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IN THIS PAPER:

Defining & Enforcing Lowest Logical Policies

The BTN Group's Innovate 2017 Conference for the Advancement of Business Travel offered business travel executives the opportunity to articulate priorities and recommendations about four of the big gest challenges facing corporate travel buyers and suppliers:

- Building a Better Hotel Procurement Process
- Taking On Total Cost of Ownership
- Defining & Enforcing Lowest Logical Policies
- Evolving the Role of the Travel Management Company

The BTN Group worked first with its Advisory Board and then with a dedicated Steering Committee to identify the focus topics for 2017. BTN Group editors recruited a group of leading business travel professionals 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 Innovate 2017 Conference served to validate concerns and flesh out concepts.

DEFINING & ENFORCING LOWEST LOGICAL POLICIES

By Michael B. Baker

Too often, "lowest logical" policies for airfares and hotel rates fail to match either word in their descriptor. While most responsible for corporate travel policy understand that the lowest fare is not always the most logical, determining what is logical has become increasingly complex with unbundling, restrictions, loyalty program benefits and technological advancements in re-shopping. Even with a clear definition in the policy, how does a buyer ensure that travelers understand lowest logical rates and book them?

Those hoping for a textbook definition of "lowest logical" boiled down to a few sentences will be disappointed. Any definition will need to be viewed through the prism of a company's culture.

"Just because a company is considered best in class, they're doing it that way to balance cost savings, service and employee ownership," one buyer said. "There are different views on those attributes, and you'll need to know the answer to those questions."

Some preliminary factors buyers should consider:

- How does the size and industry of a company affect its culture? What's logical might differ in a small professional services firm compared with a global industrial conglomerate.

- What percentage of revenue does travel spending currently represent in a company? Even if a company culture leans more toward leniency than strict cost savings, if travel spending currently represents half of revenues coming in, a stricter approach likely is warranted.

- Is attracting talent currently an issue for a company, and if so, is a reputation of over-burdensome employee policies a factor?

- If a company already has a defined lowest logical policy, when was the last time it was evaluated? Company culture can shift as companies grow and their needs change.

With that framework in mind, travel buyers can take a deeper dive into some of the nuances of creating a lowest logical policy.

DEFINING LOWEST LOGICAL AIRFARE

In an ideal world, a company has negotiated fares with preferred carriers, and are always getting the lowest fares for travelers. As that is rarely the case, buyers generally supplement requiring travelers to book preferred carriers so long as costs remain within a certain threshold of the lowest available fare. Should the preferred fare be priced above that threshold, then travelers should book the lower available fare.

What that threshold should be, of

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course, is the first question. Thresholds in the range of $100 to $200 are fairly common, but companies often set separate thresholds for domestic and international fares, which are more expensive. To simplify matters, some companies are moving to a percentage threshold rather than a flat dollar amount.

Many of the fares below that threshold are still not "logical," however. "When lowest logical means the lowest you can get, it means a lot of inconveniences, and a lot of non-productive time [for] travelers," one buyer said.

Already, many companies clarify that flights with connections versus nonstop flights are not required even when they offer significant savings. They also might exclude ultra-low-cost carriers that tack on numerous ancillary fees that ultimately inflate the fare to where the savings are not significant.

As airlines adjust their revenue strategies, buyers now are having to look at more exclusions, in particular as full-service carriers introduce bare-bones "basic economy" fares to compete directly with ultra-low-cost carriers. These fares come with numerous restrictions, such as no changes allowed, no seat selection, limited or no mileage accrual and, with some carriers, no use of overhead carry-on space. While carriers started out introducing these fares on select highly competitive routes, they've gradually grown across full domestic networks and even some international flights.

For now, the prevailing opinion among travel buyers is that basic economy fares are not suitable for business travelers and should not be considered in the lowest logical equation. A key problem is that travelers often do not understand those restrictions in booking, especially when booking tools display them no differently than any other fare.

"If you have an educated traveler population who knows what these restrictions are, by all means, encourage them to book them," one buyer said. "In my population, I would find myself in so much hot water if I encouraged it."

Even so, buyers are watching the fares closely. While the savings compared with regular economy fares per segment generally is not much at the moment, it would merit re-evaluation should that differential begin to creep up, some buyers said. In addition, frequent flyer status often overrides some of the more onerous restrictions in basic economy fares—travelers still get to board according to their status and can still use overhead space, for example—meaning the friction is not as high when deployed strategically.

Still, being unable to change a flight could quickly offset any savings offered by basic economy fares. "With a $10 to $15 difference in the market, all it would take is one throwaway fare to eat up five or six of those tickets," one buyer cautioned.

Those frequent flyer benefits also should be a consideration, as they can offer savings beyond the fare.

"If you have an educated traveler population who knows what [basic economy] restrictions are, by all means encourage them to book... In my population, I would find myself in so much hot water."

For example, if travelers' status on a preferred carrier enables them to upgrade to a premium economy or business class seat for free on a long-haul flight, how much value does that offer over a cheaper, non-preferred carrier? This likely will be easier to compare in the near future as carriers work with distributors and agencies for richer displays that quantify what is included in a fare, as well as the growth of outside parties that are developing scoring levels for flights based on convenience and amenities.

Additionally, as booking tools evolve, buyers increasingly are able to incorporate alternative conveyances into the lowest logical equation. Many buyers with limitations on internal travel already require travelers to consider options such as videoconferencing in lieu of travel. In the same manner, a buyer could price rail and rental car options or personal vehicle use when travelers request shorter flights and use that in the lowest-logical decision process. That said, they would have to consider the full cost of trip.

