Airlines & Alliances

January 2008

INSTITUTE OF TRAVEL MANAGEMENT

Survey Results

itmresearch

POWERED BY ARGATE

All Change

The world of the airline has come under considerable pressure to change in the last couple of years. Increased competition for fewer seats after 911 saw a plethora of airline failures and the drive towards more consolidation. The clarity of whom owns a stake in whom has become a little murkier since then for those that survived and have even prospered over the last six years. But new pressures exist. The drive to work with cleaner technologies and fuels, the increase in costs of the latter and the changes in the US-European markets due to take place because of "Open Skies" are all contributing to a dramatically changing landscape for the airlines of today. So perhaps the concentration of alliances that has emerged over the last decade has become more important than ever to streamline costs and services for market advantage. But what do these alliances really mean to today's business traveller, are the benefits filtering through to the end users and really making a difference on the purchasing decisions of corporate travel buyers and travellers themselves? This ITM Research survey across a panel of 165 travel buyers representing over £1.2 billion in corporate travel spend sought to answer some of these questions whilst at the same time gauging the optimism of buyers on the impact of open skies.

Individual Relationships Remain

Despite over 30% of respondents to this survey having global travel management responsibility and over a third having air travel expenditure in excess of £5 million per annum there seems to be a high percentage of travel buyers who still negotiate contracts either directly with the airlines (44%) or both with alliances and directly with the airlines (22%) suggesting that the role of alliances is not necessarily to provide easier negotiation for buyers with multinational air contract responsibility. Part of the reason for this may be either the part local market conditions play on airline contract negotiations or the very nature of an "alliance" in so much as partners need to be encouraged to participate rather than mandated where they might be owned by the same company. Despite predominantly managing the relationship with airlines directly, the respondents to this survey, surprisingly perhaps, undertake reviews of the relationships on a quarterly basis in over a quarter of cases. This could relate to the fact that airline spend is often the biggest expenditure in most travel programmes and also the increase in direct connects between airlines and clients through dedicated account managers.

Where's the benefit ?

But what does this actually mean to the corporate if no less management time is being spent on these contracts? The airlines may argue that contracts are more targeted and net fares are more targeted but when we asked respondents about the impact of rates discovered at long haul air specialists the response was significant. Over half (54%) of respondents either sometimes of frequently find long haul fares outside of preferred channels. This must take up considerable management time if travellers are locating these fares and challenging corporate travel policy. Certainly the broad question of whether alliances benefit the end user seems to indicate that buyers are mostly unsure of what the benefits are. When asked "Do you think airline alliances ultimately benefit the end users?" the responses were as follows :-

- 47% responded "I am not sure"
- 28% responded "No – I have not seen any additional benefits to our travellers or company"*
- 25% responded "Yes – they provide all sorts of benefits"

When those who answered positively to this question were asked to confirm what those benefits were the answers were widespread, but with slicker transfers, greater lounge use and better check-in hitting the top three. Quite why a quarter of buyers see these benefits and three quarters don't is a question that alliances should be asking themselves. Perhaps the responses on the next question concerning recognition of the alliance brands goes some way to answering this question?

Optimism for market changes

The subjects of Open Skies and the review of market parity in Europe by the European Commission for air fares were broached to gauge understanding and likely impact. Opinions seem overall quite positive towards whether open skies will be good for travel managers, with cheaper fares and expansion of UK carriers at the top of the list of expectations. Certainly most buyers seem to be aware of the likely market parity changes in Europe but there is uncertainty as to what this will actually mean and how much they will require TMC practices to change, and with respondents split on whether their TMC will be able to assist. The optimism related to Open Skies is to be expected, although what the final result will be is surely anyone's guess and the airlines are being rightly cautious with a projected economic downturn ahead. The changes the EC will make on European fares is also unknown, so it is not surprising that buyers are unsure what this means.

What is sure, though, is that any increase in change the airlines have already been through is only just the beginning, with many looming factors presenting challenges ahead.

