

Fuelling fare hikes

By Allan Leibowitz

VIRGIN BLUE IS expected to soon announce changes to its fare structure as a response to increased fuel costs.

Instead of following other airlines and slapping on another surcharge, the airline last month announced that it is reviewing fares throughout its entire network.

Virgin is facing a 95% increase in fuel costs compared to the last financial year, with fuel expected to account for 20% of operating costs in the 2005 financial year – up from 15% in 2004.

When Qantas and scores of other airlines announced an increase in their fuel surcharges in October, Virgin Blue CEO Brett Godfrey said his team had “decided to review its fares .. and this route by route analysis will help minimize the impact on our key demand-sensitive routes”.

The review, he said, is taking



into account “a variety of factors including customer price sensitivity, load factors and fuel consumption per route”.

Virgin’s pre-October fuel surcharge of \$10 per sector (domestic) and \$20 (international) still apply while the review continues.

Qantas, meanwhile, continues to impose a surcharge of \$12 for each domestic sector and \$29 for international routes, after first introducing surcharges in May at around half the current levels.

The surcharges and proposed fare restructure come on top

of significant rises in bottom-end fares in the last quarter. The recent American Express Airfare Index revealed that discount economy airfares on Australian domestic routes increased a considerable 10.9% in the last quarter.

To page 7

Inside this issue:

Rising travel costs	2
Gathering affirms values	3
AP gets in on ACTE	4
How do the best fare?	8

Surveys tip rising travel costs

BUDGETING FOR NEXT year? If your travel includes any degree of international, you'd better prepare for cost rises, according to a couple of international surveys.

The recently released US National Business Travel Association's "NBTA 2005 Business Travel Overview and Cost Forecast" predicts overall rises in all travel components.

The organisation predicts that corporate travel costs will increase by 7% in 2005 over the previous year. It tips air fares to rise 5%, hotel rates to increase 7.5%, car rental rates rising 5% and meal prices to go up 3%.

These rate increases will come in an environment in which corporations are no longer restricting travel as they have in recent years, according to the report. While many corporations restricted trips to only "essential" or "customer-related" travel over the past three years, the October 2004 survey of NBTA member travel managers shows that less than 40% are continuing such travel restrictions.

Corporations are expecting to increase business activity



next year owing to three factors: new efficiencies discovered during the economic downturn, new demand for services as the economy improves, and the expansion of new markets as security concerns wane. The increase in business travel, while good for the economy, could allow travel suppliers to regain pricing power and increase travel costs.

The findings have prompted a forecast of recovery for busi-

ness travel in 2005, says Carol A. Devine, NBTA president and CEO. "Travel managers have used their expertise to contain their companies' travel costs in recent years," she says.

"As travel expands in 2005, travel managers will continue to provide value by negotiating the best contracts and setting corporate travel policy to get the best value for each travel dollar in the rapidly changing travel market."

Meanwhile, a Business Travel Coalition survey of 112 US corporations with a combined annual domestic air spend of US\$1.09billion predicts full-year 2004 spend on air transportation services to be up 4% from 2003. Some 52% of participants indicated that 2005 air transportation budgets will be flat, or lower than 2004 (compared with 73% in last year's survey).

While NBTA heralds a recovery, BTC respondents are less upbeat. Some 94% agree that cutbacks in business travel are permanent in nature – unchanged from last year.

BTC respondents have limited their spending through greater use of non-refundable tickets, while almost three-quarters of those surveyed have increased their use of low-fare airlines in 2004. What's more, 70% anticipate greater use of low-fare airlines in 2005 compared with 2004.

The global governing airline body, IATA, meanwhile, has proclaimed an official recovery in air travel.

The latest IATA traffic data for the first three quarters of 2004 show "sustained traffic increases across all regions".

International scheduled passenger traffic for the nine months to September 2004 grew 17.7% over the same period in 2003 while comparisons for September 2004 to

September 2003 show 10.9% growth for passenger traffic.

"People are travelling again," says Giovanni Bisignani, IATA's director general and CEO. "Every region is reporting double digit growth. Traffic clearly is rebounding from 2003, which was an exceptionally bad year,"

"Airline efforts to meet demand and reduce costs are paying off. We are well placed to achieve 14% passenger growth in 2004 with a 3% reduction in non-fuel unit costs," says Bisignani. Airlines' cost-cutting has been particularly successful with respect to personnel and distribution costs.

"Travel managers have used their expertise to contain their companies' travel costs in recent years."

"Some airlines have achieved increases in productivity of as much as 13%.

Similarly, reductions in distribution costs in the region of 14% have been realised," he explains.

Despite the growth, "the bottom line is worsening with the extraordinary price of fuel," he adds. "If current fuel price levels persist, losses may well exceed the US\$3billion to \$4billion previously forecast for 2004", he warns.



