A "Fare" Deal

How To Incorporate Ancillaries, Merchandising, and Personalization into Corporate Air Deals

As new types of air content are introduced, contracts will need to allow corporate clients to tailor that content so airlines can sell more based on client preferences.

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Few in the travel industry would dispute that corporate airline contracts have become so complex that resulting agreements often fail to produce noteworthy business benefits to either the corporate client or the airline (buyer and seller, respectively). Fundamentally, airlines want share and greater volume in their key markets. Buyers want discounts and greater results in their travel management programs.

For years, airlines, travel buyers, tech firms, travel management companies and numerous consultants have worked to resolve the common challenges in the execution of these agreements. They have tackled topics ranging from contract management and measurement and the definition and applicability of "lowest logical airfare" to the availability of discounted inventory and beyond. These same parties have occasionally entertained entirely new models such as:

- Buying redeemable seats in prepaid blocks,
- Pooling agreements into buyer co-ops or consortia,
- Consolidating alliance contracts,
- Instituting flat rates for designated city pairs,
- Moving to variable spot discounts.

And at times, some buyers and sellers have questioned the value of having a contract at all.

So, where does the industry stand today? Much progress has been made. Notwithstanding, many airlines' sales teams are still buried in a mound of deals that will ultimately produce too little incremental volume in the carrier's key markets. And many business travelers end up booking what critics might dub as the "lowest illogical airfare" — when it's even available — that will ultimately produce too few benefits to the travel program.

Managing corporate air contracts is undeniably complex, and it is likely to get harder before it gets easier. The reason may be obvious. Airline ancillary, merchandising and personalization efforts will introduce a new level of complexity that neither buyer nor seller has much experience negotiating or managing.

HIGHlight

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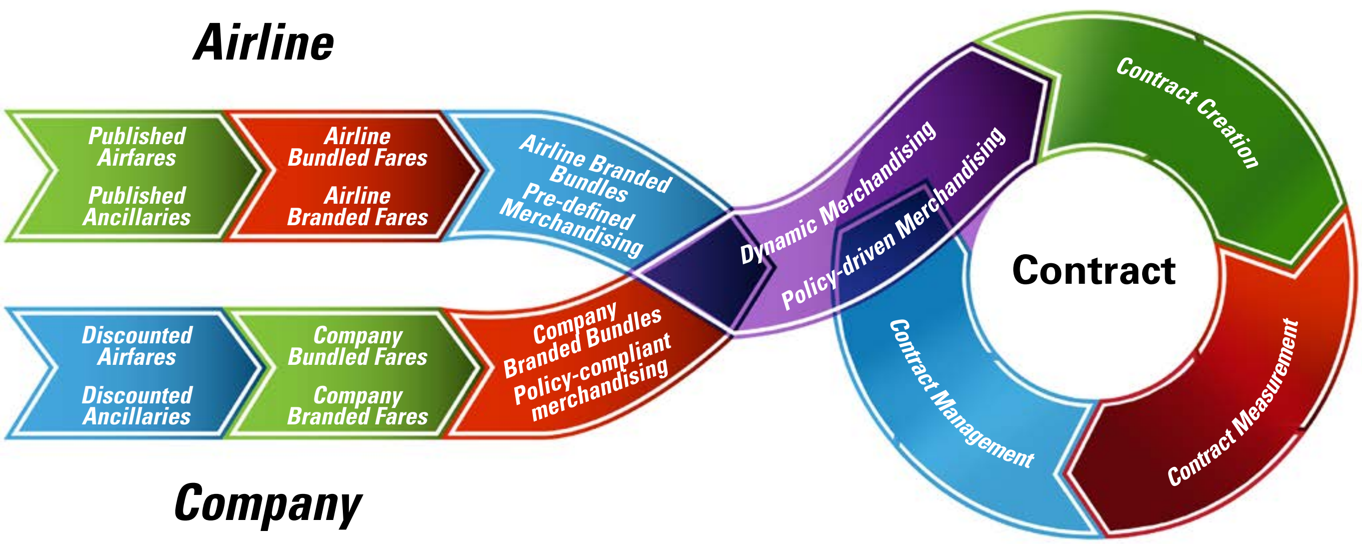
Though ancillaries, merchandising and personalization are not new, we should expect activity in these areas to steadily grow as more air carriers add ancillary revenue to their list of existing objectives. Their execution of these approaches in the B2B channel, however, is still maturing. And their rapid evolution has challenged the very definition of content as well as how it will be negotiated, filed, shopped, displayed, priced, booked, ticketed and settled using the technologies corporations rely on to manage their travel programs. Accordingly, corporate RFPs and negotiated contracts of the future may focus as much on content as on access to and customization of that content. It begs the questions, "What will future contracts look like, and how complex will they become?"

Understanding how buyers prefer to buy and how sellers prefer to sell is at the heart of understanding the future of contracts. From there, we can get a glimpse of how RFPs and contracts might evolve. The Diagram shows a sample of the types of content and offerings airlines choose from as they sell their products. These options are created and yield-managed to maximize revenue and loyalty through traditional content as well as new ancillary and up-sell opportunities.

