folio. At IBM, eFolio has "taken the cost out of the system for everybody," Mark Williams, category consultant at ISC Procurement

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Services at IBM said. "It is easier for the card companies and saves on auditing costs. From an auditing perspective, it detects fraud and will kick out anything out of policy."

The corporation is a stakeholder, also, in deriving benefit from the expansion of eFolio, especially related to auditing. In terms of the value to the organization, the survey results illustrate the following:

- 54 percent of the survey takers rated "further automates the internal auditing process" as critical.
- 46 percent noted "helps avoid travel expense reporting fraud" was critical.
- 42 percent rated "increases the return on the expense management system installation" and "helps avoid IRS tax and interest charges against missing receipts" as critical.
- 40 percent said "moves the company to a more paperless environment" was critical.

James Haddow, chief global procurement officer at A.T. Kearney, Inc., based in Alexandria, Va., said his company audits all expense reports. However, once eFolio is implemented—an initiative that is "high on the radar screen from a procurement and management and finance perspective"—he expected the automated feed of the line item detail from the card provider would "probably give us a savings in labor" because the company would switch to auditing a sampling of reports. This would "potentially reduce the number of auditors needed."

Ross Atkinson, chief marketing officer at Outtask, said one particularly valuable feature of eFolio was the elimination of paper receipts. As an electronic receipt, which is acceptable to the government, eFolio is an invaluable aid to auditors. The pre-populated report also represents a time savings for travelers and enables the company to monitor expense reporting to a degree that was not possible before. It "gives corporations control to reconcile and triangulate their expenses," that is, double-check actual amount paid versus booked. eFolio is a huge step toward construction of "a complete audit trail from start to finish," Atkinson concluded.

Regarding value to the traveler, the ACTE-MasterCard survey results were as follows:

- Almost half of participants—47 percent—said "increased productivity via faster expense report completion" was very critical.
- 43 percent indicated "reduced errors association with manual calculation and data entry" is very critical.

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With an eye to future roll-out of eFolio on a global basis, Haddow predicts one big advantage of having expense reports from stays in hotels overseas pre-populated with the data on a nearly real-time basis: "The exchange rate issue goes away. Right now, employees have to estimate what it is when they submit their statement" because they do not want to wait until the end of the month for expenses to come in. A global rollout of eFolio would also ease the tedious process of reclaiming the VAT tax, which travelers may do for some types of expenses. Because it is an electronic receipt, the eFolio relieves the traveler of having to keep track of paper receipts. This benefit would be significant at A.T. Kearney, which counts 2,500 employees in 36 countries traveling weekly around the world.

The main benefits of eFolio can be summarized as follows:

- Validation of application of corporate rate.
- Leverage in negotiations through spend breakout on various amenities.
- Pre-population of the data in the expense report and elimination of paper receipts saves valuable time in the processing of expense reports, both from a traveler and an auditing perspective.
- Potential for improved compliance to hotel policy due to the time savings benefit the traveler receives through seamless hotel expense reporting from properties that offer eFolio.
- Enhancement of accuracy and detail in expense reporting
- Efficiency in auditing process; potentially resulting in a savings on labor.
- Improved ability to monitor policy compliancy.

Getting Up to Speed

Corporate customers are at various stages of engagement with eFolio. "Some are already receiving it or participating in their card vendor's pilot program," said Randy Mayer, project director, Enterprise Accounting Services at Marriott International, based in Washington, D.C. (By the end of this year, all of Marriott's brands, with the exception of Ritz Carlton, in the U.S. and Canada will be providing eFolio. The company is working with MasterCard and other card providers to make it available to corporate customers.) "Others are waiting for their corporate card and/or their issuing bank to deploy e-folio capability," Mayer said. "Some corporate customers are waiting for their expense management system to be modified to accept the data or for more hotel chain participation to realize the full value."

Implementing eFolio data requires preparation and planning. Corporations must have a significant infrastructure in place in order to employ the full value of the enhanced hotel

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folio. This includes having a mandated corporate card program and utilization of an online expense reporting tool. Respondents in the ACTE-MasterCard survey were at various stages of implementation:

- 61 percent employ a mandated card program with compliance of 85 percent or more.
- 65.5 percent utilize an electronic expense reporting tool.

