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FUTURE TRENDS IN BUSINESS TRAVEL DECISION MAKING

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ABSTRACT

This research surveys twenty large companies and their travellers to identify and evaluate the effects of pressures on the business travel market in the future. The influence of the following areas on the decision making process are addressed: (a) Corporate travel policies & increasing professionalism in corporate purchasing; (b) The development of global strategic airline alliances; (c) The emergence of low cost airlines on short haul markets; and (d) The development of internet based booking tools and travel agency IT.

The survey shows differences in views between travel managers and travellers with regard to corporate travel policies. While travel managers see policy rules, travellers interpret these as guidelines, indicating travel managers will need to take further actions to exercise true control of travel budgets. The data shows that companies are more likely to prescribe a class of airline ticket, than the choice of airline itself. Corporate hierarchical bias in travel policies is still common both for short and particularly long haul flying.

Other findings show that while travel managers believe that their companies are likely to sign global deals with strategic airline groups within a five year period in a bid to consolidating spending, they also believe that nearly a third of short haul flying will be taken with low cost carriers, indicating further penetration in this business travel market by these carriers.

The paper also provides other predictions about the business travel market, based on the survey findings.

INTRODUCTION

The business travel market saw a marked change throughout the 1990s. The introduction of competitive pressures in the marketplace, attributable to the liberalisation of many markets, has lead airlines to attempt to increase market share and network coverage while trying to reduce their costs. At the same time, companies have been increasingly recognising the

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importance of travel expenditure to their businesses, and have been making efforts to reduce this cost element. This article reports the finding of a study to identify future trends in business-travel decision-making within the U.K.

The business travel market remains vital to the airline industry. Within the European Union (EU), business travel accounts for 48 percent of all air travel passenger trips (CAA, 1996). One of the main problems for airlines is not the volume of business travel (which has remained consistently high) but the decline in fares that that business travellers and their companies are prepared to pay. The IATA Corporate Air Travel Survey shows that a large proportion of business travellers are no longer buying business class tickets, and that many are purchasing highly discounted economy tickets (IATA, 1999). This downgrading activity has lead in part to the dramatic 32 percent fall in real yields reported by the International Civil Aviation Organisation for the ten years between 1988 and 1998 (ICAO, 1999).

The liberalisation of the air transport in the EU has lead to the development of a more highly competitive market. The U.K. CAA (CAA, 1998) has noted fairly modest increases in competitive activity across all routes; however, the densest routes have experienced quite dramatic increases in competition. The most obvious evidence of the introduction of competitive pressures in the market has been the introduction and rapid development of low-cost airlines such as Ryanair, EasyJet, Go, and Buzz. These airlines have reported that significant proportions of their passengers are travelling for business purposes. Go has indicated that about 30 percent of its passengers are business travellers, while EasyJet reports over 50 percent of passengers on some of its routes are travelling for business purposes (Mason, et al, 2000).

Earlier research showed that travellers that work for small and medium sized companies are more likely than those that work for very large companies to choose a low-cost airline service (Mason, 2000). The research detailed in this article investigates the reasons for those differences in behaviour and evaluates whether companies that seek to reduce travel expenditure will use low-cost airline services more or will continue with present purchase behaviour.

In more highly competitive markets, traditional airlines have sought means in which to defend their position in the market, grow in new markets, and reduce their costs. During the 1990s the industry has seen a dramatic rise in the number of alliances. According to the annual Airline Business Alliance Survey (Airline Business, 2000), in 2000 there were 579 alliance agreements in place, up from 280 agreements in 1994 when the survey was first conducted. Five major alliances (Star, Oneworld, Qualiflyer, Sky Team, and Wings) now account for some 60 percent of all air travel (Airline Business, 2000). While a large body of literature has developed over a short period of time that investigates the benefits (and to a lesser extent the costs) of strategic airline alliances from a supply side perspective (see for example *Journal of Air Transport Management*, 1997), relatively little work has been undertaken that looks at the demand side. This research aims to go some way to rectify this imbalance by investigating the influence of strategic alliances on the purchase decisions of business travellers and travel managers.

