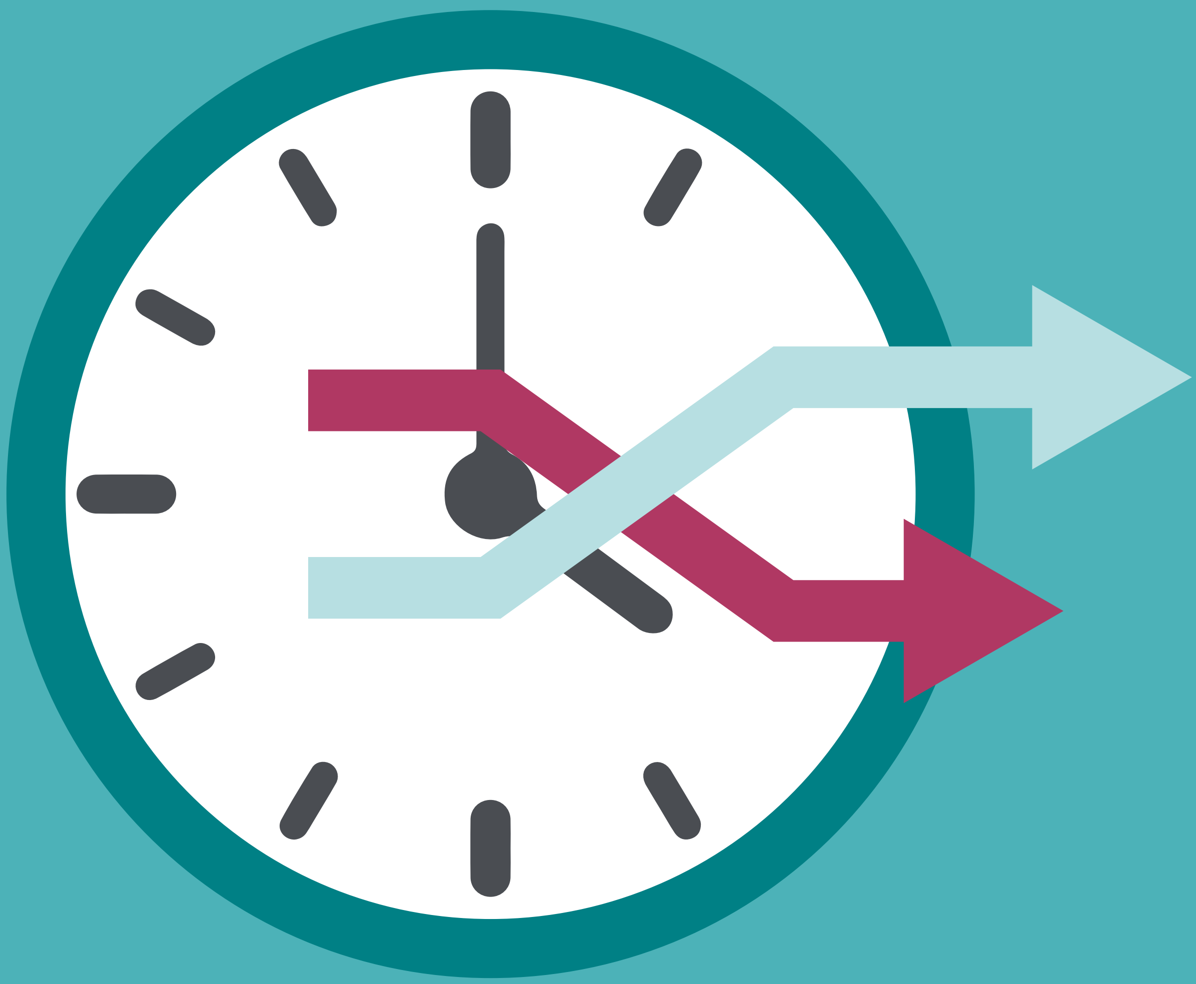
Time for Change

Looking at the TMC pricing model in 2020



BTA BUSINESS TRAVEL ASSOCIATION

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Contents

01

Introduction

In recent years, there have been growing calls for evolution in the way TMCs price the services they offer to their corporate customers.

Pricing models developed over a quarter of a century ago remain in use today, and there is now a clearly stated need to develop a new approach fit for today's world, and one rooted in transparency, simplicity and flexibility.

That need was evident before the onset of the Covid-19 pandemic, but its devastating impact on our industry makes it more important than ever.

As the representative association for the business travel community, with TMC members accounting for over 90% of managed travel booked in the UK, the BTA is leading the development of a new approach to TMC pricing.

We're pleased to present this white paper, created in partnership with leading industry consultants Nina & Pinta, that explores three approaches to TMC pricing.

In reviewing them, we have engaged with representatives from leading UK-based corporations and TMCs, and I would like to express my thanks to them for the time they have given to this vital project.

In the weeks ahead, we will be consulting further with the TMC and corporate travel buyer communities on each of the pricing models. We will also be working with them to develop new industry standards that will help ensure any new approach to pricing is rolled out effectively and with best practice.

Thank you for taking the time to read this important document. I would welcome any comments you have.

With best wishes,

Clive Wratten
CEO, The BTA
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02

The Context

This white paper has been developed to highlight the challenges felt by TMCs and their customers with existing pricing models, and explore viable alternatives that can improve the process for all.

This paper highlights the clarity and transparency the BTA believes is needed within the industry, and provides a route to proposed solutions.

