

Reducing Electrovision's Travel and Entertainment Costs

Prepared for
Dennis McWilliams,
Vice President of Operations
Electrovision, Inc.

Prepared by
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February 17, 2021

← Large, bold type distinguishes the title from the other elements on the cover.

← The name of the recipient, if applicable, typically comes after the title.

← Generous use of white space between elements gives the cover an open feel.

← Dating the report gives it a feeling of currency when it is submitted and, conversely, as time passes, signals to future readers that the material might be out of date at that point.

The "how-to" tone of Moreno's title is appropriate for an action-oriented report that emphasizes recommendations. A more neutral title, such as "An Analysis of Electrovision's Travel and Entertainment Costs," would be more suitable for an informational report.

MEMORANDUM

TO: Dennis McWilliams, Vice President of Operations
FROM: Linda Moreno, Manager of Cost Accounting Services *LM*
DATE: February 17, 2021
SUBJECT: Reducing Electrovision's Travel and Entertainment Costs

Here is the report you requested January 28 on Electrovision's travel and entertainment costs.

Your suspicions were right. We are spending far too much on business travel. Our unwritten policy has been "anything goes," leaving us with no real control over T&E expenses. Although this hands-off approach may have been understandable when Electrovision's profits were high, we can no longer afford the luxury of going first class.

The solutions to the problem seem rather clear. We need to have someone with centralized responsibility for travel and entertainment costs, a clear statement of policy, an effective control system, and a business-oriented travel service that can optimize our travel arrangements. We should also investigate alternatives to travel, such as videoconferencing.

Getting people to economize is not going to be easy. In the course of researching this issue, I've found that our employees are deeply attached to their generous travel privileges. I think some would almost prefer a cut in pay to a loss in travel status. We'll need a lot of top management involvement to sell people on the need for moderation.

I'm grateful to Mary Lehman and Connie McIlvain for their considerable help in rounding up and sorting through five years' worth of expense reports.

Thanks for giving me the opportunity to work on this assignment. It's been a real education. If you have any questions about the report, please give me a call.

The memo format is appropriate for this internal report; the letter format would be used for transmitting an external report.

The tone is conversational yet still businesslike and respectful.

Acknowledging help given by others is good etiquette and a way to foster positive working relationships.

Moreno expects a positive response, so she presents her main conclusion right away.

She closes graciously, with thanks and an offer to discuss the results.

In this report, Moreno decided to write a brief memo of transmittal and include a separate executive summary. Short reports (fewer than 10 pages) often combine the synopsis or executive summary with the memo or letter of transmittal.

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The table of contents doesn't include any elements that appear before the "Contents" page.

The headings are worded exactly as they appear in the text.

Moreno lists the figures because they are all significant, and the list is fairly short.

This and other prefatory pages are numbered with Roman numerals.

The table lists only the page number on which a section begins, not the entire range of numbers.

Moreno included only first- and second-level headings in her table of contents, even though the report contains third-level headings. She prefers a shorter table of contents that focuses attention on the main divisions of thought. She used informative titles, which are appropriate for a report to a receptive audience.

EXECUTIVE SUMMARY

This report analyzes Electrovision's travel and entertainment (T&E) costs and presents recommendations for reducing those costs.

Travel and Entertainment Costs Are Too High

Travel and entertainment is a large and growing expense category for Electrovision. The company spends over \$16 million per year on business travel, and these costs have been increasing by 12 percent annually. Company employees make roughly 3,390 trips each year at an average cost per trip of \$4,720. Airfares are the biggest expense, followed by hotels, meals, and rental cars.

The nature of Electrovision's business does require extensive travel, but the company's costs are excessive: Our employees spend more than twice the national average on travel and entertainment. Although the location of the company's facilities may partly explain this discrepancy, the main reason for our high costs is a management style that gives employees little incentive to economize.

Cuts Are Essential

Electrovision management now recognizes the need to gain more control over this element of costs. The company is currently entering a period of declining profits, prompting management to look for every opportunity to reduce spending. At the same time, rising airfares and hotel rates are making T&E expenses more significant.

