Airline Discounts Go Further with Point of Origin Pricing

When are point of origin deals possible and how much can companies save?

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Global company + global airline = global agreement, right? Not quite. Airline discounts can be significantly larger when negotiated on the basis of globally consolidated traffic volumes.[1] But discounts still apply only to specific routes and specific ticketing locations stipulated in a preferred airline agreement. What is changing, however, is the proportion of a company's traffic that can be covered by the agreement, thanks to new terms based on a point of origin (the country from which a flight departs) instead of a point of ticketing (the country in which a booking is made). For some companies, the incremental savings can reach several hundred thousand dollars according to CWT calculations.

Extending preferred carrier agreements

Point of origin (PoO) pricing allows companies to extend the coverage of their preferred carrier agreements and enjoy discounts on flights that originate outside a traveler's ticketing location. Take a company that has negotiated discounts on a major route between offices in London and Capetown. In the past, only travelers booking in the United Kingdom and South Africa would have access to those discounts, even though some of the company's U.S.-based travelers frequently took the route. Now, thanks to a PoO agreement, travelers based in select other markets can get the corporate discounted fare as well.

Wider, but still selective coverage

PoO agreements typically focus on a few major routes used by a company while the negotiated discounts are extended to a limited number of ticketing locations. Some major multinational companies, however, have successfully pursued PoO negotiations on all routes. A major reason why discounts are most often applied selectively to the

[1] The CWT research *Global Horizons*: *Consolidating a Travel Program* indicates that companies can save up to 8 percent of air spend through consolidated sourcing.

point of ticketing, instead of available to all of a company's travelers, is that fares must be loaded into the company's GDS in each country covered by the agreement. For the airlines, this is a challenging, time-consuming and costly process. Some even claim it is too expensive to be commercially viable in any market, although they all say they are looking for ways to make it possible. On the travel management side, companies need to allocate resources to extended negotiations and, ideally, fare audits, to ensure the agreed rates are loaded accurately and promptly in the relevant markets. (See the sidebar on Page 33.) Processes are streamlined for both parties if the company has one call center per region, instead of national call centers, requiring airlines to load fares only once for all relevant countries.

Worthwhile deals for large companies

Airlines are usually more willing to negotiate when significant volumes are on the table. To obtain a worthwhile PoO agreement, companies need first to have **significant global volume** with an airline to justify the negotiations. They also need to identify **significant volume on a discounted route outside the ticketing locations currently covered by a deal with the airline**. Typically, this volume should reach at least US$30,000, although the amount will depend on the airline's willingness to offer PoO pricing. As mentioned above, it is preferable to establish **one call center per region**. Finally, **a solid relationship** with the airline provides a good starting point, as PoO pricing is new and negotiations can be tough.

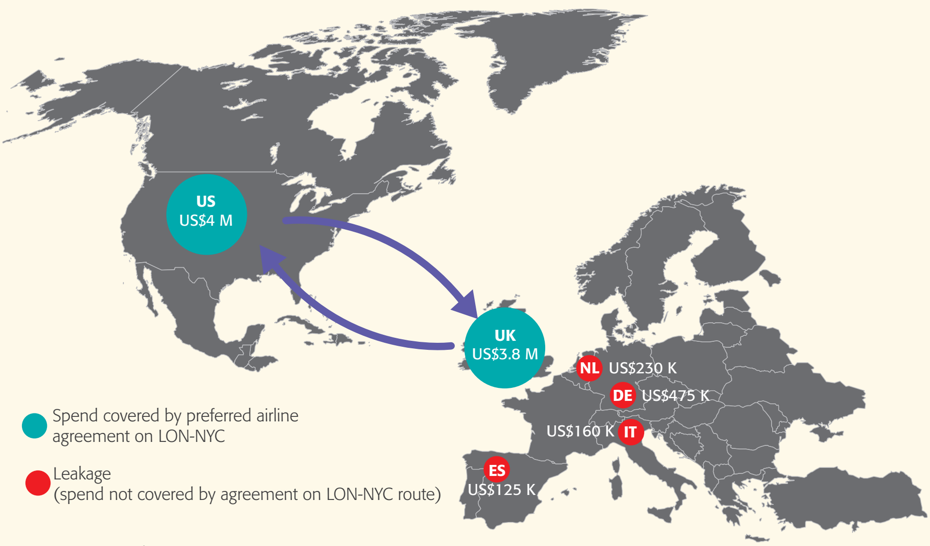
The map on Page 33 gives an example of where it makes sense to integrate PoO pricing into negotiations. A company with global travel spend of approximately US$224 million has negotiated preferred carrier discounts on its top routes. One of its busiest routes, London-New York, covers air spend of approximately US$4 million from tickets issued in the United States and US$3.8 million from tickets issued in the United Kingdom. Travelers booking tickets in four other countries (Germany, the Netherlands, Italy and Spain) also represent significant spend on the route (US$475,000, US$360,000, US$160,000 and US$125,000 respectively or a total of US$1.12 million) but they do not have access to the corporate discount.

In this example, CWT estimates that the company can achieve savings of 0.2-0.5 percent of its total air spend by negotiating a PoO deal and therefore extending the coverage of existing discounts to these four countries. These percentage savings are small compared to those that can be realized through other measures such as improved sourcing, program consolidation or optimized travel policy design and compliance.[2] Nevertheless, large companies that have already fine-tuned their air sourcing may find that PoO pricing provides a valuable new way to optimize spend.

PoO pricing is in its infancy—currently only a handful of CWT clients have extended some of their preferred carrier agreements in this way—but is growing. The practice is likely to become more widespread as more large corporations include it in negotiations and airlines adapt to demand from the market. n

[2] The CWT research report *Playing by the Rules: Optimizing Travel Policy and Compliance* reveals that companies can save on average 16.8 percent of total travel spend by focusing on advance booking, restricted airfares, preferred airlines and authorized air class.

In this example, a PoO agreement would be worthwhile to cover several European countries



Source: CWT Travel Management Institute

Airfare auditing for point of origin agreements

Airlines load corporate fares into GDSs after signing a contract with a company and whenever any changes are made to the terms of the agreement. As negotiated rates are usually valid for one year (either as a fixed rate or as a fixed percentage off published fares), in theory it should suffice to check just once that the right rates have been loaded for the duration of the contract. In practice, however, CWT has found it useful to conduct regular checks—as often as once a month for some clients—as errors can and do occur and can take time to correct.

Errors appear most commonly when multiple points of sale are involved in PoO agreements as some may be omitted from the rate-loading process. Airlines need to load the code for each point of sale covered by the agreement, as well as the relevant fare information, including origin and destination cities, fare basis code, one-way/return, fare class and percentage discount/fixed negotiated fare.

To ensure this information has been loaded correctly, CWT has developed a tool that matches fare information found in a GDS against the terms stipulated in clients' airline contracts. As agreements are signed at different periods and evolve over time, the verification process can be time-consuming and is best carried out selectively. In other words, clients need to weigh the investment required to identify and follow-up on any errors against the potential financial impact. For example, it may not be worthwhile investigating the availability of a rate at a ticketing location covered by a global agreement when the relevant route is rarely booked. On the other hand, auditing is recommended for ticketing locations that represent high volumes on that route.