Working With Airlines

AFTER A WAVE OF MAJOR U.S. AIRLINE CONSOLIDATION AND THE CONTINUAL growth of airline alliances and joint ventures, business travel buyers today have fewer avenues to negotiate airline deals than existed a decade ago. Certainly, that doesn't help buyers negotiating position, nor does a market where demand and load factors continue to increase worldwide. But business travel remains a lucrative and desirable segment for carriers the world over, given the possibility of premium-class and other high-yield travel, and airlines still will heavily compete for that business, despite the leverage that consolidation has delivered to them. Organizations with established airline programs that can prove compliance and an ability to deliver share will be in the best position to receive those deals, and the following is a guide to help buyers develop one.

I. BEFORE YOU COMMIT

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

- **A.** Estimate your domestic and international air volume for the next year based on last year's numbers and the company's business plan, such as mergers and acquisitions, new product lines and new locations. Consider air volume for meetings and internal trips like training. Remember that volume ultimately is determined by business dynamics and the economy, not the travel manager.
- **B.** Ask frequent travelers which airlines they use and why, assess frequent-flyer memberships, understand which air and ground amenities matter to travelers and determine willingness to support a preferred airline program.
- **C.** Determine the 'value drivers' of your organization and search for the most suitable program accordingly. Make sure that the deal will satisfy your organization's safety and security requirements as well.

II. GATHER INFORMATION

Proper data can help you win discounts for city pairs, multiple destinations from one city, regionally or across your travel program.

- **A.** Obtain information about your travel program from your TMC databases, online booking systems and third-party data consolidators:
  1. Top 20, at least, city pairs by segment and passenger count, including carrier and origin and destination data.
  2. Carrier spend per airline per route for the most recent 12 months.
  3. Tickets and value per class of service, including full-fare economy, discounted economy, business class and first class. Know the tradeoffs in using booked, ticketed or flown data. While bookings data is available more readily and with less of a lag, it does not have the same precision as ticketed or flown data.
  4. Analyze corporate card data to find trips booked outside your TMC. Airlines do not count those trips toward the volume you agreed in your contract to provide, but the volume does add to your negotiating power, particularly if you're able to articulate actions you're taking to minimize leakage.
- **B.** Investigate government and independent information on airlines. Perhaps an airline has low load factors on a route your travelers fly frequently, or perhaps another carrier has launched service on the route, allowing you to negotiate aggressively. Be aware of airline customer service metrics. Some airline or third-party providers offer reports on on-time performance, delayed flights and mishandled baggage. The U.S. Department of Transportation provides such data for domestic airlines through the Bureau of Transportation Statistics at bts.gov. Also investigate each airline's maintenance issues and the average age of its aircraft.
  1. Obtain marketshare information by city pair from the DOT, recognizing that such data is free but dated by at least a few months. Data from other sources, including ARC, travel agencies, consultants and other third parties, can be costly.

2. Look closely at data for more than one year to ensure you are referencing an established trend. Look at different quarters of the year to determine the seasonal impact, acquisition or divesture activity and one-time impacts.
3. Focus on the capacity each airline has in given cities and on certain routes. The difference between one carrier's 60 percent market share on a route and another carrier's 20 percent share is significant to the buyer's opportunity to move share.
4. Useful information can be obtained from several third-party firms and from consultants performing data analyses with optimization modeling. This will take into account both client traffic and airline capacity and determine the optimal airline or airlines to serve your travelers.

C. Document your plan to shift market share and influence travelers' airline choices. Note past successes.

D. Determine how and to what degree you can leverage your employees' meetings and incentive travel.

E. Airlines increasingly charge for à la carte offerings above the base fare. Ancillaries include seat selection, checked bags, early boarding, Wi-Fi, onboard meals and upgrades. Though many of these fees are not negotiable, travel buyers should attempt to capture spending through expense reporting and corporate card data to show airlines the total amount spent.

