

# Working With Airlines



**U.S. AIRLINES ARE RAKING IN RECORD PROFITS THIS YEAR, BUOYED BY LOW** fuel prices and pledges of capacity discipline. The Big Three control more market share than ever, and many buyers struggle to spread usage across all three major alliances and are whittling down to two suppliers. Airfares, however, remain stable. BCD Travel's Advito forecasts a 2 percent year-over-year decrease in North American and continental economy fares for 2015 and flat North American intercontinental business-class fares. The Big Three still place a high value on corporate business, and other players are going after market share, including Southwest Airlines' growth out of Dallas and JetBlue's premium-class Mint product. Buyers with a grasp of their program data and the ability to control traveler behavior still can command favorable deals with their preferred airline carriers.

## I. BEFORE YOU COMMIT

Corporate deals are measured on market share, but buyers can gain leverage if they have high-yield spending like first or business class or full-fare coach available to shift to new suppliers, which also desire discounted economy or lowest logical fare business, providing it's business the carrier would not receive without a discount. Airlines typically do not give discounts on business they already are receiving. Considering suppliers are consolidating, commit only to share that you can manage. Many companies overcommit, and then underperformance puts programs at risk. Discount programs are structured based on opportunities. Consider a few hundred thousand dollars as a minimum, though your agency can provide more exact benchmarks. If your volume does not meet the minimum, look into revenue- or sector-based incentive programs for club passes, waivers and favors, upgrades and frequent-flyer status. Some travel management companies also provide negotiated discounts to their customers, particularly with international carriers. Determine whether human resources, frequent-flyer loyalties and other costs of implementing preferred airline agreements are worth the benefits.

**A.** Estimate your domestic and international air volume for the next year based on last

year's numbers and the company's business plan, such as mergers and acquisitions, new product lines and new locations. Consider air volume for meetings and internal trips like training. Remember that volume ultimately is determined by business and the economy, not the travel manager.

**B.** Ask frequent travelers which airlines they use and why; assess frequent-flyer memberships; understand which air and ground amenities matter to travelers, as airlines offer different services; and determine willingness to support a preferred airline program.

## II. GATHER INFORMATION

Proper data can help you win discounts for city pairs, multiple destinations from one city, regional business or across your portfolio.

**A.** Obtain information from your TMC databases, online booking system and third-party data consolidators:

1. Top 20 city pairs by segment and passenger count, including carrier and origin and destination data.
2. Dollar volume per airline per route for the most recent 12 months.
3. Tickets and value per full-fare economy, discounted economy and business class. Focus on booked data, as flown data can be six months old.
4. Analyze corporate card data to find trips booked outside your TMC. Airlines do not recognize leakage for discount or credit, but the purchasing power adds to your negotiating power.

**B.** Investigate government and independent information on airlines. Perhaps an airline has low load factors on a route your travelers fly frequently, or new competition has sprouted on the route, allowing you to negotiate aggressively. Be aware of airline customer service metrics. Some airline or third-party providers offer reports on on-time performance, delayed flights and mishandled baggage. The U.S. Department of Transportation provides such data for domestic airlines through the Bureau of Transportation Statistics at [bts.gov](http://bts.gov). Also investigate maintenance issues and

average aircraft age of each airline.

1. Obtain marketshare information by city pair from the U.S. Department of Transportation, recognizing that such data is free but dated by at least a few months. Data from other sources, including ARC, travel agencies, consultants and other third parties, can be costly.
  2. Look closely at data for more than one year to ensure you are examining an established trend. Look at different quarters of the year to determine the seasonal impact, acquisition or divestiture activity and one-time impacts.
  3. Focus on the capacity each airline has in given cities and on certain routes. The difference between one carrier's 60 percent market share on a route and another carrier's 20 percent share is significant to the buyer's opportunity to move share.
  4. Useful information can be obtained from several third-party firms and consultants performing data analyses with optimization modeling. This will take into account both client traffic and airline capacity and determine the optimal airlines or airlines to serve your travelers.
- C.** Document your plan to shift market share and influence travelers' airline choices. Note past successes.
- D.** Determine how and to what degree you can leverage your employees' meetings and leisure travel.
- E.** Airlines increasingly charge for à la carte offerings above the base fare. Ancillary fees include seat selection, checked bags, early boarding, inflight Internet, onboard meals and upgrades. Though many of these fees are not negotiable, travel buyers should attempt to capture spending through expense reporting and charge card data to show airlines the total amount spent.
- F.** Compile benchmarks. Data from peers and TMCs lends perspective.