While the airline industry has been changing, companies that demand business travel have also been taking greater control of their expenditure on travel. In many companies, travel expenditure is the second largest controllable cost item, behind only labour (Collis, 2001). Consequently, the role of travel manager in many companies has changed from a general administrative role responsible for booking travel to one of managing this highly significant element of expenditure. The 1990s saw the development of organisations for travel managers (such as the National Business Travel Association in the United States and the Institute of Travel Management in the U.K.). These organisations have developed training programmes to increase the skills level of travel managers in their member companies. The research presented here also assesses the effect of corporate travel policies and increasing professionalism in corporate purchasing.

Distribution costs can account for some 20 percent of airlines' total expenditure, ranking again as the second largest cost item after labour (IATA, 1999). The principal distribution channel for airlines is via travel agents. Commission costs account for about 10 percent of costs, while ticketing costs the airlines 2-3 percent, fees to computer reservations systems (2 percent) and credit card fees (2-3 percent) take up the rest of the costs. Consequently, airlines have been seeking methods to lower the costs of distributing their products-costs that have included cutting commission payments and trying to seek a more direct relationship with their customers. The development of Internet technology is a potential source of structural change in the distribution channel and needs to be assessed.

The research presented in this article, therefore, addresses the relationships between travellers, travel managers, airlines and business travel agents. These relationships have been changing: (a) as airlines seek to reduce their distribution costs, and therefore seek to increase their direct contact with travellers and companies; (b) as corporates seek single global travel agency deals; and (c) as the growth of Internet-based information and booking systems allow companies to exercise greater control over their travelling executives.

Beyond the distribution channel, information technology such as video-conferencing, e-commerce, and Internet communication is becoming increasingly commonplace in the workplace. The research also investigates whether this technology is viewed by travellers and travel managers as an effective substitute to business travel.

RESEARCH OBJECTIVES

The introduction has highlighted a number of areas of change in the business travel market. The development of airline alliances and the expansion of low-cost airlines have affected the supply side of industry. The demand side of the industry has seen the development of an increasingly professional attitude towards the management of travel expenditure. The supply chain is also in a period of change as airlines seek to reduce their distribution costs, leading travel agents to reassess their roles. Internet technology also provides many new distribution possibilities.

This research seeks to identify and evaluate the effects of these pressures on the business travel market in the future. It addresses the influence of the following areas on the decision making process are addressed:

- Corporate travel policies and increasing professionalism in corporate purchasing;
- The development of global strategic airline alliances;
- The emergence of low-cost airlines on short-haul markets;
- The development of Internet-based booking tools and travel agency IT;
- Substitution of air travel by other forms of communication.

METHODOLOGY

Literature has generally reported surveys of individual air travellers (Nako, 1992; Mason & Gray, 1995). However, Mason (1999) has also highlighted the effect of corporate involvement in the purchase decision, and therefore the effect of corporate decision-making should be considered in evaluating buyer behaviour. While the views of both individual traveller and corporate travel managers have been considered together (Stephenson & Bender, 1996), surveys have not been performed on travellers and travel managers from the same firms. It has not been possible, therefore, to compare and validate the results of both sets of surveys.

For this study, corporate travel managers and travellers of the same organisations were surveyed. The Institute of Travel Management, the major corporate travel management association in the U.K., provided an email list of companies that are major purchasers of air travel. Matched questionnaires were developed that were designed to investigate differences in opinions between travel managers and the travellers that work for their companies. The purpose of survey was profiled in the Institute's monthly magazine, and follow up emails were sent six weeks after the first electronic posting along with a reminder in the magazine. The travel managers of twenty companies responded to the survey that was sent electronically. All the companies had more that 1000 employees, and together they spent some £95 million on air travel in 1999. This represents about one percent of the total outbound U.K. business travel market (estimated at £8.72 billion by Mintel, 2000). The large company sector of the market is estimated at 46 percent of the entire market (CATS, 1999) and so the survey represents some 2.4 percent of this market. Forty-four traveller surveys were returned from 16 of the companies that had completed the travel manager survey. Higher responses for both the travel manager and traveller surveys would have been beneficial; however, the results are viewed as being representative of the large company sector of the business travel market in the U.K.

RESULTS

Company and Traveller Demography

The companies in the survey were all multinational organisations. The average corporate size was 37,000 employees. The organisations were generally European-based, and the average size of the local organisation (either U.K. or European depending on the structure of the company) was 18,600 employees. The companies spent £95 million on air travel in 1999. The average number of short haul trips taken in 1999 was over 9,000, and the average number of long haul flights (longer than three hours) was 2,260.