In the world of corporate travel, the job description of a corporate travel buyer can be wide and varied. In some organisations, the buyer may be the CEO or CFO, in others they may work in HR or Facilities. In many cases, travel may not be the only job function of the travel buyer in an organisation. In other settings, a company may have a dedicated travel manager who will partner with a Procurement Lead through the selection process of their Travel management Company. This will largely be driven by the size and scope of the programme.

This paper is not a response to COVID-19. Whilst the pandemic has been a further catalyst to this situation, the need for a change to TMC pricing has been evident for years. As Warren Buffet once said: “Only when the tide goes out do you discover who’s been swimming naked”, and the tide has gone out for our industry.

Understanding TMC revenue channels lies at the heart of the issue. There have long been challenges with trust and transparency between corporate customers and TMCs. Whilst TMCs have often felt this is unjust, it happens because their business model is built on a basis of their income stream being divided between the corporate customer and their suppliers.

Before Covid, this split was typically one third of revenue from corporate customers in the form of fees, and two thirds from suppliers. Corporates have been aware that the supplier revenue was based on some form of preferencing and bias selling and this has historically created some tension in their TMC relationships.

Only when the tide goes out do you discover who’s been swimming naked.

Whilst the TMC value proposition is about managing and supporting a customer’s travel programme and its people, there is no denying that the TMC revenue proposition relies heavily on support from the supplier market.

In summary – the entire model appears to be built on a conflict of interest. Why is this the case? Why are TMCs and suppliers alike reluctant to share the details of this aspect of their relationship?

02

Partially, it is because TMCs feel under constant pressure to reduce fees, and believe further transparency will accelerate this trend and decimate their profit margins. There is enough evidence to support this as a valid concern.

This is often demonstrated by customers who see the TMC as simply a distribution channel, with their main function as supporting the reservation process rather than as a wider, strategic partner.

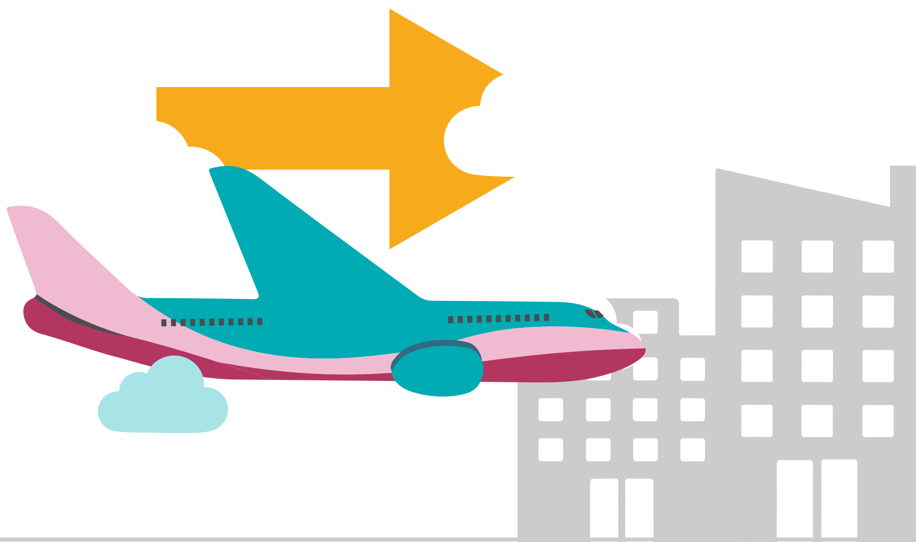
In order for a TMC's services and value proposition to be distinct in the eyes of a customer, two things are necessary:

1. **The TMC's cost of sale has to be articulated separately from the overall travel costs**

2. **The value proposition of the TMC and their contribution to a customer's travel programme needs to be understood clearly and separately from the 'travel elements' provided by its suppliers** (i.e. airlines, hotels, etc.).

This seems to be easier said than done. The TMC / corporate relationship should be strategic, but is this possible whilst the financial relationship is largely a transactional one?

The challenge for both parties lies in achieving a mutually satisfactory goal – certainty of costs for the corporate vs. certainty of income for the TMC.



03

The Challenge

The evolution from travel agent to TMC

The transaction fee model has never been very sustainable but in a buoyant market when customers were doing more transactions than anticipated and profits were high, evolving this model was never seen as a high priority for TMCs.

To understand this mindset, and how to move forward from it, we need to consider the historical development of current fee models.

Business travel agents, as they were originally known, were a distribution channel for the travel supply chain and were paid a commission. They actually did work for the supply chain. Their corporate customers either ran their travel programmes as a profit centre, either taking a share of commissions or getting the expertise and booking service ostensibly for free.

At that point of time (the 1990s), a large part of the business travel agent's role was to bring expertise to the booking and fare process as the technology that we rely on today did not exist.