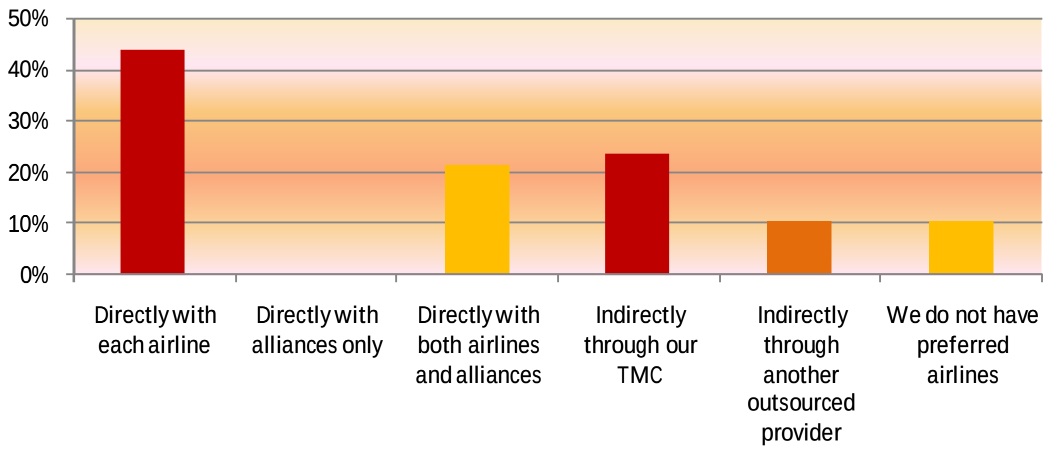
Contents:

INSTITUTE OF TRAVEL MANAGEMENT

Waters Green House
Waters Green
Macclesfield
Cheshire
SK11 6LF

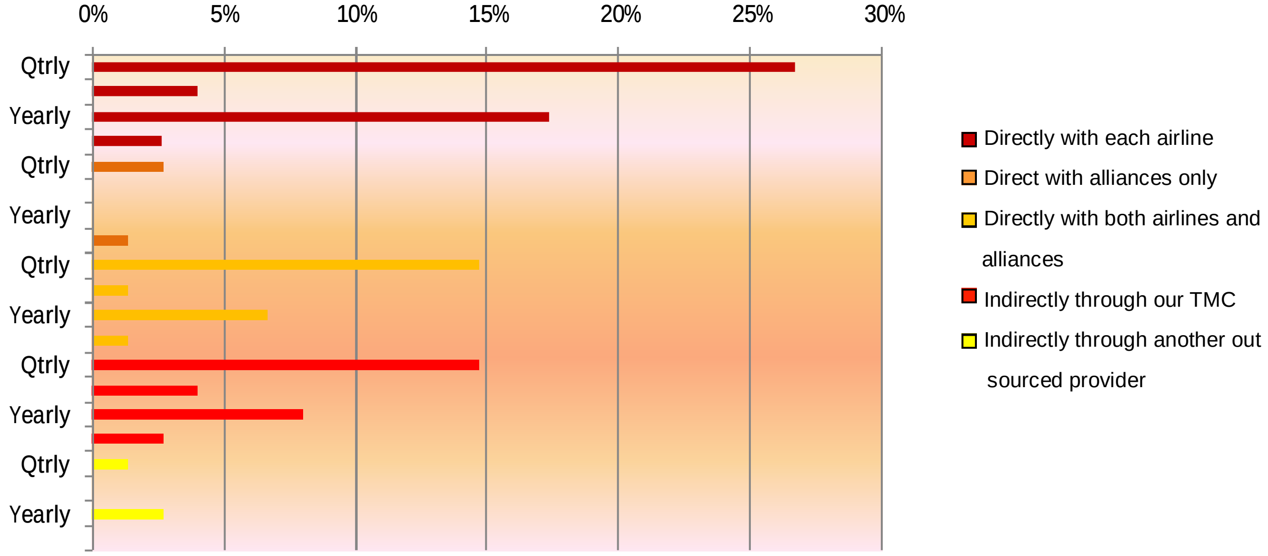
Telephone: 01625 430472
Fax: 01625 439183
www.itm.org.uk

Q1. How do you negotiate your preferred airline contracts?