Corporate Card Use for Data Collection
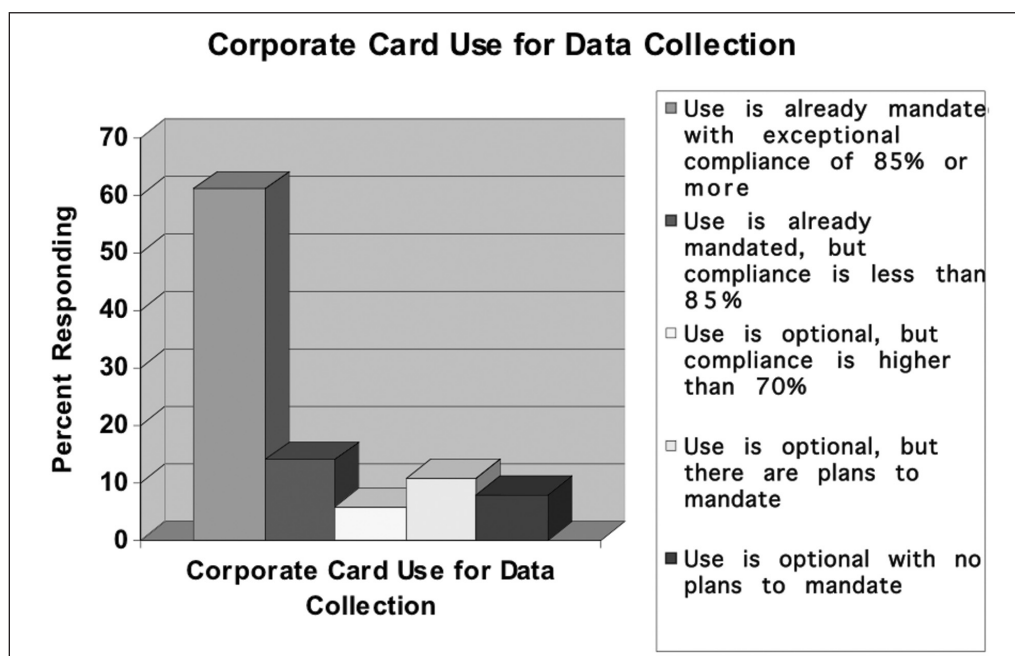
Both of these statistics indicate a sizable minority of travel managers still are in the process of implementing these vital functions.

- Almost a quarter of the survey respondents—24.7 percent—had expense management tools already accepting a feed from the corporate issuer with line item hotel folio data.
- 71.6 percent indicated their expense reporting tool was accepting a feed from the corporate card for summary level charges.
- 23.5 percent where unsure whether their expense reporting system was accepting the line item folio.
- According to *Business Travel News*' Corporate Travel 100 2005 Compliance Benchmark, 65 percent of transactions in 2004 complied with company-preferred vendors in the hotel category. This was far less than for air (83 percent), car rental (94 percent), corporate card (92 percent) and booking channel (84 percent) compliance. Increasing the compliance levels for hotel would enable travel
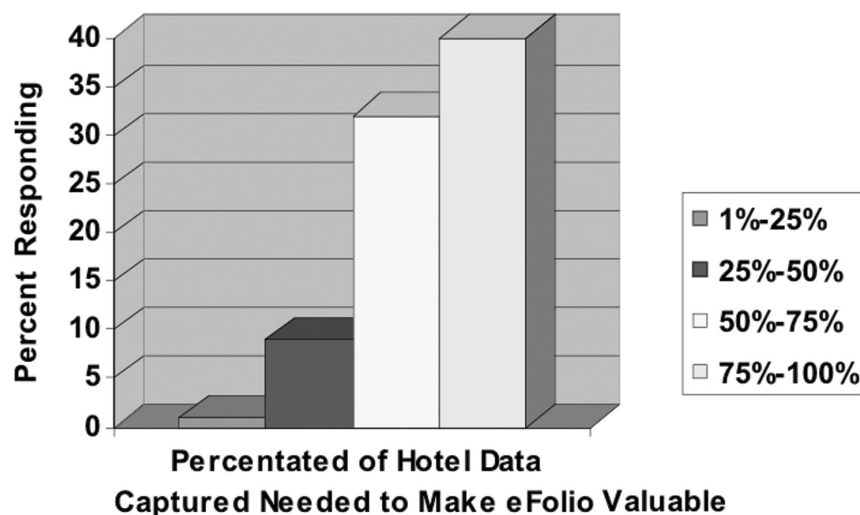
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managers to attain more benefit from the eFolio, while having access to eFolio also assists them tracking compliance better and can provide the leverage needed to improve it.

