

“Two simple buyer (customer) focused solutions to airline ancillary service fees”

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The travel industry is aggressively pursuing open or direct-connect platforms as the solution to help buyers manage airline ancillary service fees. I'm a big proponent for an open or direct-connect platform, but as an independent consultant to corporate travel buyers I find myself asking - who's representing the customer's (corporate travel buyer's) interest? Is providing content access the real issue or solution to managing these services/fees, or will it only create more transaction charges? We have all seen how this plays out. It starts with a \$0.50 transaction fee and soon balloons to \$2.00 - \$10.00 to satisfy all of the parties in the chain. A year later the airlines will deploy a new strategy, so we have to start the process all over again. History has taught us the travel vendors will most likely never win the content battle because the airlines continuously change the rules of the game.

Even with an open/direct connect platform, the TMC/GDS will **never** book every airline ancillary service for each trip. Most services are post ticketing decisions, with some decisions occurring or changing the day of travel or while traveling. Does the TMC/GDS book hotel folio expenses? Do you really need or want them to book every service? Sure, offering a managed program visibility to some ancillary services during the reservation process would be helpful. What a business traveler really needs is a post ticketing solution, which mostly likely will require a mobile app provided by the airlines. What the corporation or buyer really needs is a fair pricing model and the ability to track and reconcile all charges, regardless if booked through the TMC/GDS or directly with an airline. Neither will be fully realized if a TMC/GDS gains direct content access. Instead of waiting on a partial solution and being held hostage by the direct content battles, I believe implementing the following two Acts will provide the buyer with a simpler and more valuable solution.

1. Fairness Act

Like taxes, airline ancillary fees are not assessed fairly. Fees are generally waived for business/first class travelers and elite frequent flyer members. Both practices make good business sense. The only travelers subject to extra charges are coach travelers with no elite frequent flyer status. And, here in lies the problem because not all coach travelers are equal. Some pay as little as \$198.00, while others pay \$800.00 or more on the same flight. A traveler who purchases the lowest published coach rate(s) and then purchases every possible ancillary service still ends up paying 30 – 50% less than a traveler who purchases one of the higher coach rates before any ancillary service charges. The lowest priced coach traveler also typically ends up with a more favorable seat assignment.

My proposed Fairness Act would allow an airline to charge fees for any service (*except Ryan Air's asinine idea to charge fees for using the restroom*) when a traveler purchases the lowest published coach fare. Seat assignments would also be restricted until twenty four hours prior to departure. Ancillary service fees are then waived for all other coach travelers, accept food & beverage charges!

This Act provides value to both the airlines and corporate buyer. For the airlines,

- Offers competitive differences whether they charge or don't charge for ancillary services.
- Provides new ticket revenue because some travelers will upgrade their ticket price for a total fixed cost or an advanced seat assignment.
- Forces the airline to finally develop smarter and stronger coach pricing models in each market (*e.g., fewer, simpler, and more profitable coach fare categories*).
- Reduces current operating costs (*e.g., fewer ancillary service fees and coach fare categories to administer in each market*).

For corporate travel buyers it will increase rates on a few tickets, while reducing the number of ancillary service fee charges. This will,

- Simplify the process for evaluating comparative ticket costs and reconciling charges.
- Offer the ability to negotiate comprehensive and pricing agreements.

2. Reporting Act

The lack of a reporting option is the biggest challenge for corporate buyers. Behind closed doors airlines are boasting about how much revenue they're earning, while essentially telling their top customers (corporate travel buyers) *"You try and figure out where and how much we're charging you, it's not our concern"*. In my proposed Reporting Act the burden of reporting would fall on the benefactor(s) and cater to the customer. The customer is the corporation or entity paying for the ticket, not the traveler! The benefactors are entities earning incremental revenue (airlines and credit card vendors). Let's start with the airlines. The added revenue certainly warrants developing a new reporting platform to accommodate their top customers. However, they don't need to develop a new platform because they already have a reporting system in place under their frequent flyer programs. An airline can or should be able to report ancillary service fee activity, by frequent flyer member, using this existing system. American Airline even teased up this solution recently as part of its direct-connect negotiating strategy. My proposed Reporting Act would require the airlines to support a unique corporate identification number that would be attached to the traveler frequent flyer number for ticket activity under each company. The airline would then be required to provide a monthly data feed to its customer (again, the corporate travel buyer) containing activity from its travelers, or submit a data feed to the company's designated data aggregator (*i.e., a reverse Prism process with the airlines*). This data would solve the current buyer challenge of tracking and leveraging activity by airline and help to perform simple internal expense reconciliations. More importantly, the booking source for ancillary services (TMC/GDS or airline direct) becomes irrelevant, so the buyer is not held hostage by content battles. The TMC and industry technology providers could compete by offering reporting solutions to integrate the new airline service fee data with the current ticket level activity. The airlines would also benefit because they could finally track total revenue by corporate client. What company would not benefit from this information?

Credit card vendors and the airlines should also develop unique coding processes, similar to level two and three hotel folio expense data, to provide gap data and complete the expense reconciliation process for a buyer. This data is needed whether or not a TMC/GDS has content access to book these services. Credit card vendors would also benefit from additional business because more companies would begin mandating corporate card usage to electronically track, reconcile and audit this process.

The buyers' challenge from ancillary service fees has once again exposed the major airlines' common practice of only assessing the revenue potential, not the service impact on its corporate customers before deploying a new strategy. Every airline could have implemented similar acts, with minimal costs and effort, prior to launching the first service fee. This is the real issue or root cause, not a lack of content access. The airlines will continue deploying new strategies with total disregard for their corporate customers until the buyers can unify and challenge them directly. What company in any industry would not act when challenged by its top customers, especially when they account for over 70% of the total revenue? Unfortunately, there is no unified buyer voice or platform in the market to challenge the airlines. Counter solutions to buyer issues are typically negotiated by travel vendors (TMC, GDS, etc) who are more interested in protecting their own agenda. Instead of letting the industry vendors decide or negotiate your fate, it's time for the buyers (customer) to unify and directly challenge the airlines, or at least take a seat at the table where the negotiations and solutions are being decided. If not, the buyer will end up with a new transaction fee, a partial solution and the same challenges resurfacing every 6–12 months as the airlines implement their next strategy.