



# Airline and Hotel Sourcing Overview

Norwalk, CT  
September 13, 2011



# Today's Agenda

- Introduction
- Airline Sourcing
  - Objective
  - Understanding the process
- Hotel Sourcing
  - Negotiation Factors for 2012 Season
- Discussion / Q&A

# INTRODUCTION

# Introduction to TCG Consulting

- **TCG Consulting**

- Privately held, global, professional services firm
- Founded in 1994
- Currently the largest, independent, pure corporate travel, expense and payment system consulting firm in the market
- Headquarters in Charlotte, North Carolina
- Offices in Chicago, Detroit, Eugene, London, Los Angeles, Mexico City, Sao Paulo
- Assessment, strategy, sourcing, implementation & management
- Practice areas:
  - Agency, strategy and policy                      Air
  - Outsource & implementation                      Hotel
  - Expense & payment                                      EMEA
  - LATAM
- Over 590 client engagements in 106 countries on 6 continents

# Introduction: Barry Rogers

- **Barry Rogers**
  - Partner – TCG Consulting – Director, Air Practice
  - 25-year travel industry veteran
  - CIO – global TMC
  - VP – EDS global travel services SBU
  - Founder – agency-owned consulting firm
  - TCG – since 2003
  - GBTA Aviation Committee

# OBJECTIVE

# Objective

- **Airline sourcing at multiple levels**
  - Basics for those who are new to airline sourcing
  - Refresher for those who are experienced
- **Current Issues**
- **Hotel sourcing**
  - Outlook for 2012
  - Negotiation Factors
- **Answer questions**

# UNDERSTANDING THE PROCESS

# Strategic Sourcing

## The Strategic Sourcing Process

- Assessment of a company's current spend
- Assessment of the supply market
- Total cost analyses
- Identification of suitable suppliers
- Development of a sourcing strategy
- Negotiation with suppliers
- Implementation of new supply structure
- Track results and restart assessment

# Strategic Sourcing

## Assessment of a company's current spend

- Current spend / mileage / yield (cost per mile/km) by
  - Carrier / JV / Alliance
  - City pair / flown geography (i.e. domestic, transpacific, transatlantic, intra-European, etc.)
  - Point of sale (if multinational)
  - Cabin
  - Combinations of the above
- Current target performance by contract / term
- Fair market share by contract / term
- Current airline revenue vs. fair market share

# Strategic Sourcing

## Assessment of the supply market

- Current trends in the market place
  - Drivers: oil prices, labor, economy, demand, business issues
  - Results: profit and pricing pressures
  - Responses: capacity, mergers, JVs
- Fair market share by carrier / JV / Alliance
  - Overall
  - By point-of-sale market / region
  - By flown geography
  - Impact of mergers and JVs

# Strategic Sourcing

## Total cost analyses

- Understand discounts (nominal, actual and comparative)
  - Nominal: 24% off J booked in D
  - Actual: 10% lower than published D
  - Comparative: 5% lower than lowest D (or equiv.) in market
- Understand discounts by airline, contract, country, geography, cabin
- Understand contract gaps – and what's driving them
  - Excluded carrier(s)
  - Excluded city pairs
  - Excluded booking classes
  - Excluded points of origin

# Strategic Sourcing

## Total cost analyses

- Understand relative published pricing

	British Airways			Emirates			Lufthansa					
	Fare Basis code	Base Fare	Tax	Total Fare	Fare Basis code	Base Fare	Tax	Total Fare	Fare Basis code	Base Fare	Tax	Total Fare
One way	J1US	\$7,039	\$425	\$7,464	JOWUS1	\$5,397	\$22	\$5,419	J1	\$8,442	\$217	\$8,659
Round trip	J1US	\$14,078	\$863	\$14,941	JRTUS1	\$8,814	\$69	\$8,883	JR1	\$9,573	\$468	\$10,041

Published Fares - Full fare business class - Houston to Dammam

- Understand booking fee implications
  - Split ticketing
- Understand ancillary fee spending – where possible