The supplier can choose to sell published fares and published ancillaries. It can further take those fares and brand them, creating standalone fares with actual names like "Flex Flight" or "Bargain Hopper." Alternatively, the airline can create a fare that includes certain ancillaries bundled together at a special price, either branded or not branded. When branded, the airline bundle might be called something like "Relax Right," which includes a fare with an extended legroom seat and lounge access. And that brings us to merchandising.

Many airlines sell their merchandised and upsell offers based on pre-defined criteria. This is the realm of blanket targeting. Such pre-defined targeting can be randomly generated — or made



Airline Offerings And Client Preferences There are numerous types of content and offerings airlines can choose from to sell their products. These options are created and yield-managed to increase revenue and loyalty through traditional content as well as new ancillary and up-sell opportunities. There are various ways corporate travel buyers will likely prefer to buy airline products. Corporate clients favor discounts and policy-driven customization, which are practices at the center of a managed travel program.

to appear randomly generated — through a lottery, bonus, or prize mechanism. Examples include extra points, an upgrade or priority boarding at time of check-in. Pre-defined targeting could also be through a simple rule applied to all travelers such as generating an offer to buy extra frequent traveler points for a fee when each passenger checks in. Or, it could be a set of rules intentionally applied only to certain groups of travelers who meet select criteria, like displaying a discounted lounge pass offer to elite travelers on long-haul flights.

In addition to pre-defined merchandising, suppliers can also choose to employ dynamic or instant merchandising directed at individual travelers. This is the realm of granular targeting, personalization and dynamic pricing.

Based on decades of consumer preference research, dynamic merchandising may come in four different ways:

1. An airline could choose to merchandise based on "declared" traveler preferences from information stored in profiles and traveler accounts.
2. Merchandising can be based on "inferred" preferences where a traveler exhibits shopping behaviors or requests that are similar to other travelers. This is similar to functionality like "Customers Who Bought This Item Also Bought" and "Frequently Bought Together" seen on Amazon.com.
3. The supplier could choose to merchandise based on "observed" preferences. As an illustration, when passengers search for certain kinds of content, the carrier may decide to dynamically generate an offer for that content.
4. Merchandising can be based on "actual" preferences and historical data. Knowing that a passenger routinely selected a window seat on a trans-Atlantic flight — even though his profile indicates that he prefers an aisle seat — is insightful to an airline looking to create profitable micro-targeted offers.

One should not assume that merchandising is limited to just the airline's product. Crafting a dynamic corporate package that combines airfare with ground transportation under a branded "Fly N Drive" fare is an example of extending this type of merchandising to third-party content.

From the corporate buyer perspective, a different set of needs emerges. The Diagram illustrates how corporate travel buyers will likely prefer to buy the airline product in this new environment. The company favors discounts off of published fares and ancillaries, a practice that is at the heart of a managed travel program.

With respect to brands and bundles, why would a corporation prefer to take an off-the-shelf branded fare or bundle when it could define the attributes and discounting terms of either and have them appear in its controlled points of sale for purchase?

We may well see a future practice emerge whereby corporate clients request their own branded bundles that include discounted, travel policy-compliant content for purchase. Imagine travelers at a company like IBM shopping and booking branded bundles with names like "IBM Productivity," "IBM Executive," or even a combination of the two in an "IBM Executive Productivity" branded fare. If this emerges in the market, corporate air contracting will start to look more like hotel contracting where corporations have discounted rates that include negotiated amenities, the hotel equivalent of air ancillaries. With respect to merchandising, the corporate client needs to see that merchandised offers are not only policy-compliant but also policy-driven.

Corporate Clients Customize Air Content As corporate travel changes and new types of air content emerge, contracts should enable corporate clients to customize that content so airlines can sell more based on client preferences.

Successfully incorporating ancillary, merchandising and personalization content into a contract will mean both buyer and seller can reach important objectives. Each party also accepts greater complexity and needs the right technology and processes to manage more detailed contract provisions. And whereas the objectives of buyer and seller have been discussed, the needs of the corporation's travel management company must also be taken into consideration. Travel management companies may want to add their own bundled air options, too, much like they do in partnership with their hotel suppliers.

To close a client-focused deal, it is hard not to think of what my father taught me about customers. He spent most of his life in sales and was a natural "people person." Because of his skill and experience — and magnetic personality — he made sales look easy. From my father and from my own experience, I have observed five simple things that can be applied to any customer negotiation, including corporate air contracts:

1. Listen to the client and learn about their pain points.
2. Demonstrate that you understand the client's needs and challenges.
3. Resolve client challenges with the right product or service.
4. Create a superior customer experience at every touchpoint.
5. Become a partner in the client's success.

Corporate air contracts may be on the verge of major change. To avoid the proverbial hard landing, one can't go wrong by focusing on the client. That doesn't mean the client always gets everything he wants or gets every issue resolved, but it likely means embracing new contracting approaches that allow the buyer to tailor the content so the supplier can sell more of what the buyer is willing to purchase. And that is the essence of a "fare" deal.

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