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Business **Travel** News

February 2, 2015

UNDER AFRICAN SKIES

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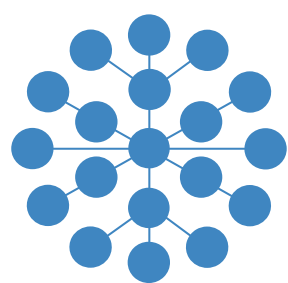
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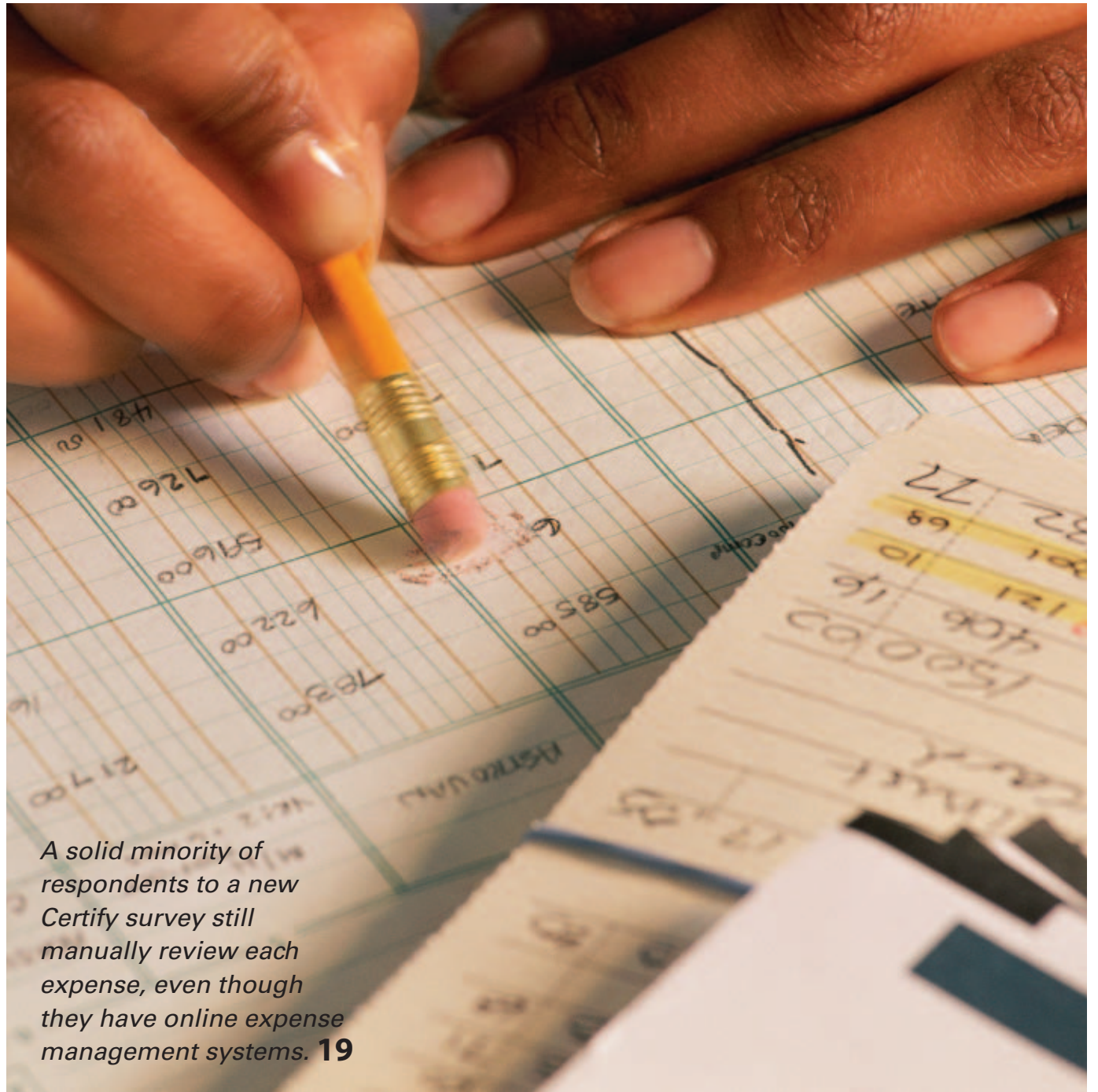
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All Signs Point To Singapore's Abacus As Sabre's Pending Purchase

BY JAY BOEHMER

SABRE APPEARS poised to take full ownership of Singapore-based distribution system Abacus International by purchasing from a group of airlines the 65 percent stake it doesn't yet hold, according to several sources.

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Neither Sabre nor Abacus commented directly by press time, but several sources familiar with both companies said Abacus' size and strategic fit make it the most likely target hinted at in a Jan. 26 U.S. Securities and Exchange Commission filing.

Sabre in the filing tipped plans to purchase an entity that would "require approximately \$500 million in funds, including advisory and financing costs."

The math and motivation to buy Abacus add up for Sabre.

In the SEC filing, Sabre indicated its proposed acquisition would have contributed around \$250 million in revenue in 2014—falling squarely in Abacus' range.

Abacus 2014 revenue has yet to be released, but the company posted \$335 million in revenue for full-year 2013, according to Sabre. While above \$250 million, Sabre already counted \$92 million of that on its books as "revenue earned from Abacus."

To seal the deal, Sabre would assume control of stakes in Abacus held by a consortium of 11 Asian airlines: All Nippon Airways, Cathay Pacific, China Airlines, EVA Airways, Garuda Indonesia, Dragonair, Philippine Airlines, Malaysia Airlines, Royal Brunei Airlines, SilkAir and Singapore Airlines.

Abacus calls itself the Asia/Pacific region's "leading" provider of "travel solutions and services with more than 20,000 travel agency locations in 31 markets."

Beyond their financial relationship, Abacus and Sabre have long been tightly linked and operate as a joint venture. While Sabre in early 2012 sold to Abacus a 51 percent stake in Sabre Pacific, which provides technology services in the South Pacific, Abacus has continued to operate the brand. Sabre also provides Abacus "with data, transac-

tion processing and product development services," according to Sabre. For example, Abacus in October last year introduced a variety of new technologies to subscribers underpinned by Sa-

bre technology, including new desktop, content aggregation and mobile tools.


They are so closely aligned that Abacus air bookings already "are included in our GDS-processed air bookings

primary business lines: its core global distribution business and its growing airline and hotel IT solutions business. Abacus would operate within the former, Sabre Travel Network, at a

volume" since such transactions "are processed and powered by our GDS," according to Sabre.

Taking full control of Abacus fits with Sabre's strategic focus on its two

time when Sabre has deemphasized its online travel agency business by selling Travelocity to Expedia and entering into a separate agreement to divest lastminute.com.

Sabre in a recent SEC filing expressed an appetite for growth in emerging markets, which Abacus could help sate. "We expect Travel Network's market position in economies with robust GDP growth, such as APAC, Latin America and EMEA, will drive continued growth for our businesses, while the strength of our GDS in large, developed regions, such as North America and Europe, positions us for stable growth as the recovery from the global economic downturn continues." 

In the SEC filing, Sabre indicated its proposed acquisition would have contributed around \$250 million in revenue in 2014—falling squarely in Abacus' range.

Analyst: JetBlue's Mint Unlikely To Cause Drop In Transcon Premium-Class Fares

Premium seat capacity on transcontinental U.S. flights is up 9 percent year over year for the first three months of 2015, due largely to the introduction of **JetBlue Airways'** Mint product, according to a research note from **Wolfe Research's** Hunter Keay. Premium capacity on transcontinental routes is "approaching an all-time high on an absolute basis," Keay reported, with five airlines—**American Airlines**, **Delta Air Lines**, **JetBlue**, **United Airlines** and **Virgin America**—offering premium product largely with lie-flat seating. Mint has given JetBlue market share of 8 percent on transcontinental premium capacity, which likely will increase as JetBlue plans to expand the service, he said. Even so, the growth is unlikely to have a large impact on transcontinental premium fares, he said. Transcontinental premium fares tend to run five times higher than economy fares, compared with two times higher on other routes, according to Keay, likely because premium seats since 2006 have increased only 2 percent compared with a 31 percent increase in total passenger volume. While JetBlue's Mint "could pose a risk to what's been a highly lucrative segment for others," Keay said, "we believe JetBlue lacks the network strength to steal important customers from network carriers in this strategically important market."

Delta Applies For LAX-Shanghai Service

Delta Air Lines aims to add daily nonstop service between Los Angeles International Airport and Shanghai Pudong International Airport this summer, the carrier announced last month. Delta plans to begin service July 9 but still is waiting for approval from both the **U.S. Department of Transportation** and China. Delta vice president of sales for the Western U.S. Ranjan Goswami in a statement noted that the route "was the most requested by our corporate customers."

New York Plans AirTrain Link To LaGuardia

Construction of an AirTrain connection to LaGuardia Airport is part of the New York infrastructure plan announced last month by Gov. Andrew Cuomo. At an estimated cost of \$450 million, the **Port Authority of New York & New Jersey** and the **Metropolitan Transportation Authority** will build a rail connection that links LaGuardia with Mets-Willets Point Station in Queens and provides access to both the subway and **Long Island Rail Road**, according to Cuomo. Currently, LaGuardia is accessible only by car or bus. The announcement did not include a timeline for the project.

BMO, Spendvision Partner On Expense Tool

BMO Financial Group and **Spendvision** will offer BMO clients an expense management solution, Spendvision owner **Hogg Robinson Group** announced last month. BMO Spend Dynamics will be available "across geographic borders" and industry segments and will roll out in a "multi-phased approach" starting this spring, according to HRG.

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KEEP CLIMBING





“2014 was a stabilizing year for U.S. business travel, with continuous, sustained growth, despite a plethora of external issues internationally that have weighted down economies in Europe, Russia and

Asia. This is a significant and encouraging sign of confidence in the strength of the U.S. economy.”

—GBTA executive director and COO **Michael McCormick** in a statement; GBTA projects U.S. business travel spending this year will rise 6.2 percent year over year to \$310.2 billion



“In 2012 and 2013, the largest cost savings opportunity for a domestic airline ticket was seen in the seven-to-13-day advance purchasing window. We didn’t see the largest percentage of cost savings jump to the 14-to-20-day advance purchasing window until the first quarter of 2014, where that trend has since continued.”



—Travel Leaders Corporate president **David Holyoke** in a statement noting that U.S. domestic air bookings made 14 to 20 days ahead of departure cost 24 percent less than those purchased within six days.



“American Express is our most significant commercial partner by a large measure. In fact, the size of the relationship with American Express to Delta, they bring us about \$2 billion in revenues across a multiple set of streams.”

—Delta Air Lines president **Ed Bastian**, announcing in December an early extension of its cobranded credit card relationship with American Express “for another six years”



“We expect to see a greater number of pilot and deployment projects to be initiated by airlines around the globe in partnership with their travel technology partners and selected agency partners.”