# Strategic Sourcing

## Identification of suitable suppliers

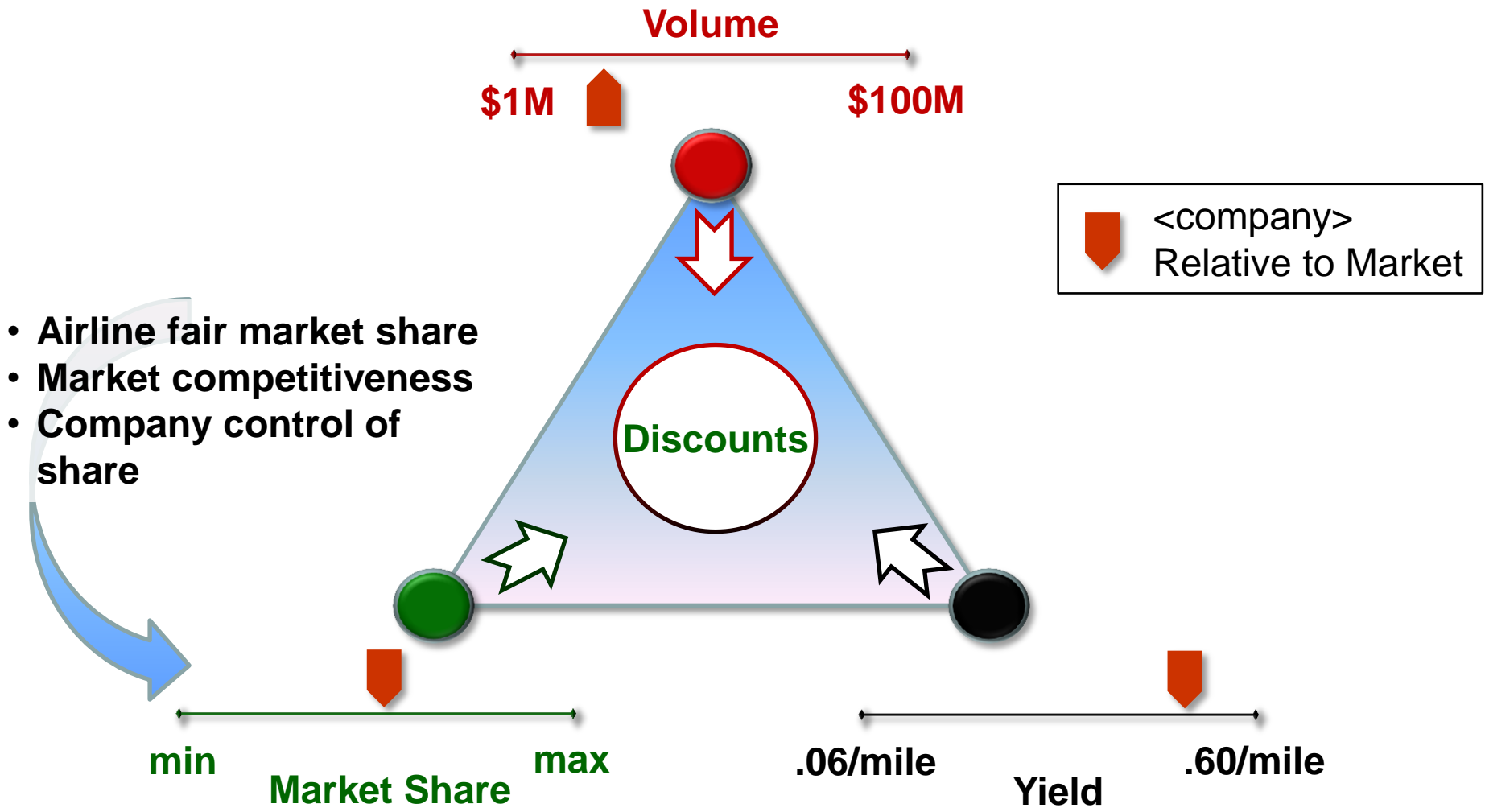
- Current utilization
  - Spend by carrier
- Coverage potential
  - Fair market share (segment-weighted, spend-weighted)
- Unique pricing potential
  - Market pricing below competitors
- Overlap
  - Identification of unique providers
- Safety and other concerns
  - ASI, ISOS and other ratings

# Strategic Sourcing

## Development of a sourcing strategy

- Alliances (where applicable)
- JVs (where applicable, or given)
- Individual carriers
  
- Geographic coverage
  - Global, regional, local bidders
  
- Approach
  - Single or multiple events
  - Global or local negotiations

# Dynamics of Corporate Discounts



# Strategic Sourcing

## Negotiation with suppliers

- Evaluation of proposals
  - Impact of fare class alignments, and discount methodology changes
  - Savings potential (apples-to-apples)
    - By carrier, country, geography, city pair
    - Key city pairs – and all of the others as well
  - Potential target performance

