

# A Strong Case for Advance-Purchase Airfares

*A CWT study of the company's top 100 clients in North America confirms that advance purchasing consistently brings savings on airfares, even when the cost of exchanging tickets is taken into account.*



**Joe Blankush**

CWT Solutions Group North America

Conventional wisdom holds that the further in advance a flight is booked, the cheaper it will be. While airline pricing is notoriously complex, the most attractively priced tickets are generally available on a "first-come, first-served" basis.

The case for advance purchasing, however, must take into account the cost of exchanging a ticket when travel plans change. Some companies that mandate seven- or 14-day advance purchasing achieve high levels of compliance. But at the same time, they may observe a large proportion of ticket exchanges.

The key questions for travel managers are therefore:

- How much can companies save by purchasing in advance?
- How far in advance should travelers book? Is there a limit?
- What proportion of advance-purchase tickets can companies exchange without wiping out savings?
- How can companies maximize savings from advance purchasing?

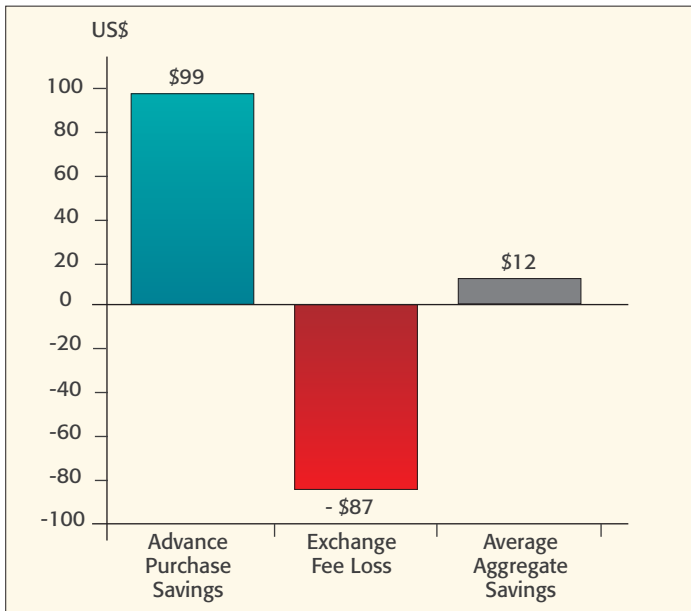
To answer these questions, CWT conducted a study involving its 100 largest clients by annual air volume in 2006 in North America. The results indicate that advance purchasing remains an important cost-saving initiative.

The first finding was that **booking in advance nearly always leads to lower ticket prices**. Ninety-nine percent of the clients in the sample paid a lower average segment price on domestic airfares when purchasing at least seven days in advance, compared to six days or fewer before departure. On average, this generated immediate savings of US\$99 per segment or 31 percent.

Second, **there is a limit as to how far in advance a company should purchase tickets.** Earlier than four to five months in advance, airlines typically only offer medium inventory classes, not the lowest fares. In the CWT study, one client paid US\$22 more per segment by booking more than four months in advance instead of between four months and three weeks before departure. Nevertheless, the average segment price was still US\$137 lower than for bookings made less than a week in advance.

A third major finding was that **the cost of exchanging advance-purchase tickets does not cancel out all of the up-front savings.** When the fees for exchanging tickets and any differences in price were spread across all tickets bought in advance, the cost was US\$87 per segment. This left companies with average savings of US\$12 per segment or 4 percent.