—International Air Transport Association’s New Distribution Capability program director **Yanik Hoyles** in a January video message. IATA in late October 2014 released the “first set of end-to-end [New Distribution Capability] schema”

Interview: Concur CEO Steve Singh



SAP in December 2014 completed its \$8.3 billion purchase of Concur. Following the acquisition, the company created the Business Network Group, a division that includes Concur, Ariba and Fieldglass and now is led by Concur CEO **Steve Singh**. Singh last month spoke with *BTN*’s JoAnn DeLuna to discuss the impact the acquisition will have on Concur’s structure, international growth, headcount and customers. An edited transcript follows.

DeLuna: Your revenue is primarily concentrated in the United States, but the SAP deal positions Concur for a fast global expansion. Do you feel you have an adequate global product to meet that expansion?

Singh: The SAP deal really positions us to be a much bigger player on a global basis. It’s one of the goals we always had for Concur when we were a standalone company. One of the things we’re very excited about is that Concur has one of the most global products in the industry from a travel and expense perspective. In the past, Concur had been focused on selling into 10 core markets while serving customers in 190 countries. Now we’ll have the capacity to not only serve in 190 countries, but also to sell in those 190 countries.

DeLuna: To what extent does SAP accelerate your international growth?

Singh: You’re going to see us grow. You’ll see us continue to grow very strongly in North America. You’ll see continued strong growth in Europe, although you’ll see faster growth than before. Across Asia, where Concur was just getting started—and where we saw great success in Australia, New Zealand, India and Japan, and early success in China—I think you’ll see those areas become much bigger parts of Concur’s business. That’s the beauty of a global organization like SAP.

DeLuna: What kind of operating structure does Concur have within SAP?

Singh: Not only will we operate as a separate business unit, we’re actually going to take on some additional responsibility. SAP has established a group called the Business Network Group. It has full [profit and loss] responsibility for Concur, Ariba and Fieldglass. So those three business units will now report to me. What’s great about this is, if you’re a Concur, Ariba or Fieldglass customer—not just a customer but if you’re working within that organization—you have full sign-off to go drive innovation and go serve your customers.

DeLuna: What does the deal mean for headcount?

Singh: We are continuing to hire. In fact, over the course of next year we’re hiring close to 1,000 people. This is the same pace of hiring we did at Concur. The number of people we’ll add in the Concur division of SAP is more than exists at most T&E companies in the world. So there’s no lack of investment. This is all about

growth and making sure we support our customers and driving innovation.

DeLuna: Concur co-founders Rajeev Singh and Mike Hilton recently announced they’re leaving. What was behind that?

Singh: Raj and Mike leaving—people leave in acquisitions. And obviously we love Raj and Mike and they will always be part of Concur. But it’s their choice to say, “It’s time for me to do something different in life.” We respect that. They’re going to be wildly successful in anything they do. I think these guys are innovators and are very passionate about doing amazing things.

DeLuna: When speaking to travel buyers, I often hear complaints about Concur customer service. What changes will there be in customer service after the deal?

Singh: We’re going to continue to invest in customer service and customer on-boarding. We have the highest customer satisfaction rates in the industry. The comments you’re referencing are true when businesses grow at the rates we grow. If you’re not growing, you have different issues. We’re growing rapidly and investing very heavily in customer support and customer implementation. We’re 100 percent committed to make sure our customers love our products and services and that we’re wildly successful. That’s never been anything but the top of our priority list. Respectfully to anyone with a contrary view, I’ve got 23,000 customers that will tell you, “These guys deliver on what they promise, and my business is better off because we’re on Concur.”

DeLuna: Will SAP expense users transition to Concur?

Singh: SAP had a T&E expense application and had a number of customers around that. We will work with those customers to transition them to the Concur Travel and Expense offering. But we’ll work to transition as it makes sense for them.

DeLuna: In terms of product development, what is your focus right now? Has the acquisition altered priorities?

Singh: Zero changes. We’re entirely focused on making the Perfect Trip vision a reality. If anything, we’re getting help with it. There are more resources that will come from SAP that will become part of the Concur development team. If anything, you’ll see acceleration of innovation. 🔄

ARC Report: November 2014

Travel Agency Segments

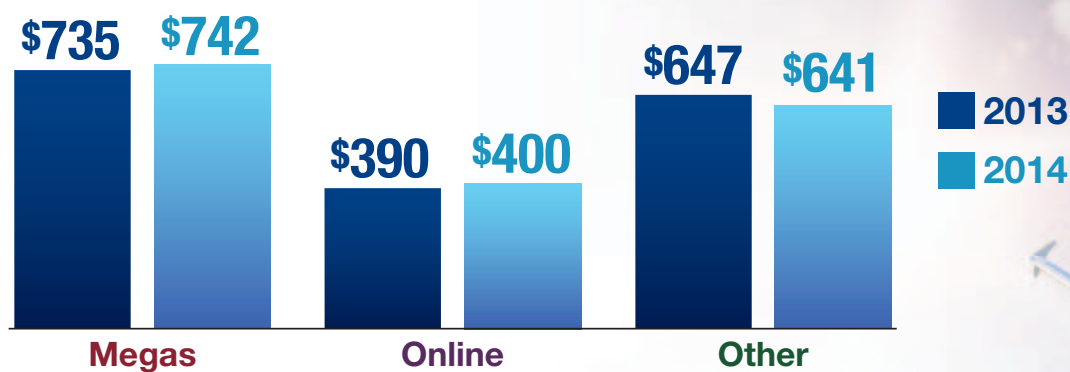
MEGAS include American Express, BCD Travel, Carlson Wagonlit Travel, Expedia's Egencia, Hogg Robinson Group and Omega World Travel.

ONLINE includes various online travel agencies, including Orbitz for Business and BCD Travel's TBiz.

OTHER includes all other travel agencies whose data is processed by ARC.

November Average Fares

Aggregate Roundtrip Fares Purchased During the Month, Excluding Taxes

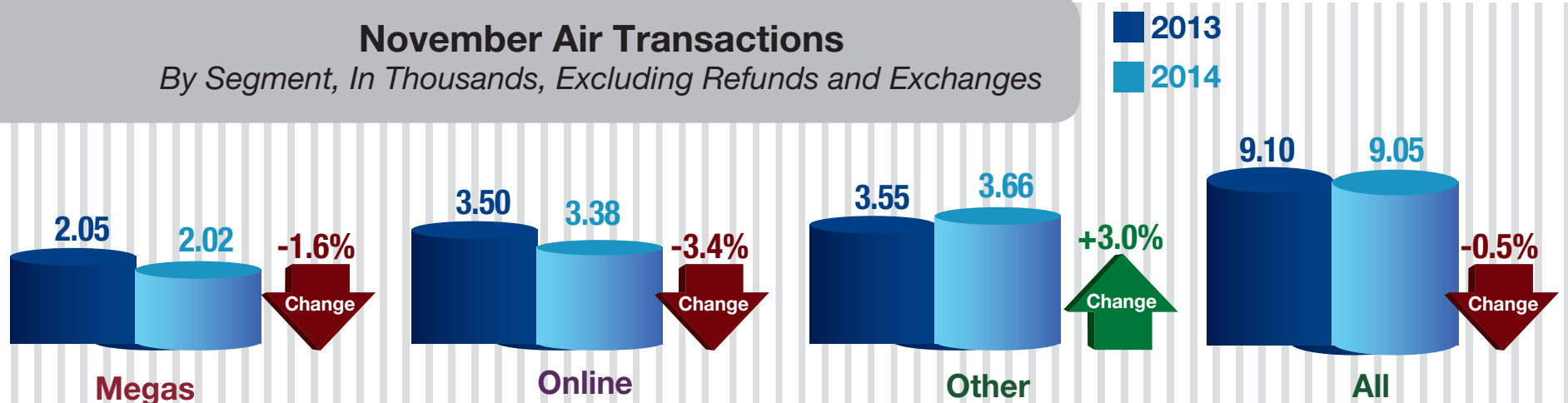


All Fares, By Advance Purchase

November	Megas		Online		Other	
	2013	2014	2013	2014	2013	2014
0-6 days	\$742	\$714	\$393	\$380	\$659	\$624
7-13 days	\$724	\$704	\$351	\$354	\$631	\$612
14-20 days	\$681	\$661	\$348	\$336	\$587	\$560
21-180 days	\$754	\$732	\$393	\$389	\$591	\$566

November Air Transactions

By Segment, In Thousands, Excluding Refunds and Exchanges



Source: ARC

A MOSAIC OF OPPORTUNITY

Challenges Real And Perceived Mark Efforts To Manage Business Travel In Africa



By Amon Cohen

Sierra Leone's Ebola-plagued capital, Freetown, is 3,000 miles from London and 3,600 from Cape Town, yet it is the latter city, not the closer-by U.K. capital, that has been feeling the effects of the outbreak despite having not a single confirmed case.

"Ebola has had a massive impact on travel to the entire continent of Africa, even though South Africa is farther away from the outbreak than London

is," said Chris Pouney, director of business travel for U.K.-based Severnside Consulting and author of *Understanding Business Travel in Sub-Saharan Africa 2014*. The figures back him up. Africa was the only region worldwide where airlines carried less traffic in November 2014 than November 2013—down 2.5 percent, according to the International Air Transport Association.

CONTINUED ON PAGE 10

Countries In The Middle East Or Africa Where Respondent Organizations Manage Travel Spending

United Arab Emirates	27%
South Africa	22%
Israel	19%
Saudi Arabia	18%
Egypt	15%
Other	12%
None	57%

Note: Respondents were allowed to select more than one answer.

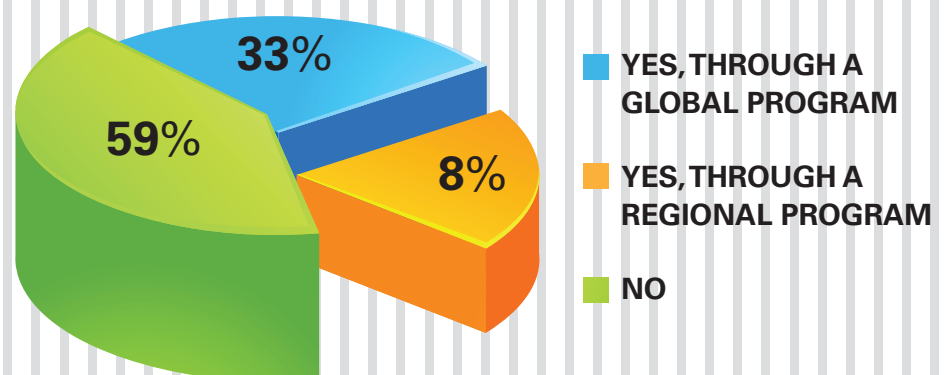
Source: A November-December 2014 BTN survey of 240 travel managers

Respondents' Anticipated Changes In Organizational Travel Spending At Middle East/Africa Point Of Sale, 2015 Vs. 2014

Increase	27%
Decrease	7%
No change	71%

Source: A November-December 2014 BTN survey of 230 travel managers

Consolidation Of Respondents' Travel Programs With One Travel Management Company Throughout The Middle East And Africa



Respondent Organizations That Have Aligned Travel Policy And Sourcing Decisions In The Middle East And Africa

Yes	32%
No	54%
Working on it	15%

Source: A November-December 2014 BTN survey of 222 travel managers

Biggest Challenge Facing Respondent Organizations In Doing Business In The Middle East And Africa

Safety and security concerns	42%
National laws and regulations	9%
Access to all relevant content	8%
Collecting all travel spending data	7%
Cultural differences	6%
Financial requirements	4%
Language differences	2%
Other/Not applicable	22%

Source: A November-December 2014 BTN survey of 214 travel managers

CONTINUED FROM PAGE 8

The punishment the whole of African aviation has taken for Ebola neatly epitomizes outsiders' attitudes toward managing travel in the region. The first, "a constant theme," said Pouney, is that "the whole of Africa is tarred with one brush." Felicity Meyer, travel manager for South African-based retail and wholesale group Massmart, agreed. "This is not the United States of Africa," she said. "Each country is unique in terms of travel experience and safety."