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Gathering reaffirms values

LAST MONTH'S ACTE Global Conference in Stockholm included a who's who of the industry – and in-depth discussion of some of the burning topics. This report was compiled by one of the Australian attendees, Flight Centre Corporate's **Karen Tsolakis**.

There were presentations, stalls to view reports and more reports, interactive roundtables for debate and dialogue, and, of course, the lavish dinners!

For me and my Flight Centre Corporate colleagues Andrew Best and Mark Atkins, one of the greatest benefits was hearing some of the world's leading academics give their views of the forces shaping our business and our lives.

Two of the speakers in particular left their mark - names I had never heard before but will not forget - Kjell Nordstrom, a hypnotic, fascinating academic from Denmark who spoke on 'Individual and Industry Survival in the face of Change' and the charismatic Prof. Fariba Alamdari, from Canfield University, who spoke on 'The Future of Distribution'.

What did I take away from this conference? Three things.



One is an invigorated sense of our value as travel professionals, of an industry of people who for the most part, love their chosen careers, take pride in their expertise, knowledge and service to our clients. This reinforced our determination to strive for greater success as a valued business partner to clients.

Secondly, I came away with a revised view about competition. Yes, we absolutely must be productive and lean, deploy the best technology and resources we can afford in order to be competitive, efficient and profitable. What we should NOT do, however, is lament and worry needlessly when some of our TMC colleagues, in desperation, go all out for quick market-share

gains, for example with tactics like the widely advertised \$5 transaction fees. Heavy price-cutting places little value on our value-adding services. It calls to mind one of Kjell Nordston's sayings: that "today we are living in the age of cheap". To my colleagues and our clients, may I say that we are worth more than \$5 per transaction.

This is not only unsustainable, but will lead to the slow death of any business. .

Finally, the talkfest forced me to make myself a private promise to find the time to have some fun again. I'm sure we all find that the daily grind of the email avalanche, mobile phones, endless meetings, laptops to take home, RFT deadlines within two weeks of receipt of tender all lend to a life in invisible chains. My private promise is to try and regularly reach inside for that child that we all have in us and really see the "magic" in life, in others, to really laugh again more often, play with my children, with my husband, take a little time to share and help others around us. We owe it to ourselves as people who 15 or 30 years ago, had a dream of an enchanting life. I want to find that path again.

Diners adds MIR upgrade

DINERS CLUB HAS enhanced the flexibility of its Global Vision online MIS reporting system for business travel expense management.

Diners Club corporate card and CTS cardless customers will have greater control over their information with the upgraded system launched last month.

Customers will be better able to manipulate data to create reports relevant to them, especially in the critical areas of non-compliance with company policy (leakage) and spend patterns with preferred vendors.

Global Vision is a key feature of Diners Club's corporate card package, delivering measurable cost saving benefits to clients.

Elders Limited, for example, stands to save 20% on its spend on air travel as a result

of reports generated by Global Vision.

According to expense account supervisor, Fiona Warren, Elders was able to review 10 months of its own data when examining the company's T&E air spend.

"We were able to view our own data showing our own behaviour and not rely on projections generated by travel management models," says Warren. "We were looking at real spend patterns."

Elders has also reported benefits through linking card use data against its HR system and applying card use to appropriate department cost centres.

Global Vision reporting has also identified leakage on preferred hotels, she adds.

Global Vision provides customers with immediate access, via the internet, to re-

ports on any component of travel and entertainment expenditure. Customers have full flexibility to either create reports from standard templates or create a report for their unique purposes.

These capabilities allow customers to quickly and easily identify spending patterns relating to vendor or cardholder or both. It is an independent source of information for negotiating preferred rates with vendors, it monitors cash withdrawals and tracks delinquency and non-compliance.

Cost centre reporting can be used for budgeting and forecasting, and the charting package allows information to be exported to a number of applications such as CSV and Excel. The MIR can also roll up information into a number of currencies for local and global reporting for multinational organisations.



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TQ3 gets a boost

FLIGHT CENTRE HAS appointed a new general manager to take the reins of its ITG subsidiary, currently trading as TQ3. Well-known industry executive Robert Dell will take up the national position on November 8, bringing to the role more than 25 years' experience in the travel and tourism industry in Australia, New Zealand and the United Kingdom.

Dell has held prominent roles with American Express, Thomas Cook and Cunard. His most recent position as general manager of operations and development with Harvey World Travel saw him hold directorships on the boards of Harvey's Choice Holidays, a joint venture with Qantas Airways, and CT Partners, a new subsidiary with a network of 13 independent Travel Management Companies and turnover of more than \$300million.

He has also been responsible for the training development of Harvey World globally.