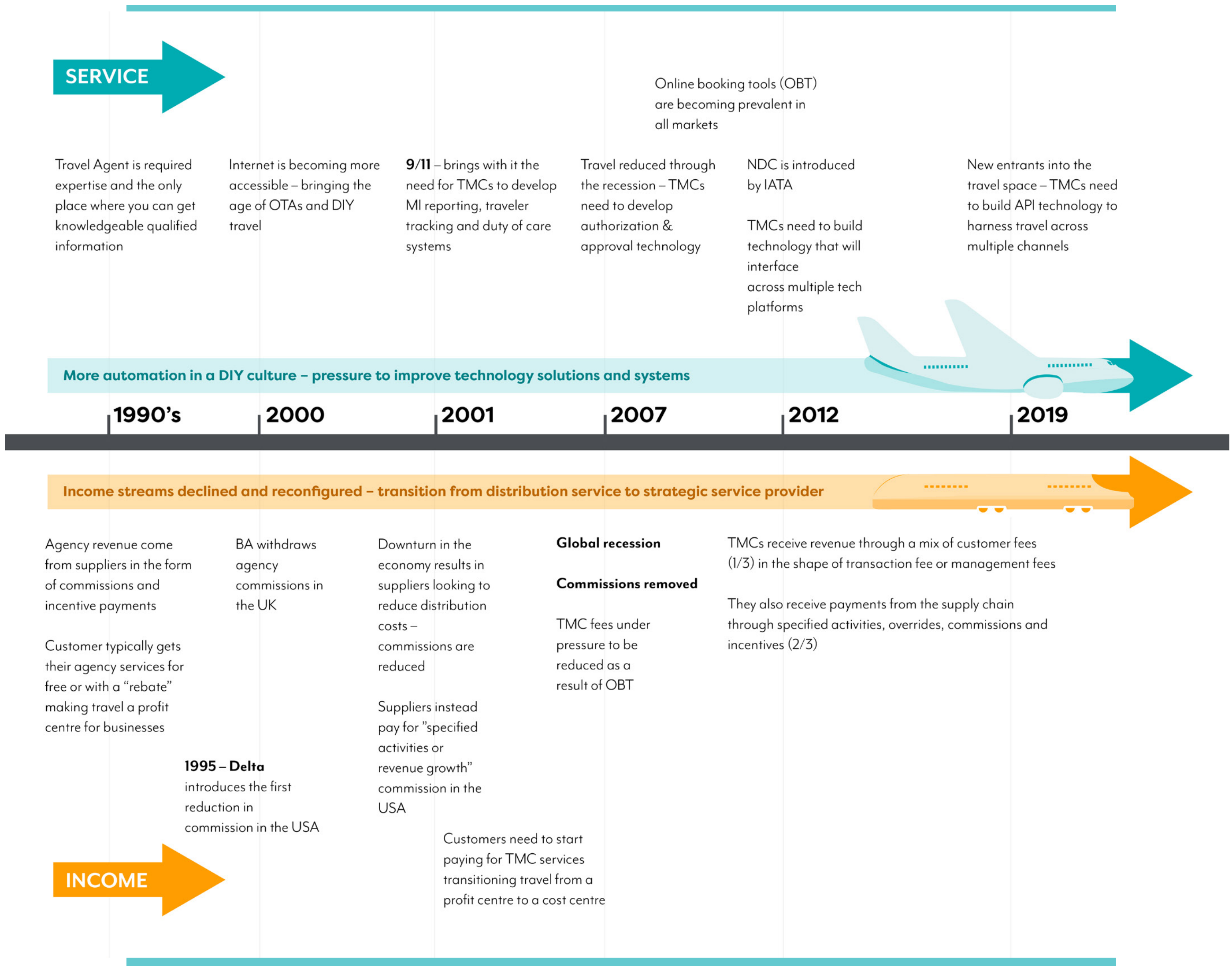
When commission reduced and then ended, TMCs needed to build a new business model to survive, and one of the more popular solutions was the transaction fee. A like for like replacement business model where a payment was still received for making a booking. Essentially, a distribution cost.

But over the course of time, TMCs evolved into much more than a purchasing channel. 9/11 was a significant milestone in this evolution when one of the biggest challenges corporates faced was locating their travelling employees and recording them as safe.

This was a catalyst for change across many aspects of business, but for travel it meant the rise of traveller tracking and duty of care and, with that, management information and reporting. It was the first time a company's travel spend had been so transparent, and this in turn required significant TMC investment in systems and technology that allowed them to provide this information to their customers.

03

The evolution from travel agent to TMC



Once organisations could clearly see the significant amounts they were spending on travel programmes, greater procurement discipline was introduced. A common industry complaint is that procurement commoditised travel, but the reality is that by taking a distribution cost-based approach (transaction fees), travel commoditised itself.

Establishing Value

Procurement establishes the value and benefit a corporation receives vs. the price that they pay for it. By building a fee model that largely applied to the booking process itself, the focus of benefit vs. price has remained to this day on the cost of the booking process.