The second lesson is that perception and reality about Africa can be very different, especially for American and European global travel managers who never have visited their offices in the region. Both Pouney and Meyer, for example, questioned a response in *BTN's* survey of U.S.-based global travel managers, in which 33 percent said they have consolidated with their global travel management company in Africa and the Middle East, and another 8 percent said they have consolidated regionally.

Meyer contended that some travel managers who believe they are using their global TMC in Africa would find the truth somewhat different. "It would be interesting to ask the same question of those companies' people on the ground in Africa," she said. "The big TMCs position themselves as global with an ability to reach anywhere in the world, but the reality is different. The reality is that locally their offices are using local agents."

To understand why, Meyer pointed to another finding in the *BTN* survey to which she attaches much more credibility: Forty-two percent of respondents cited security and safety issues as their biggest challenge in the region. In North America and Europe, the overwhelming strategic priority for travel managers may be cost control, but in Africa ensuring traveler safety trumps all other considerations, and local offices regard highly trusted, locally based travel agents as their first line of defense.

Moving away from such agents to global TMCs "needs to be approached carefully," said Meyer. "You can't march in here in your size 10 boots. I have at times underestimated the relationship between arrangers and their local providers who turn somersaults for them. You tread on these relationships like you would on a Mozambique spit-

ting cobra. Local agents protect their travelers from outside predators."

Yet, paramount as security is, the mismatch between perception and reality means global travel managers also can be guilty of overprotecting travelers. Pouney recounted meeting an Angolan hotel's general manager, who told him four business guests staying for one week each prove much more lucrative for his property than one of those guests staying for a month. "The manager told me that when the guests arrive, they have their security briefing ringing in their ears and don't venture outside the hotel to eat or drink," he said. "But after a week they get bored with being in the hotel and start wandering out, when they discover it

highlighted it in her foreword to *Understanding Business Travel in Sub-Saharan Africa*. "Due to myriad complexities and challenges, companies have either been unwilling or unable to tackle business travel management in this region in a strategic way," she wrote. "This has led to often poor governance, minimal control measures and low visibility, and too frequently a lack of priority given to how corporate travel programmes operate on the ground in Africa.

"Local offices and travel partners often find themselves facing two types of challenges. They are either left in isolation to deal with the arduous task of managing a corporate travel policy with minimal input or interest from their global teams. Or, conversely, they are instructed to

mandate a global policy locally, by a head office which has little to no understanding about the region—often trying to copy/paste unrealistic policies and approaches. Companies must respect that although the way things are done in more developed markets might often be advanced in comparison to many African markets, going into Africa with a 'we'll

show you how to do it' attitude is a surefire way to total failure," Swart wrote.

Yet if all of this makes the first option outlined by Swart—leaving Africa to its own devices—appear the more attractive one, that may increasingly prove an unsustainable approach as well. Ebola notwithstanding, significantly more travel managers in the *BTN* survey (22 percent) expect their travel to the region in 2015 to rise from 2014 levels than those who think it will fall (7 percent). And while that first number is relatively small, Africa is tipped to be one of the hottest regions for economic growth during the next decade or so. "Spend on travel for Africa is minuscule in



"Travel managers need to increase their knowledge of Africa and build credibility with business heads. The best way to do this is to travel [here] themselves, which they rarely do."

—SEVERNSIDE CONSULTING'S CHRIS POUNEY

was significantly safer than they were led to believe."

Instead, said Pouney, while issues like Ebola and terrorism certainly need to be managed, more mundane safety concerns often are the greatest risks. He pointed to Nigeria's appalling road safety record, as there are 1,000 deaths per 100,000 cars on the road there, compared with only 7 per 100,000 in the United Kingdom. "You can worry about the big stuff, but if you're not using a car company with working seat belts, it could be a much greater risk," he said.

Finding the right balance between too much and too little intervention is a recurrent dilemma. Monique Swart, founder of the African Business Travel Association, also

contrast to the United States in global budgets, but it also has the greatest growth potential,” said Meyer.

When travel managers decide to grasp the African nettle, they do indeed find the challenges more severe than in more-established regions. A survey of 72 buyers conducted for *Understanding Business Travel in Sub-Saharan Africa* found that only 47 percent are able to produce automated traveler-tracking reports, while 58 percent are not receiving data for their African offices. Even when they do get it, 32 percent consider the data poor.

The main problem is that much of the infrastructure associated with travel management in developed markets simply isn't there. Ian Epps, director of partnership relations for the global TMC consortium International Travel Partnership, pointed out that 25 of Africa's 55 countries and territories do not participate in IATA's Billing and Settlement Plan, the basic building block of airline/TMC accounting. “There is plenty of desire to improve quality levels and learn but the infrastructure is less sophisticated,” said Epps.

Almost every other aspect of travel management is similarly challenged. Payment card acceptance is limited outside South Africa and, in some countries, said Epps, tickets have to be paid for in hard currency.

Obtaining data also is a major problem. Another reason Meyer is skeptical about the value of multinational TMCs in Africa is that almost all their offices in the region are partners and franchisees. “They have different mid- and back-office formats,” she said. “The technology is not unified, though the TMCs tell us it is.” Pouney agreed that “managing a standard TMC across the region is probably not the answer” and that it is instead “worth looking at a data warehouse” to make the best possible job of cleaning and integrating data from disparate sources.

Africa experts warned that companies can't adopt a “one-size-fits-all” approach to their internal processes either. “A travel policy that works across Europe does not

Epps cautioned travel managers to ensure travelers do not fly airlines on the EU's blacklist, if only because they are not covered on most insurance policies.

mean it will work across Africa,” said Meyer. “It may not be practical.” Meyer cited the example of a global policy in which use of business class is determined by length of flight. In Europe or North America the perks of business class, such as separate check-in and priority boarding (and therefore disembarkation) might be an agreeable luxury, but on some African routes they could save many hours of discomfort and inconvenience, and prove the difference between a trip that is viable and one that is not.

Yet again, perception and reality about policy implementation are often very different. “Even if you think your policy is globally aligned, that won't be the case on

the ground,” said Pouney. “Local offices may well disagree with the hotels selected at the global level, which are often very expensive, and sometimes the most secure hotel in town is not the glitziest.”

Airline sourcing has its challenges too. Pouney's report characterizes flying in the region as expensive, with poor route networks, capacity, service and safety. Epps cautioned travel managers to ensure travelers do not fly airlines on the European Union's blacklist, if only because they are not covered on most insurance policies. Nor is it just the aircraft that are hazardous—so too are supplier relations. “In some African countries, airlines offer lower fares behind your back, and personal incentives still go on,” Epps said.

Despite these many challenges, companies undoubtedly can achieve marked improvements in their travel management in Africa, both in terms of traveler care and cost control. However, given that conditions are so markedly different than North Africa or Europe, they need to be researched properly. Consequently, the key message from Africa experts to travel managers is that they must do what their own travelers increasingly are doing: Visit the region. “Travel managers need to increase their knowledge of Africa and build credibility with business heads,” Pouney wrote in *Understanding Business Travel in Sub-Saharan Africa*. “The best way to do this is to travel [here] themselves, which they rarely do.”



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Southwest Holds Line On Fares Amid Route Development

BY MICHAEL B. BAKER

AFTER REPORTING a record net income of \$1.1 billion for 2014 last month, Southwest Airlines appears prepared to hold steady on fares as it continues to boost capacity and add routes this year.

Southwest in 2015 plans to increase available seat miles about 6 percent, following a 2.4 percent year-over-year increase in capacity during the fourth quarter. The carrier particularly has



Southwest CEO Gary Kelly

grown from Dallas Love Field, where available seat miles increased 80 percent year over year in the fourth quarter following the expiration of the Wright Amendment, as well as from Ronald Reagan Washington National Airport and its newly converted international routes through the integration of AirTran's network, Southwest president and CEO Gary Kelly said in an earnings call last month.

Revenue passenger miles during the fourth quarter, meanwhile, were up 4.3 percent, and fourth-quarter load factor increased 1.6 percentage points year over year to 82 percent. CFO Tammy Romo said the load factor on most new nonstop flights from Dallas was at or above 90 percent.

"Our business has been strong and steady despite having a large percentage [of routes] under development," Kelly said.

Even while working to build these new routes, Southwest's average fare increased 1.3 percent year over year to \$158.06 during the fourth quarter, and passenger revenue per available seat mile increased 2.6 percent.

During the first quarter of this year, Southwest projects passenger-revenue growth will keep pace with capacity, which a research note by Cowen and Co. called "very encouraging."

"There was some fear that Southwest would begin discounting fares as the company begins to grow capacity again," the note continued. "Southwest remains one of, if not the, most important indicators for the pricing environment in the domestic United States."

Echoing comments made by both United Airlines and Delta Air Lines in

have little impact on Southwest.

"Oil and gas businesses are going to cut back, and that will result in some reduced travel, but the consumers are going to outweigh the cutbacks," Kelly said. "More worrisome is what's going on around the world and the impact on the U.S. economy, consumers and business travel demand, but there's ab-

CFO Tammy Romo said the load factor on most new nonstop flights from Dallas was at or above 90 percent.

their earnings calls, Kelly said the carrier is making no adjustments to its capacity plans as a result of lower fuel costs. He added that resulting travel cutbacks from energy-sector companies would

solutely no evidence of anything changing on that front."

Southwest's fourth-quarter net income was \$190 million, compared with \$212 million in the fourth quarter of 2013. ↻

United Q4 Corporate Revenue Up Despite Energy-Sector Cutbacks

BY MICHAEL B. BAKER

CORPORATE REVENUE at United Airlines increased 4 percent year over year during the fourth quarter, though low oil prices are beginning noticeably to affect demand from the energy sector, executives said last month during a quarterly earnings call.

United chief revenue officer Jim Compton said that while the carrier is "really comfortable with the demand levels" in the short term, United, which has a hub in major energy center Houston, in the fourth quarter saw "a small impact" on energy-related corporate traffic. Even so, consolidated passenger revenue per available seat mile was up slightly in the quarter.

"Today, our corporate teams are in discussion with those companies about what they're seeing in 2015," Compton said. "They are looking at all their costs as they react to lower prices in their industry. We've seen just a small impact in corporate business that we can measure closely but will stay on top of it as we go through the year."