### III. GET STARTED

- A.** Not all types of business are equally important to airlines. Understand your travel patterns and find a compatible supplier.
1. Recognize airline network

strengths: Short-haul versus long-haul; hub-and-spoke versus point-to-point; international reach versus domestic focus.

2. Recognize product differences. Some airlines are no-frills, low-cost operators, and others provide comprehensive services.
3. Recognize the total cost. Some carriers offer low fares but charge for seat assignments, carry-on baggage and other add-ons that exceed the cost of a traditional ticket.
4. Analysis of your organization's travel patterns may present opportunities for city pair-specific rather than systemwide deals, but do not sacrifice overall savings for sizable city pair-specific discounts. For more than one systemwide deal, carefully analyze which airlines will maximize citypair coverage without compromising competitor share obligations.
5. Determine whether the carrier participates in an airline alliance. Some airline partners offer joint alliance deals, while others have taken such relationships even further by developing antitrust-immune joint ventures, through which partners manage capacity, fares and corporate deals as one entity on some subset of their network. Determine the magnitude of alliance relationships and how it impacts negotiating leverage. Consider whether the airline requires an agreement through the joint venture as opposed to individual carrier agreements.
6. Note your negotiating leverage.
  - a. Flying in premium class on competitive long-haul routes works in your favor. Short-haul monopoly routes in economy flyers aren't desirable to airlines, and they know they won't have to work hard to secure it.
  - b. A demonstrated ability to shift travelers to an airline makes your company a desirable customer. Failure to deliver on marketshare commitments or inability to demonstrate that your policy can shift travelers causes airlines to question your ability to deliver on commitments.

**B.** Communication is key to any business relationship.

1. Determine the degree of authority the airline delegates to local corporate account executives, regional sales managers and the corporate sales or business development director at headquarters. Such relationships ensure that changes in regional staff do not eradicate contacts. Headquarters-level relationships may be limited, especially for smaller travel programs.
  2. TMC contacts.
    - a. The TMC might have an established relationship with the airline.
    - b. TMCs frequently are the primary source for your organization's spending history and can be partners in negotiations.
  3. Peers and consultants can provide benchmarking data. Get involved with local boards, industry groups for buyers and sellers or peer networking groups to share best practices and industry trends.
- C.** Some organizations, especially larger ones, take a formal approach by sending out requests for proposals to headquarters and local sales offices. Include essential information only. Agencies and consultants can help formulate and streamline the process.

### IV. NEGOTIATE THE DEAL

- A.** Start by outlining the benefits of your business to the airline. Typically, airline agreements are written by and for the airlines, though organizations' legal departments may seek modifications.
1. Even before you issue a request for proposals, provide data to prospective air partners on your organization's traffic patterns and spend. Highlight areas of interest to the airline, including such higher-yielding purchases as international business class. Many airlines will require your data to be processed through a third-party data aggregator prior to submitting a proposal. Allow four to six weeks to facilitate the data release authorization required of this process, as it involves coordination between the airline and any TMCs servicing your organization.

