

# FOR & AGAINST.

## DOES FIXED-RATE PURCHASING STILL MAKE SENSE?

TRANSCRIPT: JÜRGEN BALTES

**Travel management purchasing** has changed. Dynamic flight and hotel prices set the tone nowadays. Travel managers and service providers are increasingly dispensing with the annual negotiating rituals. Opinions are divided on whether contracts make any sense at all anymore.

For - Christoph Carnier - Director Travel & Fleet at Merck.

### Negotiations enable more influence.

We still book around 60 percent of our hotel volume at negotiated rates. That makes sense, for example, in locations with a small selection of hotels. And of course everywhere we have high numbers of overnight stays, for example at our locations in Japan, India or China. In those countries, our local companies carry out hotel purchasing for the entire Merck Group - because they know the local market best, they can assess the location and quality of the hotels, know when and where new hotels are opening and can assess the real

distance to the respective company location. In the end of the day, you have to look at the whole thing from the overall cost aspect too. What use is saving €20 for an overnight stay if we are €40 out of pocket for the taxi transfer because of an inconvenient location?

But of course we cannot and do not want to negotiate everywhere. The time and effort would be simply too high. Thus around 40 percent of hotels are booked using company rates from partners like HRS or at daily rates. That applies, for example, to cities like Hamburg, Berlin or Munich, where we do not have our own branches, or to our local companies in Paris or London, where the overnight volume is too low.

In contrast, fixed-rate purchasing has changed immensely in the flight segment. Today, the situation is highly differentiated. On domestic German and European flights, where we generally fly Economy, negotiated rates only account for 20 percent of volume, and the remainder is booked using the best-buy principle. On long-haul flights, where we predominantly fly Business Class, it is just the opposite: We negotiate well over 90 percent of volume, because the pri-

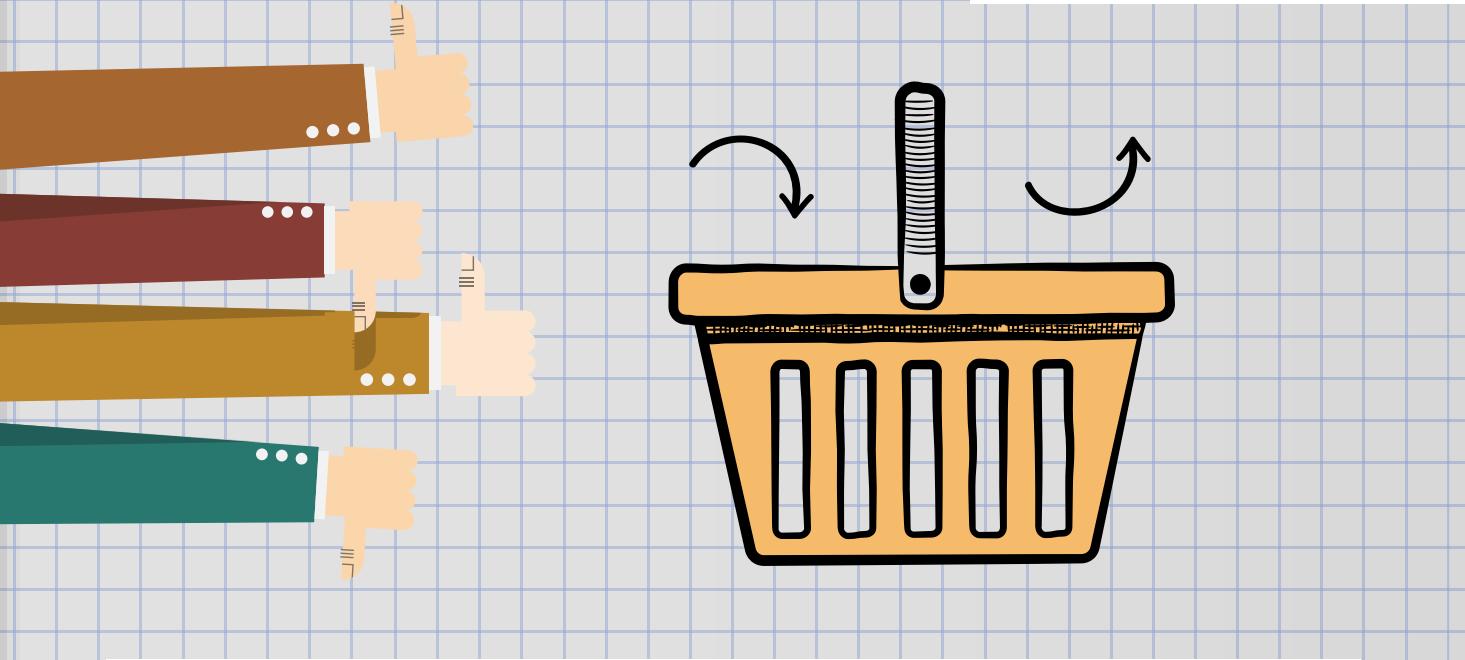
ces are considerably higher and the savings potential accordingly large. Hire cars are a different story again. Although the prices of the individual providers do not diverge greatly, it nonetheless makes sense to amalgamate the business and close frame contracts, particularly from the point of view of planning security. Because time and again we see phases where the providers increasingly attempt to charge for trivial things like scratches - things where it is unclear how they came about. If you have a fixed partner, you can talk about it at a completely different level than if you just booked three cars somewhere.

