

Delta Finally On Top

By Jay Boehmer

Delta Air Lines this year for the first time took top honors in the *Business Travel News* Annual Airline Survey, earning the highest ratings from corporate travel buyers in five of 10 service-delivery categories. The 2011 survey, *BTN*'s 14th, shows a significant reshuffling, as mergers, evolving distribution strategies and modified corporate agreements factored into travel buyer perceptions of the five largest domestic airlines.

Last year's winner, Continental Airlines, subsequently has been integrating with merger partner United Airlines; the combined entity using the United brand landed second to Delta by two-hundredths of a point. Finishing second in 2010, American Airlines fell to fourth, an indicator of perceptions of declining service and the airline's aggressive—and to some, off-putting—efforts to redraw its third-party distribution. US Airways, meanwhile, improved to third place from a last-place finish in 2010, perhaps partly resulting from reinvigorated efforts to court corporate business.

Southwest Airlines, rated along with merger partner AirTran Airways, finished last. Respondents saw little flexibility from the carrier in structuring preferred airline agreements and reported difficulty in booking some of its fares through preferred channels.

On average, the airlines rated in *BTN*'s survey garnered lower overall scores than last year; a relatively small percentage of the 406 corporate travel buyers surveyed this year indicated they'd experienced improving domestic airline service. Thirty-six percent agreed that overall airline customer service levels declined in the past year, while 46 percent said they stayed the same.

Though corporations for years have lived with an increasingly unbundled airfare product, many buyers remain dissatisfied with ancillary fees, particularly with regard to a lack of thorough reporting and negotiating opportunities, according to several survey respondents. Not surprisingly, many also shared a strong desire for lower published fares and deeper discounts from their preferred carriers, which have been more difficult to attain as airlines solidify pricing power.

"Our spend is up, but it's almost entirely due to an increase in fares," said Blue Coat Systems global travel

manager Rick Wakida. "On top of all of that, you layer in the ancillary fees, and they're not going away. So, even if there's not been a fundamental shift or degradation of service, the psychology of the experience is lower."

Despite a supply-and-demand equation that doesn't favor buyers and a generally poor view of customer service, buyers this year generally rated domestic carriers more flexible in negotiating transient fares, meetings pricing and services and amenities, according to comparisons to the 2010 survey.

Delta Gains Respondent Accolades For Increased Flexibility, Enhanced Reporting

Flexibility in structuring transient and meetings pricing helped Delta clinch a first-place finish over United, according to survey results. Delta also topped all domestic competitors in complaint/problem resolution, quality of communications and the value of its network and partners.

While some suggested Delta secured the top spot due to United and Continental's navigation of the complexities of merger integration and American Airlines' battles with some third-party distributors upon which corporate clients rely, several buyers indicated Delta did not win the survey merely by default.

"It's not a best-of-the-worst kind of thing," said The Advisory Board Co. managing director of information systems and travel buyer Steven Mandelbaum. "They've actually listened to companies, and they've come up with some really smart agreements that work, as opposed to scenarios in the past where, not just them, but other carriers would say, 'This is what we want you to do. Take it or leave it.' It's very collaborative."

Delta in the past year has empowered sales managers

to be more collaborative, said vice president of global sales Steve Sear, who also claimed improvements to the carrier's contracting processes and enhanced reporting for clients. He also pointed to heightened staffing and increased training in Delta's sales support center, as well as ongoing product investments, both on the ground and aboard planes. As examples, Delta in the past year launched a premium-economy product on some international flights, rolled out more flat-bed seats in long-haul markets and expanded first-class seating and added Wi-Fi on regional aircraft, having previously installed Internet access across its entire mainline domestic fleet.

"If you think back even 12 months, we were just finishing the merger and the joint venture," Sear said of the carrier's acquisition of Northwest Airlines and its ever-closer ties with Air France and KLM. "So, we're fully integrated from a sales perspective and a contract perspective. While we finished those efforts, that was really just the beginning of the focus on the customer. Our sales team is responsive and flexible, and they've been empowered to make decisions."