Electrovision Can Save \$6 Million per Year

Fortunately, Electrovision has a number of excellent opportunities for reducing T&E costs. Savings of up to \$6 million per year should be achievable, judging by the experience of other companies. A sensible travel-management program can save companies as much as 35 percent a year (Gilligan 39-40), and we should be able to save even more, since we purchase many more business-class tickets than the average. Four steps will help us cut costs:

1. Hire a director of travel and entertainment to assume overall responsibility for T&E spending, policies, and technologies, including the hiring and management of a national travel agency.
2. Educate employees on the need for cost containment, both in avoiding unnecessary travel and reducing costs when travel is necessary.
3. Negotiate preferential rates with travel providers.
4. Implement technological alternatives to travel, such as virtual meetings.

As necessary as these changes are, they will likely hurt morale, at least in the short term. Management will need to make a determined effort to explain the rationale for reduced spending. By exercising moderation in their own travel arrangements, Electrovision executives can set a good example and help other employees accept the changes. On the plus side, using travel alternatives such as web conferencing will reduce the travel burden on many employees and help them balance their business and personal lives.

The executive summary begins by stating the purpose of the report.

Moreno presents the points in the executive summary in the same order as they appear in the report, using subheadings that summarize the content of the main sections of the report.

The page numbering in the executive summary continues with Roman numerals.

Her audience is receptive, so the tone in the executive summary is forceful; a more neutral approach would be better for hostile or skeptical readers.

The executive summary uses the same font and paragraph treatment as the text of the report.

Moreno decided to include an executive summary because her report is aimed at a mixed audience, some of whom are interested in the details of her report and others who just want the "big picture." The executive summary is aimed at the second group, giving them enough information to make a decision without burdening them with the task of reading the entire report.

Her writing style matches the serious nature of the content without sounding distant or stiff. Moreno chose the formal approach because several members of her audience are considerably higher up in the organization, and she did not want to sound too familiar. In addition, her company prefers the impersonal style for formal reports.

A color bar highlights the report title and the first-level headings; a variety of other design treatments are possible as well.

REDUCING ELECTROVISION'S TRAVEL AND ENTERTAINMENT COSTS

INTRODUCTION

Electrovision has always encouraged a significant amount of business travel. To compensate employees for the stress and inconvenience of frequent trips, management has authorized generous travel and entertainment (T&E) allowances. This philosophy has been good for morale, but last year Electrovision spent \$16 million on travel and entertainment—\$7 million more than it spent on research and development.

This year's T&E costs will affect profits even more because of increases in airline fares and hotel rates. Also, the company anticipates that profits will be relatively weak for a variety of other reasons. Therefore, Dennis McWilliams, Vice President of Operations, has asked the accounting department to explore ways to reduce the T&E budget.

The purpose of this report is to analyze T&E expenses, evaluate the effect of recent hotel and airfare increases, and suggest ways to tighten control over T&E costs. The report outlines several steps that could reduce Electrovision's expenses, but the precise financial impact of these measures is difficult to project. The estimates presented here provide a "best guess" of what Electrovision can expect to save.

In preparing this report, the accounting department analyzed internal expense reports for the past five years to determine how much Electrovision spends on travel and entertainment. These figures were then compared with average statistics compiled by Dow Jones (publisher of the *Wall Street Journal*) and presented as the Dow Jones Travel Index. We also analyzed trends and suggestions published in a variety of business journal articles to see how other companies are coping with the high cost of business travel.

THE HIGH COST OF TRAVEL AND ENTERTAINMENT

Although many companies view travel and entertainment as an incidental cost of doing business, the dollars add up. At Electrovision the bill for airfares, hotels, rental cars, meals, and entertainment totaled \$16 million last year. Our T&E budget has increased by 12 percent per year for the past five years. Compared with the average U.S. business traveler, Electrovision's expenditures are high, largely because of management's generous policy on travel benefits.

The introduction opens by establishing the need for action.

Moreno mentions her sources and methods to increase credibility and to give readers a complete picture of the study's background.

A running footer that contains the report title and the page number appears on every page.

In her brief introduction, Moreno counts on topic sentences and transitions to indicate that she is discussing the purpose, scope, and limitations of the study.

