

SMEs getting serious

TMC INTEREST IN the smaller end of town continues to grow with mega-agencies and boutique players all targeting the emerging SME market. **Allan Leibowitz** looks at the growth of the “middle market”.

When American Express gets interested, it's a sign that there's potential in a market. So Amex's launch of Complete Business Travel 18 months ago was seen as a watershed.

The global giant takes a broad view of the middle market, defining the SME market in terms of annual travel spend of \$200,000 to \$3million – a sector that makes up approximately half of American Express Business Travel's new business in the current year.

While SMEs may be a relatively new focus for the mega-agencies, they're the bread and butter of agencies like 2004 NTIA corporate agency of the year Corporate Travel Management Group.

Managing director Jamie Pherous, who agrees with Amex's minimum spend



threshold of \$200,000, sees SMEs as his specialty.

“This is our niche market, and typically this market's needs are totally different to larger corporate clients,” he says.

“They need greater relationship-focused travel, more client-specific (not generic) advice as they expand, proactivity from their TMC and an incredibly high amount of high-touch consulting and genuine expertise is expected.”

CTM's clients typically are growing companies that may be expanding overseas. Pher-

ous explains that much of the travel is complicated - and not standard, point-to-point travel – and therefore requires special attention.

To page 6

Inside this issue:

Hotels go self-service	2
Divided we stand	3
AP gets in on ACTE	4
US tries to cut queues	5

Hotels go self-service

AIR TRAVELLERS CHECKING themselves in at airport kiosks are no novelty. Now the self-service check-in model is moving to hotels, with two chains recently announcing their own versions.

Radisson Hotels & Resorts has launched "Express Yourself", a new generation online check-in process that is now available at all its hotels and resorts in the Americas. Guests can check in via the Web and provide preferences in advance of their arrival, eliminating a lengthy check-in process and providing more control over their hotel experience.

In October, Hilton Hotels will follow suit in the US, with a similar online check-in programme for frequent guests.

Radisson claims its 'Express Yourself' service is the hotel industry's first, new-generation online check-in process.

'Express Yourself' features a three-step process. First, guests reserve a room via any Radisson booking process (Web site, call centre, hotel direct or through a travel agent). Then, seven days prior to their visit, they will receive an e-mail inviting them to 'express' themselves by

checking in at the Radisson Web site. Personal preferences might include the request for a specific room location (close to lifts, high or low floor, for example), high-speed Internet access or other special service requests.

On arrival, they only need to identify themselves at the front desk. They will promptly receive a key packet and hotel information.

"In the near future, guests will also be able to express their personal preferences for additional services such as a newspaper, request an automatic wakeup call or room service order," said Bjørn Gullaksen, Carlson Hotels Worldwide executive vice president and brand leader. "These features will be available to all guests, regardless of booking process."

Meanwhile, *USA Today* reports that Hilton is tipped to launch advance Web check-in at 2,216 hotels across all brands, including Doubletree, Embassy Suites, Hampton Inn and Hilton Garden Inn.

Hilton guests, at larger hotels, will be able to get their keys at the self-service kiosks that are being installed, says the report.

Kiosk Magazine, meanwhile, details Hilton's trial of self-service kiosks at two of its largest wholly owned properties - the 2,035-room Hilton New York and 1,544-room Hilton Chicago.

The trade publication says Hilton is working with IBM to develop the kiosk hardware and software.

"Today's frequent travellers are increasingly sophisticated technology users who have been using self-service technology, such as bank ATMs, for several years. This type of tech-savvy traveller will benefit from this alternative to the traditional hotel check-in, particularly during peak hours," says Tim Harvey, chief information officer for Hilton Hotels Corporation.

"Self-service kiosks have been positively received by travellers at airports worldwide, because of the convenience they provide to the traditional check-in process," Thomas Spitler, Hilton's vice president - front office operations and systems, was quoted as saying.

"Self-service kiosks will allow our guest service agents to focus on providing value-added services to those guests who require it."