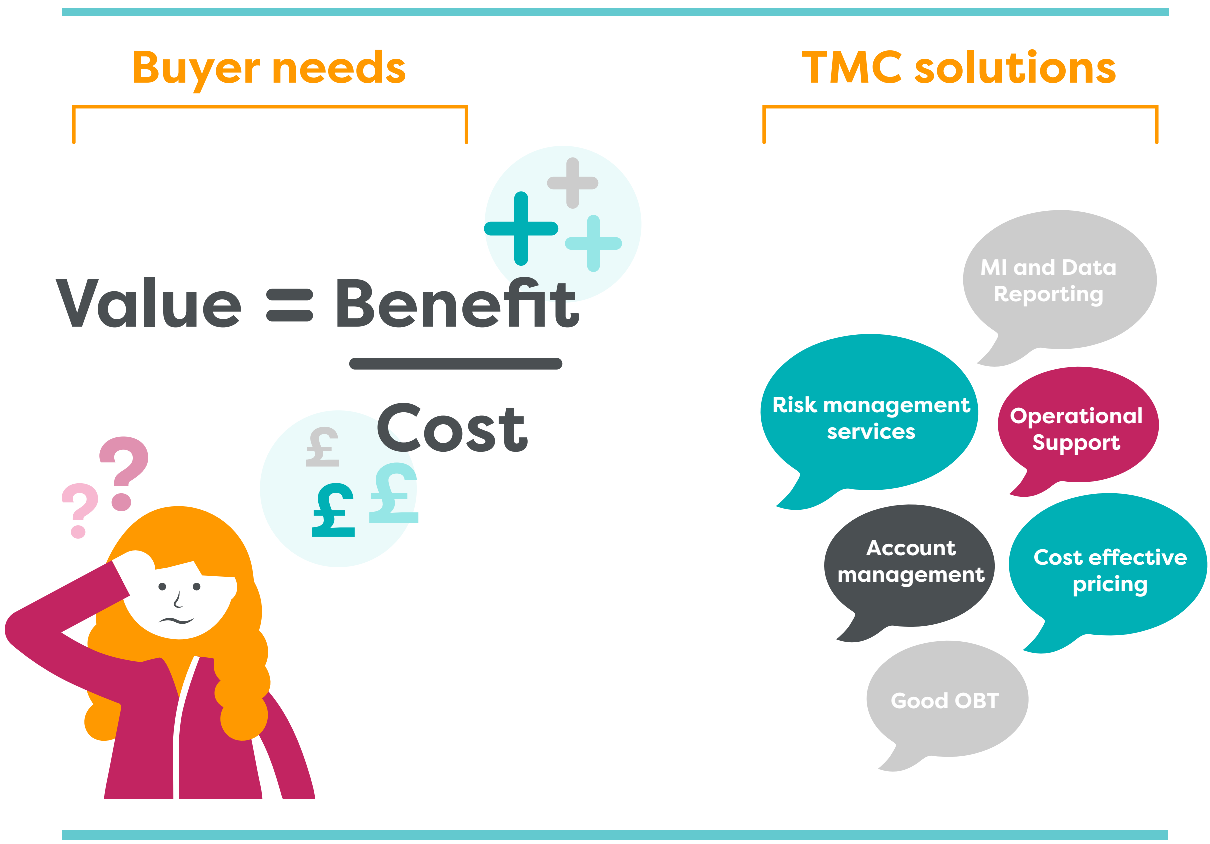
Procurement processes also highlighted the opaque income streams of TMCs, and the income stream split mentioned in the previous section (approximately one third of TMC income from customers, and two thirds from suppliers) and the issues of trust this has caused.

As Tony O'Connor, CEO of Airocheck, said in a recent article in The Company Dime:

> **The business model is built on a conflict of interest and can give rise to bias and added cost.**

People only place a value on what they pay for, and when all corporates perceive they are paying for is the booking process, that is all they really value. This is reinforced in the frequent discussions that BTA has with members about how the TMC proposition is not properly valued.

Procurement Process



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The evolution from business travel agent to Travel Management Company has seen the addition of a raft of services and solutions that can add significant value to an organisation's travel programme. But unless a customer is paying a management fee, their TMC relationship is still likely to be a transactional rather than a strategic one.

Life is really simple, but we insist on making it complicated.

- Operational service- offline
- Good OBT
- 24 Hour Emergency
- Full content
- Management Information
- Mobile Apps
- Traveller Engagement
- Account Management
- Cost Effective Pricing
- Global Network
- Consistent Quality Control
- Transparency

Additional services required in a Covid-19 environment:

- Up to date travel information - borders, schedules, openings
- More integrated Risk Frameworks
- Increased Offline Processes - Unused Ticket management
- Complex Multilevel Approval Processes

Pricing complexity

When it comes to pricing models, industry consultants haven't always helped to make the process simple either. There are many consultants who help corporates select the right TMC partner, and each has their own pricing template for TMCs to complete.

There is logic to this approach. Each TMC prices their proposition differently, and a pricing template enables consultants and their corporate customers to compare bids in a fair and consistent manner. It helps corporates understand the total cost of partnering with each TMC, and what each component will cost.

But these templates can also cause confusion. Many a corporate travel buyer has bought one service identified using a template only to be surprised by hidden costs they hadn't known to anticipate as the pricing grid hadn't called out these costs and neither had they been highlighted through the process. These templates are necessary though as the pricing components of that service vary widely between TMCs.

These pricing templates often confuse TMCs. There is uncertainty if they need to only complete the services they charge for, or if they should mould their pricing model to fit into each element of the template.

So, confusion is widespread, and there is a serious risk that the corporate customer won't know what they are buying. Confucius once said: "Life is really simple, but we insist on making it complicated." The same could be said for TMC pricing models.

04

The Path Forward

Whilst a simple, consistent pricing model for every TMC would be appealing, it is not a realistic proposition. Each corporate customer has different requirements, and the way in which TMCs service them varies.

The requirements given to a TMC are not the same. Some customers want a simple transactional service with no reporting, traveller tracking or account management, whilst others require a comprehensive suite of services.

So, the future has to be about how we bring:

- **Clarity to pricing**
- **Transparency about what each pricing model includes**

The path forward has to be addressing and re-imagining the historically priced services of a TMC, and modelling them in the context of:

- **Today's world**
- **The wider consultative needs of the corporate customers**

And then using this framework to develop new TMC pricing models that are:

Sustainable

Equitable

Transparent

And are kept simple and easy for the customer to understand, with clear costs laid out and using flexible models and options.

05

Future TMC pricing models

Working with panels of representatives from leading TMCs and corporates, we have explored three pricing model options.

They are outlined below, prefaced by the varying views of TMC and corporates, which themselves have played a key role in the review of each model.

Option 1: Transaction Fees

The TMC Viewpoint

Whilst it was originally seen as the easiest replacement format for commission based payments, there is little that TMCs like about the transaction fee model.

- A huge amount of work goes on behind the scenes on a booking. Advice, reservations, amendments - all for a flat fee and, if the booked is subsequently cancelled before a ticket issued, no fee at all.