# Strategic Sourcing

## Negotiation with suppliers (continued)

- Strategic “what if” scenarios
  - Historical market share – the easiest to achieve
  - Add / drop carriers – tweaking the system
  - Preferred carriers – based on QSI and pricing
  - Combined with difficulty of achieving

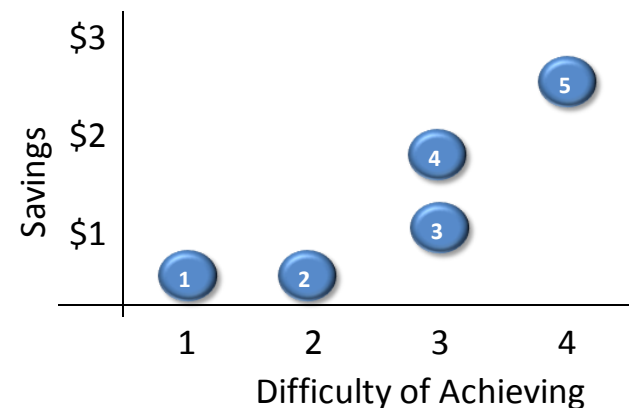
Scenario 1 - Historical carriers / historical share

Scenario 2 - Drop Carrier A, add Carrier B

Scenario 3 - Drop Carrier A, add Carrier B @ Level 2 discounts

Scenario 4 - Drop Carrier A, add Carrier C

Scenario 5 - Drop Carrier A, add Carrier B and C



# Strategic Sourcing

## Implementation of new supply structure

- Generate contracts
- Verify that contract corresponds to proposal
- Verify practical effective dates
  - Outbound travel up to three months beyond end of contract
  - Return travel up to applicable fare rules (1 year from issue)
- Claw back provisions
- Project impact of agreement
  - Historical spend, projected spend, committed spend
- Internal and agency communication
- Formal roll out to company

# Strategic Sourcing

## Track results and restart assessment

- Return to step 1
- Agreements are “living documents”
- Quarterly “assessment” of each agreement
  - Understand savings
  - Understand performance – and what’s driving it
  - Identify gaps – and fix them
  - Make airline reviews “two-way streets”

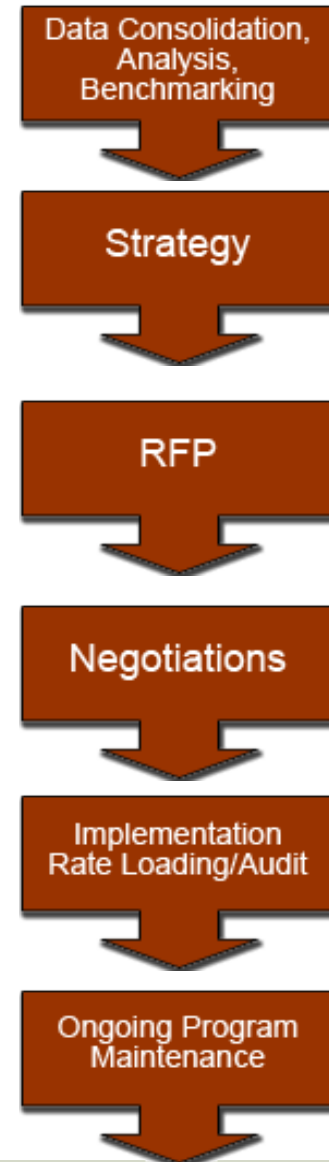
# HOTEL SOURCING

# Hotel Category Management - Phases

- Phase I **Assessment**
- Phase II **Sourcing**
- Phase III **Program Implementation**
- Phase IV **Supplier Management**
- Phase V **Post Program analysis**

## Scope & Timeline

- Domestic 90 -180 days
- Global 180 days



# Looking Ahead – 2012 Projection

<b>Global Hotel - 2012 Forecast - TCG Consulting Projection - September 2011</b>		
<b>Region</b>	<b>Increase</b>	
<b>North America</b>	<b>US - Range +2-6%; Canada + 2-4%</b>	New York 10%, Boston, Chicago Philadelphia 5%
<b>Europe</b>	<b>Range +1-3%</b>	Germany & France will show increases in key markets; UK - 2%; London +7%; Spain, Ireland and Italy 1%; Eastern Europe less strong - although some strength in Poland and Turkey).
<b>Latin America</b>	<b>Range +5-7%</b>	Key cities in Brazil & Argentina showing increases - some impact of currency fluctuations.
<b>Asia-Pacific</b>	<b>Range +5-12%</b>	Australia - Sydney, Perth and other major cities strong demand and pricing power; China has stabilized (although Beijing has some oversupply); Hong Kong and Singapore have seen convention/group return and claimed significant increases in 2011; Demand in India continues to be strong and New Delhi still has undersupply. Chain hotels in India not subject to much negotiation.
<b>Middle East</b>	<b>Range +2 - 6%</b>	<b>Middle East</b> - some occupancy impact due to Middle East Spring - but Egypt has realized some 5% price increases
<b>Africa</b>	<b>Range +2-6%</b>	South Africa - Johannesburg may drive higher increases