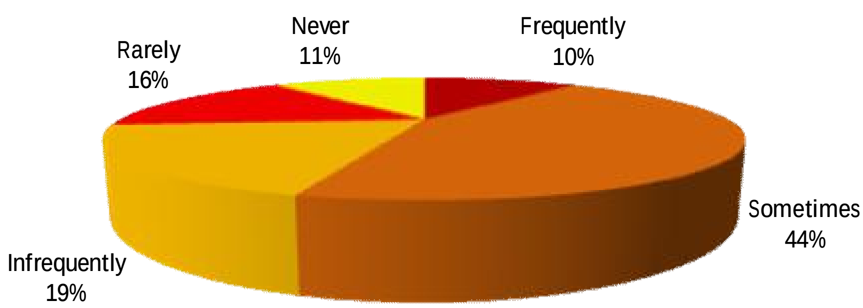
Comment: Not a single buyer negotiates solely with alliances, most preferring to work solely directly or directly alongside alliance negotiations.

Q2. If you manage your preferred airline agreements/relationships please complete how often you review their status through your chosen management model(s)?



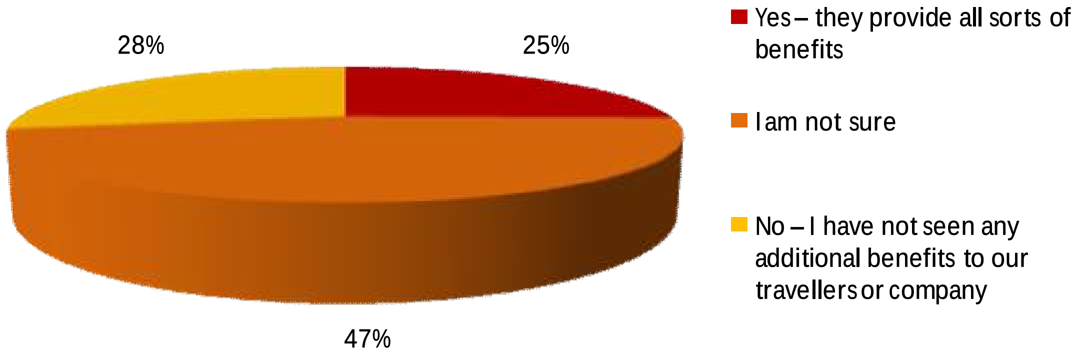
Comment: Over 50% manage ongoing airline relationships direct with carriers and the majority do it quarterly.

Q3. How often do you come across long haul fares from specialists (such as from fare specialists or web fares not via your TMC) which you cannot match elsewhere?