By the way, the same applies to hotels too. If they were to suddenly start tightening their cancellation conditions - which incidentally I could totally understand from a hotelier's viewpoint - you would have other possibilities for discussing it as a key contracting partner. 

PHOTO: CARNIER MERCK



Christoph Carnier:  
Planning security with  
negotiated rates



Against - Jörg Martin - Managing Director of CTC Corporate Travel Consulting.

### There are alternatives.

Of course larger companies still conclude contracts with their major service providers - and that will certainly stay that way. Because wherever companies purchase a sufficiently large volume, whether the product is screws or overnight stays, bilateral discussions probably make sense. However, the times have changed in the travel segment. Today, few negotiations take place than before. That is primarily because the market has become more dynamic. Daily rates, whether for airlines or hotels, set the tone now. Particularly in hotel purchasing as well as for do-

mestic or continental flights, negotiated prices often only serve to cushion any upward price peaks. In contrast, purchasing is increasingly carried out according to the best-buy principle - because the daily rates - particularly for smaller companies - are often cheaper than the negotiated ones. Many companies even practice an open-booking approach by which the travel volume is no longer steered towards preferred service providers at all. Instead, the employees can book through any channels from any providers, as long as the price is right. The growing diversity of booking options via internet and mobile terminals is spurring this development. However, there are further reasons why rate negotiations have become less attractive for many companies. In flight purchasing, for example, the negotiated amount often constitutes only the smaller portion of the final price. The constantly rising taxes, charges and fuel surcharges are not included. Even negotiated net prices are by no means fixed. There are many ways airlines can play with their rates, for example by simply closing individual booking classes. And a few years ago, when Lufthansa actually started demanding volume

commitments with the threat of a penalty in the event of noncompliance, I experienced several travel managers who cancelled their corporate contracts.

Today, there are many other ways for companies to achieve savings than through time-consuming and possibly inefficient negotiations. In the hotel segment, for example, company rates from aggregators like hotel portals or business travel service providers can be used. In the flight segment, standardised medium-sized business programmes can be used that function according to the payback principle or - like for example with Germanwings - offer more flexible ticket conditions. Finally, by dispensing with negotiations, travel managers also gain new room for manoeuvre. They can put this to the best use for the strategic development of their travel management, process optimisation or better support of their travellers. 



PHOTO: GABY GERSTER

Jörg Martin: More time for other tasks