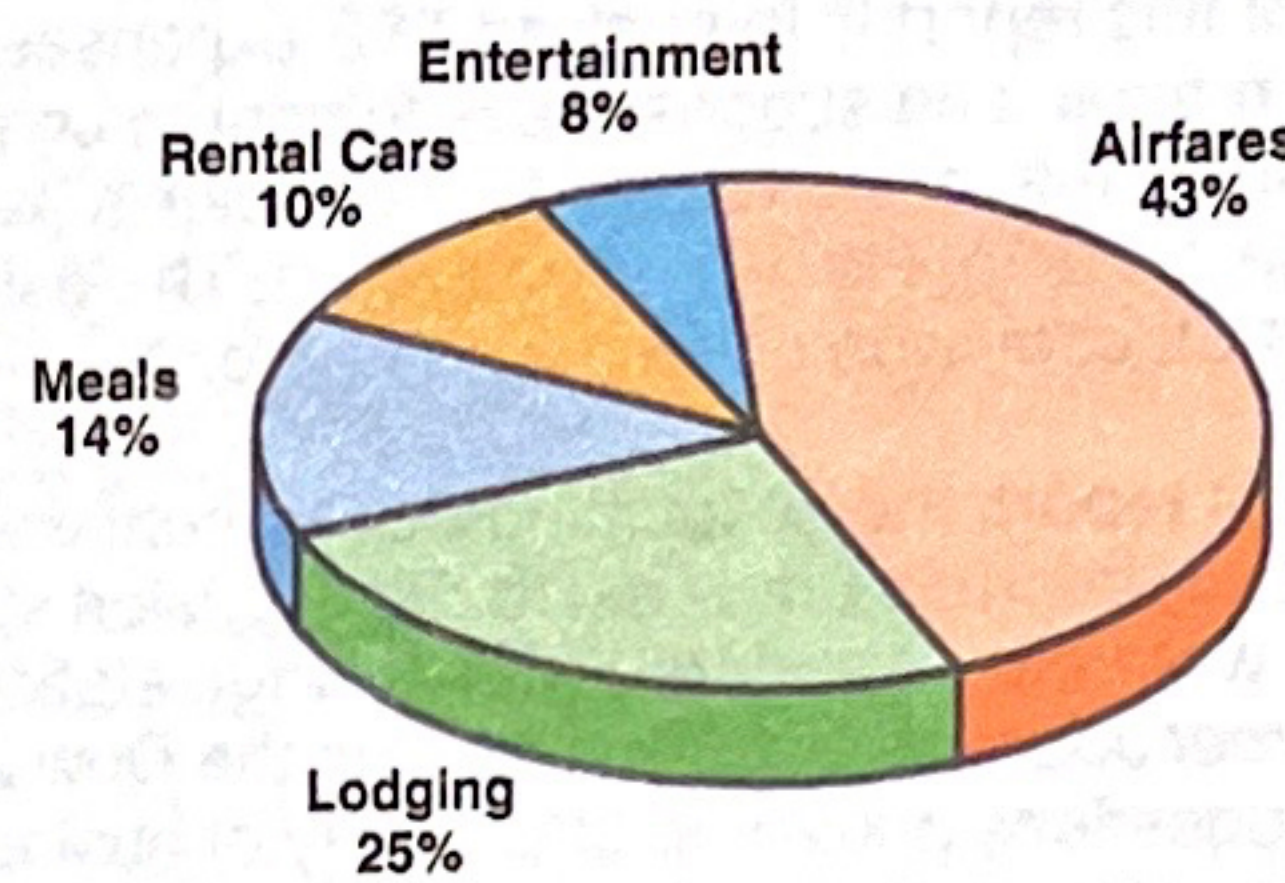
\$16 Million per Year Spent on Travel and Entertainment

Electrovision's annual budget for T&E is only 8 percent of sales. Because this is a relatively small expense category compared with such things as salaries and commissions, it is tempting to dismiss T&E costs as insignificant. However, T&E is Electrovision's third-largest controllable expense, directly behind salaries and information systems.

Last year Electrovision personnel made about 3,390 trips at an average cost per trip of \$4,720. The typical trip involved a round-trip flight of 3,000 miles, meals, hotel accommodations for two or three days, and a rental car. Roughly 80 percent of trips were made by 20 percent of the staff—top management and sales personnel traveled most, averaging 18 trips per year.