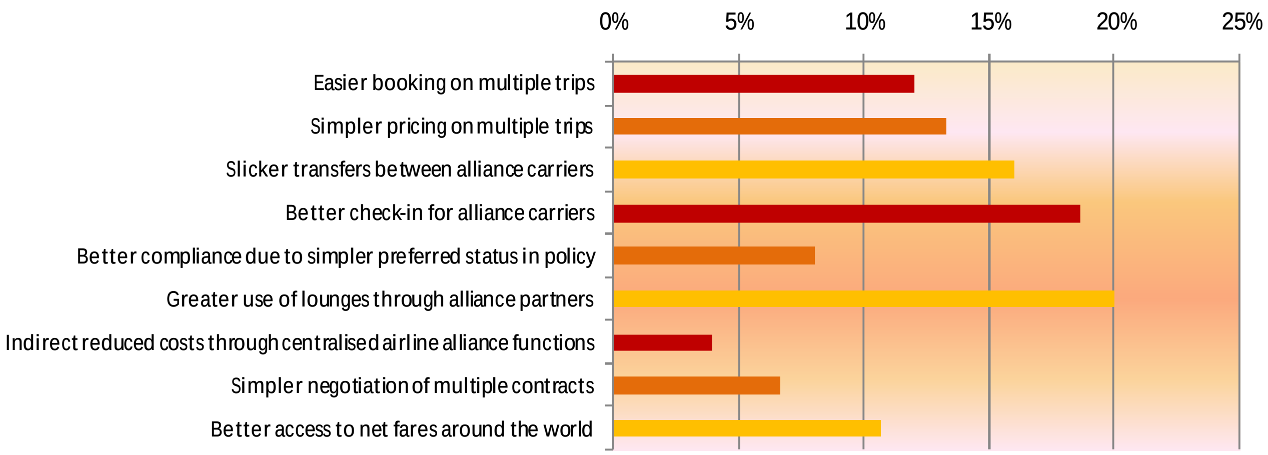
Comment: 54% either frequently or sometimes find cheaper fares outside of preferred channels.

Q4. Do you think airline alliances ultimately benefit the end users?



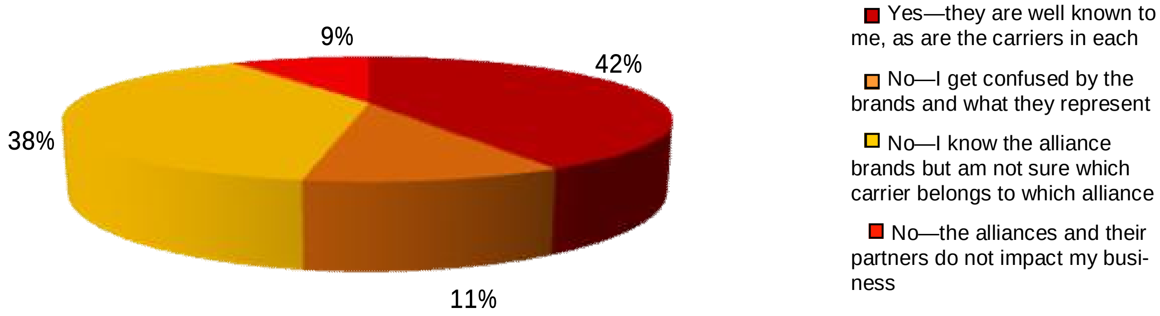
Comment: Nearly 50% are unsure of real benefits of alliances.

Q5. If you answered 'Yes' in Q4, please tick those benefits you believe you have seen.



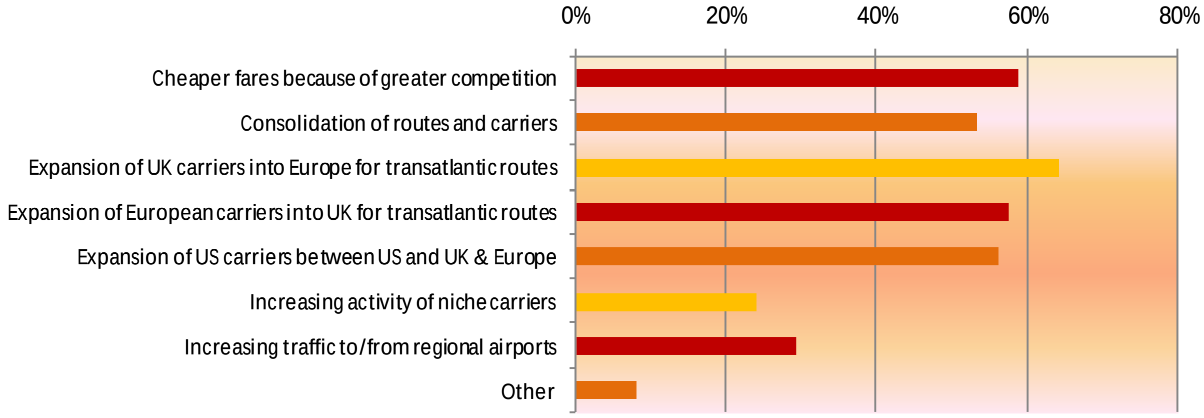
Comment: Soft benefits such as check-in and lounges top the list of airline alliance improvements to date.