F. Compile benchmarks. Data from peers and TMCs lend perspective.

III. GET STARTED

A. Not all business is equally attractive to airlines. Understand your travel patterns and find a compatible supplier.

1. Recognize airline network strengths: Short-haul versus long-haul, hub and spoke versus point to point, international reach versus domestic focus.
2. Recognize product differences. Some airlines are no-frills, low-cost operators, and others provide comprehensive services.
3. Recognize the total cost. Some carriers offer low fares but charge for seat assignments, carry-on baggage and other ancillaries that exceed the cost of a traditional ticket. However, many airlines also contract services funds to offset many of those fees.
4. Analysis of your organization's travel patterns may present opportunities for citypair-specific deals rather than systemwide deals, but do not sacrifice overall savings for sizable citypair-specific discounts. For more than one systemwide deal, carefully analyze which airlines will maximize citypair coverage without compromising your share obligation to provide market share to other airlines.
5. Determine whether the carrier participates in an airline alliance. Some airline partners offer joint alliance deals, while others even have developed antitrust-immune joint ventures, through which partners manage capacity, fares and corporate deals as one entity. Determine the magnitude of alliance relationships and how it impacts the carrier's negotiating leverage. Consider whether the airline requires an agreement through the joint venture as opposed to either an alliance or individual carrier agreement.
6. Note your negotiating leverage.
   a. Purchasing premium-class fares on long-haul routes on which multiple carriers compete for passengers works in your favor. Airlines know they don't have to work hard to sell economy fares on a short-haul route on which one carrier has a monopoly.
   b. A demonstrated ability to shift travelers to an airline makes your company a desirable customer. Failure to deliver on marketshare commitments you made to carriers or inability to demonstrate that your policy can shift travelers causes airlines to question your ability to deliver on commitments. Noncontracted airlines will take note when they are receiving far below their fair share of a market, as it indicates your ability to support preferred carriers.

B. Communication is key to any business relationship.

1. Determine the degree of authority the airline delegates to local corporate account executives, regional sales managers and the corporate sales or business development director at headquarters. Such relationships ensure that changes in regional staff do not eradicate contacts. Headquarters-level relationships may be limited, especially for smaller travel programs. Many airlines conduct quarterly or monthly progress reviews while others will meet only once or twice per year. Generally, more interaction is better, as strong airline reps have a current understanding of market developments and can share best practices regarding contract management and policy.
2. TMC contacts.
   a. The TMC might have an established relationship with the airline. If so, ensure your organization's goals are compatible with this relationship.
   b. TMCs frequently are the primary source for your organization's spending history and can be partners in negotiations.
3. Peers and consultants can provide benchmarking data. Get involved with local boards, industry groups for buyers and sellers and networking groups to share best practices and industry trends.

C. Some organizations, especially larger ones, take a formal approach by distributing requests for proposals to headquarters and local sales offices. Include essential information only. Agencies and consultants can help formulate and streamline the process.

IV. NEGOTIATE THE DEAL

A. Outline the benefits of your business to the airline. Typically, airline agreements are written by and for the airlines, though your legal department may seek modifications.

1. Even before you issue an RFP, provide data on your organization's traffic patterns and spend to prospective air partners. Highlight areas of interest to the airline, including such high-yield purchases as international business class. Many airlines will require your data to be processed through a third-party data aggregator before they submit a proposal. Allow four to six weeks to facilitate the data release authorization required for this process, as it involves coordination between the airline and any TMCs servicing your organization.

2. Airlines are reluctant to offer trial periods for contracts, but absent the appropriate data, you may be able to implement stair-step agreements in which the level of discount increases with the volume delivered. Be warned that such deals are never as good as a formal bid based on historical data. Alternatively, a back-end rebate agreement may be a possibility for newer travel programs with little or no track record.

B. Be persistent. Airlines are selective regarding the accounts on which they bid. Offering more volume on international routes can revive rejected requests for domestic discounts. Try to tie the two together for maximum purchasing power. Recognize that airlines place higher value on high-yield purchases, such as business class, international service and full-fare economy, and they discount accordingly. Historically, many companies have avoided putting all their eggs in one basket, as market conditions and travel demographics can change. However, as the dynamic between buyer and supplier becomes more strategic and buyers gain stronger voices in the industry through advisory forums, this is no longer necessary. Willingness to offer exclusivity to an alliance should result in a better economic offer.

C. Show a strong front.

1. Have your controller or senior financial manager attend negotiating sessions to help crunch numbers and describe the organization's fiscal direction. Summarize your organization's value to the airline.
2. Depending on the organization's culture, include procurement and other departmental representatives at each step of the negotiating cycle.