Most of the travel managers (80 percent) indicated that the amount of spend on air travel was greater than three years ago. Only 15 percent of the companies spent less in 1999 than three years earlier, with the remaining 5 percent spending about the same. This growth looks set to continue, with half of the respondents indicating that the company is likely to spend in excess of 10 percent more on travel (per annum) in the next five years. A further 30 percent thought the company would spend between 5 percent and 10 percent more per year. It would seem that travel for these companies is a large and growing cost to their business. The management of this cost is therefore important, and the survey indicates that it is not left to junior staff, with the average age of the travel managers in the survey being 45. The group was evenly split between the genders, with 55 percent being female.

The travellers surveyed were mainly (86 percent) male, with an average age of 44 with a standard deviation of 8 years. They were employed in various management roles. Nearly a fifth of the sample (18 percent) were company directors, with 43 percent in senior management positions, and a further 30 percent in middle management roles. The remaining 9 percent were employed in other roles. The travellers make, on average, 17 short-haul trips and 6 long-haul trips a year. Nearly half of the travellers (45 percent) said their number of trips was greater than three years earlier, while 21 percent had travelled less in 1999 than 1996.

Corporate Travel Policies and Booking Behaviour

All the companies surveyed had travel policies of some kind. This is not surprising, as the sampling frame was of companies that are members of the Institute of Travel Management, with an obvious interest in managing corporate travel.

Of the companies surveyed, 80 percent only used one travel agent, with the remainder using two agents. Use of only one travel agent allows the company to manage its spend more easily than using a number of agents, as all expenditure can be consolidated and tracked through one account. The travel managers indicated that, on average, 92 percent of their air travel expenditure is placed with their main travel agent.

The main booking channel (used by nearly 85 percent of travellers and their travel managers) was by phone calls to the agent. A further 10 percent used email to send booking requests. It would seem that the most respondents still preferred to talk to an agent than to merely send an email. The interactive nature of booking over the phone perhaps provides bookers with a reassurance that the booking request has been properly understood and that the booking has been processed. This is particularly important for complex itineraries.

The average amount of air travel on the corporate’s biggest airline supplier is 54 percent. However, the standard deviation of 25 percent indicates marked differences in behaviour in spending between the corporates. These differences can be partially explained by (a) types of routes flown, and (b) the amount of travel on the most commonly used routes. The strategies adopted by the travel managers will also affect this proportion. The average proportion of total expenditure made on routes covered by route deals was 32 percent, however, the wide standard deviation of this variable also indicated clear differences in travel behaviour between the companies surveyed. When asked whether the proportion of flights placed with their biggest supplier would change within a five-year time frame, 44 percent thought that the company would use this airline proportionately more in the future. Just over a quarter thought that the proportion would remain the same, while the rest of the sample thought the amount of business placed with their main supplier would fall. Consolidating travel with a major supplier allows the corporate to negotiate the best volume discount possible, and for some companies in the sample this strategy would seem to have been adopted. However, the potential for changing the amount of business with any one supplier needs to be evaluated carefully to ensure that the best total cost situation for the corporate is achieved.

Nearly two-thirds of the companies in the survey (65 percent) pay a management fee to their agents to take bookings, provide management information, and perform other services. This agency basis has become the standard approach for most large firms in the last five years. In this system, the full amount of commission paid by the airline is passed directly to the corporate client. A management fee is then charged to the corporate for managing the client’s travel requirement with a profit element included. The amount of reward given to the agent may be based on some pre-determined service levels to suit the client. The rest of the companies have a rebate arrangement with their travel agent. Rebates may be offered by airlines to agents that can ensure high volume. Rebates may retroactively reward agents of specific corporate clients four percent discounts on fares if pre-determined volumes from the named corporate are met. The rebate paid to the agent is usually passed directly back to the corporate. The system provides airlines with a fairly assured amount of traffic, and the corporate gains a discount.

As airlines seek to reduce their distribution costs, the amount of commission paid to the agent has been reduced. Agents that have rebate arrangements with corporates will be less able to pass a commission rebate onto these clients. Indeed, in the U.K., British Airways has radically altered the method by which it remunerates travel agents. In April 2001, the airline ceased paying commission on a percentage basis to travel agents. Instead, British Airways airline introduced set payments for each sector booked by an agent. The level of payment depended on the length of the sector and the class of travel. While short-haul domestic payments have remained similar (if not slightly better) than under the previous regime, agents have lost substantial payments when booking long-haul or business class tickets. The development of management fees has provided a method by which agents can seek to charge corporate clients for added value services they provide. American Express has taken this remuneration method further by passing back to clients all commissions and payments received from airline; it charges the client a fee for each transaction performed (American Express, 2001). This effectively changes the agency role from acting on behalf of the airline to acting for the corporate. This shift in agency allegiance will allow the corporate to be sure that the agent will be seeking the fares that minimise its spending rather than suggesting itineraries that would maximise the agent's commission.