Q6. Can you easily identify each of the alliances?



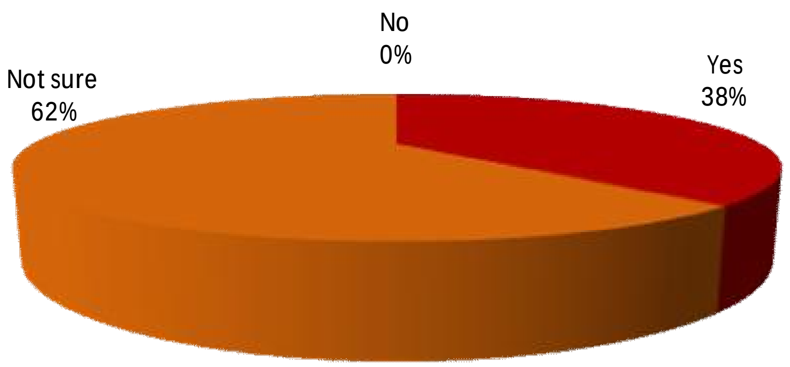
Comment: Nearly 50% find the alliances confusing.

Q7. How do you believe that Open Skies will change the transatlantic airline industry? (tick all that apply)



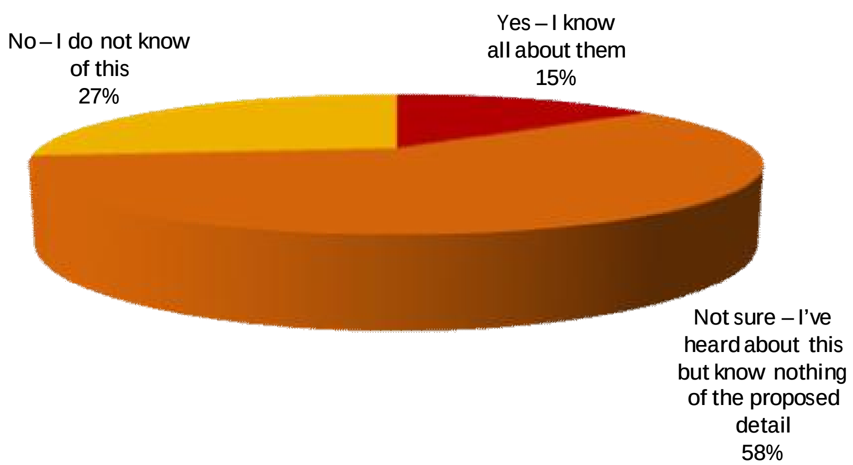
Comment: Cheaper fares and more carriers on the horizon?

Q8. Do you believe Open Skies will ultimately be good for your travel management programme?