D. Negotiate the types and levels of domestic discounts.

1. Most airlines base discounts on the market share or incremental share and/or revenue an organization can provide, on specific routes, on multiple routes from one origination point or on a systemwide basis. Discount structures differ by airline, so understand which fare classes are included in any agreement. Keep the contract and the number of discounts manageable. Cluster markets with similar discounts or share requirements where possible.
2. Consider:
   - **a.** Agreements that include carrier spend or segment goals might not be beneficial. They can be useful for growing companies, though. Consider revenue-based targets in lieu of segment-based targets, as high-revenue segments as they carry higher discounts.
   - **b.** Most airlines only offer nominal discounts on lower-bucket fare types. Assess the impact of such practices.
   - **c.** Obtain assurances that the carrier will reduce your traffic obligation when it lowers its frequency or aircraft size in a given market. Once the contract is implemented, monitor events that could impact your agreement like strikes, weeks of severe weather at a hub, excessive cancellations or work slowdowns. This will improve the discussion you and the carrier have about performance at the end of the measurement period. If your business is particularly dynamic, you may even ask the airline to consider a share gap target, which will automatically adjust targets as your city pairs change or as the airline changes service levels. These contracts set the target as a marketshare gap over seat share.
   - **d.** Don't overestimate volume or the ability to deliver it to extract a higher discount percentage. Airlines often respond to an inability to meet these obligations with reduced cooperation, which will impact the value of discounts earned in future negotiations. This will impact your organization's credibility and ability to negotiate favorable rates in negotiations.
3. Other discount options:
   - **a.** Most airlines have fixed-percentage meeting fare discounts for a group of people flying to the same destination, whether they're starting at the same departure point or not. Group and/or zone fares also may be available for groups of travelers. Buyers should assess group and meeting products and the potential benefits of combining transient and meetings spending for negotiating leverage.
   - **b.** Some airlines may offer back-end discounts or incentive payments to eliminate the risk of providing an upfront discount with no increase in share. Ensure all back-end rebates and discounts are guaranteed and communicate the benefits of any back-end deals to business travelers.
   - **c.** Airlines typically discount the base fare only, meaning all taxes, fees, surcharges and ancillaries are added after the discount.
   - **d.** Determining the details of how the airline will provide access to their promotional fares is very important.
4. Your discount might depend on your TMC's override agreement, through which it receives compensation to drive volume to a particular airline. The TMC might pass on to you the production-based revenue it earns from the airline on business booked for your account. Be aware that these agreements may not align with your preferred airline mix. Though such agreements are confidential to airlines and TMCs, it's possible to learn the targets and the value of your organization's contribution to the override.
5. Most airline deals are net fare agreements. However, some airlines only provide back-end discount programs in certain international markets.

E. Agree on the types and levels of international discounts.

1. Beware the pitfalls of carrier-spend goals. Buyers have no control over currency-conversion fluctuations or fare wars that negatively impact such goals on international routes.
2. Guaranteed upgrades can be obtained in lieu of a special fare or productivity-based free tickets. Capacity-controlled, one-class upgrades now are prevalent in specific markets. However, it can be difficult to measure their value, and assessing how carriers report their value is critical. Make certain this does not conflict with your travel policy since upgrades with one airline may set a precedent.
3. Some multinational agreements may include different discounts in different regions but also may provide a bonus for overall multination-

al performance and other umbrella incentives. Strive for point-of-origin pricing rather than point-of-sale pricing, so discounts are available regardless of the country in which an airfare is booked.

4. If you strike a deal with an airline that distributes your traffic to codesharing foreign partners, ensure systems are in place to guarantee the business is credited to the contracted airline.
5. If dealing with a joint venture or an alliance, push for full coverage from all airlines from all points of sale.

F. Determine how the airline provides access to promotional fares and how they can be used and counted within contracted programs.