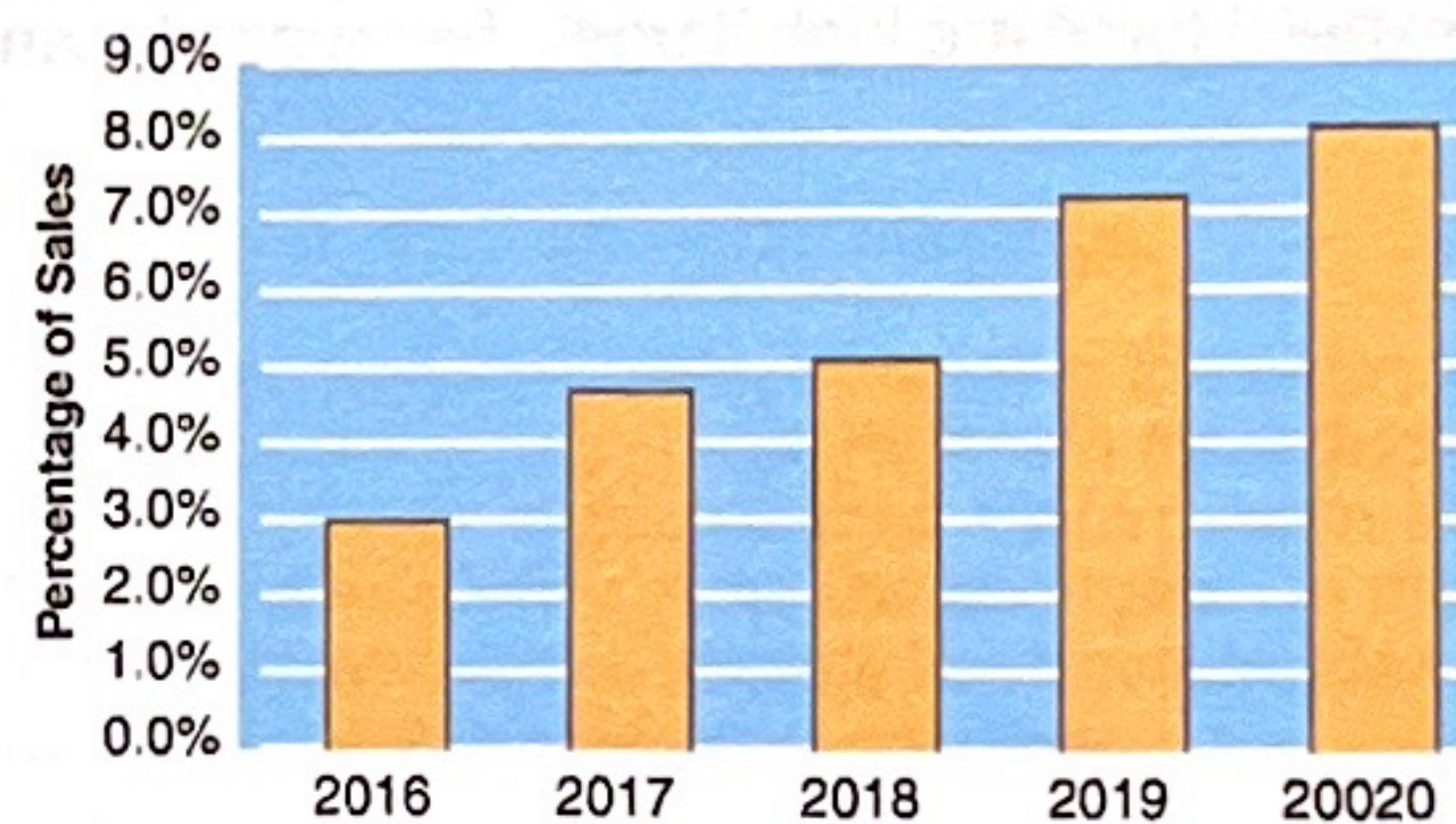
Figure 1 illustrates how the T&E budget is spent. The largest categories are airfares and lodging, which together account for \$7 of every \$10 that employees spend on T&E. This spending breakdown has been relatively steady for the past five years and is consistent with the distribution of expenses experienced by other companies.

Figure 1
Airfares and Lodging Account for Over Two-Thirds of Electrovision's T&E Budget



Although the composition of the T&E budget has been consistent, its size has not. As mentioned earlier, these expenditures have increased by about 12 percent per year for the past five years, roughly twice the rate of the company's sales growth (see Figure 2). This rate of growth makes T&E Electrovision's fastest-growing expense item.

Figure 2
T&E Expenses Continue to Increase as a Percentage of Sales



Moreno opens the first main section of the body with a topic sentence that introduces an important fact about the subject of the section. Then she orients the reader to the three major points developed in the section.

The visual is placed as close as possible to the point it illustrates.

Each visual has a title that clearly indicates what it's about; titles are consistently placed to the left of each visual.