Several buyers heaped particular praise on Delta's new Sky Partner Review reports, which launched this summer and show client savings and spending beyond core airfares. One such quarterly report obtained by *BTN* quantified the occurrence rate and dollar value of frequent flyer upgrades, waived bag fees and elite status designations.

The reports also detail by figures the passenger experience, including the percentage of trips without baggage-handling complaints and the rate of travel disruptions—including delays and cancellations—that

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Corporate Travel Buyers Rate U.S. Airlines

Ratings On A Scale Of 1 (Poor) To 5 (Excellent)

	Flexibility in negotiating transient pricing	Flexibility in negotiating meetings pricing	Flexibility in negotiating services and amenities	Distribution channels	Complaint/problem resolution	Quality of airline communications	Value of relationships with account managers and sales reps	Quality of customer service	Networks, airline partnerships and frequencies	Overall price value	OVERALL AVERAGE
Delta Air Lines	3.20	3.06	3.05	3.15	3.17	3.18	3.19	3.10	3.19	3.07	3.14
United Airlines ¹	3.10	2.99	3.15	3.17	3.15	3.10	3.20	3.11	3.14	3.07	3.12
US Airways	3.05	2.93	3.03	3.16	3.02	3.07	3.21	3.01	3.11	3.09	3.07
American Airlines	2.97	2.78	2.95	3.00	2.95	2.93	3.00	2.85	2.99	2.95	2.94
Southwest Airlines ²	2.79	2.79	2.79	2.75	2.94	3.11	3.02	2.97	2.86	2.97	2.90
Average attribute rating	3.02	2.91	2.99	3.05	3.05	3.08	3.12	3.01	3.06	3.03	

¹ Includes Continental Airlines

² Includes AirTran Airways

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impacted the organization’s travelers. Delta also reports the total number of bags that have been checked by a company’s travelers, including the percentage transported with and without fees, giving buyers new insight on the elusive spend categories.

While many buyers await a broader solution to account for bag fees, perhaps through more detailed corporate card reports, Sear acknowledged that Delta’s reporting is “still not an industry solution,” but “follows our commitment to be transparent.”

Buyers seem to like the new transparency. “The reporting that we got back from Delta last quarter was very enlightening,” said Westinghouse Electric Co. global travel manager Dan Cooper. “It was a lot of information in a great format, and they provided a lot of detail on savings and additional services. Of course, all carriers will tell you what you get from your discount, but these are the beyond-discount savings. I haven’t really seen that from other preferred carriers. You can see they’re listening to what buyers want and giving it back.”

The New United Airlines Navigates Through Integration

While Continental has finished first in *BTN*’s annual survey—matching American for the most wins during the past 14 years—merger partner United typically has finished in the middle or bottom of the pack. The new United already may be harnessing Continental’s history of goodwill in the corporate marketplace, given its second-place overall finish and first-place rating in three of 10 categories. Still, there remains the “herculean task of putting two very huge airlines together,” according to United senior vice president of worldwide sales Dave Hilfman.

Those efforts have been ongoing throughout 2011 and will continue into 2012. “Integration is tough,” Hilfman said, “but we’re pleased thus far with the progress. There’s a lot of work yet to do both in terms of people and programs.”

The carrier mostly has completed integrating sales personnel in North America, Latin America and Asia, while combining sales forces in Europe, the Middle East and Africa has taken longer due to “regulatory, labor and legal issues that come in to play,” according to Hilfman. “We’re trying as hard as we can to get that process finished, because we want everybody to feel settled, and clearly we want to get our final, end-state sales organization in place. For the bulk of our sales professionals, we’re done.”

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Rating Criteria Definitions

Flexibility in negotiating transient pricing: The airline’s demonstrated ability to customize business travel program discounts and other negotiated pricing elements.

Flexibility in negotiating meetings pricing: The airline’s demonstrated ability to customize meetings travel discounts and negotiated pricing elements for a preferred business travel buyer.

Flexibility in negotiating services and amenities: The airline’s demonstrated ability to negotiate additional offerings for individual business travelers, including soft-dollar benefits and special VIP treatment in-flight and at the airport.

Distribution channel availability: The airline’s demonstrated ability to provide the most comprehensive published and private airfare content for preferred corporate bookings.

