

# BENCHMARKING EUROPE'S BIGGEST

BY AMON COHEN

The slowly recovering European business travel market is burdening travel buyers with renewed challenges, including rising rates and other, more contentious, revenue-raising strategies employed by suppliers desperate to find routes back to profitability. That is the picture painted by the fourth annual *Business Travel News* survey of the biggest buyers of travel in Europe along with a discussion with many of the survey contributors at the NBTA Europe conference in Lisbon in September.

The 28 companies that participated this year booked European air volume in excess of €15 million—with an average of €47 million—and represented a wide range of sectors, including pharmaceuticals, manufacturing, financial services, technology and communications.

The survey results and roundtable discussion suggest there will be plenty of work for European travel managers during 2011.



## AVERAGE EUROPEAN PRICES

	2009	2008	2007	2006
Coach airfare	€353.50	€421.50	€464.20	€517.50
Daily hotel rate	€139.60	€149.40	€145.70	NA
Midsize car rental rate	€37.60	€38.30	€38.30	€35.00

## VITAL SPENDING STATISTICS

Average spent in millions, all respondents

	2010*	2009	2008
European T&E	€135	€133	€189
Europe-booked air	€59	€47	€91
U.S.-booked air	€49	€41	€68
Companywide air	€143	€124	€190

\*Estimated

## SUPPLIERS' EAGERNESS TO DEAL WANES

In 2009, survey respondents considered every category of travel supplier and intermediary more willing to negotiate than they were six months prior. This time, the picture is much more mixed. For agency, car rental, card and chauffeured transportation, there still are a higher number of buyers who judge vendors more receptive to negotiating favorable pricing agreements than those who do not. For air and hotel, however, the opposite is true.

By far the most striking example is hotels. In 2009, every buyer surveyed judged hotel suppliers more receptive to negotiation than they were in the previous six months. Fast-forward one year and that figure has fallen to 35 percent, while 42 percent have found hotel vendors less receptive.

Similarly, no surveyed travel buyers in 2009 found airlines less receptive to negotiations. This year, the figure is 38 percent, while only 31 percent have found airlines more receptive, down from 74 percent.

When it comes to intermediaries, the picture is different. Although down from 70 percent last year, 54 percent of buyers characterized agencies more receptive in 2010, whereas only 8 percent find them less receptive.

## AVERAGE AIRFARES TUMBLE

It will be highly revealing in next year's report to see whether the tougher negotiating climate led to an increase in the average European economy ticket price for 2010. This year's survey reveals that the average fare in 2009 plummeted to €353.50 from €421.50 the year before. It does not necessarily follow that the average fare started to rise again in 2010. It has fallen every year since the first *BTN* European report measured 2006 data, when the market was booming, largely because of the deflationary effect of low-cost carriers.

Two other answers from the survey respondents possibly offer evidence that budget competition contributed to downward price movement in 2009. The average savings buyers achieved on economy fares as a result of negotiated corporate discounts was 19 percent, slightly

down from the 2008 figure of 20 percent. Furthermore, the percentage of European air tickets for which respondent companies received a negotiated discount was 47 percent, down from 53 percent. As such, average fares likely did not fall because companies were buying more or cheaper negotiated tickets. Instead, they likely were using more low-cost carriers or buying more best-on-day fares from legacy airlines whose pricing strategies were heavily influenced by their budget rivals.

Meanwhile, in 2010, 16 percent of buyers have made their business-class air travel policies less restrictive than the previous year. Last year, the figure was zero, as was also the case in 2008 and 2007. Only 12 percent have made their business-class policies more restrictive in 2010, well down from last year's figure of 46 percent.

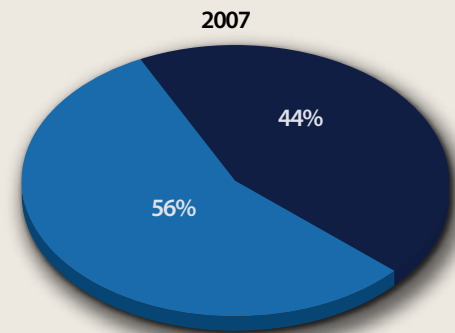
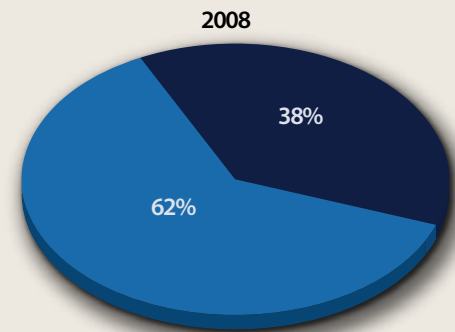
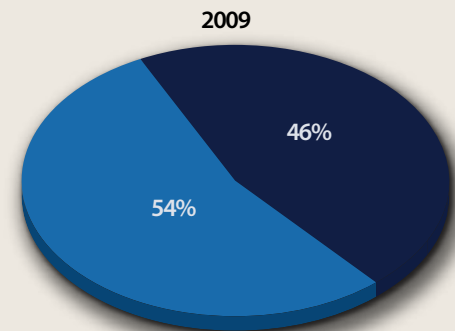
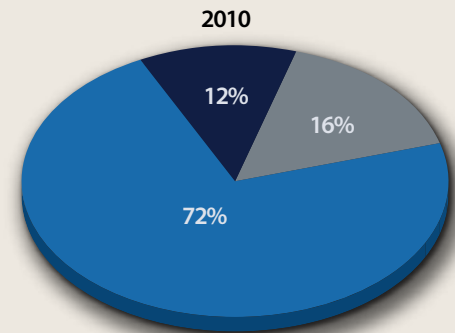
At the buyers' benchmarking meeting in Lisbon, most concerns expressed about airline contracting revolved around the issue of transparency. As the travel manager for one leading European bank put it, "There is nothing wrong with airlines earning money—all I want is some transparency."