On the other side of the fuel coin, United president and CEO Jeff Smisek echoed Delta Air Lines executives'

comments that the carrier has no intention of boosting capacity in response to lower fuel costs (see story, page 16), which helped lower consolidated cost per available seat mile 5.3 percent year over year during the quarter. The extra profit from lower fuel costs will be used "to accelerate long-term goals," including reducing financial leverage, he said.

Total consolidated passenger revenue during the fourth quarter increased 1.3 percent year over year to \$8.1 billion, and ancillary revenue per passenger was up 9.7 percent. Yield also increased 1.3 percent.

Consolidated capacity increased 0.9 percent year over year during the quarter while demand increased 0.1

percent, leading to a 0.7 percentage-point drop in load factor to 81.7 percent.

United's net income for the quarter was \$28 million, down from \$140 million in the fourth quarter of 2013. The fourth quarter included \$433 million in such special-item costs as severance for more than 2,500 flight attendants who opted for an early-out program, fuel-hedging costs and debt costs. For the full year, United's net income nearly doubled year over year to \$1.13 billion. ↻



United's Jim Compton

Advito: Corp. Hotel Rates Beat Forecasts

Corporate negotiated hotel rates for 2015 are trending higher than previously forecast in several global regions, according to data provided to *BTN* by **BCD Travel's Advito** consultancy.

North America, Europe and Africa all proved more challenging than expected for travel buyers in hotel rate negotiations as demand strengthened in those regions, said Marwan Batrouni, Advito's hotel practice leader. In North America, corporate hotel rate increases are averaging 6 percent to 7 percent year over year, compared with an earlier forecast of 3 percent to 4 percent. In Europe, corporate hotel rates increased 2 percent to 4 percent, higher than the previous forecast of 1 percent to 3 percent.

The biggest change from previously forecast rates was in Africa, where Advito now projects rate increases between 7 percent and 9 percent, up from its earlier forecast of 2 percent to 4 percent.

"The primary country that drove that increase was South Africa, where we're seeing some major pickup in overall demand," Batrouni said.

Buyers are faring better than expected in the Middle East, however. Advito projects corporate hotel rates for 2015 there are up 2 percent to 4 percent year over year, down from its earlier forecast of 3 percent to 5 percent. Overall demand is down in the region due to political instability, Batrouni said.

Corporate hotel rate increases in the Asia/Pacific region (2 percent to 4 percent) and Latin America (5 percent to 7 percent) fall in line with Advito's earlier forecast, he said.

IHG Finalizes Kimpton Deal

InterContinental Hotels Group completed its \$430 million acquisition of **Kimpton Hotels & Restaurants**, the company announced last month. Following the acquisition, first announced in December, IHG now counts the 62 Kimpton hotels as part of its portfolio of more than 4,700 hotels. Additionally, Kimpton last month announced that COO Mike DeFrino has taken over as Kimpton's CEO. Former CEO Mike Depatie, along with a few other Kimpton top executives, now is managing **KHP Capital Partners**, which handles real estate investments that include 30 percent of Kimpton's portfolio and pipeline.

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Radius' Mega Corporate Client Win Trumps Its Loss Of TBiz Business

BY AMON COHEN

TRAVEL MANAGEMENT company network Radius Travel claimed that new business won in 2014 by its central sales organization grew to \$465 million, up 72 percent from \$275 million in 2013. Almost all of that increase was accounted for by the winning of the global account of Danish healthcare company Novo Nordisk, which has an annual travel spend of \$185 million. Client retention rate in 2014 was 92 percent.

Members of Radius gain business through the network in two ways. The first is bilateral or trilateral referrals, where a member in, say, the United Kingdom wins an account in both the United Kingdom and the United States and farms the U.S. business out to a U.S.-based Radius member. The other route is accounts that cover multiple markets for which the central Radius sales organization competes. CEO Shannon Hyland told *The Beat* that the ratio of centrally won to bilateral business has shifted during the five past years from around 20/80 to just under 50/50.

"Our model is resonating more in the marketplace," said Hyland when asked the reason behind the change. "Decision-makers are always risk-averse, and they used to view the big players like



"With everything going on in the world, I'm hearing more cautiousness from clients but I'm not seeing it at the moment. From a TMC perspective, we're seeing consolidation, and I think we'll see even more."

—RADIUS CEO SHANNON HYLAND

Carlson Wagonlit Travel and American Express as less risky: a safe solution but one that wouldn't necessarily advance the program. Now there is growing recognition that you can get both best-in-market service and all the global data you need."

Hyland seconded a view expressed by Travelport CEO Gordon Wilson, who in October told the *The Beat*: "There's a view emerging that you take the best in class per region, or per country even, and as long as you can consolidate at the data level, then what you need at the central level becomes much easier."

"That mindset has been growing over the last couple of years," Hyland said. "Back in 2011 we had several investments from some of our agencies to improve our data offering, especially to cleanse and normalize data from different platforms. Aggregating from different global distribution systems is easy. Where it gets harder is handling bookings made outside a GDS, which requires a more robust solution. We have made tremendous progress in this area. We have a data specification for what we want and how we collect, so we are now collecting data for cus-

tomers in 69 markets."

Hyland said Radius also is starting to attract larger clients. "Five years ago, our solution resonated mainly with small and medium enterprises spending \$10 million to \$30 million per year, with the occasional outlier around \$50 million per year," he said. "In 2014, the range was \$10 million to \$80 million, and we won a customer worth \$185 million. Five years ago, we wouldn't have approached or considered a customer that large. They require more attention, so we have brought in more people for implementations and operations."

Transactions handled through the Radius network in 2014 grew to 550,000, 224 percent higher than the 170,000 handled in 2010. Growth in calendar-year 2014 was a comparatively modest 10 percent from the 500,000 recorded in 2013, but, said Hyland, "I was pleased with the 10 percent. Our partnership with TBiz [Travelocity Business] went through to the end of 2013, by which time it had been sold to BCD Travel. Even with the loss of that business, we still had growth in passenger name records. Normalized growth would have been 25 percent."

Radius is forecasting PNR growth of 42 percent in 2015, much of it accounted for by the new mega-client, which will only start fully booking through the network this year.

Hyland's main operational target for 2015 is to improve Radius's data capabilities further. "They're good but I want to make them great," he said.

Reservations by existing clients typically grew 4 percent to 6 percent in 2014. Regarding the market outlook for 2015, Hyland said: "With everything going on in the world, I'm hearing more cautiousness from clients but I'm not seeing it at the moment. From a TMC perspective, we're seeing consolidation, and I think we'll see even more." Hyland added that the recent shortening of the International Air Transport Association's Billing and Settlement Plan settlement period in certain markets is forcing some smaller travel management company owners to sell their businesses. [▶](#)

NEWSLOG

Virgin Australia Axes Fuel Surcharges On Some U.S. Flights

Virgin Australia eliminated fuel surcharges on U.S. flights "sold and originating in Australia." Consistent with pricing for the rest of Virgin Australia's network originating in Australia, "this will see fuel costs for those airfares treated in the same way as other operating expenses and incorporated into the base fare, rather than being charged separately as a fuel surcharge," according to the airline. Effective Jan. 23, Virgin Australia also cut U.S. roundtrip base fares on flights originating in Australia by A\$40 (US\$32.54) in economy and premium economy and by A\$50 (US\$40.67) in business class.

Domestic travel, particularly within China, has accounted for much of the growth, while international air travel volume growth was below its long-run average in November. Though lower oil prices should help boost air travel demand this year, "the gradual easing in business confidence over the final third of 2014 has weighed on international travel and may continue to constrain the pace of expansion in the near term," according to IATA. The association noted that domestic air volume in the United States also was on the rise in the latter months of 2014 as employment levels and consumer confidence improved.

for international travelers. Heathrow last month reported a record annual total of 73.4 million passengers for 2014, but Dubai International chief executive Paul Griffiths told news outlets his airport handled 71 million international passengers, whereas a substantial though undisclosed proportion of Heathrow's passengers were domestic.

Griffiths said he does not expect Heathrow to regain the number-one slot. Heathrow is effectively full, with most of last year's 1.4 percent growth resulting from airlines flying larger aircraft to the airport.

IATA: Int'l Air Growth Slips

Global air travel volume in November increased 6 percent year over year, the International Air Transport Asso-

Dubai Claims Airport Crown

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Delta Posts Q4 Loss On Fuel Hedging But Outperforms For 2014

BY MICHAEL B. BAKER
& JAY BOEHMER

DELTA AIR LINES projects corporate demand this year will meet or exceed 2014 levels, although it is sticking to its current capacity plans despite a potential windfall from lower fuel costs.

Delta president Ed Bastian, speaking last month during the company's fourth-quarter earnings call, said a recent internal survey of corporate customers showed 88 percent planned to increase or at least maintain their travel spending levels during the first quarter and throughout the rest of the year. Sectors that have shown demand strength include financial services, automotive and media, he said.

Corporate sales revenues for 2014 were up 7 percent year over year, he said.

The carrier reported a \$712 million loss for the fourth quarter of 2014 largely because of fuel hedging, but its full-year results beat analysts' expectations. Net income for 2014 was \$659 million and 78 cents per share, slightly above analysts' consensus estimate of 77 cents.

Another sign of continuing demand strength: Consolidated passenger revenue per available seat mile in the fourth quarter increased 0.8 percent year over year. In a research note, Cowen and Co. analyst Helene Becker said that analysts had feared "PRASM trends would turn negative as a result of lower jet fuel costs," but with Delta's performance, "those fears should subside."

PRASM during the quarter was up 5.2 percent on Delta's mainline domestic flights, alongside a 5.2 percent increase in capacity. PRASM was down, however, on Atlantic, Pacific and Latin

America routes as well as regional service, Delta reported.

Capacity during the quarter increased 4 percent, and load factor increased 0.2 percentage points to 82.8 percent. Yield increased 0.6 percent.

Despite the loss due to hedging, Delta stands to benefit from lower fuel prices, CEO Richard Anderson said. Delta's average fuel cost per gallon in the fourth quarter was \$2.62, compared with \$3.05 in the fourth quarter of 2013, and is set to drop to \$2.50 or lower during the first quarter, according to Delta's guidance. The lower fuel costs this year should mean \$2 billion in savings compared with 2014, Anderson said.



"We were giving the lowest-valued customers the best seats on the airplane, and we were giving away way too much to compete with someone whose product is inferior."

—DELTA'S GLEN HAUSTEIN

Reiterating assertions made during an investor presentation in December, Anderson said those savings were "an opportunity to accelerate progress toward long-term goals"—including decreasing net debt—and that the carrier had no plans to change capacity related to the potential savings.

"It's wonderful that fuel has run down—we love it," Anderson said in December. "There's a \$2 billion opportunity out there if we hold fare levels constant. But over the very long-term

horizon, it's just more conservative and prudent to use a high fuel assumption when you're buying airplanes or making other investments, and then when it comes in lower, hang on to all of it."