2. Airlines are reluctant to offer trial periods for contracts, but absent the appropriate data, organizations may be able to implement stair-step agreements in which the level of discount increases with the volume delivered. Be warned that such deals are never as good as a formal bid based on historical data.
- B.** Be persistent. Airlines are selective regarding the accounts on which they bid. Offering more volume on international routes can revive rejected requests for domestic discounts. Try to tie the two together for maximum purchasing power. Recognize that airlines place higher value on high-yield purchases such as business class, international service or full-fare economy, and they discount accordingly. Avoid putting all of your eggs in one basket, as market conditions and travel demographics can change.
- C.** Show a strong front.
1. Try to have your controller or senior financial manager attend negotiating sessions to help crunch numbers and describe the organization's fiscal direction. Summarize your organization's value to the airline.
  2. Depending on the organization's culture, include procurement and other departmental representatives at each step of the negotiating cycle.
  3. Invite your TMC, if helpful, but inform the airline.
- D.** Negotiate the types and levels of domestic discounts.
1. Most airlines base discounts on the market share or incremental share and/or revenue an organization can provide, on specific routes, multiple routes from one origination point or systemwide. Discount structures differ by airline, so it is important to understand which fare classes are included in any agreement. Keep the contract and the number of discounts manageable. Cluster markets with similar discounts or share requirements where possible.
  2. Consider:
    - a. Agreements that include dollar-volume or segment goals might not be beneficial.
  3. Other discount options:
    - a. Most airlines have fixed percentage meetings discounts for a group of people flying to the same destination, whether or not they're starting at the same departure point. Zone fares also may be available for groups of travelers. Buyers should assess group and meeting products and the potential benefits of combining transient and meetings spending for negotiating leverage.
    - b. Some airlines may offer back-end discounts or incentive payments to eliminate the risk of providing an upfront discount with no increase in share. Ensure all back-end rebates and discounts are guaranteed and communicate the benefits of any back-end deals to corporate travelers.
    - c. Airlines typically discount the base fare only, meaning all taxes, fees, surcharges and ancillary fees are added after the discount.
  4. Your discount might be dependent upon your TMC's override agreement, through which it receives compensation to drive volume to a particular airline. The TMC might pass on to you the production-based revenue it earns from the airline on business booked for your account. Be aware that these agreements may not be in line with your preferred airline mix. Though such agreements are confidential to airlines and TMCs, it's possible to learn the targets and the value of your organization's contribution to the override.
  5. Most airline deals are net fare agreements. However, some airlines provide back-end discount programs in certain international markets.
- E.** Agree on the types and levels of international discounts.
1. With domestic discounts minimized, buyers are seeking savings on higher-priced international flights.
  2. Beware the pitfalls of dollar-based volume goals. Buyers have no control over currency conversion fluctuations that negatively impact such goals on international routes.
  3. Guaranteed upgrades can be obtained in lieu of a special fare or productivity-based free tickets. Capacity-controlled, one-class upgrades now are prevalent in specific markets. Make certain this is not in conflict with travel policy since upgrades with one airline may set a precedent.
  4. Multinational agreements may include different discounts in different regions but also may provide a bonus for overall multinational performance and other umbrella incentives. Strive for point-of-origin pricing rather than point-of-sale pricing, so discounts are available regardless of the country in which an airfare is booked.
  5. If you strike a deal with an airline that distributes your traffic to codesharing foreign partners, ensure systems are in place to

guarantee the business is credited to the contracted airline.

- F. Determine how the airline provides access to promotional fares and how they can be used and counted within contracted programs.
- G. Some airlines may have a preferred payment or lower-cost payment vehicle that could impact airline flexibility.
- H. Other considerations.
  1. Make sure airlines' proposed discounts align to your historical usage by booking class. Eye-popping discounts on classes your travelers never use or never can access at the time of booking have no value.
  2. Home carriers do not need to work for business originating from their hubs or countries. Competitors often offer aggressive commercial proposals, provided you can shift travelers from airlines to which they have loyalty attachments.
  3. Airlines aren't motivated to discount routes they dominate, so try linking discounts on these monopoly routes to marketshare commitments on their more competitive routes.
  4. If your policy and culture allow, explore connecting flights as cost-savers, especially for long-haul trips in which connection time is a small portion of the total journey.
- I. Ask to review the airline's contractual terms and conditions at the beginning of negotiations. A legal review can extend beyond the negotiation for the commercial discounts. This does not commit an organization to a formal agreement.
- J. Set the contract length.
  1. Traditionally, deals negotiated between organizations and airlines extend for two years, though organizations may want to press for even longer agreements. Most airline agreements include formal periodic reviews and exit clauses, generally at 30 days' notice.
  2. Some airlines offer so-called 'evergreen' options, wherein the terms, conditions and boilerplate legalese of agreements are retained, allowing buyers and airline sales personnel to focus exclusively on the commercial

terms at regular intervals.