Divided we stand - United we fall

Some things live on well past their use-by date. Such is the case with combined tenders; tendering for airlines and TMCs in the one document. This made commercial sense back in the days of rebate deals, and in the days of Ansett versus Qantas. It does not make sense now, writes consultant **Tony O'Connor**.



Here is how it used to work. Each TMC used to be either in the Ansett camp or in the Qantas camp. They were either Ansett or Qantas “preferred”. That meant they had a high over-ride deal with one of the airlines, but not the other.

Also, until recently, most deals with TMCs were “rebate” arrangements, whereby the TMC would legitimately keep all the commissions it received from various suppliers, but would offer you a package of percentage discounts on only one of the local airlines as their financial offer to win your business.

The TMC’s rebate package was usually exactly equal to the airline’s subvention offer, that being the package of discounts that the airline could offer you directly. Sometimes, in the heat of battle, a TMC might dip into its own commission income and add a per-

centage point here or there to win your business, but not much and not often. And sometimes, if the stakes were low, a TMC might retain some of the airline’s subventions to boost its profit, but not often. Usually, the TMC’s rebate offer would be identical to the subvention offer of its “preferred airline partner”.

Both airlines depended heavily on their preferred travel agents to sell their product. Neither airline could then afford to upset its large TMC partners. So, usually, Qantas would offer exactly the same package of subvention discounts to all of its preferred TMCs. Ansett likewise. So unless the TMC added or subtracted to it, the rebate offer you received from all the Qantas TMCs would be the same. Ditto for the Ansett TMCs. Notwithstanding that the un-

derlying Qantas and Ansett subvention offers might differ, TMCs therefore competed less on price, and more with services and salesmanship.

Another interesting aspect was that both Qantas and Ansett ran their own TMCs. Qantas still does. So as not to upset their major corporate distributors, Qantas and Ansett would usually ensure that their own TMCs did not offer better financial deals than their preferred “independent” TMCs. But this might not have always been the case, and was sometimes a cause of tension.

I can hear TMCs complaining about over-simplification. **Yes**, some TMCs differed on the discounts they would offer on their *non*-preferred airline. But this was low and a minor financial factor for the buyer. **Yes**, latterly some TMCs could offer preferred discounts on *both* carriers. But this was in the dying stages of the rebate era. **Yes**, TMCs could differentiate themselves by the level of mark-ups they would apply to net fares. But far too often these mark-ups were not even disclosed and were high. **Yes**, this mostly relates to domestic competition since Ansett was mostly domestic.

To page 9

Asia Pacific gets in on ACTE

LAST MONTH'S 2004 Association of Corporate Travel Executives (ACTE) Asia Pacific Training Workshop in Singapore attracted 252 attendees from 14 countries, representing 151 companies .

The theme "Breakthrough" summed up much of the agenda as attendees discovered the steps that travel management is taking in emerging markets, gained insight into the complex yield-management process behind the pricing of air travel, were connected with touchless technology and came face-to-face with the new demands of financial reporting that corporations require.

In his opening remarks, Michael Bezer, regional chair of ACTE in the Asia Pacific said: "In the new role, the travel management professionals do much more. They guarantee the return on investment. They measure and maintain the value of travel programmes. They anticipate and estimate the impact of industry trends on the cost of travel. And they make sure that travel is aligned to support company objectives."



This new direction was supported by keynote addresses that forced each attendee to think on three levels - how does this affect my organisation, how does this affect the people with whom I interact and how does this affect me? Coming to terms with these truths is the beginning of powerful changes to come for the travel industry, the world's largest and most conspicuous commercial activity.

Strong keynote messages included the call by Claire Chiang, co-chair of the National Initiative for Corporate Social Responsibility, for this industry and its constituents to "enculture" a responsible attitude towards community and environment into its prac-

tice. This was complemented by two other keynote addresses - delivered by Robert Fleming, CEO of Peppers & Rogers Group (Asia) and Andrew Bell (**pictured**), head of leadership, talent & capability, Hewitt Asia Pacific Associates - that discussed the need for circumspection with regards to data privacy laws and how leadership defines the best companies to work for.