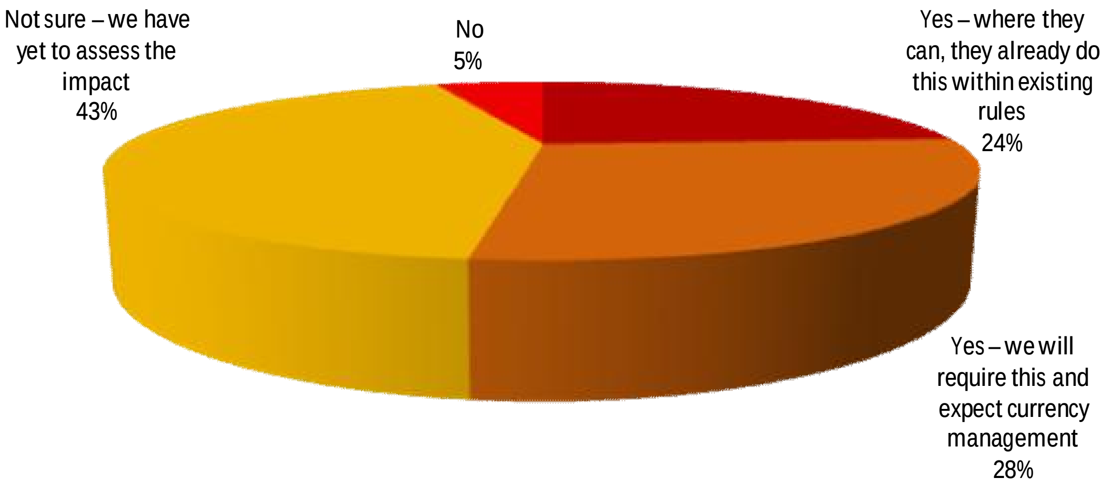
Comment: A pretty optimistic outlook for Open Skies.

Q9. Are you aware of proposals under consideration by the European Commission to ensure parity of fares across European markets (i.e. firstly that all additional charges would be included in the price and secondly that you would be able to buy UK outbound fares from other European countries, making use of local market rates and currency differences)?



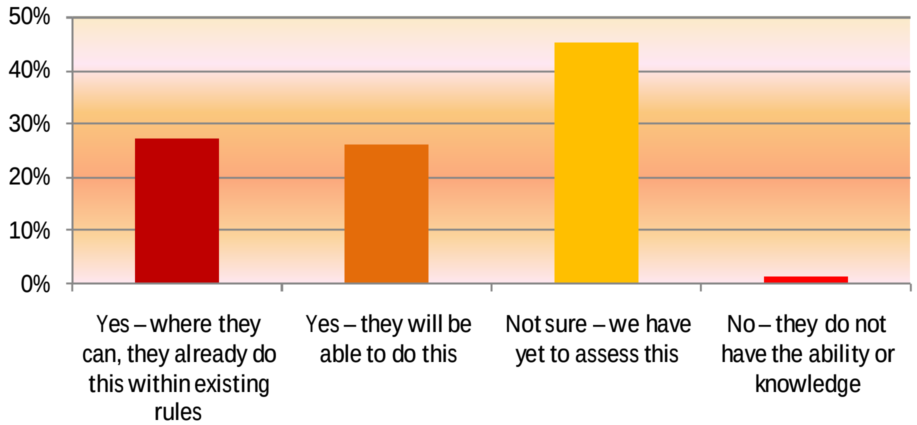
Comment: More knowledge required on proposed EU changes.

Q10. If/when such a "market parity" rule is introduced, would you instruct your TMC to buy fares in different European markets and in different currencies?



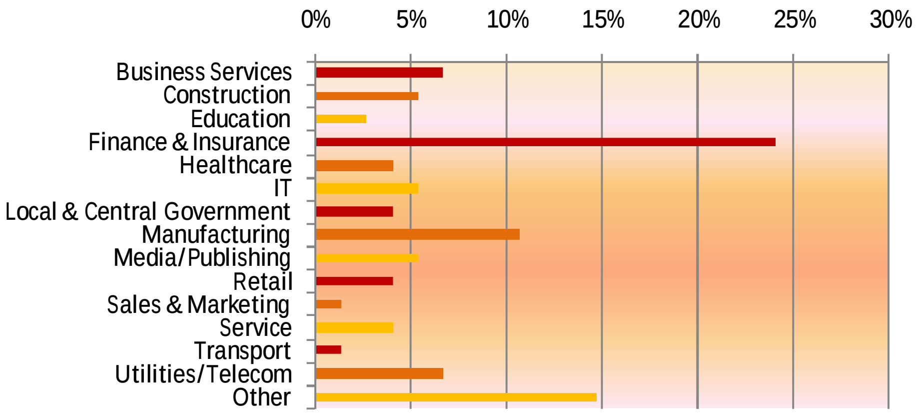
Comment: 52% would definitely seek to take advantage of different market fares.