Instead, buyers said carriers are asking for a great deal of information but are being less than open in return. "They are being more aggressive in tying in clauses about meeting contracted targets, so we are trying to put in clauses to make them commit to giving data," said a technology company travel manager.

Buyers expressed sympathy with the wish of airlines to tie clients more rigorously to their deal targets. "It is a legacy of corporates not delivering," said one. "At one company where I used to work, we promised 300 percent of our real spend." However, buyers objected to airlines failing to provide a quid pro quo by granting access to corporate discounts on all fare classes. "Airlines give upfront discounts on capacity-controlled classes that are often full, so we have to go for higher-class fares," complained one participant.

Lufthansa in recent months has been a particular target for buyer criticism for issuing new contracts that make clients repay discounts if they miss targets, yet it often does not give last-seat availability on negotiated fares. "Lufthansa is one of the worst in terms of what it

## CHANGE IN BUSINESS-CLASS AIR TRAVEL POLICIES FROM THE PREVIOUS YEAR



■ More restrictive ■ Less restrictive  
■ No change

## EUROPEAN FULL COACH NET EFFECTIVE DISCOUNT

Average savings as a percentage of the published spend, including front-end and back-end rebates and other incentives in Europe and outside of Europe

	2009	2008	2007	2006
1% to 4%	4%	8%	9%	0%
5% to 15%	21%	31%	26%	13%
16% to 25%	37%	23%	22%	50%
26% to 35%	12%	23%	26%	25%
36% to 45%	4%	8%	9%	6%
More than 45%	0%	0%	0%	0%
Don't know	21%	8%	9%	6%
Mean	19%	20%	20%	22%

## AIRLINE ALLIANCES WITH WHICH RESPONDENTS HOLD A CONTRACT

	2009	2008	2007	2006
Star Alliance	72%	77%	75%	54%
Oneworld	32%	31%	29%	21%
SkyTeam	44%	54%	50%	25%
None of these	28%	19%	25%	42%

## PERCENTAGE OF EUROPEAN AIR TICKETS FOR WHICH COMPANIES RECEIVED A NEGOTIATED DISCOUNT

Year	Percentage
2009	47%
2008	53%
2007	56%
2006	54%

## SUPPLIER DEAL RECEPTIVITY

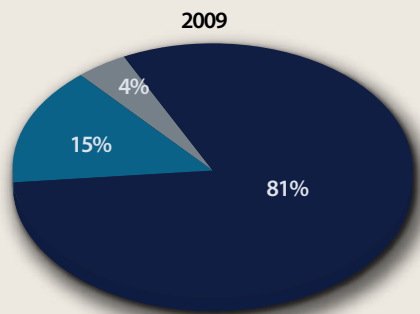
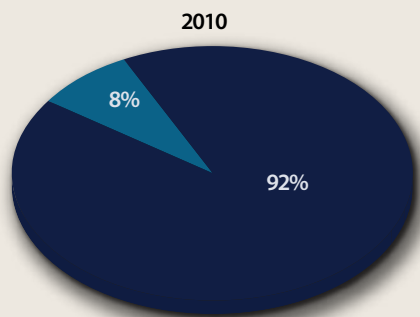
Buyer perception of vendors' attitudes toward negotiating favorable pricing agreements for European points of sale compared with six months prior

	MORE RECEPTIVE	NO CHANGE	LESS RECEPTIVE	DON'T KNOW/NA
Agency	54%	38%	8%	0%
Airline	31%	31%	38%	0%
Car rental	38%	54%	4%	4%
Card	27%	54%	8%	11%
Chauffeured	8%	23%	4%	65%
Hotel	35%	23%	42%	0%
Rail	4%	52%	4%	40%

## AVG. EUROPEAN GROSS HOTEL SPEND, IN MILLIONS

Year	2009	2008	2007	2006
Spending	€34.7	€23.2	€18.7	€26.9

## ONLINE BOOKING SYSTEM STATUS



■ Using a system  
■ Now buying or implementing  
■ Selecting or will select one

## PRE-TRIP APPROVAL PROCESS IN PLACE

	2009	2008	2007	2006
Yes	60%	54%	46%	46%
No	40%	46%	54%	54%

is asking for in its contracting,” said one manager with Europe-wide travel buying responsibilities. “If you don’t provide [booking] data or meet its other demands, it is willing to walk away.” Another said: “All the airlines will be watching to see what happens with Lufthansa, which has taken contracting to an extreme.”