Most of the respondents who still did not have the necessary systems in place were clearly planning to institute those systems in the future.

- 14.5 percent mandated use of the card, but had a lesser rate of compliance.
- 10.8 percent only had optional use of the card, but planned to mandate it.
- 21.4 percent planned to install an expense management tool within the year.

The demand for eFolio, despite its availability, has been less than what suppliers anticipated, perhaps because companies are at various stages of readiness,. "There are different levels of knowledge of how the eFolio works," noted Christine Chippindale, senior director of travel industry sales at Choice Hotels, which has been providing the eFolio to IBM for three years and is working with MasterCard and other card vendors to make eFolio available to corporations. "Not as many companies as anticipated" are showing an interest, she said, noting that Choice Hotels received only one request this year from a corporate customer.

The lack of requests for eFolio is surprising, considering that the corporate travel marketplace has long been pressuring the hotel industry to provide the data. Partly it may be a chicken or egg problem as many travel managers may be reluctant to commit to eFolio until the critical mass of the hotels in their preferred program providing the content approaches 100 percent. Hoteliers for their part perhaps do not want to invest in the initiative until more travel managers demand it.

Percentated of Hotel Data Captured Needed to Make eFolio Valuable

Legend: 1%-25%, 25%-50%, 50%-75%, 75%-100%

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According to the ACTE-MasterCard survey, almost half of respondents—48.8 percent—said the data would be valuable only if 75 to 100 percent of the company's total hotel spend was capturing the e-folio data; 39 percent said 50 to 75 percent of the spend offering eFolio would make it valuable.

Including enhanced data in hotel RFPs may be a catalyst for driving the adoption of eFolio. "Until travel managers do this, there is not enough reason for hotel companies to provide the data in numbers that are meaningful," said Dave Hillman, principal at Consulting Strategies LLC, a travel management firm with offices in New York, Houston, and Connecticut. However, early adaptors have indicated that eFolio capability will be a significant factor in moving share. "If two preferred properties are located next door to each other and one is offering eFolio, I'll stay at the eFolio hotel," said Williams at IBM. At ON Semiconductor, Guhin said that once eFolio is completely up and running, "all travelers will have to stay at a hotel in the program." eFolio, she added, "is going to be a requirement for preferred properties when it gets rolled out." Survey results illustrate similar conclusions:

- ✔ 34 percent of survey participants said they had high expectations that eFolio would eventually be required for a preferred property in the hotel program.
- ✔ 34 percent said they had a high expectation hotels offering folio data would have an enhanced opportunity to participate in the preferred program.
- ✔ 72. 2 percent said they would promote hotels that provide eFolio data over those that do not among their travelers.
- ✔ 85.5 percent said they would flag hotels that provide eFolio data on the corporate booking tool.
- ✔ 49.1 percent said they would send periodic marketing communications to travelers to increase adoption to the hotels in the program that deliver the service.