Electrovision's Travel Expenses Exceed National Averages

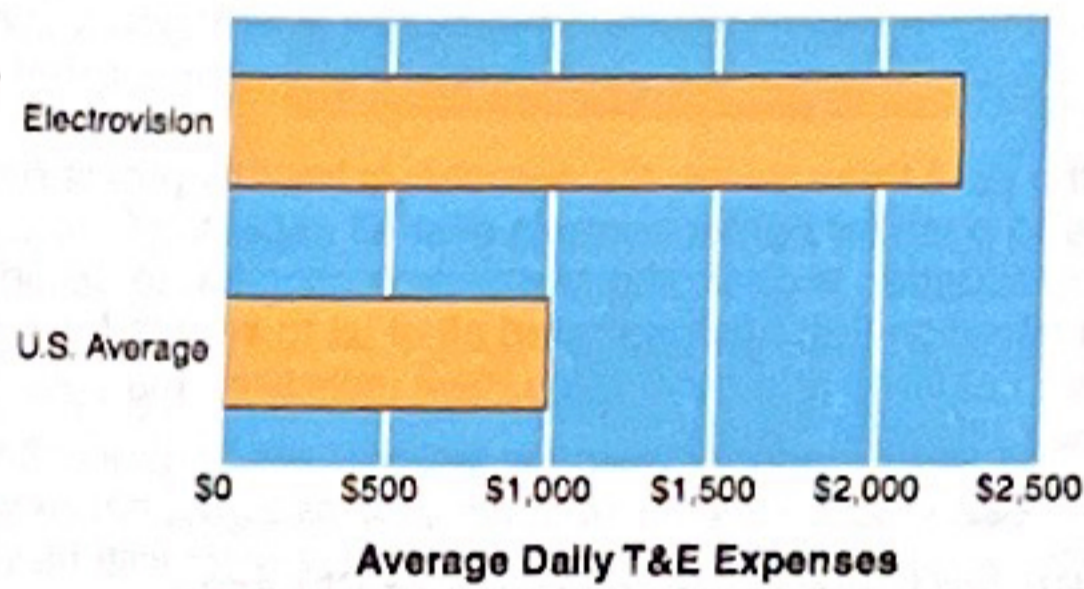
Much of our travel budget is justified. Two major factors contribute to Electrovision's high T&E budget:

- With our headquarters on the West Coast and our major customer on the East Coast, we naturally spend a lot of money on cross-country flights.
- A great deal of travel takes place between our headquarters here on the West Coast and the manufacturing operations in Detroit, Boston, and Dallas. Corporate managers and division personnel make frequent trips to coordinate these disparate operations.

However, even though a good portion of Electrovision's travel budget is justifiable, the company spends considerably more on T&E than the average business traveler (see Figure 3).

Figure 3
Electrovision Employees Spend Over Twice as Much as the Average Business Traveler

Source: *Wall Street Journal* and company records



The Dow Jones Travel Index calculates the average cost per day of business travel in the United States based on average airfare, hotel rates, and rental car rates. The average fluctuates weekly as travel companies change their rates, but it has been running at about \$1,000 per day for the last year or so. In contrast, Electrovision's average daily expense over the past year has been \$2,250—a hefty 125 percent higher than average. This figure is based on the average trip cost of \$4,720 listed earlier and an average trip length of 2.1 days.

Spending Has Been Encouraged

Although a variety of factors may contribute to this differential, Electrovision's relatively high T&E costs are at least partially attributable to the company's philosophy and management style. Since many employees do not enjoy business travel, management has tried to make the trips more pleasant by authorizing business-class airfare, luxury hotel accommodations, and full-size rental cars. The sales staff is encouraged to entertain clients at top restaurants and to invite them to cultural and sporting events.

The visuals are numbered consecutively and referred to by their numbers in the text.

Moreno introduces visuals before they appear and indicates what readers should notice about the data.

The chart in Figure 3 is simple but effective; Moreno includes just enough data to make her point. Notice how she is as careful about the appearance of her report as she is about the quality of its content.

A bulleted list makes it easy for readers to identify and distinguish related points.

The cost of these privileges is easy to overlook, given the weakness of Electrovision's system for tracking T&E expenses:

- The monthly financial records do not contain a separate category for travel and entertainment; the information is buried under Cost of Goods Sold or under Selling, General, and Administrative Expenses.
- Each department head is given authority to approve any expense report, regardless of how large it may be.
- Receipts are not required for expenditures less than \$100.
- Individuals are allowed to make their own travel arrangements.
- No one is charged with the responsibility for controlling the company's total spending on travel and entertainment.

