Lever Three:

Continue to drive air and ground transportation savings

Continuously monitoring air and ground transportation spend remains key for driving tangible savings. Although air spend receives the greatest attention from most travel managers, opportunities for further savings exist. Ground transportation on the other hand, which includes rail, car rental, limousine, chauffeur-driven "black car" and taxi services, is often a low priority, although it represents 10 percent of a total travel budget in the United States and even more in Europe and Asia, where rail is commonly used by business travelers.

Change is a constant in the airline industry. Consolidation, ceased operations, evolving distribution models and new forms of pricing require constant focus and adaptation. Although many companies have successfully responded to these changes, opportunities for greater progress remain:

- **Address traveler behavior to capture savings.** Requiring travelers to book at least 14 days in advance of travel and purchase tickets with restrictions (i.e., non-refundable or changeable with penalties) represents a key opportunity for optimizing air spend. On some routes, tickets purchased 14 days in advance can cost 50 percent less than a ticket purchased three days or less from the date of departure.

  Restricted fares, including those offered by preferred airlines, are also recommended, even if a penalty for change or cancellation is incurred. (Companies change or cancel only 20-35 percent of tickets, less than is commonly believed.) The total cost of a restricted fare is on average 24 percent less than a negotiated flexible fare.

  Travelers must also be instructed that the lowest fares are not available on the Internet, as regularly verified by independent auditing firms such as Topaz International. Furthermore, travel policies that mandate "best buy" or lowest available airfares do not reduce air spend when compared to those that favor preferred airlines. In fact, requiring travelers to take preferred airlines over the lowest fare can save companies approximately 3 percent of air spend by enabling them to meet their commitments for volume-based discounts.

  All of these opportunities for savings must be clearly covered in the travel policy and internal communications must emphasize the benefits of compliance.

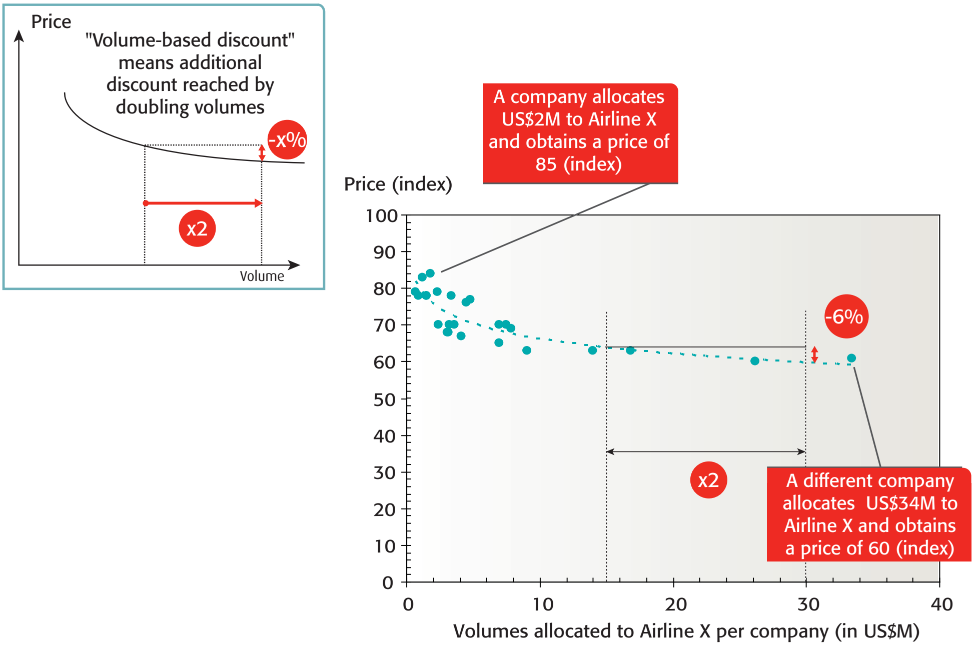
- **Concentrate volume with a limited number of preferred suppliers for larger volume-based discounts.**[4] Selecting a minimum number of preferred airlines, including those which are members of an alliance, to maximize coverage of city pairs is a good starting point. This choice should include challenger airlines that are operating outside of their home market, as their rates may be significantly lower than those of dominant

[4] *Global Horizons: Consolidating a Travel Program*, CWT Travel Management Institute (2007)

carriers. Concentrating bi-directional traffic (i.e., originating on either side of common city pairs) with preferred suppliers also increases aggregate volume. Finally, establishing a hub system for long-haul flights adds to the volume allocated to preferred airlines. Taking these different steps to consolidate sourcing can result in savings of up to 8 percent of total air spend.

Figure 7: The higher the volume, the larger the discount

Example of Airline X: When companies double the volume allocated to Airline X on international routes, they typically receive an additional 6% volume-based discount.