Corporate Promotion of eFolio Data Providers Among Travelers
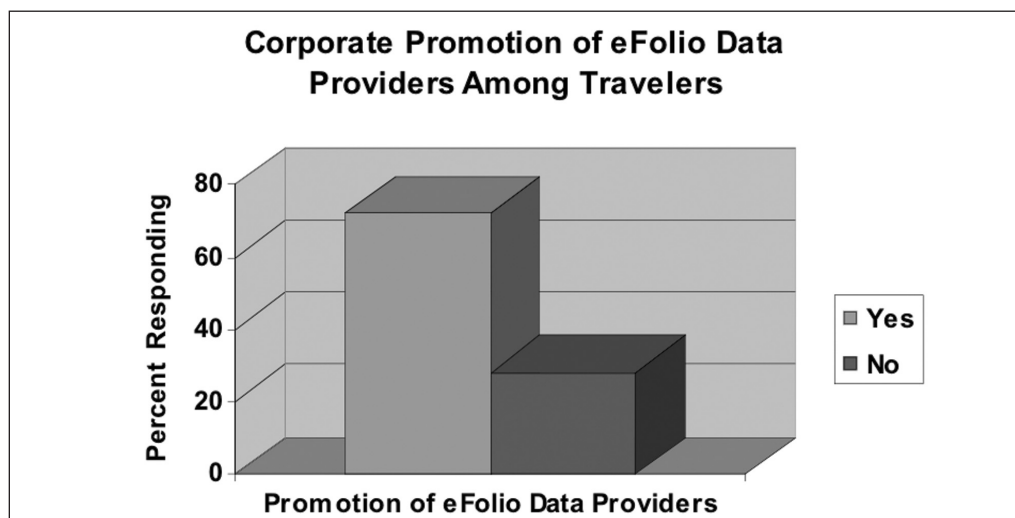
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Sometimes the point person at the corporation for the supplier is not the travel manager but an individual in procurement or accounting. This can hinder eFolio deployment for the simple reason that the finance person may not be aware of the benefits or availability of eFolio and hence does not advocate for it. "When we have reached out to corporate accounts, often times they are unaware that this product is available to them or that discussions are already taking place in other parts of their organizations," noted Mayer.

Getting the Data

In the initial stages of introducing eFolio, hotels were sending the content information directly to the corporate customer. Five years ago, IBM required its preferred properties to provide the eFolio to travelers by submitting it directly into the corporation's own expense reporting system. Most of the hotel chains now prefer to submit the data through the card providers. Generally hotel chains pull the folio information from individual properties out of their property management systems and push it to the card provider based on the specific corporate credit card numbers, as permitted by the provider on behalf of their corporate customers.

Because card companies are extracting the content from different property management systems and from brands that might offer different types of amenities, in many cases the eFolios are delivered in a hodge-podge of codes and categories. The card companies must standardize the file format before pushing it to the client's bank issuer or expense reporting tool. Once the card companies standardize the content, they can deliver it to the end user or send it to the issuing bank, which can push it to the user through its own proprietary reporting system or to a third-party expense reporting tool. Currently three expense management systems—Necho Systems, Outtask Inc., and Oracle—are providing the eFolio content, and other systems are in various stages of development.

Corporate clients can also work with the expense provider to customize the mapping of their folios for their own needs. One corporate user, for example, has all personal expenses, including mini-bars and movies, automatically separated out of the system. The tool also automatically sorts expenses into the correct categories rather than simply downloading them.

"Integration with expense management systems is key to unlocking the value of an eFolio program," said Marcie Verdin, vice president, corporate payment solutions, MasterCard International. "Therefore, MasterCard is working closely with each provider to ensure that our mutual customers can leverage the volume of enhanced data to

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optimize their existing investment in these systems. Integration allows customers to use the information to drive program compliance, ease the expense reporting process, and reduce the burden on the employee as well as the overall transaction cost for travel managers."

Another technicality corporate travel managers should prepare for is the fact that not all preferred properties will offer the eFolio, at least initially. The expense management software company has to flag those properties that do not offer the data, or indicate to the traveler in some other way that a different methodology of submitting expense reports will apply to those hotels. Companies may have to provide their travelers with two sets of instructions, one for reports with eFolio and the other without, for reporting hotel expenses.

Managing the Data

Before implementing eFolio, corporate travel managers should carefully consider and prepare for possible future applications. By taking the long view at the development stage—for example, by creating a set-up for additional categories that might be utilized in the future—they can save on the expense of adding capabilities later on. "Prior to implementation is when you should be consulting with other groups at your company to think about possible future applications and impacts," noted Bobbi Huber, director of corporate travel and meeting services at Federated Department Stores Inc., in Cincinnati, which has been receiving eFolio data for a year and a half. "There is a distinct possibility someone may decide down the road to 'use this for all our reimbursable needs.'" Having a central database would save on development costs.

In addition, corporate travel managers should ensure the new data fields are consistent with the general ledger. The expense categories within the expense reporting tool must be mapped to the general ledger to accept all the applicable categories of lodging charges. Travel managers should also ensure there is a uniformity of mapping throughout the company; a restaurant charge from HR should match the code for the same type of expense for travel and other company departments. All divisions within the company should have a unified account numbers mapping the expense types directly to the general ledger.