New Layout Imminent

If Delta is looking to "hang on to all of it," then it must convince customers that its product and services are not commodities, a philosophy reflected in Delta's new cabin layout and fare bundles. As of March 1, Delta will divide its cabin into four classes: the premium Delta One on long-haul international routes and some transcontinental U.S. routes and First Class for short-haul in-

ternational and domestic routes; Delta Comfort Plus, a premium-economy product; standard economy service; and a Basic Economy fare that comes with several restrictions.

Delta chief revenue officer Glen Hauenstein in December said the carrier would be monitoring performance closely in order to "optimize price differentials" between the different fare types. For example, passengers offered a Basic Economy fare—which, among its restrictions, allows no seat selection

or changes—so far have opted instead for a higher-tier fare 80 percent of the time, indicating the differential between it and standard economy is one most travelers are willing to pay.

Some travel buyers have expressed concerns about the Basic Economy fare, which is only for select markets, more than 75, in which Delta competes against such ultra-low-cost carriers as Spirit, but Hauenstein said it was intended to benefit the corporate traveler.

"Travelers were buying [low-cost] seats historically early on in the process, leaving the center seat for the business guy who bought his ticket last," he said. "We were giving the lowest-valued customers the best seats on the airplane, and we were giving away way too much to compete with someone whose product is inferior."

Delta also will look to tweak amenities offered in premium cabins based on customer response data. Comfort Plus seating, for example, will include complimentary snacks on flights longer than 900 miles and complimentary beer, wine and spirits. In Delta One—renamed from Delta's BusinessElite, as the carrier positions it somewhere between the typical first- and business-class offerings of major transatlantic carriers—Delta is adding such amenities as celebrity-chef-inspired food and beverage offerings and "better movies and TV," Hauenstein said.

That commitment to a new price structure, however, means travelers are unlikely to see heavy discounts should fuel prices stay low.

"If you ask me what's the number-one matter that we need to do to make certain that we don't give back all the fuel savings through lower prices into the future is to make sure our product is seen and priced and realized as a premium product for the service we are providing, and not treated as a commodity as it has been in years past," said Bastian in December.

Indeed, Bastian said the decline in fuel prices is yet another opportunity for Delta to prove that the airline business has changed into a more rational one.

"There's no question that the level of fuel-price volatility has spooked a lot of people as to what's going on," said Bastian. "What will the airlines do? Will they give it all back in revenue? Is this a peek at the old days? Because we've seen that happen, we've seen that story play out, and we're very determined to make certain that people don't see our pricing strategy or our product and service as a commodity."

NEWSLOG

United Adds More Leeway In Status Match Program

United Airlines last month loosened some rules related to its corporate status match program, including lengthening the period during which travelers can maintain their matched status. Among the changes to United's program, which offers matched status to employees of United corporate customers from more than 40 frequent-flyer programs, employees who meet requirements now will maintain their status for 22 months rather than 12 months, according to the carrier. Additionally,

United reduced the reapplication period—the time employees must wait since they last received a MileagePlus status match—to three years from five years. United's program also now allows travelers to earn a lower level of status if they are unable to meet travel and spending requirements within the 180-day trial period. For example, if a traveler receives a matched gold status but travels with United during that trial period only enough to meet silver status requirements, that traveler still will earn silver status with Mileage

Plus. Travelers still are unable to earn a higher level than their matched status, however.

UAL Adds LatAm Bag Fee

United Airlines is adding a second-checked-bag fee on flights between North America and Latin America. As of Feb. 2, travelers at MileagePlus Silver level or lower will pay \$30 for their second bag on flights to and from Panama, El Salvador, Colombia, Ecuador and Peru.

Analyst: Airbnb Usage To Surpass Hotel Cos., But Not For Business Travel

BY MICHAEL B. BAKER

AIRBNB BOOKINGS are on track to outpace the largest hotel companies within a few years, although the room-sharing platform is unlikely to become a major player in the business travel space anytime soon, according to a research



note published last month by Barclays. In terms of size, Airbnb already has overtaken the largest hotel companies.

During the past year, the number of rooms available through Airbnb has grown from about 300,000 to about 1 million, Barclays European leisure analyst Vicki Stern wrote in the note. By comparison, as of the 2014 *BTN* Business Travel Survey, the largest hotel company measured by rooms, Inter-Continental Hotels Group, had a portfolio of about 687,000 rooms.

While there is not a direct comparison by size—not all of Airbnb’s listings are available year-round, for example—its listings could double within the next year, according to Stern. She estimated that Airbnb’s current bookings are about 37 million room nights per year, about one-fifth of what IHG sold last year, but its growth could have it outpacing IHG’s bookings within two or three years.

Even so, it will remain mostly a leisure player during that time, with only

about 10 percent of Airbnb bookings currently used for business travel, she added.

“There is currently no regulation applied to Airbnb hosts regarding fire safety, food hygiene and insurance,” Stern wrote. “This is a key difference to hotels, which are required to adopt strict health and safety regulations, and this is one key reason why we believe the majority of business[es] would be reluctant to send employees to Airbnb accommodation instead of a hotel.”

As to its impact on overall hotel performance, the note concluded that it currently is negligible. Many of the bookings are for large groups or events that would not have been accommodated by hotels anyway, for example. Given Airbnb’s growth trajectory, however, “we do not find the lack of an impact so far particularly reassuring,” she added. [▶](#)

Outrigger Reports Corporate Gains

Honolulu-based **Outrigger Resorts**, primarily known for leisure resorts in Hawaii, is developing its approach toward corporate business, particularly as it seeks global expansion and a revamping of its brand structure.

Now operating about 40 resorts systemwide, Outrigger has been acquiring properties around the world, including properties in Thailand, Fiji, Mauritius and a resort in the Maldives that will open this summer, Outrigger president and CEO David Carey said. The company aims to continue growing at a rate of about one to three properties per year “for the foreseeable future, though if a larger M&A opportunity came up, we might look at it,” he said.

That expansion also has brought Outrigger some new business on the corporate side. While its Hawaiian properties have less meeting space compared with the big-box hotels operating on the islands, some of its new properties elsewhere—its resort in Phuket, for example, which has a ballroom—have been attracting corporate group customers, especially from Asian companies, Carey said.

Outrigger’s Hawaiian properties always have done a good share of corporate business, and such business from Asian markets also has been gaining momentum in Hawaii, he added.

At the same time, Outrigger has been clarifying some of its brands, consolidating all of its beachfront resorts under Outrigger Resorts and its condominium collection under Hawaii Vacation Condos by Outrigger “so there’s less confusion,” Carey said. During the next few months, the company also plans to “probably sunset or replace” its lower-tier Ohana Hotels and Resorts brand, he said.

Sonesta Taps Exec. VP To Replace Sheehan As CEO

Sonesta International Hotels Corp. named Carlos Flores president and CEO, the company announced last month. An executive vice president at Sonesta since February 2012, Flores replaces retiring president and CEO Bill Sheehan. Sonesta, which currently has a portfolio of 55 properties in eight countries, has grown from three to 25 hotels in the United States since 2012, and Flores was instrumental in that growth, according to Sheehan.

STR: U.S. Hotels Set Record For Rates In 2014

BY MICHAEL B. BAKER

U.S. HOTELS achieved a record average daily rate in 2014 and should push that number even higher this year, according to STR.

For the full year, U.S. ADR was \$115.32, up 4.6 percent compared with 2013 levels and the highest annual ADR ever recorded by STR. The firm forecasts that ADR in 2015 will increase an additional 5.2 percent. 2014 U.S. hotel occupancy increased 3.6 percent year over year to 64.4 percent.

Full-year ADR and occupancy increased year over year in all of the

November ADR Slips Elsewhere

The average daily hotel rate in November declined year over year in most global regions but was up in the Americas, according to STR Global.

ADR in the Americas increased 3.6 percent to \$113.77, and occupancy increased 2.3 percent to 59.3 percent. The largest percentage ADR increases for November were in Chicago (12.8 percent to \$144.04) and Boston (12.1 percent to \$182.45). ADR in Rio de Janeiro decreased 9.1 percent to \$182.23 in November, the region’s steepest ADR percentage decline.

to €98.59) and Tel Aviv (10.1 percent to €184.88). The greatest percentage decreases were in Warsaw (down 31.6 percent to €66.81) and Moscow (down 30.7 percent to €92.64).

Both ADR and occupancy in the Asia/Pacific region declined year over year in November, according to STR Global. ADR declined 3 percent to \$115.70 and occupancy declined 0.4 percent to 72.2 percent. The ADR decline stems largely from currency declines against the dollar, as overall ADR in terms of constant currency increased year over year in November, according to STR Global managing director Elizabeth Winkle.

Auckland (7.2 percent to \$131.45) posted the region’s largest percentage ADR increase in U.S. dollar terms; Seoul (down 13 percent to \$179.46) had the region’s largest percentage decrease.

ADR for November in the Middle East/Africa declined 2.4 percent year over year to \$178.28, and occupancy increased 4.8 percent to 67.4 percent. The region’s largest percentage ADR increase was in Jeddah, Saudi Arabia (9.2 percent to \$236.88); the largest percentage decrease was in Lagos, Nigeria (down 13.4 percent to \$227.35). [▶](#)

STR forecasts that ADR in 2015 will increase an additional 5.2 percent. 2014 U.S. hotel occupancy increased 3.6 percent year over year to 64.4 percent.

top 25 U.S. markets during 2014, STR reported. The largest ADR increases were in Nashville (12.8 percent to \$116.86) and San Francisco (10.9 percent to \$207.81), and the largest occupancy increases for the year were in Atlanta (8.1 percent to 68.2 percent) and Denver (6.5 percent to 75.4 percent), according to the firm.

In Europe, ADR for November declined 5.7 percent to \$127.33; in terms of the euro, ADR increased 3 percent to €102.30. Occupancy increased 1.3 percent to 68.2 percent.

In euro terms, Europe’s largest percentage ADR increases for the month were in Manchester, England (12 percent to €96.45), Dublin (11.9 percent

Interview: GroundLink CEO Dean Sivley



It's hard to ignore Uber when discussing ground transportation these days. While GroundLink may float in Uber's orbit, GroundLink CEO **Dean Sivley** sees his company as a very different operator and not much of a competitor. GroundLink positions itself as "a hybrid," he said. "We're a car and technology company." Uber, meanwhile, insists it is only the latter. Like Uber, GroundLink provides on-demand mobile capabilities (at least in New York). Yet, the bulk of its business comes from advance bookings for ground transportation services provided by an affiliate network of drivers. An edited transcript of Sivley's conversation with *The Beat's* Jay Boehmer follows.

Boehmer: Is Uber good or bad for GroundLink?

Sivley: The overall macro thing is, I think, great because Uber has brought more attention and awareness to the whole space. I think consumers and corporate buyers are discerning enough to understand that there are points of differentiation and they ask better questions. Duty of care: Uber

has helped raise awareness of why it's important and why it matters. I'm happy

that they've come along. They've made all of us better. It's made our technology better—we've had to focus on new things. One of the things we've done recently is a thing called "Book on Behalf." Uber doesn't work with travel agents, but in the corporate travel space you need to be able to work with travel agencies. We developed the product so that a travel agent can book on behalf of someone at the corporation. We developed a distribution model that would support agents getting compensated for reservations. I think it's been a good thing that they've created awareness, but it's opened opportunities to differentiate.