Bezer advised the audience that the newly defined role of travel management "means looking outside the industry for the challenges before they arrive... And looking outside your office and immediate sphere of influence for solutions."

US tries to cut queues

TRIALS ARE NOW under way in the United States of a new 'trusted traveller' programme, which the government is touting as one answer to long airport security queues, reports iJet analyst **John Briley**.

One problem – so far – is that only frequent business travellers have been invited to participate, and it is unclear if and when the U.S. Transportation Security Administration (TSA) will expand the opportunity to other travellers.

TSA invited travellers to apply for trusted traveller status. Starting in mid-June, about 2,400 frequent business travellers signed up for the programme. Each applicant had to submit to a thorough background check. Those who were accepted had to provide scans of their irises and fingerprints along with extensive personal information. TSA then checked those personal data against several criminal and terror-related databases. The agency said "the overwhelming majority" of applicants were admitted into the programme. It provided no details on how many were rejected or for what reasons.

The pilot began in the Minneapolis St. Paul International Airport (MSP) in Minnesota, one of the largest airports in the U.S. Throughout the Northern summer, airports in Boston, Los Angeles,

Houston and Washington D.C. also launched pilot programmes. Each airport will test the programme for 90 days. TSA will stop the programme at all airports while it evaluates its impact. Presumably, at that time, TSA will determine how it will broaden the application process. The agency has pledged to evolve the programme slowly, meaning change – such as whether to open the programme to non-U.S. citizens living overseas - may come gradually.

TSA security staff at Minneapolis provided a single lane for trusted travellers; travellers spent an average of about one minute in that line, airport sources said, while travellers in the main security queues waited between five minutes and 90 minutes to clear security.

Trusted travellers do not get a totally free pass: They still must pass through metal detectors and send their carry-on bags through an X-ray belt. But, unlike other travellers, they are not subject to random screening as they shuffle through the security queue.

Privacy advocates have criticised the programme, warning of potential weaknesses in the trusted traveller record-keeping system. Programme participants' personal information is stored in TSA databases. TSA notifies appli-

cants via email whether or not they were accepted into the programme, or applicants can call a hotline to check their status. Privacy proponents have questioned the security especially of the electronic communications.

The government will hold travellers' data in its databases after the pilots so that travellers do not have to re-apply when the programme resumes.

TSA defended the programme, saying that the new recordkeeping system complies with the U.S. Privacy Act.

But the Electronic Privacy Information Centre (EPIC), in a letter to the agency, asserts that "TSA will be under no legal obligation to inform the public of the categories of information contained in the system or provide the ability to access and correct records that are irrelevant, untimely or incomplete."

EPIC also charged that the system places an unnecessary burden on travellers who want to correct erroneous information.

♦ ***It is still unclear whether the programme, if adopted, will be extended to foreign visitors. Repeated attempts by btTB to seek clarification on this issue have failed to elicit a response from TSA.***

SMEs getting serious

From Page 1

Newly renamed GET (formerly Sydney Express) shies away from raw numbers in determining which organisations would benefit from travel management. Spend, according to the TMC, depends on the proportion of domestic to international, so GET prefers to concentrate on the “number of frequent travellers”. Anything above six warrants travel management.

BTI Australia classes a 'managed account' at the \$1million per annum spend level, says Greg McCarthy, the TMC's Australian sales and marketing director. While BTI has attracted quite a few new clients in this category, McCarthy points out that they represent only a small percentage of new business “due to some very large wins”.

BTI will follow Amex and CWT, and soon launch “a new brand specifically for the SME”.

Sandra Hansen, national travel manager at MSC Travel, agrees that travel management makes sense at spend levels of \$1million-plus.

“Most of our business is from the SME market as this has been the area we have been targeting for the past 18

SME characteristics:

- ***Despite increased pragmatism about travel policies, travel remains an emotional and sensitive policy area.***
- ***The vast majority of SME organisations will use only one travel service.***
- ***Managers want to be confident that their spend is efficient, not necessarily the lowest possible cost.***
- ***SMEs seek a customised service based on understanding of the organisation and its travellers.***

Source: American Express Australian SME business travel sector survey.

months,” she explains. “At least 80% of our new business would fall into this category.”