Complaint/problem resolution: The airline’s demonstrated ability to respond quickly and effectively to business travel buyer and corporate traveler concerns.

Quality of airline communication: Demonstrated performance in informing travel buyers about airline management, products, programs, sales and service changes.

Value of relationships with account managers and sales reps: Demonstrated performance in the productivity and frequency of meetings with local, regional, national and other airline representatives and their power to negotiate agreements, offer options and make decisions regarding price and service.

Quality of customer service: Overall perception of airline based on timeliness, reliability and cleanliness of service; support from airline personnel; and communication to travelers.

Networks, partnerships and frequencies: The airline’s ability to provide the necessary service to the destinations required by respondents’ companies’ travel patterns.

Overall price value: The perceived worth of an airline’s service levels relative to fares.

do” on corporate customer programs, Hilfman said, “but we’ve been out working diligently to consolidate our Continental and United programs. Our corporate clients have been very patient with us, and we’re appreciative of that patience as we’re getting out and repricing thousands of contracts.”

That work will continue into the first half of next year. “We’ve always been focused on customizing our deals,” Hilfman continued. “If you go out with cookie-cutter programs, it’s easy, but we don’t do it that way, and we know our clients wouldn’t go for that. It does take time to go through the negotiating processes, so that meters out the number of programs that we have signed and implemented, but we feel we’re making decent progress. As we get into 2012, we’ll be well down the road to have all of our programs ready to roll.”

Meanwhile, United expects new agency incentive agreements to go live this month. “We’ve been in some initial discussions with a lot of our key [travel management company] partners. You may not have everything signed at the start of the fourth quarter, but

we’re working hard to make sure we get everything presented, discussed, negotiated and implemented in the fourth quarter.”

As sales integration continues, the company awaits a single operating certificate from the U.S. Federal Aviation Administration—expected in the first half of next year—which will allow Continental and United to operate fleets and deploy crews as one entity.

To further harmonize its service identity, United in the first quarter of 2012 expects to launch a common passenger services system. “In any merger, technology plays such a key role and is critical to delivering what would be a very seamless customer experience, whether it’s at the beginning of booking a reservation, through the agency or online, and then all the way through the experience at the airport and onboard,” Hilfman said. “Once we get on a single passenger services system, it really looks and feels like one airline.”

United also expects to launch a unified frequent flyer program, the details of which were announced this

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month. "We feel like we've come up with a program that appropriately rewards our most loyal and valuable travelers," Hilfman said. "I think people will be very pleased by this new program. It's combined starting Jan. 1, 2012, but even then, until you get on that single passenger services system, it won't feel quite as integrated until we finish that off."

With United's personnel, programs and processes in flux for much of the past year, survey respondents shared varying views of the newly combined carrier. One respondent noted that "the Continental effect on service delivery has had a positive influence on United," but another called the new carrier "highly distracted and confused."

Said Hilfman, "We tell customers and our employees all the time, 'Thanks for your patience, because we're under construction.' We're really building a new culture, and when we get it done it's going to be spectacular, but it just takes a little time."

US Airways Reverses Course, Reclaims Corporate Sales Growth

US Airways in the past year continued to bulk up its corporate sales efforts, adding more than 100 new North American accounts and building out to its corporate sales force. Following its merger with America West Airlines in 2005, US Airways de-emphasized the corporate market when it positioned itself as a "low-cost carrier," culled corporate accounts and reduced sales staff. During the past two years, however, the carrier has worked to reverse those moves and refocus on the corporate market.

"They've struggled for a long time to figure out if they're a low-cost carrier or a network carrier," Advisory Board's Mandelbaum said. "They've realized there's business in being a network carrier. Particularly if business travel rebounds at these airfares and leisure doesn't, a network carrier sort of wins that game."

Corporate travel buyers have recognized a more active and flexible US Airways, placing the carrier third overall in *BTN*'s survey and bestowing the highest rating in two categories: the value of relationships with account managers and overall price value. That compares with a last-place finish in 2010, which had been a more familiar spot for the carrier throughout much of the history of this survey.