- There is also no clear definition or standard on what a transaction fee includes. Should TMCs charge activity such as reporting, account management and traveller tracking in transaction fees, or should this be centrally billed?

- When a corporate customer is unsure of their transactional spending and the TMC needs to account for it, the risk of that programme and the customer being correct in their assumptions lies with the TMCs.

- As a result, TMCs factor 'just in case' scenarios into pricing models, thus adding complexity for the customer to understand.

However, not all TMC views are negative. Transaction fees have a cashflow advantage as they provide instant revenue for TMCs. Using other pricing models such as management fees, often billed on a quarterly basis, can mean much longer waiting for fees.

Additionally, in times when business is strong and customers have underestimated their transaction numbers, this can be a profitable, if risky, model for TMCs.

05

The corporate buyer viewpoint

Fundamentally, the corporate buyer tends to like transaction fees. It ensures costs are allocated directly to budget centres and business units that utilise services, and largely avoids the need for central costs.

However, it is not without issue. Buyers are frustrated by not knowing exactly what is included within the fee or how much it actually costs a TMC to service their business. It can also be complex to manage given the many options and differing criteria between TMCs.

As one buyer stated:

> **I would like to know any additional revenue streams the TMC receives and how it impacts my programme. For example, how much does my hotel programme cost them to run and what commissions or overrides does a TMC receive as a result of my programme? This impacts the TMC decision making process and at times that may cause conflict.**

A frequently raised concern is that the transaction fee is not reflective of any of the managed aspects of a programme. Corporate buyers would prefer to have a menu of additional products and services they could choose from to build their own programme and not have to take (and pay) for everything that is offered. The transaction fee can also be frustrating for individual travellers to manage as they often have to allocate charges through an expense tool and so have to know which charges relate to which trip. This is challenging for them when it is not clear from the transaction fee charges which trip it relates to.

Potentially, the most frustrating aspect is that the transaction fee model doesn't currently have enough flexibility for a customer to choose which aspects of the TMC service they would really like to benefit from.

A transaction fee model for the future?

The "one size fits all" transaction fee model may no longer be up to the job, but there remains merit in the principle of the model.

Refreshing and simplifying the model with an option to buy service and transaction packages may be a better solution for both the TMC and the corporate customer.

If we think about how we consume other products in our lives, often buying a basic service and then buying add-ons, is this an approach we can introduce TMC pricing?

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If it costs a TMC money to service an account regardless of the number of transactions processed, then these costs should be considered baseline costs to be billed and paid for accordingly on a regular basis regardless of the number of transactions.

These should include the fixed costs of managing the account - such as overheads, operational resource, access to the basic technology (including reseller charges), and maintenance fees.

An industry 'standard' could also be formulated and agreed as to what constitutes baseline costs.

The customer can then choose from various "transaction fee packages" that will fit their needs, such as this example below:

Package	Online	Standard	Premium
Online Booking Tool configured to travel policy and preferred suppliers per trip	✓	✓	✓
Online helpdesk per trip	✓	✓	✓
Online changes and cancellations per trip	✓	✓	✓
Offline support and consultation per trip		✓	✓
24 Hour Emergency service per trip		✓	✓
Airport Assistance – Meet & Greet			✓
Credit facilities for hotel billback services			✓
Online check in services for travellers			✓
Processing of refunds	✓	✓	✓

Fee per transaction	£	££	£££
Any requirement for offline support & consultation services on request to be charged per transaction	£	–	–
24 Hour emergency service requirements on request to be charged per transaction	££	–	–
Online check in for travellers on request to be charged by transaction	££	££	–

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Add-on services could include:

- **Concierge VIP package**
- **Management Information and reporting dashboard**
- **Traveller tracking services & duty of care**
- **Account Management – Local, Regional or Global package**
- **Online programme optimisation**
- **Communication planning Travel policy development**
- **Pre trip authorization tools**

By evolving the transaction fee model in this way, corporate customers will be able to select and build the programme that fit their needs, whilst keeping the pricing simple for the TMC.

The total cost of sale would then be a simple calculation:

Agency baseline costs + estimated transaction fees + any additional add on packages.

Option 2:
Subscription Fees

Subscription pricing is essentially a licensing model and the first thing to be considered is who is actually subscribing. Is this a subscription charge per organisation or per traveller?

The general consensus is that it's the corporation subscribing and, as such, a monthly subscription charge would be applied centrally to them. This would mean the traveller no longer needs to manage or have visibility on TMC fees. This could be seen as a positive move to reduce noise within a corporation around traveller compliance and costs of the TMC.

This approach could be compared to mobile phone packages. If the transaction fee is the "pay as you go" model, then subscription pricing is making the transition into a contract with fixed regular pricing in return for unlimited SMS messages and calls.

The TMC viewpoint

Subscription pricing is essentially a monthly retainer for services. For the TMC, it is an attractive model as it helps manage cashflow, but is not without complications.

It is important to be clear on what the subscription covers. For example, is it advice, booking technology, traveller tracking and duty of care plus a certain amount of bookings per month? Or are the services covered open to interpretation, again making it difficult to compare subscription charges?

As with transaction fees, an industry standard should be deployed to direct what should be included. This will allow TMCs and corporate buyers to better understand how to price and work within this model.

There is also a danger that, if not simplified enough, a subscription will start to slip into a 'mini management fee' which will then become cumbersome and expensive for a TMC to manage. This type of challenge could occur if upward re-balancing or 'trueing up' starts to creep into the subscription model.

The biggest subscription pricing challenge for TMCs will be to measure the time component of the offline services required. Essentially, subscription pricing would follow the typical practices of a management fee calculation, with non-dedicated teams divided over a 12 month period.