Hansen echoes Pherous's emphasis on customised service, saying “SME clients respond extremely well to a more personalised approach and to a TMC which seems to understand their business and can sympathise with their issues ,then offer some alternatives and solutions to optimise their travel spend”.

With growing awareness of the need to manage even modest travel budgets, the biggest challenge to TMCs is the supplier-direct model. This is equally true in New Zealand, where up to 80% of the market could be described as SME, according to Scott McRae, director of Orbit Corporate Travel.

“Airlines are targeting SMEs with their online solutions” he says, “However, this target market is more savvy and are aware of the benefits of having a specialised travel company manage their arrangements.”

“ This includes services such as back-up support required when it comes to making changes due to unforeseen business commitments or when travel arrangements are disrupted by the likes of weather. Having a TMC manage their travel allows them to concentrate their attention solely on their core business.”

There's a similar message from GET, where a spokesman explains that “to retain any business, you must be providing value. Our role must be of an advisor/partner as opposed to simply a travel facilitator.”

Pherous has strong views about the supplier-direct approach: "Supplier-direct initiatives will force the supplier's product down the throat of a customer, rather than what is best suited and most cost-effective for a customer."

He argues that offering genuine choice on domestic and international options and independence in choices is still a strong value proposition to this market, and can be proven time and time again to reduce expenditure much more than sticking to one supplier.

"Whilst direct airline initiatives is a growing force in the market, they cannot offer any of these things which are still very valuable to this market," he adds. "To me, the direct initiatives cover the under-\$100k corporates who are typically less sophisticated and cannot value other intangibles and time savings."

An American Express spokeswoman concurs, saying TMCs can retain and grow SME business by focusing on delivering value at every step of the way, by acting as a true travel manager and forming a meaningful travel policy, providing data reporting, and securing best-fare-of-the-day across all carriers. "Additionally, TMCs are invaluable as a source of market information and intelligence on industry trends and influencers," she says. "By demonstrating the value provided by dealing with one single supplier, clients receive the benefits of consolidated reporting, policy compliance, maximum consolidated purchasing power and the ability to locate all travellers at all times."

BTI's McCarthy says TMCs can add value in areas such as the provision of 24-hour service, global reissuing of tickets and, for a small fee, the analysis of spends and booking patterns. "This can never be achieved with supplier-direct initiatives," he stresses.

BA cuts commission

British Airways has followed Qantas' lead and announced plans to cut base agent commission levels in Australia from 9% to 7%.

"Changes in market conditions over the past few years have accelerated the need to reduce our distribution costs in order to restore profitability and ensure our survival," says Don Clark, British Airways regional general manager for South West Pacific.

Last month, Qantas announced commission cuts which come into effect next year. Australian domestic base commissions will fall from 5% to 1% from July 2005; trans-Tasman and New Zealand domestic base commissions will be cut by the same margin from January 2005 when international base commissions drops from 9% to 7%.

The Qantas's decision came as no surprise to a market which has been anticipating the move for years.

Meanwhile, Air New Zealand is "watching the situation very carefully and exploring all the options".

Analysts expect the Kiwi carrier, which cut commissions in its home market, to follow suit soon rather than find itself "uncompetitive with its cost of sale compared to major competitors"

Air New Zealand removed base commissions in the domestic New Zealand market in 2002, when it launched its 'Express' model. The airline currently pays 7% base commission in Australia.



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Technology won't bury TMCs

Do the Internet and direct deals with suppliers herald the end of the travel management company? Not at all, according to US analyst **Les Baker**.

I am optimistic about the future of the travel management company. In this era of "gloom and doom", a few seem to have written off the travel agency. Nothing could be further from the truth. From my perspective, the TMC is a valuable and necessary supplier of service and expertise. Those agencies which understand their core competencies and have a clear strategy, have a bright future.

The ever-changing environment within which corporate travel agencies operate reduces the time to determine strategy. Just keeping the boat afloat is not enough. Understanding the role and core components for the agency are essential to articulating the value proposition.