GROWING IMPACT ON THE BOTTOM LINE

During the past three years, the company's healthy profits have resulted in relatively little pressure to push for tighter controls over all aspects of the business. However, as we all know, the situation is changing. We're projecting flat to declining profits for the next two years, a situation that has prompted all of us to search for ways to cut costs. At the same time, rising airfares and hotel rates have increased the impact of T&E expenses on the company's financial results.

Lower Profits Underscore the Need for Change

The next two years promise to be difficult for Electrovision. After several years of steady increases in spending, the Postal Service is tightening procurement policies for automated mail-handling equipment. Funding for the A-12 optical character reader has been canceled. As a consequence, the marketing department expects sales to drop by 15 percent. Although Electrovision is negotiating several other promising R&D contracts, the marketing department does not foresee any major procurements for the next two to three years.

At the same time, Electrovision is facing cost increases on several fronts. As we have known for several months, the new production facility now under construction in Salt Lake City, Utah, is behind schedule and over budget. Labor contracts in Boston and Dallas will expire within the next six months, and plant managers there anticipate that significant salary and benefits concessions may be necessary to avoid strikes.

Moreover, marketing and advertising costs are expected to increase as we attempt to strengthen these activities to better cope with competitive pressures. Given the expected decline in revenues and increase in costs, the Executive Committee's prediction that profits will fall by 12 percent in the coming fiscal year does not seem overly pessimistic.

Informative headings focus reader attention on the main points. Such headings are appropriate when a report uses the direct approach and is intended for a receptive audience. However, descriptive headings are more effective when a report uses the indirect approach and readers are less receptive.

Moreno designed her report to include plenty of white space so even those pages that lack visuals are still attractive and easy to read.

Airfares and Hotel Rates Are Rising

Business travelers have grown accustomed to frequent fare wars and discounting in the travel industry in recent years. Excess capacity and aggressive price competition, particularly in the airline business, made travel a relative bargain.

However, that situation has changed as weaker competitors have been forced out and the remaining players have grown stronger and smarter. Airlines and hotels are better at managing inventory and keeping occupancy rates high, which translates into higher costs for Electrovision. Last year saw some of the steepest rate hikes in years. Business airfares (tickets most likely to be purchased by business travelers) jumped more than 40 percent in many markets. The trend is expected to continue, with rates increasing another 5 to 10 percent overall (Phillips 331; "Travel Costs Under Pressure" 30; Dahl B6).

Given the fact that air and hotel costs account for almost 70 percent of our T&E budget, the trend toward higher prices in these two categories will have serious consequences, unless management takes action to control these costs.

METHODS FOR REDUCING T&E COSTS

By implementing a number of reforms, management can expect to reduce Electrovision's T&E budget by as much as 40 percent. This estimate is based on the general assessment made by American Express (Gilligan 39) and on the fact that we have an opportunity to significantly reduce air travel costs by eliminating business-class travel. However, these measures are likely to be unpopular with employees. To gain acceptance for such changes, management will need to sell employees on the need for moderation in T&E allowances.

Four Ways to Trim Expenses

By researching what other companies are doing to curb T&E expenses, the accounting department has identified four prominent opportunities that should enable Electrovision to save about \$6 million annually in travel-related costs.

Institute Tighter Spending Controls

A single individual should be appointed director of travel and entertainment to spearhead the effort to gain control of the T&E budget. More than a third of all U.S. companies now employ travel managers ("Businesses Use Savvy Managers" 4). The director should be familiar with the travel industry and should be well versed in both accounting and information technology. The director should also report to the vice president of operations. The director's first priorities should be to establish a written T&E policy and a cost-control system.

Electrovision currently has no written policy on T&E, a step that is widely recommended by air travel experts (Smith D4). Creating a policy would clarify management's position and serve as a vehicle for communicating the need for moderation.

Moreno supports her argument with objective facts and sound reasoning.

The recommendations are realistic, noting both the benefits and the risks of taking action.

Moreno creates a forceful tone by using action verbs in the third-level subheadings of this section. This approach is appropriate to the nature of the study and the attitude of the audience. However, in a status-conscious organization, the imperative verbs might sound a bit too presumptuous coming from a junior member of the staff.

In addition to making key points easy to find, bulleted lists help break up the text to relieve the reader's eye.

At a minimum, the policy should include the following:

- All T&E should be strictly related to business and should be approved in advance.
- Except under special circumstances to be approved on a case-by-case basis, employees should travel by coach and stay in mid-range business hotels.
- The T&E policy should apply equally to employees at all levels.