While in the majority of cases (52 percent) it is travellers that selects their flights, nearly half of flights are chosen by either the traveller's secretary (25 percent) or by the travel department (23 percent). The purchase decision within the business travel market is clearly not made by the consumer—the traveller—in a large number of cases, and the airline marketer must recognise other decision-stakeholders and their influence when constructing marketing strategies. Corporate influence in the purchase decision has been noted in earlier studies, but in this research the proportion of travellers that do not make the purchase selection is 12 percent higher than an earlier study (Mason, 1999) where the samples were drawn from a wider range of companies. In this sample, the companies are all large with more than a thousand employees. It would seem that travellers in larger companies are more likely to leave the travel selection to others in their organisation. Given this reduction of traveller involvement in the travel decision-making process, it becomes more important to focus marketing attention to other players in the process. Since (a) airlines are reducing their ability to (financially) influence agents to win business, and (b) secretaries and travel managers have an increased role in the purchase decision, it is important for airlines to develop direct links with these people. While the airlines have increasingly well developed loyalty programmes for their consumers, it is also important to develop customer relationship marketing programmes for these purchase stakeholders.

Once the flight is selected, the traveller takes even less involvement in the purchase. Only 15 percent of travellers book their flights while secretaries (45 percent) and travel departments (40 percent) process the bulk of the flights.

Of the firms in the survey, 65 percent negotiate deals directly with airlines. Here the firms have sufficiently large purchasing power to negotiate deals better than those offered via the travel agency market. Travel agencies, however, can provide benchmarking data to a corporate so that it can ensure that the deals negotiated are as good as possible for that company's level of air-travel expenditure.

Table 1 shows the differences in views between travel managers and their travellers when considering aspects of the corporate travel policy. It would seem that travellers view travel policies as being much more flexible than their travel managers may have intended. 42 percent of travel managers described their policies as "airline and class level rules to be strictly followed." Only 16 percent of the travellers agreed with their travel managers, whereas 44 percent described their policies as "policies to be followed where possible."

Table 1. Travel manager and traveller attitudes to travel policies

	Travel Manager	*Traaveller*
Type of Travel policy (%)		
Policies to be followed where possible	15.8	44.2
Airline and class level guidance	10.5	14.0
Airline and class level rules to be followed where possible	15.8	23.3
Airline and class level rules to be strictly followed	42.1	16.3
Other types	15.8	2.3
CTP wrt to Airline Choice		
Written policy	52.6	32.6
Unwritten policy	15.8	41.9
No policy	31.6	25.6
CTPs wrt to class of travel		
Written policy	889.5	69.8
Unwritten policy	5.3	25.6
No policy	5.3	4.7

CTP: “Corporate travel policy” wrt: “with regard to”

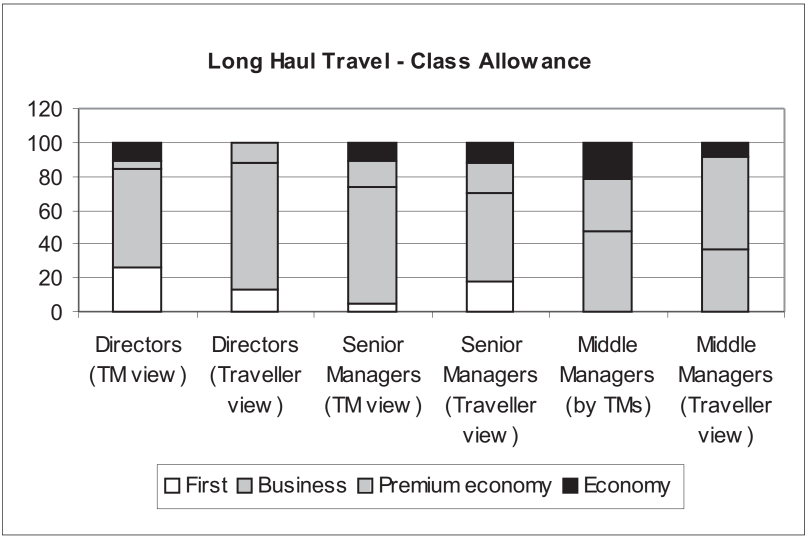
These differences in understanding about corporate travel policy are also in evidence when each group was asked to explain their policy with respect to airline choice and class of travel. The choice of airline and class of travel is very important to travellers, and prescriptions in these areas will affect traveller’s comfort in-flight as well as their ability to accumulate frequent-flyer awards on a favoured airline scheme. Conversely, travel managers will be able to save their companies money if they focus on where their company can get the best deals when making the choice of airline and class of ticket for the traveller.