G. Some airlines may have a preferred payment or lower-cost payment vehicle that could impact airline flexibility.

H. Other considerations.

1. Keep traveler productivity in mind. Keeping travelers on connecting flights when nonstop flights are available or putting them on options that arrive the day before or depart the day after meetings come with a very real economic cost. While the ticket cash savings may look attractive, in reality, the hidden costs often can overwhelm the easier-to-measure cost savings.
2. Make sure airlines' proposed discounts align with your historical usage by booking class. Eye-popping discounts on seat classes your travelers never use or can't access at the time of booking have no value.
3. Home carriers do not need to work for business originating from their hubs or countries. Competitors often offer aggressive commercial proposals, provided you can shift travelers from airlines to which they have loyalty attachments.
4. Airlines aren't motivated to discount routes they dominate, so try linking discounts on these monopoly routes to marketshare commitments on routes where they have to compete more for passengers.
5. If your policy and culture allow, explore connecting flights as cost-savers, especially for long-haul trips in which connection time is a small portion of the total journey. Make clear in policy the maximum journey time a traveler could expect.
6. Ensure you know which country's jurisdiction govern the contract terms.
7. Ensure your organization's legal department reviews the deal before signatures are applied.

I. Ask to review the airline's contractual terms and conditions at the beginning of negotiations. A legal review can extend beyond the negotiation for the commercial discounts. This does not commit an organization to a formal agreement.

J. Set the contract length.

1. Traditionally, deals negotiated between organizations and airlines extend for two or three years, with the latter preferred by many larger organizations given the time necessary to negotiate a deal. Most airline agreements include formal periodic reviews and exit clauses, generally at 30 days' notice.
2. Some airlines offer so-called evergreen options, wherein the terms, conditions and boilerplate legalese of agreements are retained, allowing buyers and airline sales personnel to focus exclusively on the commercial terms at regular intervals.

K. Consider ethics.

1. Airlines often will squelch deals if they've been used to set a target level for negotiations with their competition. Be careful: Word gets around about such double-dealing, and you could be precluded from discounts with carriers in the future.
2. Keep the terms of your deals confidential. Most airline contracts are bound by nondisclosure agreements that prohibit the sharing of any information without the airline's approval, except for ticketing instructions to your agency or airline-appointed data processors.

V. MANAGE THE DEAL

A. Inform employees, emphasizing senior management support for the program.

1. Post your travel policy on a corporate intranet page and use both your online booking tool and agency to steer travelers to book preferred airlines.
2. Consider sending a memo that reiterates travel policy and encourages the use of your preferred airline or airlines.
3. Consider holding employee seminars. Include in a presentation:
   a. Potential savings from their use of preferred airlines.
   b. Descriptions of any special programs to encourage use of the airline, including monetary prizes, upgrades, advance seat assignments, access to airport lounges, extra frequent-flyer mileage as agreed to by the airline or perhaps free trips not tied to a frequent-flyer program.

B. Ensure your TMC and its representatives are aware of the deal and understand their role in implementing it.

1. Make sure you and your suppliers understand which party is responsible for fare filing and consider regular audits to verify accuracy.
2. Define procedures both for travelers and for agents so they'll book the preferred airlines, and define the minimum savings required for the acceptable use of nonpreferred carriers.
3. Agree upon a recourse if a travel agent fails to book the preferred airline or mention its availability. Failure to take the discount on an eligible fare is a common error when processing corporate accounts.
4. Specify what the TMC and online booking tool must do when your corporate traveler rejects a flight on the preferred airline. For instance, the traveler's refusal of a contracted airfare might trigger the production of an exception report that is forwarded to the travel office and the traveler's supervisor.
5. Consider asking the TMC to publish the savings and losses of accepting the preferred airline booking on travelers' itineraries.
6. If your spend is sufficient, airlines will allow your TMC to contact a special desk for major corporate accounts. Through this channel, airlines will consider matching prices on specific itineraries, enabling the organization to save money while fulfilling marketshare commitments, or will provide other such waivers and favors to support the program.
7. Ensure your travel management company does not have travel counselor booking incentives that conflict with your organization's interests.

C. Monitor the deal through management reports from your travel agency and airline, both to assess the effectiveness of the current deal and to prepare for future negotiations. Airlines use sophisticated tracking tools to gauge corporate client performance so they can amend or cancel the contract if goals are not met. In many cases, the airline will provide the buyer with reports. Before an airline review, prepare for any performance or opportunity discussions. The airline will prepare data and objectives.

