

Preferred Supplier or Lowest Logical Airfare: Which Policy Is Right for You?

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Pressure to reduce overall travel costs is at an all-time high. Travel managers are continually tasked to find new ways to save money and, at the same time, maintain or improve the travel experience. Many travel managers have been forced to re-evaluate and adjust travel policies to drive positive incremental results. Surprisingly, deciding between a “lowest logical airfare” and a “preferred supplier” policy is a scenario many are considering.

A preferred supplier policy biases online displays for agents and online booking tools and directs travelers to purchase tickets on preferred carriers, regardless of airfares on non-preferred carriers. In some cases, a company will establish a fare difference threshold, at which point a non-preferred supplier can be used. When using this type of policy, travel buyers expect the preferred supplier will ensure the lowest fare for a company’s travelers in most, if not all, markets and certainly overall savings in return for their loyalty.

When employing a preferred supplier strategy, companies enjoy a variety of benefits. Supporting preferred partners can protect existing discounts, offer leverage for improved discounts, and create intrinsic value through “soft” benefits such as otherwise unavailable frequent flyer status upgrades. Additionally, when preferred carriers are used, companies may limit risk as they use only those suppliers that meet their company’s safety and security requirements. Traveler use of a preferred supplier is also easily tracked, ensuring accurate data capture should a company need to locate its employees in a time of crisis. Finally, solid tracking of supplier usage also allows a company to evaluate historical travel patterns and spend to make strategic air program management decisions on an ongoing basis.

Using a preferred supplier policy, a travel buyer ultimately has determined that the overall value a preferred carrier brings to an air program outweighs any additional costs incurred when the carrier does not offer the least expensive ticket in every instance. In some cases, purchasing higher-priced tickets on a preferred carrier in a few markets can be offset by savings gained through competitive discounts offered by the carrier in other markets. A careful evaluation of the discounts proposed by a carrier, the corresponding market-share requirements, and prices on competing carriers in key markets is necessary to determine if a preferred carrier policy is the correct strategy.

A preferred carrier policy is not without risks and challenges. The ability to enforce this policy and drive compliance is imperative to achieving positive results. Additionally, securing competitive discounts and pricing from preferred carriers is essential. Travelers will question the travel policy if they are required to purchase a pricier ticket on a preferred carrier when a less-expensive ticket is available on a non-preferred carrier or via “the Internet.” Having solid data and analytics to support a preferred carrier policy is imperative to successfully overcoming such challenges.

In the event travelers do consistently find less expensive tickets in a key market, it may lead a travel manager to renegotiate discount levels and/or corresponding market-share goals. If a carrier fails to offer competitive discounts or fares in key markets, a company supporting a preferred carrier strategy may end up paying more than necessary. When correctly executed, a preferred supplier policy should be leveraged to continually maintain and improve discounts.

A lowest logical airfare policy directs travelers to purchase the lowest fare available as defined by pre-determined, company-specific requirements and thresholds, regardless of the carrier. These requirements may include comparing prices on connecting flights, reviewing options at alternate airports, and/or searching for less expensive flights with adjusted arrival and departure times. Compliance to a lowest logical airfare policy ensures travelers are selecting the least expensive ticket option while meeting acceptable corporate guidelines, even if the airline selected is not preferred. A lowest logical airfare policy may be an effective way to reduce the average segment price (ASP) a company pays in the short term.

Although the more immediate—and more obvious to the traveler—savings generated from this type of policy can be appealing, it's more complex than that. One major issue to consider is a company's ability to support and drive compliance to this type of policy. Travelers need to actually purchase the lowest fares available based on the pre-defined requirements for this policy to drive positive results.

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Despite strong compliance levels, this type of strategy can create problems if travelers circumvent policy, knowingly or not, by adjusting their requests to avoid pre-defined requirements and simply book the most convenient trip. For example, frequent travelers may learn, and potentially exploit, acceptable excuses for failing to book the lowest fare available. Or, they may purposely set their desired departure and arrival times to limit flight options to only those carriers they wish to fly. Allowing the traveler more jurisdiction in purchasing airfare presents challenges for a company whose goal may be to tighten traveler booking behaviors in the future. Failure to manage these risks essentially allows travelers to purchase more expensive tickets at their discretion, negating the value of a lowest logical airfare policy.

Travel managers also need to consider how this type of policy will affect access to travel data. Travelers allowed to purchase less expensive tickets outside of controlled booking channels may not be "trackable" in a time of crisis. This data leakage may also lead to an inability to track total travel spend for future negotiations.

Assuming a company currently has preferred carrier relationships, one of the most important risks to evaluate when considering a lowest logical airfare policy is the impact on a company's ability to meet current contractual goals. If travelers purchase the lowest fare, regardless of carrier, it can negatively impact use of preferred carriers and put existing discount levels and contracts at risk. The loss of these discounts may ultimately cause ASP increases in key markets and thus, an increase in overall travel costs.

When contemplating a lowest logical vs. preferred supplier policy, consider the advantages and disadvantages of both. No one policy will generate positive results in all situations. Travel buyers need to determine the strategy that best fits their company culture, compliance levels, executive-level support, and overall travel program objectives.

Some CWT Solutions Group clients have implemented both types of policies simultaneously and have realized some short-term savings. However, this can be problematic because it can be difficult for travelers to understand and difficult for travel managers to oversee. The inability to maintain compliance with both policies can exacerbate the disadvantages of both, generating higher costs and hurting a company's ability to control its travelers' choices.

In cases where a hybrid solution works, the policy is enforced per market, enabling a travel manager to direct traffic to preferred carriers in certain markets, while taking advantage of potentially lower fares from non-preferred carriers in other markets.

The strategy requires strong compliance and control of approved booking channels, effective traveler communication, and close monitoring.

If considering a switch to a lowest logical airfare policy, determine whether this is a long-term strategy or simply about short-term savings. If the motivation is more about immediate savings, understand that when the company returns to a preferred supplier strategy, retraining travelers for more controlled booking behavior may be difficult. ■