Q11. Will your TMC be able to buy fares from other European markets in different currencies?

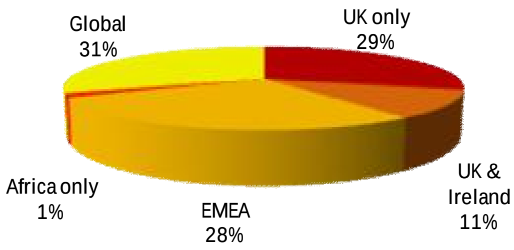


Comment: 53% believe their TMC will be able to help them take advantage of local European market fares.

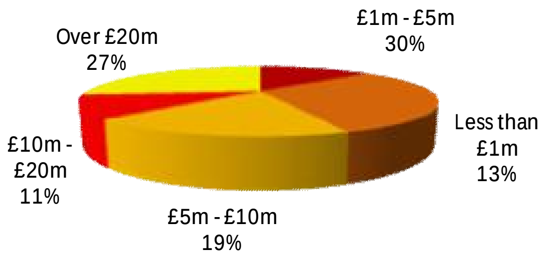
Demographics:



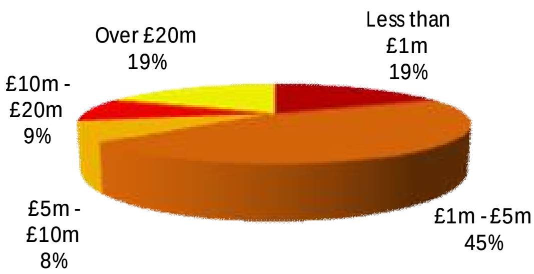
What region do you manage travel for?



Total Travel Expenditure



Air Expenditure



Buyers Panel

The ITM Research Buyers Panel was established in December 2005. It comprises of more than 165 travel managers and procurement professionals with responsibility for over £1.2 billion of travel management expenditure. The panel consists of ITM buyer members only, with individual company details kept anonymous to cultivate honest responses. Each new buyer member of ITM is requested to join the panel on a voluntary basis. Present members of the ITM Research Buyers Panel represent over 30% of the FTSE 100, major UK partnerships and a number of government departments.

ITM Research

ITM Research was established in November 2005 as one of the foundation stones of ITM's future development. The surveys, questions and commentary are created by the Research Working Party, comprising of ITM board representatives and individual supplier and buyer members. The ITM Research Working Party works in partnership with Argate Consulting, who act as advisors, facilitators, statisticians and publishers to ITM to provide the ITM Research surveys and reports.

ITM Research Survey types

ITM Research undertakes three survey types throughout the year.

Snapshot Surveys—undertaken four times a year across the ITM Research Buyers' Panel, these surveys comprise of approximately 10 questions on a single subject matter.

Commissioned Surveys - Undertaken up to a maximum of twice a year across the ITM buyer membership plus an additional twice a year across the supplier membership, these surveys are wholly commissioned and produced in association with a single sponsor company. Results are not necessarily published.

To discuss your research requirements with ITM for any of the survey types above please contact: paul.tilstone@itm.org.uk.

Institute of Travel Management

ITM is a not-for-profit organisation established over 50 years ago to support the business travel industry. Its main activities extend to promoting best practice, benchmarking and the development of individual and collective expertise through a structured education and conference programme. ITM represents over 1,000 buyer and supplier members from 7 UK & Ireland regions.

For commentary or questions regarding these surveys, or ITM in general, please contact secretariat@itm.org.uk with the subject field "ITM Research".

Argate Consulting

Argate provides a range of Market Intelligence, Business Performance and Growth Acceleration Programmes to a wide variety of market leading companies within the travel sector. Argate advises and implements its programmes to a blue chip client base across the telecoms, media, financial services, investment banking, logistics and travel sectors. www.argate.co.uk