- \*Given the current volatility of the global economy - concern over double-dip recession in US and sovereign debt bailouts in Europe projections may change;
- Client rates are volume dependent and market specific.
- Prior year rate increases need to be considered ( and in light of rate reductions in 2009 & 2010)

# Negotiation Factors

- **High volume markets**
  - Set specific strategies in high volume cities to elicit most ROI from procurement process
- **Market increase**
  - What is projected market increase?
- **Market caps**
  - Review your average rate booked in city and set market cap/ceiling
- **Year-Over-Year**
  - What was last year's increase?
- **Two year contracts**
  - Consider two year contracts only in high volume hotels – do not try to negotiate for entire program as market too uncertain
- **Volume**
  - How much volume do you have? Increase/decrease over last year? Hotels continue to raise thresholds for rate consideration – BUT they may not want ALL of your volume

# ➤ Negotiation Factors

- **LRA v NLRA**
  - Last Room Availability (LRA) versus NON LRA – LRA will be at a premium again this year; consider markets where NLRA may be an option and consider blend in high volume markets; high volume markets - LRA will be essential
- **Value Adds - Value adds will be tougher to negotiate**
  - Consider the real value to your company - is breakfast and internet really applicable to your company/culture (although internet is #1 request in most surveys many travelers use Smart Phones and need to use internet access at hotel may be less)
- **Compliance - What is your compliance factor?**
  - What are you prepared to do to do to drive volume?
  - What does corporate culture allow you to do to drive volume? e.g. ability to move service tier
- **Rate availability - How much inventory does the hotel have?**
  - Likelihood of getting the rate negotiated; occupancy versus supply
- **What's in it for the hotel?**
  - Clients with strong demand management that prove they drive travelers to preferred vendors will have more negotiating power than those that expect discount by virtue of company name alone.

# DISCUSSION / Q&A



## Headquarters

8508 Park Road, #102  
Charlotte, NC 28210-5803  
Phone: 704.552.4421  
Fax: 704.943.0538  
Email: [info@tcgconsulting.net](mailto:info@tcgconsulting.net)

## Offices

Charlotte - Headquarters  
Chicago / Detroit / Eugene / London / Los Angeles / Mexico City / Sao Paulo

## Global Resources

Asia-Pacific / Europe / Latin America / North America

# APPENDICES

# DOCUMENTS

# Documents

## Airline RFP Documents

- The actual request for proposals (RFP)
- Data exhibit (Exhibit A)
- Qualitative responses (Exhibit B)
- Quantitative responses (Exhibit C)

# Request for Proposals (RFP)

- **Introduction**
  - Purpose of RFP
  - Use of consultants (if any)
- **Company Background**
  - Not all bidders may not be familiar with your company
  - Who you are / what you do / links to public web sites
  - Highlight information on growth, acquisitions, spinoffs or other business plans (that can be disclosed)
- **Objective of RFP**
  - Coverage, savings
  - Anticipated start date and length of agreements

# Request for Proposals (RFP)

- **Scope of Initiative**
  - List of countries (point of sale and/or point of origin), organized by region if numerous
- **Background on Travel Management at Company**
  - If travel is managed by a single individual, identify them
  - If travel is managed by a council, identify the structure
  - Where does travel report into the organization
  - Identify extent of travel consolidation, with future plans
  - Online booking profile
    - Tools used – by country
    - Policy – by country
    - Percentage of utilization
    - Policy enforcement – preferred carriers, fare, tradeoffs

# Request for Proposals (RFP)

- **Background on Travel Management at Company (cont.)**
  - Highlight recent or anticipated changes
  - Identify all of the ways in which the company will be a good partner for the bidder
- **Proposal Guidelines**
  - Hard savings versus soft (in-kind) services
  - Commissions and/or overrides
  - Point-of-sale discounts versus backend rebates
  - Fixed fares – specific markets
  - Validity of offer (120 days)
  - GDS and Travel Agency decisions (retained by company)
  - Evaluation criteria

