

Buyer - Airline Contract Negotiations

INTRODUCTION

This publication provides a synopsis of the standard airline model/process for corporate discount agreements and the supporting services offered by TMC's, as compared to the alternative managed approach of CTBR.

STANDARD AIRLINE MODEL/PROCESS

Discovery – Airline projects the natural market share it anticipates from the buyer;

- Requires the buyer to provide historical airline data so it can assess purchasing patterns on its airline and competing airlines.
- Uses its own unsubstantiated and sometimes biased formulas to determine the natural market share it should expect from the buyer, based on historical spend.

Quote - Proposes discount, using buyer's historical purchasing volume as the baseline for its calculation.

- Discounts predominantly percentages, with some fixed fares.
- Discounts are tiered by class of service, hub and targeted city pair markets.
- Discounts are contingent on the buyer delivering a market share premium, above the projected natural market share or the buyer's historical market share, equal to or greater than the discount value.

Agreement– Airline generally requires a 2-5 year term with unconditional termination clauses for both parties. Contract typically offers the buyer limited or no guarantees and SLA considerations.

Contract Performance – Airline monitors monthly airline purchases.

- Requires buyer to submit monthly data of airline purchases on its airline and competing airlines.
- Reports its own unsubstantiated evaluation of the contract performance, with the buyer having little recourse to challenge or dispute.

Summary - This standard airline contract model/process is inherently flawed because it's based on the following four assumptions being true, when in fact none are typically true;

1. A buyer's historical spend will be reflective of future spend.
2. An airline's historical scheduling and capacity will remain consistent in the future.
3. An airline always has a seat available and is competitively priced for each reservation.
4. An increase in market share always equals a more profitable customer and a decrease in market share always equals a less profitable customer.

Preferred Buyer Profile - Unless you're fortunate in the city pairs and markets you travel, this standard airline process will only favor a buyer who meets one of the following criteria;

- Spends over 100M annually in air purchases, so you can negotiate the most favorable rates (20-50%+ discounts on all classes of service)
- Able to move double digit market share gains to an airline, without creating a cost shift or service issue. However, this is short lived because a buyer cannot sustain large market share gains year-over-year.

Deliverable Conclusion – With the above model, a buyer will be unable to accurately project and measure the actual market value of any new proposal and in most circumstances will need to increase its average purchase price or overall spend to satisfy contractual requirements and projections, which is counter productive to controlling costs. Even if the buyer is fortunate to hit a home run in a new agreement, the value of the discount will likely decline along with the integrity of reported market share and contract savings each quarter during the life of the new agreement.

TMC APPROACH/SERVICE

TMC's and their affiliate solution entities provide three standard services to assist buyers in airline negotiations;

1. Analysis of historical airline data to counsel the buyer on preferred carrier portfolio options, including projected savings from each option.
2. Comparable discounts and benchmarks to help evaluate quotes.
3. Quarterly analysis of contract performance.

Services 1 and 3, while potentially useful to compare against the airlines' analysis and baselines, are aligned to and based on the same flawed methodologies used by the airlines. Service 2 is typically speculative and rarely provides a true apples-to-apples benchmark comparison. Accurate benchmarking for this type of project needs to be unit based and internal. In addition, a TMC is still an agent to the airlines with many negotiating their own airline override agreements with a select group of preferred airlines. This creates a conflict for many TMC's and their affiliates to counsel a buyer during airline contract negotiations. The real value of a TMC and its solutions group is in processing your discounts and in formatting, modeling and reporting raw point-of-sale data to your specifications.

CTBR APPROACH

Overview

CTBR takes a nontraditional analytical and an aggressive-managed approach to airline contract negotiations, driven by four standard principles;

1. Very few buyers can move market share year-over-year without creating a cost or service shift.
2. A buyer must balance the power of information (data) by developing its own buyer-centric metrics to challenge the airline's flawed metrics and to project and measure the true value of any contract.
3. A buyer must be able to incorporate and leverage its buyer-centric metrics into the ongoing contract negotiations, including SLA provisions.
4. A successful airline agreement requires the buyer to evaluate and potentially renegotiate the business terms (pricing, deliverables, etc) every quarter during the life of a new agreement.

CTBR Process & Services

Goal - Establish and pressure test actionable and measurable goals for air spend and preferred air agreements.

Data & Baselines - Establish baseline data and new KPI's to accurately measure goals and your projections against actual performances.

- Contractually control and perform spot audits of third party deliverable data sources.
- Establish one unit and spend metric (buyer-centric) to be universally used as the baseline for all calculations and analysis.
- Develop Risk/Leverage metrics, specific to your company, that can identify the true net market value of each contract and identify your leverage and risks in negotiations.

Contract Negotiations - Develop and execute an innovative strategy;

- Counsel buyer in applying Risk/Leverage metrics to quickly identify and obtain best pricing.
- Elevate negotiations internally and externally.
- Incorporate buyer friendly business terms into the agreement and/or quarterly review process.

Quarterly Review and Maintenance - Establish a written quarterly review process that will help the buyer gain more control, accurately monitor and challenge results and maintain the best overall value (discount levels) during the life of the agreement.

- Assist the buyer in taking ownership of airline reported data during quarterly reviews.
- Counsel buyer in applying new Risk/Leverage metrics to monitor the true net market value of the agreement and to renegotiate the maximum value during the life of the agreement.

Buyer Profile:

CTBR's approach favors a buyer who meets the following criteria;

1. National or multinational corporation currently spending 5M-90M+ annually in commercial airline purchases.
2. Employs a strategic sourcing approach of obtaining the best overall value from its top suppliers/vendors and spend categories, including requiring accurate measurements for projections against actual performance.
3. Partners with a TMC solution group or other third party to aggregate and format raw POS airline data.
4. Committed to proactively managing the process on a quarterly cycle.

For more information on managing air spend and preferred airline negotiations or other Corporate T & E solutions you can contact Donald L. Swartz, Principal Corporate Travel Buyer Resources at 561.694.6743 or dswartz@ctbrtravel.com