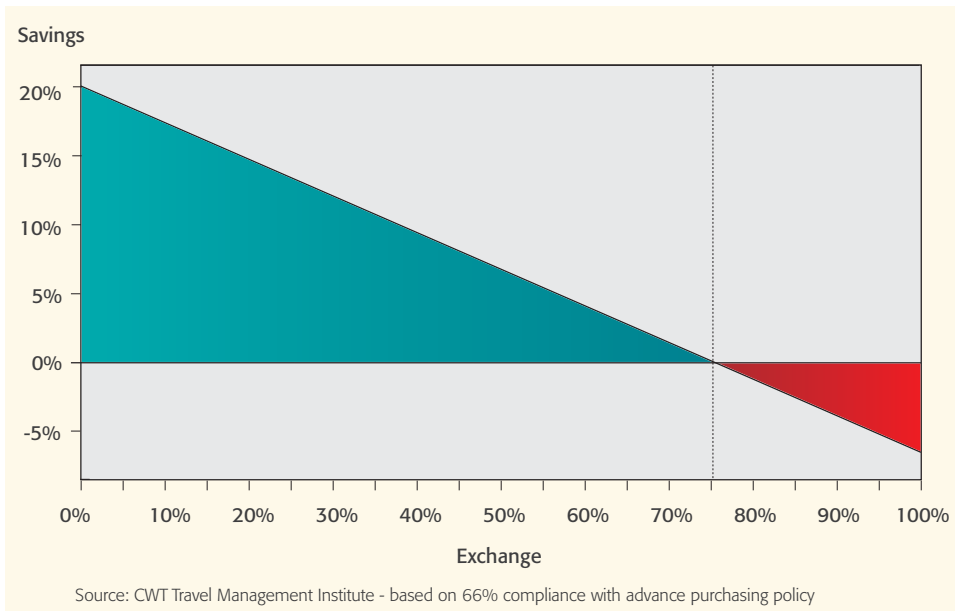
#### Average savings and loss per segment through advance purchasing



Source: CWT Travel Management Institute

Fourth, it appears that **companies can still make net savings when they exchange up to 76 percent of advance-purchase tickets** and deduct the associated costs from up-front savings. This is illustrated in the following chart, which shows the average savings or loss a company can achieve when different percentages of tickets are exchanged. Calculations assumed a 66 percent level of compliance with a seven-day advance booking policy (the average level observed in the CWT study).

### Advance purchasing brings savings when no more than 76% of tickets are exchanged



Finally, **the likelihood of companies incurring a loss from advance booking is slim.** In the CWT study, companies exchanged on average only 12.9 percent of advance-purchase tickets—far from the 76 percent threshold.

These numbers confirm that organizations should continue to promote advance purchasing as a driver of incremental savings. The following actions can help travel managers boost advance purchasing:

- **Communicate on advance purchasing** to ensure travelers are aware of the advantages. They may not realize that the benefits of more people across the company booking in advance outweigh the risks of individuals paying an exchange fee.
- **Implement an advance booking policy**, integrating practical measures to accelerate booking once a decision to travel has been made. For example, a travel policy may require employees to send pre-trip approval for a flight within 48 hours of making a decision to travel. In addition, the policy could stipulate a timeframe for confirming a flight once approval is received.
- **Analyze airfares and traveler booking behavior** to identify specific savings opportunities, as these may be particularly significant on certain routes.
- **Monitor advance purchasing and last-minute bookings** and consider incentives and/or sanctions to boost compliance.

Although last-minute travel will always occur, companies can promote advance purchasing as a way to drive significant savings. A policy that advocates booking at least seven days in advance can bring results, even when exchange costs are factored in. ■



### Airline pricing and advance booking

Why do companies generally get cheaper deals when they book in advance? It is because they have access to a wider range of booking classes and can pick the price/flexibility tradeoff that best suits their requirements.

Airline pricing or “yield management” works by a system of “nesting” or booking classes which open and close with demand. (See the chart on page 43.) For each service class—typically first, business and economy—numerous booking classes or “fare buckets” exist. These vary in price and conditions and may determine whether the ticket is completely refundable, exchangeable for a fee or non-refundable; whether a weekend stay is required; or if there is a need to book one or two weeks in advance.

As a general rule, the lower the price, the greater the restrictions. For example, at the time of press, one airline’s cheapest, most restrictive economy fare was US\$1,479 less than the most expensive economy fare.

Although each airline has its own policy, usually the lowest-priced booking classes are more readily available early on. Airlines may re-open fare buckets to boost sales if they fall below forecasts or in response to price-cutting in the market.

Service classes vs. booking classes (based on North American practices)

Service classes	IATA booking classes	Common airline booking classes
<b>First</b>	First class premium → P First class → F First class discounted → A	
<b>Business</b>	Business class Premium → J Business class → C Business class discounted → D, I, Z	
<b>Economy</b>	Economy class Premium → Y Economy class discounted → B, M, H, K, L, N, Q, T, V, S	