Boehmer: What is GroundLink's model with travel agencies?

Sivley: It's evolving, because historically it's not been there. We recognized that if we wanted to be successful in this segment, we needed to develop that. We've got several agencies that we've signed agreements with, including one big international one you would know. [Note: *The company declined to disclose TMCs.*] The way the model works in concept is it gets integrated through the online booking tool and to the extent an agent makes a reservation, then we would compen-

sate the agency for that reservation. The commissions on average are about 5 percent—for large agencies it might go up a little bit, just for sheer volume and things like that. While it's not a huge amount of money, it's another value-added service they can provide and be compensated for. And it's tied in, so one of the things we'd be doing is if you were flying into LaGuardia, we'd have your flight information and we'd be monitoring your flight. So if you're stuck in the air, we're adjusting your reservations automatically so you're not stuck with any wait-time charges or things like that.

Boehmer: Uber is all about mobile, on-demand service, but you play heavily in scheduled reservations. How do you view these two segments?

Sivley: You can't point to any research, but here are some of my anecdotal observations: I think in the managed corporate space, looking at New York as a proxy, because there we have a good client base and a good volume of business to measure, less than 10 percent is on-demand, ride-now. We have that available to people and they can use it. But in the business world, you don't go to the airport without having a flight, you don't go to a client without having a meeting—all these things are set, so you don't want to chance not having a car and you want to know what it's going to cost. It's not surprising that 90 percent of the market is really focused on scheduled—and really prefers that. But there are the times and situations for ride-now.

Boehmer: What are your standards for vetting drivers?

Sivley: Corporate travel buyers are asking those questions—more so than ever: "How do you screen your driv-

ers?" The answer is, it varies by market. Someone asked me recently what we think of the taxi and limousine commissions. The licensing commissions in the major metro areas provide a great service in terms of vetting and screening drivers and doing it on a continuous basis. For instance, they monitor drivers' licenses. So if you're a driver for us and you go out one weekend and get a DUI, they know and you're suspended. In other markets, they may not have licensing commissions, but our affiliates have to prove to us that they do the checks in terms of the screenings—criminal background checks, things like that. They also have to be experienced—at least two or three years' driving—so they're not someone who just happens to run their own car or whatever.

As far as training goes, we have certain training requirements that they have to pass. Then we do vehicle inspections. All those things are wrapped into duty of care. The insurance side is the other big difference. Because we are a black car company, we have an umbrella policy and so you have a \$5 million policy, whereas most limo drivers are in the \$100,000 or \$250,000 range. Or if you're Uber, you say you're just an intermediary, not a car company.

Boehmer: How is your growth in the corporate space?

Sivley: We're seeing growth in the corporate segment in the realm of 30 percent year over year.

Boehmer: Is that revenue?

Sivley: Yes. Well, and transactions too. What you're really asking is about pricing, and pricing in effect is coming down; it's more competitive overall. Also, we've seen a big mix shift. GroundLink in 2011 was probably

about 65 percent retail business. Today, it's less than 50 percent and you see managed corporate grow dramatically. The other category is partnership and that's growing very quickly. It's starting from a very small base, but we're working with some of the major airlines and hotel chains. [Note: *GroundLink named American Airlines, JetBlue Airways, InterContinental Hotels Group and United Airlines as partners.*] Leading Hotels of the World has a program for their top tier where if you're flying certain city pairs, they'll pick you up from the airport to the hotel and they'll pick up the tab. We're seeing a big shift in terms of where we're concentrating and seeing our growth, because frankly it has been tough competing with Uber in the unmanaged retail segment of travel.

Boehmer: Tell me about GroundLink's overall sales approach.

Sivley: It's changed. One of the things we learned when I was at Orbitz for Business is that having a direct selling force is important and they have to be geographically dispersed. While it's no surprise that the black car business has been a local relationship business, even with the advent of companies like GroundLink with global coverage, decisions still oftentimes get made at headquarters, so you need your sales force dispersed. In the past three months, we've gone about dispersing our sales force and we've hired aggressively to build out a large direct sales force. The other part that's changing: In the last three to four months we signed our first big agency deal. The travel agency community, we believe, is going to drive a lot of future growth. Today, it's a small percentage of our corporate bookings. If you ask me to fast-forward a couple of years, I think that's where you'll see the biggest growth. 🚀

Survey: Manual Expense Reviews Persist Within Web-Based Systems

BY JoANN DeLUNA

ALTHOUGH 63 PERCENT of 434 finance professionals and CFOs responding to a Certify survey released last month use a web-based or ERP expense management system, 27 percent of them still manually review each expense and match it to corporate policy.

Of those companies using web-based systems, 19 percent reported manually reviewing only those expenses with a high value. However, more than half, 63 percent, of companies with web-based expense systems indicated their T&E system automatically flags out-of-policy expenses for managers to review, according to the survey.

The survey also showed that 31 percent of respondents estimated their company's T&E policy compliance was between 81 and 90 percent, 21 percent of respondents estimated policy compliance between 71 percent and 80 percent, and 10 percent of respondents



estimated 100 percent compliance.

When selecting a cloud-based expense management system, 51 percent indicated expense management automation is the first feature they seek, followed by "functionality to enforce corporate travel policy" (44 percent), integration with human resources and finance systems (33 percent) and mobile applications and accessibility for business travelers (33 percent), according to the survey.

In terms of improving current expense management processes, 20 percent of respondents desired auto-generated expense reports built on a set date, followed by mobile receipt capture (17 percent) and automatic T&E policy enforcement (16 percent).

The number-one pain point related to expense management, according to the respondents, was employees' failure to submit reports on time (39 percent), closely followed by the amount of time it takes managers to reconcile, review and approve reports (38 percent).

Certify fielded the survey of North American professionals between Dec. 15, 2014 and Jan. 5, 2015. Companies identified as large enterprises represented 35 percent of the survey base while 37 percent represented midsize businesses. Small businesses represented 28 percent of those surveyed. [➔](#)

European Parliament Yields On Interchange

Commercial cards will be exempted from a forthcoming **European Union** cap on card interchange fees after all, as the **European Parliament** in December announced it has backed down from its original decision to block such an exemption. Without the exemption, the interchange fee charged on "four-party" commercial cards (effectively those issued as **Visa** or **MasterCard** cards) would have been cut from an average of 1.5 percent to a maximum of 0.3 percent, whereas "three-party" providers (principally **American Express** and **Diners Club**) would have been free to continue imposing much higher merchant fees.

All European legislation requires approval from both the Parliament and the **Council of Ministers** of the member states, but whereas the latter backed the **European Commission's** original proposal to exempt commercial cards, Parliament originally voted to oppose it. However, following "trilogue" negotiations between the three institutions, a Parliament communiqué said: "Commercial cards used only for business expenses would ... be exempt from the new rules." The statement added: "The negotiators also agreed that the new rules should not apply to so-called three-party card schemes such as Diners and American Express (involving only one bank) provided the card is both issued and processed within the same scheme."

The agreement hashed out by negotiators still requires formal approval by a plenary session of the Parliament, followed by the full Council of Ministers. Sources indicated the entire process could be concluded by April 2015.

Adelman Travel Offering CSI Virtual Cards

Travel management company **Adelman Travel** now offers clients payment solution provider **CSI's** globalVCard virtual card, CSI announced last month. With the virtual card, travel managers can issue to travelers' mobile devices one-time-use credit cards with specified amounts, merchants and expiration dates. GlobalVCard also collects all transaction data. CSI previously partnered with Adelman to provide a virtual card solution to **Goodman Networks**.

Amex Reinvests \$719 Million Gain From Concur Sale

BY JoANN DeLUNA

AMERICAN EXPRESS reinvested portions of its \$719 million pre-tax gain from selling its 13 percent stake in Concur into a restructuring that involves some headcount reductions, a renewed Delta Air Lines agreement, and marketing and promotional initiatives, American Express executive vice president and chief financial officer Jeffrey Campbell said in December during an earnings conference call with analysts. The gain from Concur, fully acquired in December by SAP, contributed to a \$1.5 billion net income for American Express last year, up 79 percent from 2013.

While American Express no longer has a financial interest in Concur, which dated back to a \$251 million investment it made in 2008, the company expects to maintain and even deepen ties to the expense management giant and its new owner.

Campbell said the "operating agreements" between Amex and Concur, signed in 2008, will continue and "frankly, [be] expanded as they become a part of SAP and we think that's going to open even more avenues of working together."

Concur exclusively promotes American Express corporate cards to clients and American Express exclusively promotes Concur Expense to its corporate card clients, according to Concur's website.

In regard to the restructuring expense, "the actions we're taking will impact over 4,000 people at a cost of \$313 million in the quarter," Campbell

\$4.8 billion in total adjusted revenue for its Global Commercial Services division, which houses its commercial card business. While the Concur gain contributed to the GCS increase, Amex no longer includes revenue from the American Express Global Business Travel business, which converted to a joint-venture structure in July 2014.

GCS card-billed business for the year

While American Express no longer has a financial interest in Concur, the company expects to maintain and even deepen ties to the expense management giant and its new owner, SAP.

told analysts. "Total employee headcount will decline by a smaller amount as certain of those reductions will be partially offset by jobs created elsewhere in the company."

The headcount cuts are in line with Amex's overall strategy to increase efficiency, according to Campbell.

American Express for 2014 year-end reported a 1 percent increase to

increased 6 percent to \$186.7 billion year over year. GCS total cards-in-force for 2014, however, declined 3 percent to 6.9 million compared with 2013.

Companywide, Amex's 2014 year-end total revenue net-of-interest expense was \$34.3 billion, up 4 percent year over year. Total expenses for the year remained flat at \$23.3 billion compared with 2013. [➔](#)

Travelport: Airline Ancillary Agreements 'Going Gangbusters,' But Transactions Need Work

BY JAY BOEHMER

TRAVELPORT IS "going gangbusters" on signing deals with airlines to expand access to non-fare content, managing director of the Americas Scott Hyden said in December, but impediments persist in converting that progress to optimal ancillary transaction volumes.

Challenges to accelerating the maturity of ancillary bookings discussed in a recent interview with Travelport officials included variance in airline content availability and participation, learning curves for agencies and airlines, adjustments to new technologies and the lack of economic incentive models to spur sales.

By the end of December, Travelport was actively selling 28 airlines' ancillary content and had signed 88 carriers to use its new Rich Content and Branding platform, which enables airlines to showcase and merchandize their products in more robust ways. (The number of airlines selling ancillaries is slightly higher among the competition, with Sabre last month claiming 33 airlines selling ancillaries via its channels and Amadeus claiming 31.)

"There are just under 30 airlines that are currently selling ancillaries through our global merchandizing platform—some of whom are successful and some of whom are barely selling anything at this point," Travelport vice president of air commerce for the Americas Chris Engle said in December.

That's not to say ancillary sales aren't growing. With the expansion of content, they should. The company claimed such transactions among subscribers rose 579 percent between January 2013 and October 2014—though that's off a presumably tiny base.