Source: CWT Travel Management Institute

- **Negotiate point of origin pricing.** Companies that have largely optimized their air sourcing are going one step further by extending their preferred carrier agreements on certain major routes to travelers in more locations. New terms are being negotiated on the point of origin (i.e., country from which the flight departs) rather than the point of ticketing (i.e., the country from which the booking is made). CWT calculates that savings can reach hundreds of thousands of dollars. Several things, however, should be kept in mind before negotiations begin: a company must have significant global volume with an airline, as well as significant volume on the route(s) in question; to facilitate rate-loading and reduce related costs, airlines prefer one call center per region to national call centers. A solid relationship with the airline is also a strong plus.

- **Find the right balance between negotiated airfares and other available options.** In addition to their negotiated rates, companies are taking advantage of a variety of fares available within and outside of GDSs to reduce their total air spend. These include promotional fares; fares offered by low-cost carriers; and low fares with restrictions from traditional carriers, with savings per ticket ranging from 10 to 70 percent. These upfront savings, however, must not come at the expense of volume.

Benefiting from air alliances

Alliances represent one more way for travel managers to optimize their air spend. Simplified processes and greater savings are possible when companies have the appropriate profile and know-how to negotiate effectively with alliances. Two major benefits result:

- **Soft-dollar benefits:** Alliances simplify the request for proposal process by providing a one-stop shop. In addition, alliance members frequently offer uniform contract terms and conditions. Once an agreement is signed, they can streamline ongoing program management by providing centralized fare-loading, consolidated reporting and a single point of contact.

- **Hard-dollar benefits:** Companies can realize incremental savings by leveraging overall volumes in their negotiations with alliances.

A company is most likely to benefit from an alliance agreement when it has a traffic pattern that matches that of the alliance network, a consolidated travel program and a preferred partner sourcing strategy. Companies who meet these prerequisites can maximize the benefits by:

- Strategically selecting those airlines within the alliance that offer the best fares on a given route

- Ensuring that alliance fares are more favorable than those of individual members

- Demonstrating their ability to deliver agreed-upon volumes

Managing the trade-offs between air and rail

There are several good reasons for integrating a rail policy into a managed travel program: cost, comfort, convenience, punctuality, safety and reduced carbon dioxide (CO_2) emissions. In Europe and Asia in particular, extended high-speed rail networks, improved distribution through GDSs and online booking tools, and the creation of rail alliances favor the business traveler.

Integrating rail into your travel program means weighing the options between air and rail, increasing rail volume where appropriate and communicating the benefits to travelers. Here is a four-step approach that will help companies get on track:

- **Identify the main routes where rail is an alternative to air**, looking at the number of daily departures and the duration of the trip. Rail could well be a convenient solution when travel time is under three hours.
- **Define the company's current volume of rail traffic and estimate the potential increase** by switching from air to rail on specific routes. Companies can negotiate better rates when they present large volumes on routes where rail is in competition with air.
- **Evaluate the savings potential** by comparing average ticket prices for rail and air and applying forecast volumes. Companies should also consider the environmental benefits in terms of reduced CO_2 emissions.
- **Update the travel policy to support a rail sourcing strategy and promote compliance** through mandates, internal communications and pre-trip approval processes.

Figure 8: High-speed rail provides a viable alternative to air on many intercity routes

Routes with air-rail competition	Duration of rail travel	Duration of flight	Approx. duration of travel to and from airport	Average rail ticket price (US$) *	Average air ticket price (US$) *	Price difference of rail vs. air	Rail market share**
Paris - Lyon	1:55	1:05	1:20	100	494	-80%	94%
Amsterdam - Brussels	2:40	0:50	1:00	151	476	-68%	72%
London - Paris	2:35	1:10	1:40	605	591	+2%	56%
London - Brussels	2:20	1:00	1:10	559	393	+42%	40%
Geneva - Paris	3:34	1:10	1:20	242	580	-58%	16%
Amsterdam - Paris	4:12	1:15	1:30	306	693	-56%	8%

Source: CWT Travel Management Institute
* First semester 2007. Average air ticket prices include taxes but exclude taxi fares to and from the airport.
** Rail market share is expressed as a percentage of total travel transactions.

Taking ground transportation further

A well thought-out ground transportation program goes beyond rail to incorporate car rental, limousine, chauffeur-driven "black car" and taxi services. To that end, it is important to obtain relevant information on suppliers and competitive agreements in the market. It is also good practice for companies to specifically analyze their ground transportation data to simulate different market share scenarios, strategically manage requests for proposal and ultimately negotiate the most competitive terms with suppliers. To stabilize costs, it is best to negotiate terms that will **limit major price hikes over the duration of an agreement**. This is especially important in a volatile market.

Taking rental car as an example, it is recommended that all suppliers respond to the RFP with rates that include a loss damage waiver and a collision damage waiver on all rate types. Refueling rates should also be negotiated although many travel managers are unaware that this is possible. "Soft" benefits are also available. Frequent renters may receive extras such as convenient, pre-printed contracts that save time; meet and greet services; and upgrades. Finally, some rental car companies are offering bundled contracts that also include black car and limousine services.