1. Watch corporate traveler compliance with the agreement and consider deploying incentives to ensure it. Pass along management reports to department heads to track performance. Internal benchmarking, or measuring compliance among departments or lines of business, can serve as a powerful travel management tool.
2. Keep track of whether your organization is booking flights at a pace that will meet the agreed-upon market-share commitments. Keep in mind seasonal travel patterns. What might look like a shortfall or excess volume at one point might end up being corrected by year-end. Your travel agency may have tools for managing multiple contract goals at the point of sale.
3. Maintain an open line of communication with your travelers via corporate intranets, email, surveys, social networks and memos to hear their opinions about whether the airline is providing acceptable service. Have copies of all queries and complaints forwarded to your office.
4. Maintain contacts with multiple levels within airline sales organizations to develop long-term relationships and to ensure the organization and airline share a view of how the agreement is being honored. Establish multiple contract-performance checkpoints throughout the course of a contract.
5. Many large companies use third parties to analyze contract performance and understand how airline yield management affects preferred corporate deals.
6. Compile data from management reports for use in negotiations at least one month before the contract is set to expire. Such data should include:
   - **a.** Average fare per negotiated route.
   - **b.** The amount of business directed to the airline before and currently.
   - **c.** If applicable, reasons why the traveler did not use the preferred airline, such as travel agent error, schedule, employee refusal, the organization's lowest-logical-fare policy or unavailability of seats, perhaps due to a carrier decreasing the service it provides in a particular market.

D. Consider hiring a third-party audit firm to monitor your TMC's performance in booking your organization's preferred airlines. This may prove particularly helpful for an organization with multiple agencies.

1. Have the auditor examine available data, including the percentage of time your agency offered the discount fares when such discounts were applicable, how frequently travelers accepted them and why travelers declined to accept them.
2. Determine whether the airline imposed limits that aren't in the contract on the availability of discounted fares.

E. Renegotiate the deal, if warranted. In most cases, if an organization has generated even a small increase in market share for the airline, it probably can get at least a one-year renewal. If an organization consistently exceeded targets or met them despite obstacles, it should request a larger discount. Travel buyers should regard the contract as a living document. As travel patterns change, amend goals and discount levels. Keep abreast of mergers and acquisitions that could impact your company's travel patterns.

F. Monitor the competitive dynamics of key routes. If a new entrant challenges your preferred airline on a monopoly route, try renegotiating a more favorable deal with your current preferred airline. Alternatively, if a carrier exits a route and a remaining airline monopolizes it, make sure your discounts cover the correct booking classes in case the airline decides to yield-manage its inventory to take advantage of its stronger market position.

VI. MISCELLANEOUS

A. Though airlines largely are unwilling to eliminate baggage fees, they often waive them for frequent flyers. Major airlines are willing to negotiate a limited number of instant elite status designations or status matches, which can help frequent travelers transition to a new preferred carrier and shield them from certain ancillaries.

B. Upgrades.

1. Many airlines award upgrades almost exclusively to elite members of their loyalty programs, but increasingly airlines are making seat upgrades available for sale at the time of check-in.
2. Make sure travelers know if you have a deal providing upgrades on a space-available basis.

C. Airport lounge admissions.

1. Some airlines offer complimentary airport lounge memberships in lieu of discounts or with certain types of tickets, usually in premium classes.
2. Some provide a limited number of airport lounge admissions on request.
3. Airlines increasingly offer reciprocal airport lounge access for customers of airline partners or those within an airline alliance.

D. Often, corporate deals offer executives special services. The number of executives that may be enrolled generally is based on the organization's spend. Airlines also may provide separate airport check-in for some accounts.

E. Some airlines sell bulk-purchase tickets or flight passes, which require an upfront payment but can provide savings when contracted upfront discounts are difficult to secure. These programs can offer great value if an organization can manage the internal aspect. Typically, one cost center makes the deposit and other cost centers burn off the credit.

F. Some airlines will consider prepayment at fixed rates in certain city pairs and payment on a cost-per-mile basis, perhaps with a pay-at-use concept.

G. Investigate an airline's international safety and security procedures and airport facilities.

H. Ensure the airline will relieve you of all airline contract commitments during labor-related work stoppages or slowdowns.

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