The corporate buyer viewpoint

The subscription model is a tougher sell to corporate buyers. All the reasons the transaction fee is attractive to them (e.g. cost of the service goes to the user directly) are why they find a subscription fee challenging. It comes back to the root of discussions about the need for central budgets for travel and, currently, not all corporations have them.

However, corporate buyers also want to be good partners to TMCs and don't expect them to work for nothing. But trust and transparency are key to making this model successful.

In fact, corporate buyers see more sense in an individual traveller subscribing to a TMC service than the corporation. All agree that they would need to define their travellers into categories or personas to make it work (e.g. regular travellers paying a monthly subscription fee).

This would follow the transaction fee philosophy with the users that benefit most from the service paying for the subscriptions.

So TMCs and corporate buyers have differing views about what form a subscription fee should take and how it should be applied. Whilst TMCs view it as more of a 'mini management fee' model, corporate buyers seem to be leaning more towards an enhanced transaction fee model.

However, the key question for any corporation is why would a subscription model be better for them than the current transaction fee? What is the benefit? Will it ultimately cost the same or will it prove to be a more expensive and complicated model?

What should the baseline subscription model include?

Once fixed costs such as overhead, offline resource and technology have been accounted for, should we then add services such as online bookings into the subscription?

This would mean corporate customers pay a monthly charge with access to all online bookings and an agreed percentage of time/hours of offline support (including bookings) within their subscription charge. Fees can then be billed as incurred for services not covered by the subscription.

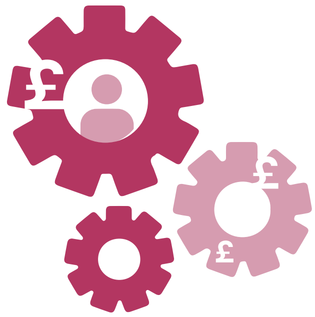
An alternative solution could be to focus on the technology. This could be as simple as a licensing agreement that a corporation pays for directly, with every transaction taking place within it included within the subscription charge.

Add-on services could then be added to the monthly subscription, such as:

- **Concierge VIP package**
- **Management Information and reporting dashboard**
- **Traveller tracking services & duty of care**
- **Account Management – Local, Regional or Global package**
- **Online programme optimisation**
- **Communication planning**
- **Travel policy development**
- **Pre trip authorization tools**

This will give corporate customers the attractive proposition and flexibility of building their own programme packages.

Option 3: Management Fee/Cost plus



This is perhaps the most transparent of all the pricing models. The management fee model is built around how much it costs to service a customer's business, with an agreed profit percentage contribution to be levied on top.

It is simple in concept, but expensive to manage and has certain complications. Management fee models are typically applied to larger customers with dedicated teams – and those likely to have the largest impact on TMC's earned commissions, override agreements and business development funds. This brings us full circle to customer concerns and around the TMC revenue flow. Consequently, robust and transparent accounting systems are necessary to support the process.

The TMC viewpoint

The TMCs like the management fee model. It is strategic in focus and nature and allows TMCs' goals to really align with those of their customers.

Any solution needs to be flexible on both sides with each party working together. Every environment is different and fee structures should be more flexible, giving transparency to the baseline costs such as resource and technology. That is the stuff that must be paid for – the rest is a nice to have.

The management fee mechanisms are as strategic as the nature of the relationship. Customers using this model tend to see TMCs as more of a strategic partner than a commoditised supplier. As such, they recognise the value TMCs bring to a programme – largely because they can see how much they are paying for it.

As with the other pricing models, there is a focus on the risk – where does it sit and which party assumes the risk for the cost of managing the programme? The management fee/cost plus approach divides the risk between both parties and this is why it is possibly the most attractive model for TMCs.

However, if not dealing with dedicated team resources it can become cumbersome, expensive and complex to manage.

The corporate buyer viewpoint

Corporate customers whose profile fits the model also like the management fee structure. It allows them to cover their core travel costs and then flex the rest of their programme as needed.

The theme of customers wanting to build their own programme is apparent with each model. The more flexibility that can be built into pricing, and in a clear standardised manner, will be welcomed by corporate buyers.

As one put it: "Any solution needs to be flexible on both sides with each party working together. Every environment is different and fee structures should be more flexible, giving transparency to the baseline costs such as resource and technology. That is the stuff that must be paid for – the rest is a nice to have."

Building programmes with shared goals and objectives is an attractive proposition for corporate buyers, and working in a management fee environment enables them to do that in the most flexible way. It gives focus to the partnership, building a programme strategy and then paying for service components that have been agreed.

The management fee can then be centrally managed, internally allocated to the contributing budget holders and deployed as an agreed transaction fee (and then trued up) to the business.

It also provides a theoretic transparency around TMC revenue streams through agreement on how to approach supplier commissions and revenues. This gives reassurance to the corporate buyer and a level of understanding about the value of their business to the TMC.

What should the management fee model include?

Everything. A true P&L based approach is deployed in managing a customer's business. However, it doesn't need to be complicated such as charging a line item every time a piece of paper is used in account management.

A possible solution is a general/ administrative charge to be applied as a 'catch all'. This is a tried and tested method used by professional service firms, and the percentage applied can be audited. Simplicity and flexibility remain key.

There is also a compelling argument to form an industry standard for management fee modelling – clearly stating the line items that can be considered.