"If your policy lets you take rail in a higher class, like Eurostar, the flight might be cheaper," one buyer said. "But if you factor in the car service to the airport versus leaving from a city center, the flight might be more expense even versus the higher fare on the train."

DEFINING LOWEST LOGICAL HOTEL RATES

Hotel programs bring a different set of complexities to the definition of "lowest logical." In a common travel program structure, buyers negotiate hotels in the cities in which they do they most business. For other cities in which they do not have sufficient travel volume to negotiate rates, they supplement their program with chainwide discounts.

As such, travelers often are venturing to destinations in which a company has no preferred properties outside of those chainwide discounts. Therefore, a common approach is for buyers to set rate caps in cities and require travelers to book hotels within that.

As with airlines, amenities should be a consideration in determining acceptable hotel rates. A hotel that includes Wi-Fi and breakfast could end up costing significantly less than a hotel that does not but offers a slightly lower rate, especially if a traveler accrues breakfast and Wi-Fi charges over a stay of several nights. Of course, buyers need to be armed with data on how much travelers are actually using it. A negotiated rate with breakfast included is of little use if travelers are skipping the buffet to pick up a tall latte and granola bar at Starbucks every morning.

Also as with airlines, lowest-logical policies often allow travelers to decline preferred hotels when better rates are available. Depending on a company's travel needs, however, directing travelers to preferred hotels even when comparable hotels offer better rates can mean long-term savings.

One buyer, who often has to send

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travelers into emergency situations when hotel space is extremely limited, said the savings of being able to work with a strong partner in those situations more than offsets the cumulative savings had travelers been instructed to find lower rates than preferred hotels throughout normal travel situations.

The advancement of shopping tools has added a time element to lowest hotel rate policies, as a rate booked one day can suddenly become less attractive as competitors tweak rates the next day. Monitoring hotel rates for the same property booked is a no-brainer for many buyers, but monitoring other comparable properties nearby can bring in additional savings, if corporate culture allows for travelers to be shuffled around. The same applies to shopping tools available for airlines.

"Before you go down the technology road, it's important to not only look at what's available but at the traveler culture and appetite for flexibility," one buyer said. "If you move a traveler, does that mean that they were eligible for an upgrade but now are not? It's important that you make sure that you're not going to be jeopardizing something travelers define as a necessity."

As a softer approach, some buyers are offering the tools but not using them as part of the lowest logical rate consideration.

"With hotels, because of the dynamic nature of pricing, the lowest logical rate can be a moving target between booking and departure," another buyer said. "I do believe in [the shopping tools] and do use them, but nobody is called out of policy for not using them."

In the meantime, some large hotel brands have begun tweaking cancellation policies, penalizing travelers who cancel hotel reservations a day or two in advance of a stay. When those policies are not mitigated by negotiations, they add an extra layer of consideration for lowest logical hotels rates, especially in travel programs that require frequent last-minute changes.

ENFORCING LOWEST LOGICAL POLICIES

The best policies are only as good as the ability to enforce them, so buyers must be sure that their booking process and policies accommodate their lowest logical policies, once they are defined.

Some companies still require pre-trip approvals, though many buyers have moved away from it because it can be cumbersome on approvers—or useless, should approvers simply rubber-stamp each request. In addition, rates and fares can change in the time it takes to get approved, resulting in lost savings. Exception reporting is another approach to enforcing lowest logical policies, requiring pre-trip approval only in those cases in which lowest logical policy is not followed.

Buyers will need to contend with those rates and fares that are low but not logical, such as basic economy fares. They can choose to continue to allow them to be

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booked through a corporate tool, have them displayed but grayed out and disabled for booking or exclude them altogether.

All approaches have their drawbacks. Should they not be displayed at all, travelers might find them on their own and book them outside the tool, thinking they are finding savings. Should they be grayed out, travelers simply might question the functionality of the tool and seek them outside the system. Should they be available for booking, a traveler might book them without understanding the restrictions even if they are defined within the tool, leading to complaints later. Buyers must determine which method fits their own culture the best and communicate it clearly to travelers.

Explicitly blacklisting non-preferred suppliers, such as ultra-low-cost carriers, is a risky approach. If a situation arises in which a traveler decides to take that carrier anyway because it was the only one available on a route, that could put a company in a difficult legal situation.

"You don't want to get in a situation where someone takes a blacklisted carrier, it crashes, and you get sued," one buyer said. "You just want to make clear which carriers are preferred."

Buyer must be wary of "creative" travelers who will find their way around lowest logical policies. For example, mileage-hungry travelers might set up a search with time parameters meant to exclude what would be the lowest logical airfare to ensure the airline they like best shows up as "lowest logical." Or a traveler might wait to make a booking until fares increase to gain more mileage.

While there are ways to combat that—comparing booking behavior to a traveler's calendar, noting the time of the appointment and when it was first made, for example—many buyers say those gamers represent an exception among the vast majority of travelers, so overreaching and adding friction to the overall travel population could be counterproductive.

At the other end of the spectrum, some buyers are exploring gamification approaches, rewarding travelers who consistently follow lowest logical policies. While some counter that this is simply rewarding employees for doing what they should be doing in the first place, several third parties are offering reward structures, and some buyers are developing them internally.

One consultant, however, cautions those exploring gamification to consider how they can change policy altogether. He spoke of one company that decided to offer an incentive for travelers who opted for economy class rather than business class on transatlantic flights, allowing travelers who did so to bring a companion at the company's expense. Upon noticing the large number of travelers taking them up on the offer, denoting a willingness to fly economy class on those flights, the company's financial leaders decided to do away with allowing business class on transatlantic flights altogether.

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