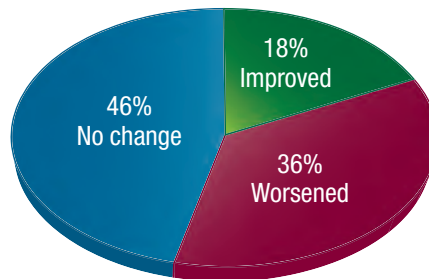
"We've seen a change from US Airways in that they're starting to say yes a lot more, and they're starting to understand the value of the customer," Westinghouse Electric's Cooper said. "They're making a concentrated effort to move up, and we're certainly seeing that."

US Airways now claims 500 North American corporate accounts. It also has increased the size of its international client base. "We spent 2009 reevaluating the sales force and what we wanted to do with it, particularly around the corporate piece of business," said US Airways managing director of passenger sales Michael Schmeltzer. "We decided, going into 2010, to expand the sales force." Between April 2010 and April 2011, US Airways increased its domestic sales force by 50 percent to 42 full-time sales positions, building a presence not just near hub markets, but also around "some of the key spokes," according to Schmeltzer. Those include markets in California, Illinois, Minnesota and Texas.

That expansion dovetailed with a similar focus on international markets. "We hired new people in markets where we were a little lighter, like Brussels, Zurich, Ireland and Scandinavia," Schmeltzer said. "Then we also added full teams in our newest markets, Tel Aviv and Rio." US Airways' international sales staff is 30 percent larger than it was three years ago, he noted.

Few Buyers See Service Improvements

Changes in overall airline customer service for respondents' organizations, past 12 months



Source: ABTN survey of 406 corporate travel buyers from organizations with more than \$500,000 in annual U.S.-booked air volume, conducted between Aug. 16 and Sept. 7

Schmeltzer said the carrier also added sales support. "We did that to centralize a bunch of things," he said, "but the biggest thing was the RFP process, to get that off the plates of the sales team so they could really focus on the client needs."

American, Southwest Fall To The Bottom

Following a second-place finish in 2010, American Airlines' scores this year declined in every category, with the largest decreases related to buyers' perceptions of the value of its network and partnerships, quality of communications and availability of distribution channels.

It is unclear to what extent American's disputes with distributors have impacted its standing in the corporate travel marketplace, though its score in the distribution channel availability category fell this year to 3 from 3.51 last year.

The carrier acknowledged "frustration [among] corporate customers," according to court documents filed this summer in relation to a suit brought against Sabre, with at least one account threatening "to stop doing business

with American" as the result of distribution battles.

American, however, has laid the blame on Sabre, particularly after the global distribution system operator in January temporarily buried AA airfares in search results. That alone "severely undermined American's goodwill and good relations that have been built up over many years with corporate customers," according to the carrier's court documents.

Still, even if the survey's distribution category was disregarded, American would have maintained a second-to-last place standing, and its overall score would have improved by only one-hundredth of a point. AA finished last in the categories of quality of customer service, overall price value and quality of communications.

Meanwhile, Southwest Airlines ranked lowest for flexibility in negotiating both transient and meetings pricing, for services and amenities, and for distribution channel availability. The carrier generally does not provide negotiated discounts and has limited participation in third-party distribution channels. Southwest finished above average in the quality of airline communications category.

Southwest's prior dominance in the overall price value category collapsed this year, with its rating plummeting to 2.97 from 3.96 in 2010. Southwest last year not only rated highest in that category, but its score represented the highest for any carrier in any category rated. Now, buyers perceive only American Airlines to offer less value for price.

Southwest in May closed its acquisition of AirTran, and the two carriers were rated as a single entity in this year's survey. "It will be very interesting to see how the Southwest-AirTran merger plays out," said Advisory Board's Mandelbaum. "Southwest has traditionally shunned corporate travel, and I'm not saying they have avoided it, but they certainly haven't embraced it. They've made themselves somewhat challenging to procure. AirTran has been somewhat the opposite. They've done some product differentiation, they've sold some seat assignments, they have a front of the plane, and they went after corporate clients. The question is: What happens with them?"

Airline Survey Methodology

The 14th annual *Business Travel News* Airline Survey is a unique measure of corporate travel buyer perceptions of airline performance in negotiating for and delivering service and maintaining preferred relationships. This year, *BTN* again contracted Equation Research to host and tabulate the survey.