- K. Mind ethical considerations.
  1. Airlines often will squelch deals if they've been used to set a target level for negotiations with their competition. Be careful: Word gets around about such double-dealing, and you could be precluded from discounts with carriers in the future.
  2. Keep the terms of your deals confidential. Most airline contracts are bound by nondisclosure agreements that prohibit the sharing of any information, except for ticketing instructions to your agency or airline-appointed data processors.

## V. MANAGE THE DEAL

- A. Inform employees, emphasizing senior management support for the program.
  1. Post your travel policy on a corporate intranet page and use your online booking tool and agency to steer travelers to book preferred airlines.
  2. Consider sending a memo that reiterates travel policy and encourages the use of your preferred airline.
  3. Consider holding employee seminars. Include in a presentation:
    - a. Potential savings on preferred airlines.
    - b. Descriptions of any special programs to encourage use of the airline, including monetary prizes, upgrades, advance seat assignments, access to airport lounges, extra frequent-flyer mileage—as agreed to by the airline—or perhaps free trips not tied to a frequent-flyer program.
- B. Ensure your TMC and its representatives are aware of the deal and understand their role in implementing it.
  1. Make sure that you and your supplier partners understand which party is responsible for fare loading and consider regular audits to verify accuracy.
  2. Define procedures for travelers and agents, so that they will book the preferred airline.
  3. Agree upon recourse if a travel agent fails to book the preferred airline or mention its availability.

Failure to book the negotiated rate is a common error when processing corporate accounts.

- 4. Specify what the TMC and online booking tool must do when your corporate traveler rejects a flight on the preferred airline. For instance, the traveler's refusal of a contracted airfare might trigger the production of an exception report that is forwarded to the travel office and the traveler's supervisor.
  - 5. Consider asking the TMC to publish the savings achieved by accepting the preferred airline booking on travelers' itineraries. Conversely, publish lost savings opportunities.
  - 6. If your spend is sufficient, airlines will allow your TMC to contact a special desk for major corporate accounts. Through this channel, airlines will consider matching prices on specific itineraries, enabling the organization to save money while fulfilling marketshare commitments, or will provide other such waivers and favors to support the program.
  - 7. Ensure your TMC does not have in place travel counselor booking incentives that conflict with your organization's interests.
- C. Monitor the deal through management reports from your travel agency and airline, both to assess the effectiveness of the current deal and to prepare for future negotiations. Airlines use sophisticated tracking tools to gauge corporate client performance so they can amend or cancel the contract if goals are not met. In many cases, the airline will provide the buyer with reports. Before an airline review, prepare for any performance or opportunity discussions. The airline will prepare data and objectives.
    1. Watch corporate traveler compliance with the agreement and consider deploying incentives to ensure it. Pass along management reports to department heads to track performance. Internal benchmarking, or measuring compliance among departments or lines of business, can serve as a powerful travel management tool.