The class of travel is more heavily regulated than the choice of airline in these decisions. This distinction is not surprising, as differences between ticket classes will be much more significant than those between airlines in the same ticket class. Nearly 90 percent of travel managers indicated that their company had written policies with respect to class of travel, whereas only 53 percent had written restrictions about airline choice. The lower proportion of travellers that described the policies as written indicates that they are not aware of the policies, are not sent the policies, or have forgotten them. (It is possible that these travellers make so many trips that they know the rules and are unaware that they are written down somewhere in the organisation as they do not need to refer to them.)

The hierarchical differences in the class of ticket that travellers are allowed for long haul travel and for short haul travel are shown below in

Figures 1 and 2, respectively. The views of the travel managers and travellers are shown.

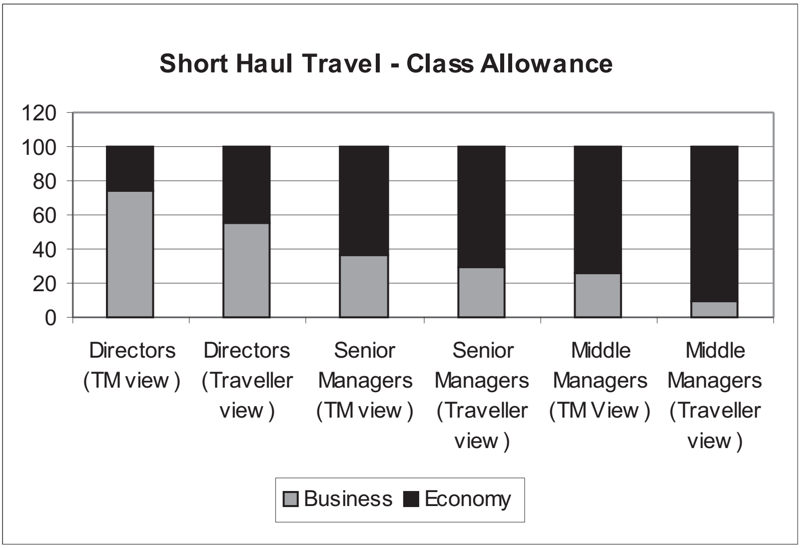
Figure 1: Fare class differences between traveller hierarchical levels for long-haul travel



For long-haul travel, over 80 percent of directors are allowed either first or business class tickets. This proportion is lower for senior managers, and lower still for middle managers. While the hierarchical difference is not great between director and senior manager level, there is a marked difference for middle managers. The development of premium-economy-class travel on long haul seems to be well targeted at this sector of the market, as a large proportion of this group is allowed this slightly-better-than-economy service.

There are only two classes available for short-haul European travel. Again, for short-haul travel, there seems to be a hierarchical bias towards those in the most senior positions, with the vast majority of middle managers having to travel in economy while over 70 percent of directors are allowed to fly in business class.

