

# innovate

## INTRODUCTION

### THE BTN GROUP INNOVATE 2014 THINK TANKS

The Innovate 2014 Conference for the Advancement of Business Travel offered business travel executives the opportunity to articulate priorities and recommendations about six of the biggest challenges facing corporate travel buyers and suppliers:

- Selecting and Implementing Air
- Selecting and Implementing Hotel
- Selecting and Implementing a Travel Management Company
- Travel Policy Development
- Building a Better Booking Tool
- Making the Most of Mobile Opportunities

The BTN Group worked first with its Advisory Board and then with a dedicated Steering Committee to identify the focus topics for 2014. *Business Travel News* editors then recruited a group of leading business travel buyers to participate in independent task forces that could identify specific concerns and posit new ideas for moving the practice, the tools and the objectives of business travel management into the future. Think tank sessions held during the *BTN Innovate 2014* Conference served to validate concerns and flesh out innovation concepts.

The Innovate 2014 white papers document the results of these efforts.

In focus for this paper: **SOURCING AIRLINES.**



# SOURCING AIRLINES:

## FINDING WAYS TO REDUCE THE COMPLEXITY OF AIRLINE AGREEMENTS

**As airline pricing has grown increasingly complex, so, too, have the discount structures in place for corporate travel buyers.**

### TASK FORCE: Sourcing Airlines

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In preparing for the Airline Sourcing think tank for The BTN Group's Innovate 2014 conference in September, a task force of travel buyers concluded that though airline inventory often aligns with internal needs and processes for airlines, it is not user-friendly for corporate clients. In fact, many buyers see it as a “game rigged against corporate clients.”

Air contracts today commonly consist of discount levels across an array of fare types, with the lowest discounts on the lowest class of fares. Over time, available discounts on those lowest fares shrank or even disappeared altogether. At the same time, airlines are controlling inventory to the point that negotiated agreements can be difficult to fulfill, as fare availability becomes more of a moving target.

Why then, the task force concluded, could buyers not have a formula for discount terms based on spend, transactions and overall market share?

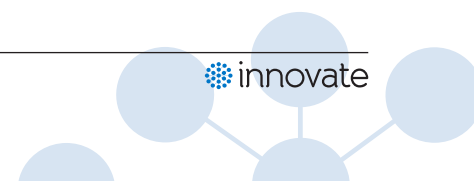
### The Process

In its work before the think tank discus-

sions, the task force determined that it wanted to develop potential solutions for air sourcing complexity that would be both realistic to pursue and provide benefits to buyer and supplier alike.

To help do so, the task force developed a list of eight possible goals, four related to the contracting process and four related to data management. These goals included:

- Making ancillary fee and surcharge revenue part of the overall value of the contract
- Tying discounts to price tiers, rather than to booking classes
- Reducing the number of terms in airline contracts
- Automating the loading of contract and proposal terms into bid-analysis tools
- Using relevant benchmarks to gauge a proposal's pricing
- Developing standards for calculating “savings” for comparing proposals
- Prioritizing the improvements in airlines' data reporting to buyers
- Developing a better method for measuring contract performance



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Rather than immediately jumping into developing solutions to reach these goals, think tank participants—which included a mix of buyers, suppliers and consultants—first evaluated each goal. For the first two hours of think tank discussion, the group discussed the motivations buyers and suppliers had to tackle each problem and, from the perspective of each, the criteria that should be used to judge each potential solution. They also prioritized each goal.

Some solutions, this group found, would not be realistic. For example, from a buyer perspective, it seemed feasible to develop a pricing model

### 1. Buyer performance against airline contracts should better represent the reality of market conditions.

Air contracts generally require buyers to provide a certain level of market share to their airline partners, but the way these requirements often are measured can add additional burdens on buyers.

One buyer recounted how, on her trip to New York City to attend the conference, she flew on a competitor rather than her preferred carrier because it offered the lowest logical airfare. Based on her discount, however, her carrier should have offered the lowest price. When she called her agency representative, she discovered her preferred carrier would indeed have been the lowest price—had she flown into Westchester County Airport rather than LaGuardia, John F. Kennedy or Newark Liberty airports.

“Sometimes, it’s a matter of what the customer wants versus how the airlines measure,” she said, “and they don’t always sync up.”

As such, airlines and buyers should work together to transform “fair market share” into more of a “natural market share,” one that meets the demand of the typical business traveler. A natural market share, for example, might consider only flights between 9 a.m. through 5 p.m. for companies with travelers who almost never take early-morning or late-night flights. Or, it might consider share on only certain types of aircraft if travelers tend to eschew regional jets.

A natural market share also might weed out those fare buckets that don’t qualify for

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tied to fare, inclusive of ancillary spend, rather than class booked. As an illustration, one such contract could give a discount of 1 percent for fares of \$200, 2 percent for fares of \$300, 4 percent for fares of \$400, and so forth.