2. Keep track of whether your organization is booking flights at a pace that will meet the agreed-upon marketshare commitments. Keep in mind seasonal travel patterns. What might look like a shortfall or excess volume at one point might end up being corrected by year-end. Your travel agency may have tools for managing multiple contract goals at the point of sale.
  3. Maintain an open line of communication with your travelers via corporate intranets, email, surveys, social networks and memos to hear their opinions about whether the airline is providing acceptable service. Be sure copies of all queries and complaints are forwarded to your office.
  4. Maintain contacts with multiple levels within airline sales organizations to develop long-term relationships and to ensure the organization and airline share a view of how the agreement is being honored. Establish multiple contract performance checkpoints throughout the course of a contract.
  5. Many large companies use third parties to analyze contract performance and understand how airline revenue management affects preferred corporate deals.
  6. Compile data from management reports for use in negotiations at least one month before the contract is set to expire. Such data should include:
    - a. Average fare per negotiated route for preferred and nonpreferred airlines.
    - b. The amount of business directed to the airline before and currently.
    - c. If applicable, reasons why the traveler did not use the preferred airline, such as travel agent error, schedule, employee refusal, the organization's lowest-logical-fare policy or unavailability of seats, perhaps due to a carrier decreasing the service that it provides in a particular market.
  - D. Consider hiring a third-party audit firm to help monitor your TMC's performance in booking your organization's preferred airlines. This may prove particularly helpful for an organization with multiple agencies.
    1. Have the auditor examine available data, including the percentage of time your agency offered the discounted fares when such discounts were applicable, how frequently travelers accepted them and why travelers declined to accept them.
    2. Determine whether the airline imposed limits not in the contract on the availability of discounted fares.
  - E. Renegotiate the deal, if desired. In most cases, if an organization has generated even a small increase in market share for the airline, it probably can get at least a one-year renewal. If an organization consistently exceeded targets or met them despite obstacles, it should request a larger discount. Travel buyers should regard the contract as a living document. As travel patterns change, amend goals and discount levels. Keep abreast of merger and acquisition activity that could impact your company's travel patterns.
  - F. Monitor the competitive dynamics of key routes. If a new entrant challenges your preferred airline on a monopoly route, try renegotiating a more favorable deal with the preferred airline. Alternatively, if a carrier exits a route and a remaining airline monopolizes it, make sure your discounts cover the correct booking classes in case the airline decides to revenue-manage its inventory to take advantage of its stronger market position.
- ## VI. MISCELLANEOUS
- A. Though airlines largely are unwilling to negotiate the elimination of baggage fees, they often are waived for elite frequent flyers. Major airlines are willing to negotiate a limited number of instant elite designations or status-matching as part of a deal, which can help frequent travelers transition to a new preferred carrier and shield them from additional fees.
  - B. Upgrades.
    1. Many airlines award upgrades almost exclusively to elite members of loyalty programs, but increasingly airlines are making seat upgrades available for sale at the time of check-in.
    2. Make sure travelers know if you have a deal providing upgrades on a space-available basis.
  - C. Airport lounge admissions.
    1. Some airlines offer free airport lounge memberships in lieu of discounts or with certain types of tickets, usually in premium classes.
    2. Some provide a limited number of airport lounge admissions on request to develop corporate loyalty.
    3. Airlines increasingly offer reciprocal airport lounge access for customers of airline partners or those within an airline alliance.
  - D. Membership in special services/VIP programs: Often, corporate deals offer executives special services. The number of executives authorized to take advantage generally is based on the organization's spend. Airlines also may provide separate airport check-in for some accounts.
  - E. Bulk purchase tickets: Some airlines sell bulk-purchase tickets or flight passes, which require an upfront payment but can provide savings when upfront discounts are difficult to attain. These programs can offer great value if an organization can manage the internal aspect. Typically, one cost center makes the deposit and other cost centers burn off the credit.
  - F. Some airlines will consider prepayment at fixed rates in certain city pairs and payment on a cost-per-mile basis, perhaps with a pay-at-use concept.
  - G. Investigate an airline's international safety and security procedures and airport facilities.
  - H. Ensure that the organization is relieved of all airline contract commitments during labor-related work stoppages or slowdowns.

*Prepared by Michael B. Baker with assistance from American Express Global Business Travel director of global business consulting Stephen Arbuthnot and data insights thought leadership manager Dave Tanner, American Airlines managing director of strategic account sales Hank Benedetti and Allstate enterprise travel director Duane Goucher. ↻*