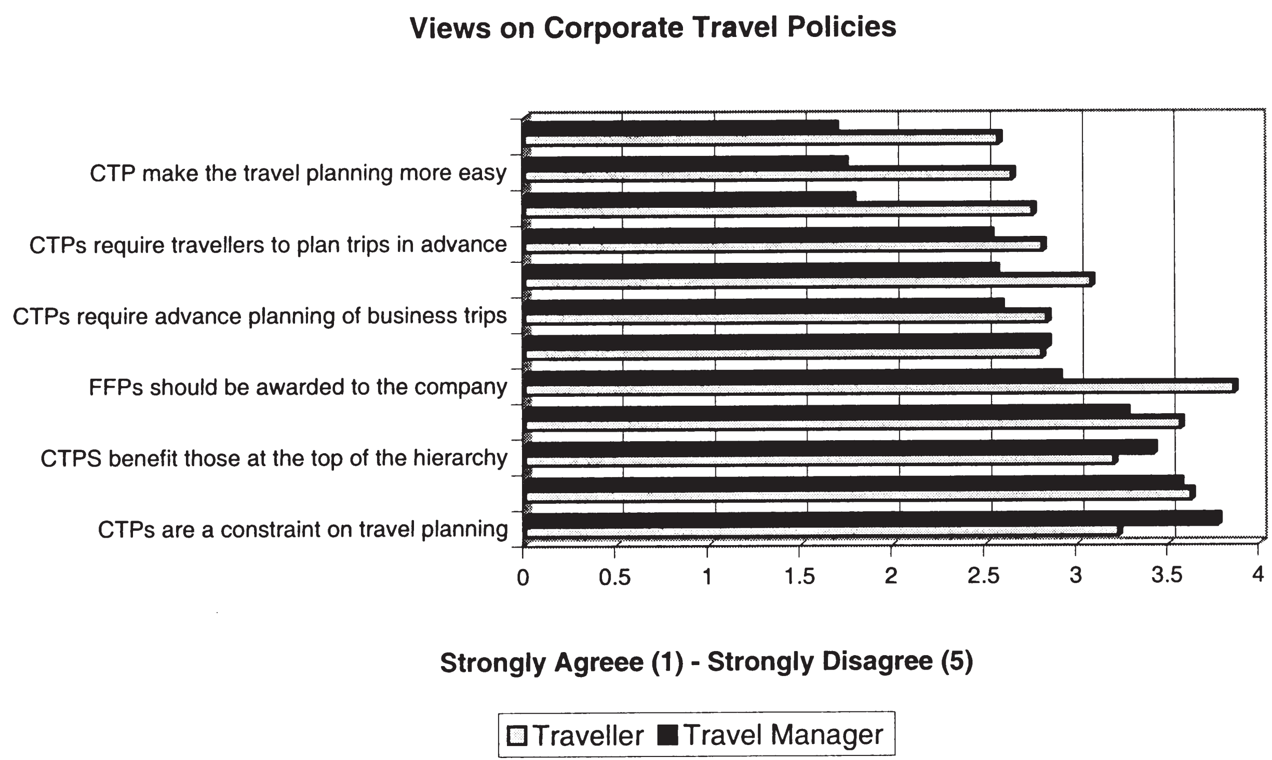
Figure 2. Fare class differences between traveller hierarchical levels for short haul travel



The two groups seem to be in general agreement with the allowances granted to different corporate level, but the travel group holds a general belief that is more restricted than the travel managers say it is. Perhaps the travellers see that policies are becoming stricter. This perception is confirmed by the travel managers, of whom 63 percent indicated that their company's travel policy would become more stringent in the next five years; a quarter of the group said that their policies would be greatly more stringent. These hierarchical differences may soon, however, diminish, as the vast majority of the travel managers (84 percent) indicated that the stricter policies would be applied to all travellers irrespective of status.

The two groups were asked to indicate their level of agreement with a number of statements about corporate travel policies. A Likert five-point scale was used for this element of the questionnaire. The differences in attitudes between the two groups can be seen in Figure 3. Strong agreement with the statement was given a score of one, and a score of five was attached to a "strongly disagree" answer.

Figure 3. Attitude toward travel corporate policies between travel managers & travellers



The general profile of the two groups is similar. The largest differences in opinion were on the following statements:

- Corporate travel policies (CTPs) makes the whole process of travel planning more easy;
- Frequent-flyer points should be awarded to the company;
- CTPs reduce traveller uncertainty;
- CTPs save the company money.

While the travel managers thought that CTPs made travel planning easier, the travellers were clearly less convinced of the ability of the travel policies to do this. It is logical that travellers and travel managers should disagree about who should benefit from FFP rewards, but is perhaps surprising that the difference was not more marked. While travel managers view CTPs as reducing traveller uncertainty, travellers disagree; and here there is a case to build internal communications to highlight the corporate and individual benefits of having a policy. The travel managers disagreed with the opinion that CTPs put a constraint on travel planning, while the travellers were neutral in their opinion. It is perhaps surprising that the travellers did not see CTPs as placing a constraint on their travelling behaviour. Both travellers and travel managers agree that travel policies reduce travel choice, while travel managers agree much more strongly with the statement that CTPs saves the company money than the travellers. Again, there is an opportunity for travel managers to communicate the benefits of the CTP to those that have to work within it.