To implement the new policy, Electrovision will need to create a system for controlling T&E expenses. Each department should prepare an annual T&E budget as part of its operating plan. These budgets should be presented in detail so that management can evaluate how T&E dollars will be spent and can recommend appropriate cuts. To help management monitor performance relative to these budgets, the director of travel should prepare monthly financial statements showing actual T&E expenditures by department.

The director of travel should also be responsible for retaining a business-oriented travel service that will schedule all employee business trips and look for the best travel deals, particularly in airfares. In addition to centralizing Electrovision's reservation and ticketing activities, the agency will negotiate reduced group rates with hotels and rental car firms. The agency selected should have offices nationwide so that all Electrovision facilities can channel their reservations through the same company. This is particularly important in light of the dizzying array of often wildly different airfares available between some cities. It's not uncommon to find dozens of fares along commonly traveled routes (Rowe 30). In addition, the director can help coordinate travel across the company to secure group discounts whenever possible (Barker 31; Miller B6).

Reduce Unnecessary Travel and Entertainment

One of the easiest ways to reduce expenses is to reduce the amount of traveling and entertaining that occurs. An analysis of last year's expenditures suggests that as much as 30 percent of Electrovision's T&E is discretionary. The professional staff spent \$2.8 million attending seminars and conferences last year. Although these gatherings are undoubtedly beneficial, the company could save money by sending fewer representatives to each function and perhaps by eliminating some of the less valuable seminars.

Similarly, Electrovision could economize on trips between headquarters and divisions by reducing the frequency of such visits and by sending fewer people on each trip. Although there is often no substitute for face-to-face meetings, management could try to resolve more internal issues through telephone, electronic, and written communication.

Electrovision can also reduce spending by urging employees to economize. Instead of flying business class, employees can fly coach class or take advantage of discount fares. Rather than ordering a \$50 bottle of wine, employees can select a less expensive bottle or dispense with alcohol entirely. People can book rooms at moderately priced hotels and drive smaller rental cars.

Moreno lists the steps needed to implement her recommendations

Moreno takes care not to overstep the boundaries of her analysis. For instance, she doesn't analyze the value of the seminars that employees attend every year, so she avoids any absolute statements about reducing travel to seminars.

Obtain Lowest Rates from Travel Providers

Apart from urging employees to economize, Electrovision can also save money by searching for the lowest available airfares, hotel rates, and rental car fees. Currently, few employees have the time or knowledge to seek out travel bargains. When they need to travel, they make the most convenient and comfortable arrangements. A professional travel service will be able to obtain lower rates from travel providers.

Judging by the experience of other companies, Electrovision may be able to trim as much as 30 to 40 percent from the travel budget simply by looking for bargains in airfares and negotiating group rates with hotels and rental car companies. Electrovision should be able to achieve these economies by analyzing its travel patterns, identifying frequently visited locations, and selecting a few hotels that are willing to reduce rates in exchange for guaranteed business. At the same time, the company should be able to save up to 40 percent on rental car charges by negotiating a corporate rate.

The possibilities for economizing are promising; however, making the best travel arrangements often requires trade-offs such as the following:

- The best fares might not always be the lowest. Indirect flights are usually cheaper, but they take longer and may end up costing more in lost work time.
- The cheapest tickets often require booking 14 or even 30 days in advance, which is often impossible for us.
- Discount tickets are usually nonrefundable, which is a serious drawback when a trip needs to be canceled at the last minute.

Replace Travel with Technological Alternatives

Online meeting systems such as WebEx and GoTo Meeting offer a compelling alternative to many instances of business travel. With webcam video, application/screen sharing, and collaboration tools such as virtual whiteboards, they have made great strides toward replicating the in-person meeting experience.

As effective as these systems can be, though, they shouldn't automatically replace every in-person meeting. When establishing a business relationship, for example, meeting face to face is an important part of building trust and getting past the uncertainties of working with a new partner. Part of the new travel director's job would be to draft guidelines for choosing travel or online meeting options.

By pointing out possible difficulties and showing that she has considered all angles, Moreno builds reader confidence in her judgment.

Note how Moreno makes the transition from section to section. The first sentence under the second heading on this page refers to the subject of the previous paragraph and signals a shift in thought.

An informative title in the table is consistent with the way headings are handled throughout this report, and it is appropriate for a report to a receptive audience.