The categories presented in the questionnaire were developed through a series of exchanges with travel buyers, corporate travel agency managers and airline sales executives to reflect more clearly the way in which corporate air travel buyers perceive each airline.

Asked to grade only those airlines with which they had done business in the past year, respondents ranked domestic carriers in 10 categories on a scale of one (poor) to five (excellent). *BTN* averaged scores in each category to create the overall score for each carrier. All categories were equally weighted.

Not every respondent rated every airline in every category. Those participants who offered no response for a particular category or airline were not included in that average rating.

BTN from Aug. 16 to Sept. 7 collected responses from more than 250 travel managers and buyers who have joined the *BTN* Research Council and a randomly selected subset of qualified readers from publications produced by The *BTN* Group, including *Business Travel News* and *Travel Procurement*. The total sample size was 713 respondents, 406 of whom represented organizations that spent more than \$500,000 annually on airline tickets.

Respondents whose organizations spent less than \$500,000 in annual U.S.-booked air volume were excluded from the results in an effort to restrict the survey to managed travel programs.

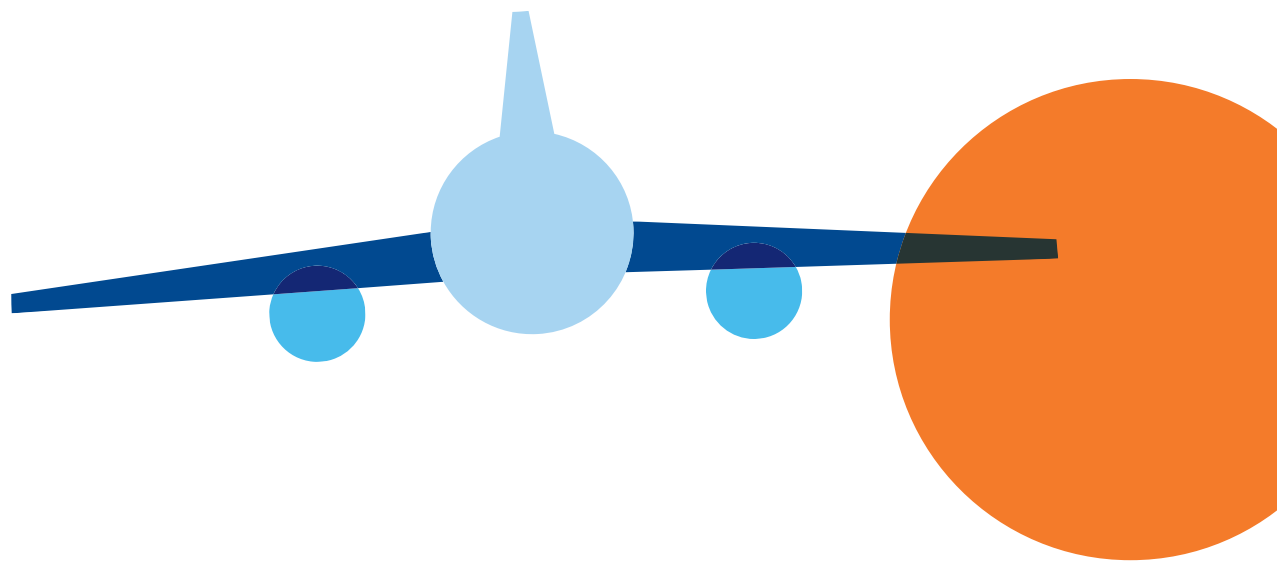
Twenty-six percent of those 406 respondents had between \$500,000 and \$1.9 million in annual air volume, while 36 percent had between \$2 million and \$11.9 million and the remaining 38 percent spent more than \$12 million.

The survey contained a list of the largest domestic airlines as identified by the U.S. Department of Transportation, excluding regional affiliates of major carriers. Airlines that elicited responses from less than 40 percent of the survey base—Alaska Airlines, Frontier Airlines and JetBlue Airways—were excluded from this report. Reflecting the closing of their respective mergers in the past year, AirTran Airways and Southwest Airlines were treated as a single carrier, as were United Airlines and Continental Airlines.

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