As a result of these increasing complexities, the buyers agreed that they are in need of more help from third parties, such as travel management companies, to analyze airline data and assess contract options. Taking a slightly different tack, another buyer said, “We need to challenge suppliers for a high level of standardization of data,” adding that the Swedish Business Travel Association is working on a project to create such standards (see page 3).

Yet another issue frustrating buyers is ancillary pricing. “It’s nickels and dimes, but it does add up,” said one. “Our problem is the level of data. Card data doesn’t help because it doesn’t break out ancillary costs. It is also hard for TMCs to capture.” Another said her company’s accounts payable team is attempting to track ancillary fees, “but it is a big ask of them.” The buyers agreed airlines are capturing more data about such charges as baggage fees than they are willing to share with clients.

## HOTEL COMPLIANCE UP, RATES DOWN

Compliance with corporate hotel programs is improving for travel managers from the biggest European buyers of travel services. The proportion of European room nights booked with a negotiated front-end discount by their travelers hit 71 percent in 2009, up from 66 percent the previous year and 64 percent the year before that. Along with an excellent negotiating environment,

## AVERAGE BOOKING FEE

Gross average per-booking fee paid for a European air or rail ticket\*

	2009	2008	2007	2006
By telephone	€25.90	€28.90	€26.65	€29.60
Online with assistance	€20.00	€20.90	€24.00	€22.60
Online without assistance	€14.50	€14.30	€12.90	€16.80

\*Including operating expenses, indirect costs, overhead and profit paid to the agency

## AGENCY CONTRACT STRUCTURE\*

	2009	2008	2007	2006
Transaction fee	85%	77%	71%	72%
Management fee	36%	38%	46%	28%
Cost-plus	8%	4%	7%	28%
Revenue share	4%	0%	4%	0%
No primary agency contract	0%	0%	4%	6%

\*Respondents could select more than one answer

## TRADING DOWN IN HOTEL TIER

	2010	2009	2008	2007
More use of lower-tier hotel properties vs. previous year	52%	85%	48%	41%
Same/less use of lower-tier hotel properties vs. previous year	48%	15%	52%	59%

## ELECTRONIC EXPENSE REPORTING SYSTEM STATUS

	2009	2008
Using a company-purchased or leased system	62%	54%
Using an internally developed system or process	12%	8%
Other	16%	33%
None	8%	4%

it helped push the average European hotel rate down from €149.40 the previous year to €139.60.

A main concern at the Lisbon session, however, was what will happen to rates in 2011, considering only 35 percent of respondents viewed hotels as more receptive to favorable pricing agreements, while 42 percent believed them less receptive.

“Hotels have certainly been trying to up their rates, and they have been given aggressive revenue per available room targets by their owners,” said one participant. “Some markets are going to see very large increases, such as Asia/Pacific, but in some markets, hotels are asking for too much too soon.”

A second travel manager warned that London and New York face particularly steep rate rises, and others expressed relief that they had negotiated two-year hotel deals in late 2009 and early 2010 to protect against the current upward market.

Another risk that the buyers flagged was the slow creep of new ancillary fees into the hotel sector. One related how a hotel charged a traveler from her company \$15 for accepting a package delivery. However, another travel manager, albeit from a very large technology company, was able to report success in negotiating complimentary extras. “We achieved 100 percent Internet-inclusive rates this year in EMEA and the U.S.,” she said.

Meanwhile, certain hotel chains continue to urge corporate clients to switch some or all of their hotel programs to dynamic pricing (see page 9), whereby the customer accepts a fixed discount off the best rate on the day. The proposition proved unpopular with several travel managers in the group. “They are trying to

encourage us to move to dynamic pricing for non-preferred hotels,” said one travel manager. “I am very resistant. You don’t know how much you are going to pay, which makes budgeting very difficult.”

However, more were willing to consider the idea than

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had been in the past. “We are trying dynamic pricing in Sweden, such as non-preferred hotels in smaller cities,” said one Scandinavian travel manager. “So far, it has been very successful for us. We have tied it to a rate cap, so if the rate goes above the cap, it won’t show up in our self-booking tool.”

Another travel manager warned that some hotels are causing confusion through best available rates. She said one hotel group is “offering dynamic pricing in the same cities as where we also have contracted hotels with the same group, but the dynamic rates are showing up in the system as contracted rates. Travelers could end up booking a hotel on the other side of town.”

On a related problem, a banking group travel manager complained of “rife” rate-squatting, especially on self-booking tools. He blamed GDSs for showing a lack of responsibility for clearing out the unwanted rates. Another buyer said her company had found a solution to the rate-squatting challenge. “We commission external audits,” she said. “If the rate is still there in a second audit, we impose a penalty.” ■

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