Air Spend Management 101

NBTA Aviation Committee
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Effective management of air travel expenditures is based on policy, communications, program management, and, where appropriate, informed negotiations. Where spend levels do not support airline incentive contracts, managing the use of small business rewards programs can be effective.

Policy is the Starting Point

The starting point for effective air spend management program is building a strong, value based policy. The document should not simply mandate policies but articulate the value of why travelers should support them.

Items to consider in an air travel policy should include:

- **Advance Purchase requirements**. Even the largest travel budgets can realize significant savings opportunities by working with their travelers in booking their travel as far in advance as possible. Some studies have revealed that even with a significant amount of ticket changes, the practice of advance purchase remains a cost savings lever with up to 20% in savings in average fares.

- **Class of Service** for domestic and international destinations. Most companies do not allow First and/or Business class for domestic flights with the exception of their senior executive team. If Business Class is allowed, then a flight time or total journey time threshold should be instituted. The most typical Business Class allowance policy is for flights of eight hours or more.

- **Travel Management Company and Booking Tool**. While most mature travel programs use a specific travel management company (TMC) and online booking engine, some have lighter policy restrictions, as long as the designated payment vehicle is used. However, a non-specific TMC strategy will make it difficult to consolidate and leverage spend, and there is a security element to consider as well. In the event of an emergency, it is important to be able to locate and communicate with your travelers. Centralized booking enables companies to effectively track travelers and contact them quickly in the event of an emergency.

- **Other policy elements** to consider include:
    - Lowest logical airfare acceptance (LLA)
      Travel management companies are able to provide data from the time of a booking, showing the purchased fare, and if there was another fare offered that was less

expensive. Thresholds are typically allowed, whereby the booking is considered in compliance if the purchased fare was within a specified percentage difference of the lowest fare offered (e.g., 5%). A strong LLA policy is a useful tool for holding travel costs as low as possible.

- Preferred carrier compliance
  The goal of preferred carrier compliance is to drive as much business as possible to your preferred carriers, so as to maximize the savings generated from negotiated discounts, and to meet the performance targets of the preferred carrier contract. Note that this policy may not always fit with an LLA policy. Tradeoffs between LLA tickets and preferred carrier contract savings must be evaluated and monitored. In a perfect world, the discounts offered in a contract would always drive the LLA at time of ticketing, but this is not always the case. The benefits of booking with a preferred carrier may outweigh the additional cost of a higher fare.

- Mandating the purchase of non-refundable tickets
  Non refundable tickets are typically the least expensive tickets, but come with the most restrictions, such as advance purchase, and refund and/or change penalties. If your business has a high proportion of tickets that are changed, then this may not be a cost effective policy item.

- Self-booking tool compliance
  Studies have shown the average ticket price of bookings made through a self-booking tool are lower versus booking made directly with a travel counselor. Furthermore, transaction fees are significantly lower for bookings made through the tool.

- Hotel with air booking compliance
  On average, 40% to 50% of hotel bookings are made outside of normal agency booking channels. Many companies are beginning to set policy requirements where the hotel booking must be made in coordination with the air booking in order to move hotel bookings to the agency. This assists the travel manager in consolidating and analyzing spend patterns, and for safety and security tracking in the event of an emergency. The primary filtering mechanism is for air itineraries that have a return date that is at least 1 day later than the departure date.

Communicating Policy

Senior leadership support is critical for policy adherence. While many companies shy away from using terms like “mandates,” the stronger policy controls that can be exerted, the more opportunities become available for the travel buyer. Travelers are stakeholders in your organization and want the company to succeed. Articulating for travelers the value of following policy will make them more likely to embrace it. The value of air travel policies can be expressed in statements such as: “We can save $X Million this year by supporting our preferred airline carrier”; “By planning in advance we can save up to 20% of our airfares”; or “By booking your travel online we save over 80% in agency fees.”)

Evaluating a Program

Many companies perform a “deep dive” into their spending habits, to distinguish where opportunities may be available. Questions often include:

- What suppliers are we giving our business to?
- Are there competitive options in our critical markets?

- Does our volume warrant an incentive contract with any supplier(s)?
- What is our current (advance purchase, lowest logical airfare, preferred carrier usage) performance?
- What is our ticket type composition (restrictive vs. non-restrictive)?
- Are our current preferred supplier discounts competitive?
- What percentage of our airline spend is related to internal, non-revenue generating travel?

The outcomes of this analysis might suggest changing policy items, bringing the program to market for RFP, shifting business from one supplier to another, or simply arming the travel buyer with tactical opportunities for discussion in their next supplier meeting.

Discount Thresholds and Levers

In order for companies to negotiate a discount with air carriers the amount spent on each individual carrier (or its alliance partners) typically needs to reach a minimum in the range of US$1,000,000. Once that threshold is met, buyers can negotiate discounts ranging from 1% to more than 20%. The discount level depends on elements including:

- **Class of service flown**. Higher cost tickets receive bigger discounts.

- **Mix of domestic and international travel**. More costly international spend can be used to drive higher discounts as well).

- **Market concentration**. High concentrations of travel in competitive markets (e.g., Chicago-New York) will increase a buyer's leverage during negotiations.

- **Moving market share**. Another critical factor in securing airline discounts is the ability to effectively illustrate your travel policy and ability to drive market share to the preferred carrier as opposed to its competitors.

Small Business Incentive Programs

If your company's spend does not provide opportunities to negotiate incentive contracts, it is important to explore the many small business incentive programs offered. The following (non-exhaustive) list of programs includes:

- Delta Air Lines *Skybonus*
- American Airlines *Business Extraa*
- United Airlines *Perks Plus*
- Continental Airlines *Reward One*
- JetBlue Airways *CompanyBlue*
- AirTran Airways *A2B*
- British Airways *On Business*
- Air France *VoyageurREWARDS*
- Air Canada *Flight Pass*

These programs allow the client to accumulate points based on purchases, or pre-purchase tickets at below retail price. The points can be redeemed for benefits such as free tickets, upgrades, and lounge access passes. Many companies actively manage their spend with these programs, and the redeemed points are often used to demonstrate internal savings or cost-avoidance.