Flight Centre corporate division general manager Shannon O'Brien describes Dell's appointment as a coup. "In fact, with the move of the ITG business to the new brand coming up, it was crucial to

find the perfect person for the job and I am confident we have done just that with Rob Dell," says O'Brien. "He will play an important role in supporting customers through the process."

Dells' appointment comes in the wake of other movements in the corporate division, including the expansion of its sales force by 40% in the past six months, with plans to add another 20%. Karen Tsolakis, formerly business leader at TQ3, has been promoted to regional director of sales - Asia Pacific for Flight Centre's FcM Travel Solutions.

Tsolakis will work with corporate division global general manager, Anthony Grigson, "to build the FcM Travel Solutions profile and network across the Asia Pacific, while retaining her overall responsibility for the Australian sales and the current TQ3 team".

She has been with TQ3 for five years and has twice won the Flight Centre award for top business development manager worldwide.

Meanwhile, Katy Howard has joined the corporate team as TQ3's national sales manager. Armed with 15 years'

experience working in the business travel sector, with American Express, Travel-Scene American Express and Cathay Pacific, Howard's strengths lie in business development, strategic planning, negotiation, financial analysis and modelling and implementation of new clients. She will work as second in charge to Karen Tsolakis.

Sonia Haras joins TQ3 as manager - strategic sales, Victoria and the ACT, based in Melbourne. Haras comes from a corporate procurement background as travel manager for Mayne Group. Leticia Wood has been named product manager in the corporate product team where she will work closely with the FcM Travel Solutions brand on customer initiatives from a product perspective.

Wood has had many years experience in Flight Centre Corporate, most recently as the team leader of client relationship managers in SME.

Elaine Bruce has transferred from TQ3 where she was operations leader, NSW, to become project manager of key customer relationship management initiatives across the corporate division.

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From front page

The increases noted in the survey did not take the surcharges – which add 2% to 3% to fares - into account.

Craig Smith, managing director of Travelogic, also notes the “upward fare spiral, but points out that “corporate travellers are still a lot better off than two years ago”. Smith doesn’t believe the surcharges have “had any negative effect on demand ... yet”.

“It just places greater emphasis on the need for corporate customers to adopt a managed approach to purchasing air travel,” he says.

Similarly Vanessa Young, sales director at Carlson Wagonlit Travel, hasn’t noticed any “distinct change in client travel patterns and frequencies since the introduction of the recent fuel surcharges.”

Young says her team communicated the changes and the impact to clients when word of the surcharges emerged - both electronically and via CWT Connect, the business travel portal.

“CWT continues to encourage our clients to book well in advance to secure the most competitive airfares,” she adds.

For clients of Corporate Travel Management Group, the surcharges have passed virtually unnoticed with managing director Jamie Pherous seeing “no real change” and no evidence of delaying travel plans.

“However, some of our larger GFO-based accounts that are contractually tied to the airline are questioning how they can add a fuel surcharge when they have a contract in place,” says Pherous. “They are a bit dirty at the airline, and believe they should wear the surcharge over the life of the term of the contract.”

Pherous says the client discontent has been heightened by Qantas’s statements about “fuel hedging contracts that minimize the airline’s exposure to fuel price hikes”.

“Little or no client reaction” is the feedback from Simon Crunden, national business manager at BTI Australia, who says the fuel surcharge has become “hidden amongst all of the other taxes and levies that are being charged by the airline and authorities”.

Crunden points out that never before have the airlines introduced fuel surcharges due to the increase in the cost of fuel, adding that the cost of fuel is \$25 below the peak inflation-adjusted price reached in 1981.

“It is obvious that the competitive nature of the airline business is taking its toll and airlines are paying more attention to costs. This is being demonstrated on a number of fronts including the removal of agent commissions, which in itself will have flow-on effects to the total cost of travel to corporate clients.”

Crunden adds that BTI data suggests that clients are flying for much less than what they were 12 to 18 months ago “so there is still plenty of opportu-

nity for clients to work proactively with their travel managers to reduce costs”.

According to Ross Appleton, Synergi’s Asia Pacific business development manager, “little impact has been noticed on spend patterns by our corporate customers, who, it seems, find specific surcharges more palatable than fare increases”.

“We seem to link a surcharge with an unavoidable cost increase, associated with oil prices, etc., or a tax impost, rather than a general price increase,” he observes.

Appleton says Synergi protected customers where possible by ticketing prior to surcharges coming into effect, particularly for large group movements managed by its meetings business, Synergi Conference & Events.

It appears that not much thought has been given to the mechanics of surcharges. Tony O’Connor of the Butler Caroye management consultancy points out that airlines have deemed fuel surcharges to be non-commissionable.

“Therefore, travel agents and travel buyers on a “fee” arrangement do not receive the commission revenue on this portion of their travel spend,” he explains.