Line items that should be factored in for cost are:

- **Overhead contribution**
- **Operational resource**
- **Technology costs**
- **Commissions for bookings (return or retention to reduce costs)**
- **Contribution for override (return or retention to reduce costs)**
- **Account Management**
- **Opt in services – such as risk programmes, management information, pre-trip authorisation tools, programme optimisation tools**

05

From here, a management fee and percentage profit contribution can be agreed.

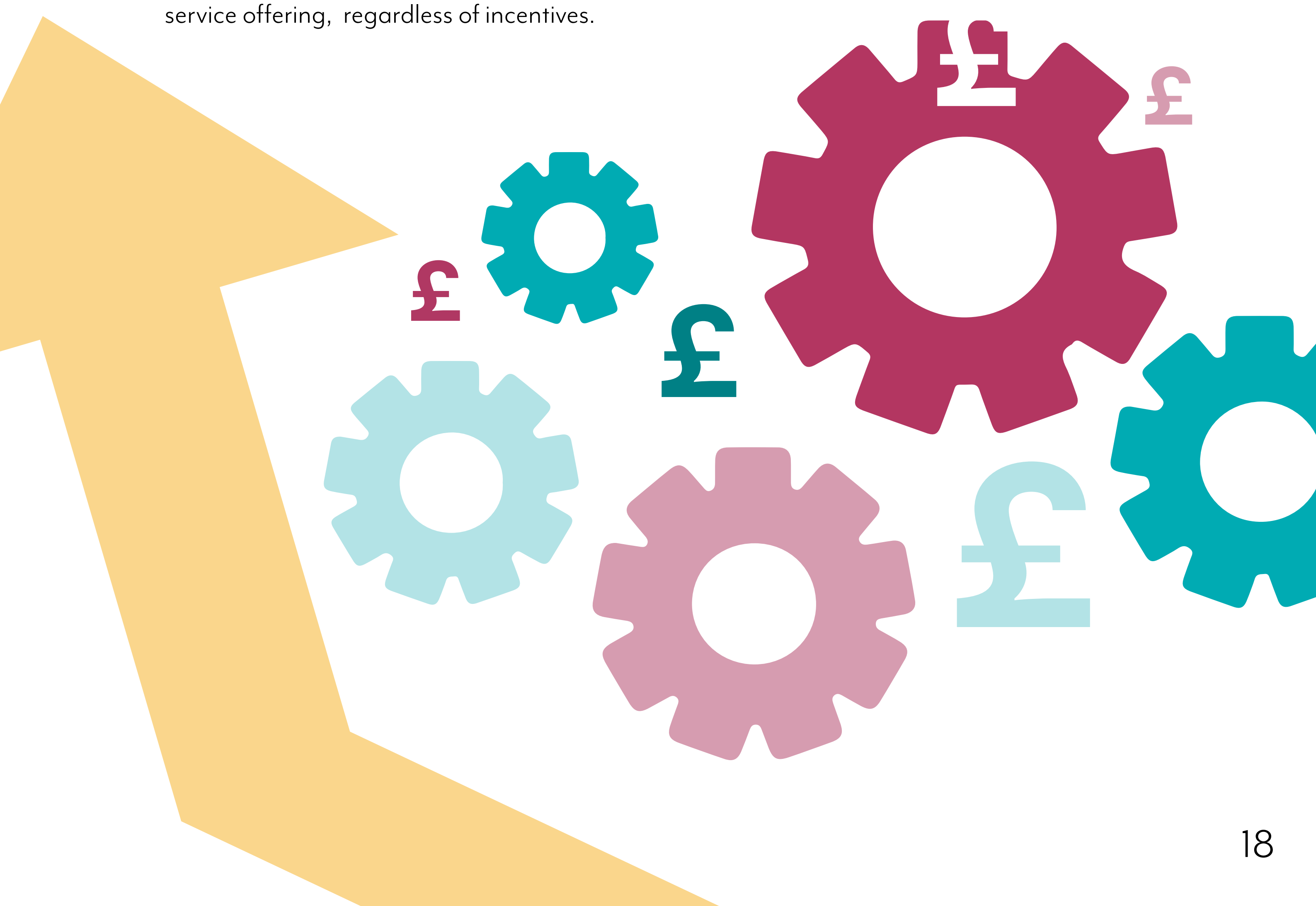
Risk/Reward Programmes

Looking at how to incentivise TMCs to put their profit on the line or to achieve savings is not considered a compelling aspect to the model in the overall scheme of things.

Whilst this should seem a popular choice for the corporate buyer, there is confusion around the metrics used when calculating savings. There is a sense that insufficient creativity is demonstrated and achieving savings should be a fundamental TMC service offering, regardless of incentives.

A more appealing programme is one that clearly links the TMC's contract to the strategic goals of the corporate programme. Aspects such as driving online adoption, and helping support and manage compliance that can be tangibly measured, are more valuable to a programme and by their nature drive savings.

In general, corporate customers would rather focus on their programme holistically, and simply pay for what they need and use.



Use Cases for Each Model

Transaction Fees

This would suit a small to medium size or enterprise customers that do not operate with dedicated teams.

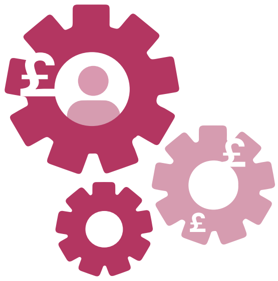
Or customers who want to control and pay only for those services that matter to them, and build their own bespoke service packages.

Subscription Fees

This would suit small to medium size customers or ones that don't operate with dedicated teams or currently don't have a TMC partner.

The biggest challenge will be selling in the benefits to customers over the more traditional transaction or management fee models, and deciding how the subscription is applied – to the corporation or to the end user (the traveller).