# Request for Proposals (RFP)

- **Instructions for completing RFP**
  - Specifically for completing exhibits
- **Timeline**
- **Appendices**
  - Intent to bid
  - Confidential disclosure
  - Signature authorization
  - Company subsidiaries and entities
  - Historical travel statistics
  - Travel policy
  - Cover sheet for questions

# Data Exhibit (Exhibit A)

- Key for airlines that don't use Prism of TRX
- Recommended for verification by airlines that do
- Includes summary data
  - Bidder and “OA” spend by country, geography, cabin
  - Detailed city pair data by country

# Qualitative responses (Exhibit B)

- All non-pricing information requested of bidder
  - Pricing requirements
    - Commissions / overrides
    - POO pricing
    - Merchant fees
  - Marketing requirements
    - Status matches / nominations

# Quantitative responses (Exhibit C)

- Pricing and target information
  - Each consulting organization has developed their own version
  - Alliances (particularly Star Alliance) has developed their own version
  - Tradeoff between standard format and translation errors

# MANAGING THE TIMELINE

# Timeline

- Assessment
- Strategy
- Notification to Carriers
- Development of RFP
- JV and Alliance Paperwork
- DRAs
- Preparing Proposals
- Analysis of Proposals
- Negotiations
- Legal Review
- Signatures
- Implementation

# Timeline

- **Assessment**
  - Collect data / current agreements / performance reviews
  - Analysis of data / agreements / reviews
  - Depending on number of countries, number of agencies, number of agreements,
  - From 2 – 3 weeks to 2 – 3 months

# Timeline

- **Strategy**
  - Typically one to two weeks, but may be longer if global participation is required
- **Notification to Carriers**
  - Identify key contacts (particularly for “new” suppliers)
  - Notify them of approximate timeline as soon as possible
  - Notify them of your strategic intentions as soon as possible
    - Particularly if they will represent a JV or an Alliance
  - Get updates from contacts on latest developments

# Timeline

- **Development of RFP**
  - Typically one to two weeks or longer, depending on whether it's been done before or being done from scratch
  - Typically done in parallel to assessment and strategy

# Timeline

- **JV and Alliance Paperwork**
  - Only necessary if JV or Alliance bids
  - Alliance paperwork can take two to three weeks
- **DRAs**
  - Step 1: Paperwork
  - Step 2: Data
  - Can take less than a week, or several months if first-time global – depending on agencies involved
  - Should be started as early as possible

# Timeline

- **Preparing Proposals**

- One carrier / one country – one to two weeks
- Alliances / multiple countries – six to eight weeks
  
- Most procurement organizations don't allow early submissions of proposals – therefore worst case is critical path

- **Proposal Analysis**

- One country / several proposals – two to three weeks
- Alliances / multiple countries – six to eight weeks

# Timeline

- **Negotiations**
  - Based on scope and number of rounds
  - Based on scope and complexity, some agreements can go for six or more rounds
  - Each round can take one to three weeks depending on scope
  - Best done as a team (procurement, travel management, consultant (if used))
  - Three weeks to six months
  - Shortcutting can leave significant opportunities on the table

# Timeline

- **Legal Review**
  - Best to begin as soon as possible
  - Many companies are trying to “extend” current agreements with pricing amendments
  - New JVs are forcing new contract paper
- **Signatures**
  - Best to socialize changes before requesting signatures
  - Important to identify required signatures ahead of time
    - Particularly for global programs

# Timeline

- **Implementation**

- Airline implementation – can take up to four weeks for a global implementation
- Agency implementation and testing – can take two to four weeks depending on scope and complexity
- Development of supporting documents (traveler and arranger guides, preferred suppliers and targets)
- Corporate announcement and roll out

# Timeline

- **Overview**

– Assessment	2-3 wks	2-3 mths
– Strategy	1-3 wk	
– Notification to Carriers	1-2 wks	2 wks
– Development of RFP	in parallel	2 wks
– JV and Alliance Paperwork	none	1-3 wks
– DRAs	none	3 wks
– Preparing Proposals	2-3 wks	6-8 wks
– Analysis of Proposals	1-2 wks	6-8 wks
– Negotiations	2-3 wks	4-6 mths
– Legal Review	in parallel	1 month
– Signatures	1-2 wks	
– Implementation	<u>2-3 wks</u>	<u>4-6 wks</u>
– <b>Elapsed</b>	<b>3-4 mths</b>	<b>12-18 mths</b>