"Today, we have products where agencies can book seats, they can book bags, they can see the rich content and branding for some key carriers globally," said Hyden, spotlighting Delta Air Lines as a significant merchandizing partner, though airlines range in size and vary widely in what they sell and showcase.

That lack of consistency is a challenge for sellers.

"When you only have one airline or two airlines selling seats, is it enough critical mass to where an agent now completely understands that all the time, every time, no matter what, I book my seats here?" asked Hyden. "As

opposed to, 'I know you sell Delta seats in Smartpoint, but for every other airline, I've got to go outside the system, so I might as well go outside the system in total.'"

While growing airline participation should help address that issue, airlines and agencies also have to adjust to new toolsets to ramp up ancillary transactions. For example, Travelport's Rich Content

by latest-generation desktops. While Hyden said about 90 percent of Travelport agencies have downloaded Smartpoint, "certainly not 90 percent are using it," he said. "So, the core for the value of the airlines and the agency is to get adoption."

Hyden also noted that Travelport continues making improvements to desktop software "to embed" merchan-

ies or fare families," said Hyden. "And as we know from this business, some of it also comes from compensation. To date, generally, airlines have been clear they're not compensating the channel for booking and sales of ancillaries. However, they've all said, at some point they're going to have to look at that."

Hyden said it's a chicken-or-egg issue: Do agencies have to start making significant ancillary sales for airlines to demonstrate their value or do airlines have to start compensating to see the sales flow? The verdict isn't in, but Hyden suspected it's the former.

Ask airlines or agencies whether they want to sell more ancillary content, and the answer tends to be yes, but achieving that shared goal is going to take more adoption, buy-in and maybe some cash. "That's the challenge," continued Hyden. "We owe it to our airline partners to not only implement but to get bookings, and we owe it to subscribers to show the value that they can sell a lot of interesting products and differentiate themselves." [▶](#)



"We owe it to subscribers to show the value that they can sell a lot of interesting products and differentiate themselves."

—TRAVELPORT'S SCOTT HYDEN

and Branding platform is getting buy-in from airlines in principle, but many are still figuring out how best to deploy the technology and blend its capabilities with sales strategies, said Engle.

Similarly, to take advantage of Travelport's latest merchandizing bells and whistles, agencies are best served

dizing and ancillary sales opportunities in the "normal workflow." Ease of use will only help grow sales, he noted.

Then, there is the issue of incentives—the cash kind. "Sometimes success comes from technology, from the usability, from the thoughtfulness around how you design your ancillar-

New Travelport Division Aims To Attract More Direct Corporate Business

BY JAY BOEHMER

TRAVELPORT IN December announced it formed a new Corporate Incubation unit that will develop products and strategies to attract more direct corporate business. Leading those efforts, former Hewlett-Packard and Johnson & Johnson travel management executive Maria Chevalier brought on Jeff Kurn and Brent Schultheis, both her former colleagues at HP, to help plot the course.

For the first 90 days in her role as global vice president of Corporate Incubation, Chevalier said she would be mostly internally focused, taking stock of Travelport's current products and partnerships while meeting with various stakeholders to determine how Travelport's portfolio can "fit into the corporate market."

After that, Corporate Incubation will be "putting together a plan of how we think that fits into the longer-term strategy," said Chevalier.



Travelport's Maria Chevalier

A few pieces of the puzzle Chevalier and her team will be assembling stem from recent Travelport investments.

The company last year took a 49 percent stake in Australia-based corporate travel management, booking and procurement system provider Locomote, upped its stake to 73 percent in the eNett payment joint venture and fully acquired business-to-business hotel

technology provider Hotelzon.

CEO Gordon Wilson last year said each of those entities should improve "our value proposition for the management and empowerment of corporate travel." Those investments also coincided with the planned sunset of Travelport's Traversa corporate booking tool, which lost marquee client IBM.

Travelport currently has "over 200 corporate direct relationships," said Chevalier, noting that includes users of Locomote and other "various products."

While she said one goal of the Corporate Incubation group is to build on that base, she added the mission includes determining "what we can better provide TMCs" as partners to corporate users.

As for the size of clients Travelport would target with corporate-direct offerings, the Corporate Incubation team will be "evaluating all markets," including large, midmarket and small businesses, Chevalier said. [▶](#)

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U.K.'s Click Travel Embraces Relevance-Based Booking Display, Dynamic Compliance Definitions



BY AMON COHEN

UNITED KINGDOM-based travel management company Click Travel, which operates a self-built distribution platform and an online booking tool called Travel Cloud, has moved to displaying booking options based on an assessed order of relevance to the traveler rather than price. It claimed that, when making hotel reservations, travelers now select on average the eighth property offered to them through Travel Cloud. Previously, when hotels were displayed in order of price, travelers selected on average the 42nd property on the list, although price-ranked lists often included properties of limited appeal to business travelers, such as hostels.

Travel Cloud accounts for 98 percent of bookings handled by Click Travel. Managing director Simon McLean said other recent innovations include a dynamic policy control that allows companies to designate as compliant only those booking choices within a fixed percentage of the lowest offered price. McLean said his company in the past three months also has started to "open source" its proprietary technology by making the source coding available to outside parties, in some cases for a fee but in others for no charge.

Click Travel this year introduced relevance ordering as the default setting for Travel Cloud. McLean said there since

has been on average a steady rise toward the top of the display for the final choice made by bookers. "We try to understand what the traveler is most likely looking for," he told *The Beat*. "For example, if they are choosing a hotel in Edinburgh, we prioritize hotels they have been to before, or which their colleagues have stayed at before, or which are closest to their office in that city."

Click Travel is doing the same for rail journeys and flights, prioritizing, for example, what time of the day the traveler normally departs for that destination, all based on comprehensive analysis of previous search results. "We are trying to get the software to develop a better understanding of who you are and what you like," McLean said. "Not only you but your colleagues contribute to that relevance. We expected more caution, with people still wanting the cheapest first, but it is beginning to work. Our customers had to get comfortable with the ordering being behavior-driven, not commercially based."

The dynamic policy control, meanwhile, automatically adjusts what is listed as in or out of policy according to prices available in the market at that time. For example, clients can set a policy that travelers may only book a room if it is no more than 15 percent more expensive than the lowest-priced property in the same city. "It means a pre-

ferred property can be out of policy at that particular moment," said McLean. "The biggest error is to tell employees they must stay at preferred properties. Dynamic policy allows travelers to stay where they want," within the shifting pricing cap.

Travel Cloud also offers the dynamic policy feature for air and rail bookings, making a significant difference to policy management of the latter, where it is reasonably common for fares on certain departures to be cheaper in first class than in standard.

McLean said his company will benefit both directly and indirectly from open sourcing its technology. "If we get more people using our database, hotels will do more of the maintenance work for us, such as managing their own property descriptions," he said. "And the more people seek price quotes through our program, the more the program learns what they are looking for and how they are doing it. So there are technical reasons why we are doing this, although other parts of our technology may have a price tag on them. We're not going to be the only TMC in the world, so since we have built this stuff, we might as well sell it to other people.

"We also want to make available our rail application programming interface for kids in their bedrooms; then they will teach us what they have done,"


McLean continued. "We have no intention of building the next Evolvi [the United Kingdom's largest corporate rail booking tool], but the technology to help build the next Evolvi? Sure."

McLean and his brother James, who is Click Travel's finance and commercial director, rarely have followed a conventional path since entering the travel industry in 1999 with the founding of a hotel booking agency called Miss Marple. Originally specializing in offering accommodation unavailable through global distribution systems, the company metamorphosed into Click Travel when it also started to offer air tickets.

After teaching himself Java programming language, McLean and a colleague wrote the first version of the company's technology. A guiding principle was that technology used internally and for the external booking tool should always be one and the same. "Before we brought in our own technology, our staff couldn't know what travelers were booking," he said, "because the systems they used had different ways of interrogating fares. We don't have front-, mid- and back-office systems. We have one travel platform which runs everything." Today, the company has 20 software engineers, all based at Click Travel's head office in Birmingham.

From the outset, Click Travel has regarded itself as GDS-independent. "A GDS to us is one of many providers of content," said McLean. Today, roughly 20 percent of hotel bookings are sourced from a GDS ("mainly contracted rates, because they have to go through the GDS"), as are 80 percent of air bookings.

In keeping with most maverick travel entrepreneurs, McLean is critical of various established industry players, including the large booking tool providers. "When we launched Travel Cloud, all the booking tools looked like accountants' systems," he said. "They managed to make them look like Sage. It led to apathy among corporate travelers. Procurement cares about costs, not the user experience, but we have been through the phase of procurement dominance, and it has not worked very well."

His poor impression of how some companies handle their travel buying means that, for the time being, Click Travel will continue chasing U.K.-based accounts worth between £500,000 and £5 million. "If anything, we are trying to expand our scope downward, not up," said McLean, "especially for companies which currently have travelers booking all over the Internet. Larger companies often tell us how we must run their travel program. They are not interested in innovating or asking us what we can do for them." 

Seller's Remorse And Lawsuit Follow Stevens Travel's 2007 Sale To Tzell

BY JAY BOEHMER

HAROLD STEVENS is mad as hell and he's not taking it any more. And last month he was set to get his day in a New York state court, where a judge

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will consider whether a lawsuit he filed last year against Tzell Travel has any standing.

Tzell and parent Travel Leaders insist it doesn't and in court documents blasted Stevens' "fabricated" claims as nothing more than a play to extract more money out of a deal done years ago.

Stevens is pursuing about 12 claims—or "causes of action"—and they stem from the 2007 sale of his Stevens Travel Management to the larger travel agency.

Speaking with *The Beat* last month, Stevens framed his case in part as a warning to independent agencies looking to sell and a protest against what he viewed as an intrusion of lawyers and big money in the travel business.

"You see, part of this lawsuit for me personally is that I think all these people better wake up," said Stevens. "When they sell their companies, they're not selling to another Harold Stevens or another guy like themselves. They're selling it to someone who has powerhouse lawyers and money and has done nine million deals."



77 years old, his New York office lease was expiring, he wanted to secure sustainable income for his family and leave his agents with good jobs, and so he agreed to sell to Tzell.

Moving toward a purchase agreement, Stevens recounted that he presented Tzell with "an interesting kind of deal."

"When I sell the company, I wanted a pension fund for my family and I wanted to give my agents a job," he recalled. "Because I'm a little nuts, I figured out a different way of doing a deal to accomplish the two goals."

As Stevens viewed the transaction:

"I'm unhappy in America because nobody fights. Well, screw 'em. I'm going to go after them. If I lose, I lose."

—HAROLD STEVENS

The suit is captioned as H. Stevens & Associates, Inc. v. Tzell Travel and Travel Leaders Group, but it might as well be Harold v. Goliath, as Stevens views it.

He isn't certain the case will prevail, but he's going to see it through. "I'm unhappy in America because nobody fights. Well, screw 'em," he said. "I'm going to go after them. If I lose, I lose."

Does his suit have any standing?

The Deal With Tzell

A year prior to the Tzell deal, in a 2006 interview with *The Beat*, Stevens said he wasn't in a hurry to sell, joking that his "exit strategy is when the guys come in with the sirens and the gurney to take me away."