Because the eFolio mapping may include more categories than the current reporting system, travel managers should consult with their IT department and expense reporting providers to figure out how to integrate this additional information into the existing system in a way that is intuitive and does not create more complexity and work for travelers and travel managers. For example, a charge that formerly went under "other" might

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now be mapped to "audio visual". If meeting-related expenses are being broken out to a level of detail not formerly available, fields in the expense reporting tool obviously need to be created to accommodate these, and the company must determine how these will be mapped. Such issues need not cause problems, as long as the corporation prepares for them. Besides customizing the company's expense reporting system, a general ledger and mapping change might be required as well.

Because the eFolio will result in delivery of a very large database, travel managers need to make sure they establish the resources to retrieve and analyze the data. Travel agents have traditionally been the source of travel reports, so corporate travel managers might overlook the need to establish a functionality within their company to digest all the data. Huber said that her company had hired an on-site report analyst. "Someone has to massage the data to make it work," she said.

On the other hand, travel managers should keep in mind that they have the power to receive as much or as little of the data as they wish. Working with their card provider, they can customize the feed to include only those fields that are useful to them.

Data Privacy Concerns

Participants in the survey were divided in terms of how they would handle personal charges that would be charged on the corporate card and could show up on the eFolio.

- 27.6 percent of respondents would expect to receive all folios charged to the corporate card. If there were line items settled to a personal card, the traveler's right to privacy would be respected and the charges ignored.
- 26.3 percent of participants preferred to only have business expenses to be transmitted, even if the hotel or issuer does not send them to the company with line item charges settled to a personal card.
- 17.1 percent of respondents expected to receive all folios charged to the corporate card, with the company reserving the right to discipline a traveler that submitted a personal expense that breached the travel policy.

The first step is for corporate travel managers to consult with their legal departments to address any privacy issues related to eFolio and disclosure to employees. One company recently issued a new notification of disclosure to travelers, which spells out the additional categories of expenses that would be showing up on their expense reports, as part of the move to eFolio. The agreement also notes that the personal information would only be used for expense-reporting purposes.

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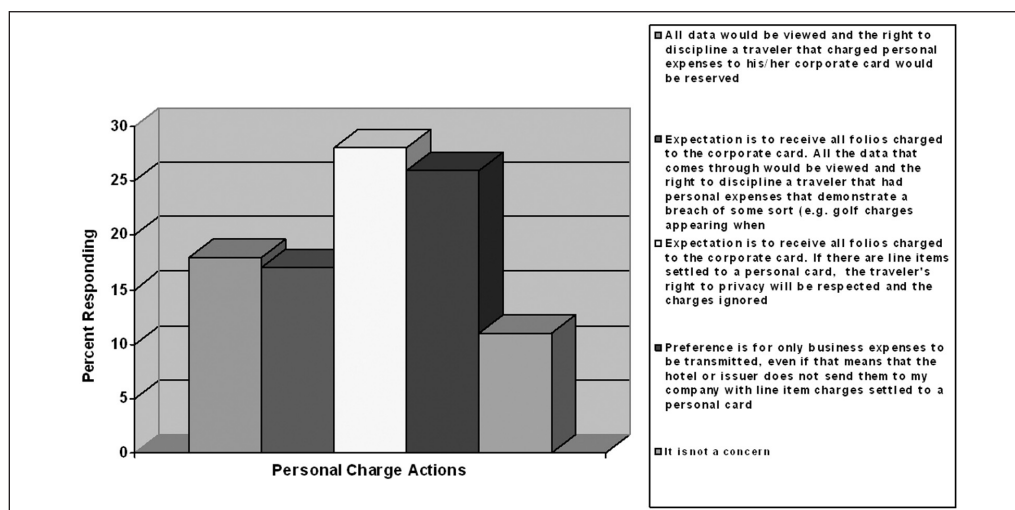
Bank issuers or corporate card providers routinely require the corporate user to sign a release form agreeing to the disclosure of personal information on expense forms. All the hotels and card companies also require the corporate user to enroll for the eFolio — it is not data the suppliers will automatically disclose. Most, if not all, participating hotel chains will not split the folio — that is, separate out the list of charges on a bill if the traveler wishes to pay for a portion of the expenses with cash or by using a personal card. The traveler can make the separate payment, but the expenses will still show up on the e-folio as a debit. That creates discomfort for some corporate travel managers.