“The fact is perhaps not well known among travel buyers. Travel agents on the other hand are very aware of the effective commission loss,” according to O’Connor, who adds that one agency group is even considering legal action.

How do the best fare?

Best-fare-of-the-day (BFOD) is a much used phrase, and a much promised outcome. But what is it? How do you achieve it? Why should you bother? And what are the practical difficulties? **Tony O'Connor** delves in.

There are various definitions around. One thing BFOD is not is just the cheapest fare. That is known as “the cheapest fare”. My definition of BFOD is “the lowest *adjusted* fare available from the broad market at the time of booking that satisfies the traveller’s needs and fits within travel policy”. Another term you’ll see is Lowest Logical Airfare. It essentially means the same thing.

BFOD and the Qantas GFO

In Australia, we have the choice of a BFOD approach or committing to a Qantas Gross Financial Offer (GFO), and booking mostly Qantas. The GFO provides a mix of rebates and net fares in return for Qantas expenditure “targets”. These targets naturally equate to quite high levels of Qantas market share. That is the purpose of the GFO. The question is, can you book BFOD *and* satisfy a GFO? Usually not. It largely depends on two things: the extent to which



Qantas fares are not the lowest in the market; and the size of the discounts offered in the GFO.

My experience from fare analysis is that Qantas fares are not the lowest in the majority of cases. And discounts in GFOs tend to reduce Qantas fares down to lowest levels only in the larger accounts with air spend in the tens of millions. So, for most of us, booking BFOD will probably not result in Qantas spend sufficient to support the GFO. You can’t do both.

By the way, it is “not cricket” to commit to a GFO and then seriously pursue BFOD and undershoot the GFO spend targets. Qantas then has every right to withdraw its discounts.

Three other quick points about

GFOs. Firstly, the discount levels have understandably fallen since Ansett’s demise. (But Qantas average fare levels have fallen also.) Secondly, don’t forget that if you are on a “fee” arrangement with your TMC as you should be, you should receive Qantas base commissions and overrides anyway, with or without a GFO. In this case, the actual added value of a GFO is the subvention on top of those commissions, not the entire rebate. Thirdly, commissions are coming down. If GFO rebate levels remain the same, the added value of the GFO would increase.

But since GFO rebates were historically built from these commissions, rebates might fall in line with commissions. We’ll see.

Safety first

External Difficulties

To truly book BFOD, you need to be provided with best fares. You need a booking system that automatically gathers all available fares in the market, automatically adjusts them for applicable discounts and charges, and filters them through travel policies. That is a big call. TMC systems mostly do a good job. But BFOD should be regarded as a target, not a guarantee. A good outcome would probably be some small measure of best-fare leakage in the TMC's fare offerings to you.

Internal Difficulties

Before taking the road less travelled, consider whether it's really the road for you. You need to be able to do it. Will your "culture" permit the potential changes that BFOD might bring? HR probably should be consulted first. You might judge that the savings from booking BFOD are a false economy given the possible reduction in morale and willingness to travel.

Check fare levels. Do some serious number crunching. Compare the outcomes. And consider your culture. It can be a big job, but a worthwhile one.

THE RECENT ATTACK on the Australian embassy in Jakarta again highlights the need for formal traveller safety systems and processes.

One aspect often overlooked in planning is emergency communications with the traveller. These guidelines were drawn up by Kroll Crisis Management Group for the Institute of Business Travel Management and National Business Travel Association in the United States.

During times of travel emergencies, the travel manager will play an integral role in assisting executive level management to determine the exact locations and medical conditions of employees that are currently travelling for the company. The appropriate recording of pertinent personal travel information, as well as listing any dynamics of a business trip, will assist the travel manager and company in locating company travellers and beginning to address their respective needs.

Once a crisis or critical incident occurs, the following questions are at the forefront of family and company concerns:

1. Is the employee safe?
2. What is the exact location of the employee?
3. When will we hear from the employee?
4. How can we reach the em-

ployee?

5. Is there anything the employee needs?
6. How can we assist the employee?
7. When will the employee be able to return home?

Although immediate answers for these questions may not be readily available, the travel manager will be able to assist the company and families of the employees by providing intelligent and pertinent information and eliminating process gaps. In emergency situations, stress will always be present and proper preparation and pre-planning of systems, communication and the recording of pre-travel information will alleviate much of the anxiety as executives and families seek answers to the above questions.

During an emergency situation, the travel manager or a designee should begin to locate company travellers immediately through the normal channels such as TMC, GDS, hard copies of itineraries, ticket coupons, etc. It is vital that all travel reservations (air, hotel, car, etc.) be made through the designated travel agency or booking system and that bookings are not made outside of that process. The information contained within this tracking system will be explicitly important in locating the business traveler in a timely manner and aiding their efforts from afar.