But as he recalled last month, he was

"I'm going to give [Tzell] my company for nothing" or at least no significant upfront payment. Tzell would get Stevens' assets and accounts, the latter of which brought in about \$2 million in annual revenue, and Stevens would get a percentage of those accounts' sales going forward.

There were some other details and conditions: Tzell would take on a Stevens loan and so on. But the payments Stevens was to receive—and how those have been calculated—are key to the dispute, said Stevens.

The purchase agreement stipulated he would get 12.5 percent of "net adjusted revenue" from his agency's accounts for five years, after which the percentage would go down to 10 percent for another

10 years. Stevens and his wife "were to receive no less than \$25,000 per year," according to court documents.

"It very clearly says I get, with no consideration, 12.5 percent of the commissions from everything ... okay?" said Stevens. "That's the formula in the contract that I signed. What I found out is they never used that formula."

Previous Disputes

This isn't the first time Stevens kicked up dirt over the sale nor the first time the parties disputed their agreement.

In 2008, Tzell sent a letter to Stevens claiming it overpaid Stevens about \$45,000 in relation to an account Tzell said was not part of the sales agreement, court documents noted. Stevens also felt burned by other things: His complaint claimed that Tzell "wrongfully" deducted former Stevens' employee payroll taxes and health insurance expenses from his cut of revenue and alleged other shenanigans, including diverting Stevens' accounts and inaccurate accounting. It was all in an attempt to underpay Stevens, or so his allegations go.

In September 2012, it appeared the disputes were behind them as the parties reached a settlement agreement and clarified the terms. Tzell paid Stevens \$115,000 and further spelled out the payment structures and other terms going forward.

Harold v. Goliath

But that wasn't the end of it. Stevens continued to suspect Tzell was underpaying and not honoring the terms of the purchase agreement or settlement.

Among the potpourri of claims Stevens filed against Tzell last year is

breach of contract, labor law violations, fraud, "breach of the implied covenant of good faith" and others, according to court documents.

Stevens even hired industry lawyer Mark Pestronk to analyze revenue records since the sale.

Pestronk claimed that Tzell and Travel Leaders didn't really use a methodology to determine the pool of revenue from which Stevens' cut would derive.

Among red flags, Pestronk highlighted an "implausible" fluctuation from 2007 to 2013 in the ratio of air sales to land sales among Stevens' clients. Also fishy, according to Pestronk's analysis, are Tzell's calculations for overrides and GDS incentive revenue related to Stevens' accounts.

"The implausible and indeed impossible ratios described here, the inverse correlations of amounts that should correlate, the complete absence of categories of revenue, and the lack of any discernable formulas for allocation all lead me to conclude that Tzell's reporting has been totally false," concluded Pestronk's analysis in a memo to Stevens last year.


The Defense

Tzell not only denies the sundry claims Stevens is pursuing, but in court filings suggests Stevens is trying to take a second bite at the apple, especially since the 2012 settlement agreement "resolved all of their disputes" and shielded Tzell from further claims.

During the settlement, according to Tzell filings, Stevens "explicitly agreed that Tzell's method of calculating the amounts owed ... was 'correct' and would be utilized going forward without dispute."

"Ignoring the clear terms of the settlement agreement, plaintiffs now strain to revive their already-released claims in an attempt to obtain additional compensation for the assets they sold to Tzell in 2007," Tzell filed in its motion to dismiss. "Compounding this obvious, insurmountable hurdle to maintain this suit, plaintiffs have stretched these fabricated claims for breach of contract beyond imagination, alleging twelve separate 'causes of action,' several of which are not even recognized by the laws of this state."

Stevens said a judge was set to hear him out last month and decide which—if any—of his claims will proceed. Either way, Stevens is readying for battle. "With their money, they could keep me there for the rest of my life at \$300 an hour," he said, referring to his legal fees.

Meanwhile, a Travel Leaders spokesperson declined to offer much in the way of comment. Regarding the lawsuit, he said the company is "confident it will be dismissed." 

Former Pegasus Distribution Unit Reboots

BY JAY BOEHMER

EACH OF Pegasus Solutions' three primary businesses has been broken up and sold piecemeal, with The Distribution Hospitality Intelligent Systems Company emerging as the newly owned brand formerly operating as Pegasus Electronic Distribution Services.

It's the first days of DHISCO, and its new CEO Toni Portmann sees an opportunity to reboot the business, which, as part of its predecessor company, lacked a degree of attention and investment, she said. Dallas-based DHISCO's core business remains an operator of distribution switch services that enable hotels to plug their content into global distribution systems, online travel agencies, meta-search tools and other outlets.

It is the "single largest processor of electronic hotel transactions" at more than eight billion a month, according to the company, and claims as clients 100,000 hotels and more than 300 brands in 200 countries.

While the name has changed, the focus hasn't. "Being this mission-critical hub and switch is still the core of our business," Portmann said in a January interview.

"In the past it hasn't been invested in as a core infra-


structure piece of the portfolio," she added. "All the surrounding applications and technologies got all the time and attention, but the critical heart and soul—the hub, this mission-critical switch part—just executed. So we have an opportunity to get back to the basics of taking what we're doing and doing it better, faster and cheaper."

DHISCO is steering investment toward the fundamentals. "Whenever you do a carve-out, the very first step is make sure you invest in and secure the infrastructure," said Portmann. "So the very first order of business is to make sure our architecture, infrastructure and connectivity is sound, solid and stable and has high levels in reliability." She also spotlighted opportunities beyond stabilization. Characterizing the hotel sales and distribution business as "data-rich and information-poor," Portmann is keen to fund new information management and business intelligence offerings.

"We'll be investing in reporting and metrics tools that enable our customers, clients and partners to have better insight and intelligence into the way that they can make money," she said. "At the end of the day, if they're not making money, we're not getting paid. So, you'll see

increased investment in metrics management, process management and reporting tools. Then, the next turn of the crank will be in business intelligence."

Portmann in November was appointed initially as interim CEO, but the role has become more permanent and is hers "for the foreseeable future," she said. Portmann's career spans 30 years and includes leadership roles at "high-growth technology companies," according to DHISCO's new private equity owner, H.I.G. Capital. Among prior roles, Portmann served as CEO of Stream, a business-process outsourcing firm that H.I.G. also owned. DHISCO also will retain key Pegasus vets, including Mel Kemp, John Owens, Lynn Malouf and Craig Barnby, who run IT, sales, client relations and product development, respectively.

H.I.G. Capital in November announced it had purchased the Pegasus distribution business, and last month launched the DHISCO brand at the Hotel Electronic Distribution Network Association conference in Long Beach, Calif. It's a throwback to Pegasus' roots and predecessor company THISCO, or The Hotel Industry Switch Co., founded in 1989. 

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Let's Be Clear—The Purpose Of Travel Management Is To Create Business Value



BY GLENN HOLLISTER
PRINCIPAL
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This is a response to Andrew Menkes' Perspective, "Managed Travel 2.0 Is Really Unmanaged Travel 2.0 ... But Either Way, It's 2.Late" (BTN, Jan. 20, 2014).

There's been a lot of press surrounding direct-booking technologies since the advent of Concur's TripLink in August 2013 and the alternatives that followed. Critics charge that these products undermine the most basic tenets of corporate travel management and encourage noncompliance. And, as we know, without compliance we no longer have managed travel—we have unmanaged travel.

As someone responsible for procurement for thousands of travelers around the globe, I get it. The travel team here at ZS works tirelessly to get all of our travelers to consistently book through our travel management company.

However, though I am reluctant to authorize our travelers to book outside of the TMC channel—a strategy more commonly known as Managed Travel 2.0—I authorize it anyway. Why? Because booking outside the channel in some cases creates more business value than booking through it.

When 2.0 Benefits Outweigh Costs

I, for instance, often authorize this type of travel when it involves family members. We hold several meetings on an annual basis—typically at resorts or big-city hotels—and we often invite families as well. We found that employees usually

want to book these trips using their own frequent-flyer miles, or have other needs not satisfied through traditional TMC channels. We invite family members to reinforce our employees' connection with the company, and forcing them to pay more or work exclusively through our TMC would counter this objective.

That's why, in these cases, I allow booking through the airline website—regardless of the "hidden" costs—because the business value (benefits minus costs) of booking through the website is higher than booking through the TMC.

There are some negative consequences for this, however, including the need for staff to manually track travelers' locations in case they need assistance. Also, some frequent travelers may become confused about when they must book through the TMC versus when it is OK to book on a direct website.

While the example of international flight costs may not apply to all programs, most companies do allow booking outside the TMC channel. Recently, ZS released research that shows 77 percent of programs allow booking direct for external meetings, and 45 percent allow it for internal meetings. More than a quarter of companies allow it based on manager or business unit preference.

Ultimately, of course, it is ideal to have both the lower cost and the benefits of booking through a TMC. At ZS, we tried booking passive segments in the global distribution systems, which proved clunky and ineffective. Thus, we have explored several solutions that would allow travelers to book outside of the TMC and still keep management in control of spend. While we have not selected a solution yet, we plan to start a trial within the next six months that, if successful, we will expand broadly.

Our role is to create maximum value for our companies, so travel managers and procurement professionals should not blindly adhere to compliance edicts with bookings through their TMCs. For many years, we followed booking-channel compliance as a means to this end—but it is only one way to create value.

No Universal Approach

When we encounter situations where it is obvious that business value is compromised, we need to look for alternative solutions. Unfortunately, many have had

a knee-jerk reaction to the idea of allowing bookings through other channels.

I do not advocate that every program adopt Managed Travel 2.0. There are programs where the traditional "1.0" approach makes more sense and creates the most business value. Still, if you are a travel manager who has been challenged by others or by yourself about the business sense for the usual 1.0 approach, then you owe it to your company to investigate the emerging alternatives.

In that vein, it's important to also challenge some of the existing ideas about how Managed Travel 1.0 creates value. For example, the industry often talks about a single point of call in the case of travel disruptions. One call to the TMC, and all of the suppliers are notified, bookings modified and data updated.

But do your travelers actually call the TMC? Or do they call suppliers directly?

If they do call the TMC, great—this creates value for your company. But if they don't call the TMC, you shouldn't count that as business value.

What I suggest may not be easy to implement. Beyond our own program, one of the largest challenges is the TMC business model. Booking outside the TMC threatens all revenue streams: booking fees from corporations, GDS segment payments and supplier commissions. If you are like me, you still want your TMC to service these bookings when needed and be able to track and report on the travel.

The TMC needs to also be fairly compensated for these services and requires a new business model that is not tied to transaction fees. Fortunately, a number of forward-looking TMCs have started to investigate new ways of working with companies. These TMCs are best positioned to win the business of the roughly one of five companies for whom Managed Travel 2.0 is a good option today—a number we expect to grow over time.

The bottom line for travel managers is your company's bottom line. Managers need to actively watch the value they create and costs incurred, and constantly re-examine if they are maximizing value.

I cannot tell you if Managed Travel 2.0 will increase value for your company—only you can answer that question. But, I can say you are unlikely to maximize value by blindly following the same program as everyone else. 🔄

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