While buyers in the think tank showed some enthusiasm for such an agreement, airline representatives in the room quickly shot it down, saying it might simplify things but would never be approved by their revenue management teams.

Building on the findings in these discussions, think tank participants in the second two hours of discussion focused on potential solutions, using the earlier discussions as parameters within which to come up with a solution. In doing so, they were able to determine four areas in which buyers and suppliers can work together to simplify air sourcing.

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discounts. An agreement, for instance, might not even take into consideration tickets of less than a certain value when determining market share.

Additionally, natural market share would take such ancillary charges as bag fees into consideration, which some buyers already have had success in enacting.

### **2. Savings quantification should be customizable to meet buyers' reporting needs.**

Though airlines provide savings reports to buyers, they often have little use when buyers need to report to their procurement superiors.

One buyer noted that an airline might assign a specific value to gold-level frequent-flyer program memberships—\$1,000, for ex-

ample—based on potential savings on bag fees and other ancillary charges that are waived at that level. The buyer, however, would have a hard time internally justifying

50 gold statuses as representing \$50,000 in savings. Unlike the hoary comic strip gag in which Blondie, carrying a load of shopping bags, brags to Dagwood about how much she saved him by buying items on sale, many buyers get no credit for cost avoidance.

“It’s really important that airlines understand their customers well enough to know how they calculate savings,” one buyer said. “We get a big number for savings, but we can’t drill it down to a granular level to explain it to someone.”

Even when those savings are translated into actual dollars—totals of fees actually waived due to loyalty program memberships, for example—those numbers are not always meaningful to buyers. One buyer said although calculating total change-fee and bag-fee waivers were a meaningful number to report, combining in “savings” from free upgrades was meaningless, as that traveler would have flown for the same price in coach otherwise.

Most buyers agreed that Delta Air Lines is on the right path with its Delta Edge program, which provides travel buyers on-demand reporting via a web portal. However, they also said it does not quite go far enough in terms of customization.

“It only presents what their version of savings is,” one buyer said. “I would love just to see my view. Let me decide what I get credit for, because we use a slightly different methodology.”

An airline representative in the think tank told buyers that developing such customizable reporting was not out of the question, but buyers must clearly and continually articulate the need for it in order to get airlines interested.

“It’s a tall mountain to climb to get resources and the energy put into it,” the airline representative said. “It doesn’t mean they wouldn’t listen, but if it wasn’t part of the plan, you wouldn’t get the resources to take off in a different direction.”

### **3. Buyers and airlines should work on standardization to simplify contracts.**

Airline representatives had a warning for



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buyers concerned about the increasing length and complexity of airline contracts.

“Beware of what you ask for,” one airline representative said. “Simplification may drive down perceived value for the customer.”

Still, buyers and airlines during the think tank rated reducing the complexity of the contracts as a high priority. For the buyers, doing so would make contracts easier to grasp and easier to communicate to travelers and executives, and negotiating them would require less analytics and time and money spent with third-party consultants. For airlines, it would mean a shorter sales cycle to reach a preferred partnership.

So, what can both sides do to reduce complexity without eroding the value of the contract? For one, airlines could come up with an off-the-shelf contract model for buyers who just need the “cheap and easy” way. Buyers who need to drive more value could opt for the more complex version.

Legal teams on both sides, with their own lists of terms and conditions, always will need to be placated, but some buyers said the pure number of terms was not necessarily the biggest problem.

One area in which airlines should particularly concentrate on is finding a way to standardize definitions across their alliance and joint-venture partners, buyers said. Often, some of the ways those partners define regions or groups, for example, are confusing or conflicting, they said.

“Clarifying alliance and joint-venture deals, taking care of those ticketing terms that conflict from one to the other, would be a

big plus,” one buyer said. “The terms should be crisp and clear.”

Buyers, meanwhile, can advance this effort by working on standardizing data fields among preferred carriers and clearly communicate those with their airline partners so they can work to build a sort of collective, standardized template.

### **4. Better reporting will be needed to capitalize on opportunities with ancillary spending.**

Getting a better handle on ancillary charges remains a key opportunity for buyers to drive savings in the air programs, but data complexities remain a prohibitive challenge for many.

Although standardizing the ways airlines report on ancillaries would help, they do provide details that can help buyers determine total trip costs. The bigger burden lies with corporate card providers. From their perspective, improving on ancillary data standardization will require an investment, and card providers will need to hear from buyers that it should be a priority, airline representatives cautioned.

Once buyers and airlines have a better grasp on the data, they will have to determine the best way to handle it in contracts from a process perspective. Besides counting toward marketshare requirements, they could consider getting immediate discounts on ancillary spend, or they could consider retroactive discounts in the form of rebates. Airlines also are exploring corporate negotiated bundles that include a subset of ancillary services, though some buyers are skeptical as to whether these will be beneficial. ■

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