Some individual properties allow the traveler to have two profiles, which would enable them to create two separate folios for the same bill—one for a list of business expenses and the second for personal expenses. Only the business folio, paid for with the corporate card, would show up in the expense report: however, not all properties have the capability to do this.

When travelers want personal charges to their room made unavailable for review by their company, they might likely have personal expenditures on their folio charged to their personal credit cards.   "However, this does not necessarily mean that the data will not be transmitted," Mayer said. "In cases of multiple forms of settlement, a folio is either entirely suppressed or all charges to a folio are passed through, not just those to the corporate card, depending on the chain and card vendor approach. While not a big issue today, it could be in the future." In the mean time, she noted that solutions to this issue are being discussed.

To some extent the degree of sensitivity about possible privacy issues depends on the culture of the company—whether, for example, travelers have been lumping personal

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expenses in "other" (and hence not revealing the nature of those expenses) and how scrupulously the company audits paper folios. Several suppliers and corporate travel managers said data privacy was a non-issue, since the company has always "owned" the data for expenses charged on the corporate card. Furthermore, since the breakout of the expenses has always been available on the paper receipt, they said the company has already had access to this data.

The Global Picture

The option of getting eFolio data from hotels on a global basis is predicted to become an increasing priority by companies with global travel patterns. Many global corporate managers attempting to standardize their programs would like the eFolio functionality to be standardized as well, by being universally available.

A handful of non-U.S. hotels are providing eFolio to the credit card companies and there are also a number in discussion with the credit card vendors. One factor that could complicate deployment of eFolio in Europe is the region's strict privacy laws. Hoteliers have concerns about how the data will be mined and what their liability would be if a company terminated an employee because of a falsely reported expense. EU data protection laws prevent transmitting personal data by a third party, even if it is for expenses paid for by company funds. (Companies already subvert this regulation by requiring employees to agree to disclosure as a condition of working at the firm or being issued a corporate card.)

Another challenge is the complex tax structures in many European countries. Differences in how countries or regions levy taxes on hotels means the folio might break out differently from hotel to hotel, creating the need for greater development. In Canada, eFolio is already available at participating chains, yet the country's tighter privacy laws make it more difficult to bring other hotels on board.

The biggest obstacle to implementing eFolio outside of North America is not so much legal as it is technological. Hotels need to make a technology investment to consolidate the data. This is not necessarily a priority, especially where there is a preponderance of boutique and non-affiliated properties, where implementing data collection on a property-by-property basis would be very expensive.

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Conclusion

eFolio represents a turning point in the advancement of business travel management. As the discipline of procurement has been applied to the buying of corporate travel, it has been accompanied by an insatiable demand for information and analysis of spend. eFolio answers this demand, providing detail on spend that was largely absent before. The benefits of eFolio are particularly timely, given the emphasis at many companies of managing the hotel spend. The continuing mandate by senior management to contain costs in the travel area, accompanied by the "maturing" of corporate air programs, means many corporate travel managers are focusing attention on their corporate hotel programs. With the elements of hotel spend data broken out through eFolio, corporate travel managers' ability to set goals and strategies for the successful containment of costs is greatly enhanced, as is their effectiveness when negotiating contracts.

As more hotels sign on and corporations resolve privacy issues, eFolio can become an indispensable tool for successful management of the travel program on a global basis. Corporate travel managers will have complete transparency into where their dollars are being spent in the hotel portion of their program. However, the expansion of eFolio beyond the fraction of U.S. corporations currently using it will not occur unless corporate travel managers express the need to their hotel vendors and expense reporting systems vendors. Without an expressed need, there is no rationale for hoteliers and other vendors to make the investment in this technology.

Corporate travel managers are finally able to reap the benefits of eFolio, and the potential for expansion is virtually unlimited. Travel managers hold the keys as to whether this potential is realized, and the goal of universal availability of eFolio is achieved.