The Impact of Reforms

By implementing tighter controls, reducing unnecessary expenses, negotiating more favorable rates, and exploring alternatives to travel, Electrovision should be able to reduce its T&E budget significantly. As Table 1 illustrates, the combined savings should be in the neighborhood of \$6 million, although the precise figures are somewhat difficult to project.

Table 1
Electrovision Can Trim Travel and Entertainment Costs by an Estimated \$6 Million per Year

SOURCE OF SAVINGS	ESTIMATED SAVINGS
Switching from business-class to coach airfare	\$2,300,000
Negotiating preferred hotel rates	940,000
Negotiating preferred rental car rates	460,000
Systematically searching for lower airfares	375,000
Reducing interdivisional travel	675,000
Reducing seminar and conference attendance	1,250,000
TOTAL POTENTIAL SAVINGS	\$6,000,000

To achieve the economies outlined in the table, Electrovision will incur expenses for hiring a director of travel and for implementing a T&E cost-control system. These costs are projected at \$115,000: \$105,000 per year in salary and benefits for the new employee and a one-time expense of \$10,000 for the cost-control system. The cost of retaining a full-service travel agency is negligible, even with the service fees that many are now passing along from airlines and other service providers.

The measures required to achieve these savings are likely to be unpopular with employees. Electrovision personnel are accustomed to generous T&E allowances, and they are likely to resent having these privileges curtailed. To alleviate their disappointment:

- Management should make a determined effort to explain why the changes are necessary.
- The director of corporate communication should be asked to develop a multi-faceted campaign that will communicate the importance of curtailing T&E costs.
- Management should set a positive example by adhering strictly to the new policies.
- The limitations should apply equally to employees at all levels in the organization.

The in-text reference to the table highlights the key point the reader should get from the table.

Including financial estimates helps management envision the impact of the suggestions, even though the estimated savings are difficult to project accurately.

Note how Moreno calls attention in the first paragraph to items in the table, without repeating the information in the table.

She uses a descriptive heading for the last section of the text. In informational reports, this section is often called "Summary"; in analytical reports, it is called "Conclusions" or "Conclusions and Recommendations."

CONCLUSIONS AND RECOMMENDATIONS

Electrovision is currently spending \$16 million per year on T&E. Although much of this spending is justified, the company's costs are high relative to competitors' costs, mainly because Electrovision has been generous with its travel benefits.

Electrovision's liberal approach to T&E was understandable during years of high profitability; however, the company is facing the prospect of declining profits for the next several years. Management is therefore motivated to cut costs in all areas of the business. Reducing T&E spending is particularly important because the bottom-line impact of these costs will increase as airline fares increase.

Electrovision should be able to reduce T&E costs by as much as 40 percent by taking four important steps:

1. *Institute tighter spending controls.* Management should hire a director of travel and entertainment who will assume overall responsibility for T&E activities. Within the next six months, this director should develop a written travel policy, institute a T&E budget and a cost-control system, and retain a professional, business-oriented travel agency that will optimize arrangements with travel providers.
2. *Reduce unnecessary travel and entertainment.* Electrovision should encourage employees to economize on T&E spending. Management can accomplish this by authorizing fewer trips and by urging employees to be more conservative in their spending.
3. *Obtain lowest rates from travel providers.* Electrovision should focus on obtaining the best rates on airline tickets, hotel rooms, and rental cars. By channelling all arrangements through a professional travel agency, the company can optimize its choices and gain clout in negotiating preferred rates.
4. *Replace some travel with technological alternatives.* Online meeting systems should be adequate for most of our tactical meetings with established clients and for most internal communication as well.

Because these measures may be unpopular with employees, management should make a concerted effort to explain the importance of reducing travel costs. The director of corporate communication should be given responsibility for developing a plan to communicate the need for employee cooperation.

Moreno summarizes her conclusions in the first two paragraphs—a good approach because she organized her report around conclusions and recommendations, so readers have already been introduced to them.

Presenting the recommendations in a list gives each one emphasis.

Moreno doesn't introduce any new facts in this section. In a longer report she might have divided this section into subsections, labeled "Conclusions" and "Recommendations," to distinguish between the two.

MLA style lists references alphabetically by the author's last name, and when the author is unknown, by the title of the reference. (See Appendix B for additional details on preparing reference lists.)

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Moreno's list of references follows the style recommended in the *MLA Handbook*. The box below shows how these sources would be cited following American Psychological Association (APA) style.

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