What we know

The distribution channel will continue to fragment and confuse everyone. That is good for the TMC because it demands expertise to manage that process. There will be many new entrants, each with a different slant on their solution.

Travel is complex and each new option doubles that complexity. The Internet does not simplify per se; but it does facilitate new entrants. And just

as the Internet did not replace paper, teleconferencing will not replace travel and the web will not replace TMCs.

What to remember

Lowest price is important, but value is more so. If lowest price was the only criterion, business travellers would travel by bus.

TMCs must focus on their core competency. Almost exclusively, those components can be divided into reservations, documents and information. The agency is the integrator, the glue that weds a complex transaction.

Complexity requires expertise. The fragmentation of the distribution channel creates demand for neutral, expert competencies.

No one solution will solve all problems. Business has no desire to turn business travellers into travel agencies, but businesses do strive for value and efficiency.

What we must learn

Since there are many disparate sources, information provided by the TMC knits the travel experience into a cohesive package. This process begins with the reservation - whatever the source - and continues to information.

As a neutral provider for the reservation, the TMC sifts through the many options, giving the best options to the cor-

poration. The agency merges many various documents from sources and suppliers into one cogent itinerary. This service has great value to a corporation, as sources can range from the Internet to GDS, hotels, car hire companies, visa requirements and special requests.

At the end of the travel pipe, information is packaged to enable informed decision-making and provide value to management.

Reports from the agency include tools for security, negotiation and budgets. There is no better source of data than the travel agent.

The task is to bundle services so the managed travel value proposition is clear and compelling. In doing so, the fee for service simply represents that value for integration of core components.

Making reservations, preparing documents and providing good information while articulating that value proposition constantly to clients and prospects is the end-game.

Change is opportunity, and the well-managed TMC has a bright and profitable future.

- ♦ **Les Baker is vice president of Prism Group, a travel technology company headquartered in Albuquerque, New Mexico.**

Divided we stand United we fall

From page 3

But Qantas tied domestic and international discounts together, so domestic discount offers were the main assessment game. Mostly, the airlines' package of subventions passed through TMC tenders intact and unaltered, and you chose a TMC and a preferred airline at the same time accordingly.

That's how it used to work. The point is that the financial offer from the TMC was actually a set of *airline* discounts. And the set of net discounts that you received from the airlines depended upon which TMC you used. You really needed to see the airline and TMC offers simultaneously to know the net positions and choose the best overall offer. Combined tendering made good sense. No longer.

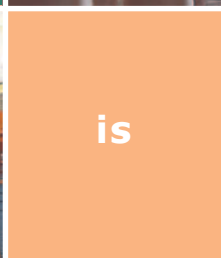
Now, TMC terms and airline terms are quite separate. Now, you should have a fee-for-service financial arrangement with your TMC, whereby you pay them a negotiated fee, and they pass on to you *all* of the commissions generated by your bookings. Being truly visible, TMC fees are thereby competed down. Also, TMCs are no longer funded by suppliers and should work only in your interests.

Ideally, having appointed a

TMC based solely on the merits of its independent financial and qualitative offer, the agency should then assist you to negotiate best airline terms with zero bias advice. It is certainly a service that they offer. However, it is perhaps a little over-marketed and under-delivered.

What would be the effect of a combined tender in today's fee-for-service corporate market place? Probably added cost and confusion. You might receive higher cost rebate offers from TMCs, unless you specified otherwise. You might receive unfortunate rebate-fee hybrid offers from some TMCs that could double-dip and overcharge. The airline discounts you receive might be made unnecessarily TMC dependent, which could mean loss of control. Direct negotiations with airlines could be muddled. You should be cherry-picking international net fares, fitting these with preferred airline offers, and choosing the optimal mix, which might not include a preferred airline deal at all.

Using the old combined tendering method will shut down your options. It will probably raise both your TMC fees and your airfares. You will lose control. Forget best-fare-of-the-day. And they'll pick you as an uninformed buyer. Don't do it.



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