Management Fee / Cost Plus



This is typically a model for enterprise customers with dedicated teams working on their business.

The detail and cost allocation of this resource does not really make this a feasible model for customers that don't have dedicated teams as the cost and time allocation would prove too complex to operate effectively.

07

Looking Forward

Extensive engagement took place with the TMC and corporate buying communities in developing this white paper, and a number of key facts became clear in the process.

The TMC value proposition still has the potential to be undervalued or misunderstood. There is clear correlation here between how customers are paying for their products consumed and how they perceive the relationship.

The expectation that a TMC should provide ‘everything’ to all customers is not only expensive for them to manage, but is neither understood nor needed by all customers.

There is a need to refresh and update the way TMCs market and sell their service components.

There is also an urgent need to formulate industry-wide standards for TMC pricing models, and this will make life easier and simpler for all stakeholders.

The Business Travel Association is committed to working with its members to develop and apply these standards.

Additionally, some clarity around typical customer profiles and other key considerations for each fee model would enhance the experience for all involved. For example:

Transaction fee model

Typical customer profile
What is included?
What can be bolted on?

Subscription fee model

Typical customer profile
Who subscribes?
What is included?
What can be bolted on?

Management fee

Typical customer profile
What is included?
Approach to revenue share

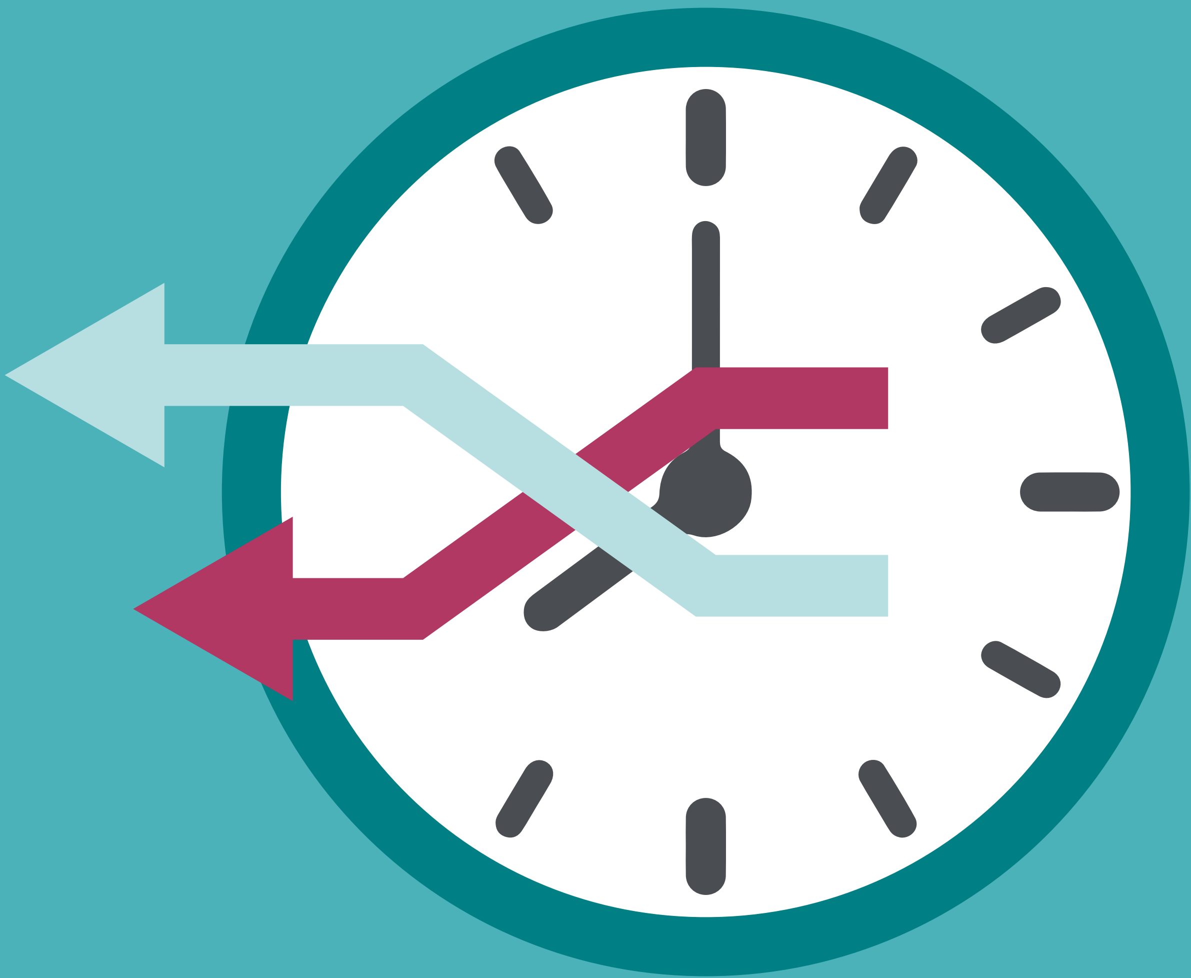
There are other fee models in the market such as the ‘bundled’ or Trip fees combined with a platform payment which are largely operated by the very technology-focussed TMCs, and also the open source or mobile fees.

07

In the current Covid environment, it is clear that all TMCs are reviewing their pricing models, including the potential levy of charges for calls made to their operational teams.

Both TMCs and corporate are agreed that some of the traditional models are outdated and need to be refreshed, and history has demonstrated that this can be achieved.

What is also clear is that whichever solutions are adopted, there needs to be a consistency approach, and drive to make pricing models simpler not more complex.



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