The travel managers were asked what processes they use to ensure traveller compliance with the travel policy. Their responses suggest two approaches. The first allows the traveller to book the flights they request. Management information systems are used later to identify those travellers who have fallen outside the policy's prescriptions. The manager relies on the agent to report the transgressors, and then the travel manager can take the action deemed appropriate. An extreme (but effective) method is to refuse to reimburse all costs incurred by travellers who have booked outside the policy. Other travel managers indicated that a quiet word to the traveller would be the method used to get the traveller to stay within the policy in future. The second approach applied by travel managers to ensure traveller compliance was the prevention of travellers from booking outside the policy. Some managers funneled bookings through their office and thus could refuse to book travel outside the policy. In other cases, the manager would rely on the agent either refusing to book outside the policy without appropriate signed approval, or to provide pre-trip alerts of non-compliant travel. Some travel managers saw the Internet and on-line booking systems as a means by which the company, with its agent, could construct an electronic barrier to non-compliance.

The Effect of Airline Alliances

For many companies a large proportion of travel is on a small number of routes, and on these routes the companies may have deals with individual airlines. However, the ability of an airline group to provide global coverage for all of a company's air travel requirements can be beneficial for both parties. The company is able to negotiate better discounts on their most travelled routes by ensuring a higher proportion of their travel is on the preferred airline group's services worldwide. The airline group ensures increased volume throughout its network and is able to build yield on the less-travelled services.

The development of global airline alliances has enabled the alliance groupings to compete to provide global coverage for a company. Consolidating spending with an alliance group to negotiate higher discounts is perceived as beneficial by about half the travel managers (47 percent). A further 37 percent of the respondents thought that alliance development has a neutral effect on the company's air travel expenditure. Although none of the companies surveyed had a global deal currently, a quarter had been approached by one or more global alliance to try to negotiate a global deal. A further 15 percent of the companies had approached alliance groups to discuss the possibility of a global deal. While this global deal development is in its infancy, 75 percent of the travel managers surveyed believed that their companies would sign a global deal with an alliance group within the next five years.

Alliances groupings indicate that the traveller will reap many benefits from alliance developments. These include: (a) "seamless" travel across the group's network; (b) better customer services at airports as the airlines group together their ticketing, check-in, and customer service desks; and (c) a wider route network on which travellers can collect FFP points and spending loyalty rewards. More than half of the travel managers surveyed (55 percent) believed that the travellers benefit from airline alliances as the alliances begin to deliver the improvements in service. Only 5 percent of those surveyed thought alliances would have a detrimental effect on travellers, but a large proportion (39 percent) of the sample thought that alliances would have little effect on their traveller. In comparison, one in five of the travellers surveyed thought that alliance developments would be detrimental to their travel experiences. Differences in the quality of on-board service between code-sharing and alliance partners can lead to traveller confusion and dissatisfaction. The alliance groups will need to work hard to provide a “seamless” level of service throughout their networks to minimise such business traveller attitudes.

In addition, since eight out of ten travellers and nine out of ten travel managers believe that traditional airlines do not offer value for money, traditional scheduled carriers will need to demonstrate a greater level of value for money in their products.

Effect of Low-cost Airlines

One of the key reasons why travellers question the value of traditional airlines’ service is the development of low-cost airlines. Currently, only a small number of flights bought by the companies surveyed are taken with low-cost airlines. Earlier research (Mason, 2000) showed that travellers working for smaller companies are more likely to use a low-cost airline for making a business trip. Travel expenditure may be more tightly restricted in a small company compared with a larger one; a small company also will not be in a position to negotiate volume discounts with traditional airlines, as the amount of business they generate will not be sufficient.

Table 2. Attitudes towards low-cost airlines

	Travel managers	*Travellers*
Traditional airlines do not offer value for money	88.9	81.4
Low-cost airlines do offer value for money	84.2	73.7
Attitude towards using low-cost airlines for business		
Positive	65.0	31.7
Neutral	10.0	36.6
Negative	0.0	29.3
No opinion	25.0	2.4
Attitude toward low-cost airlines		
Positive	65.0	31.7
Neutral	10.0	36.6
Negative	0.0	29.3
No opinion	25.0	2.4
Proportion of short-haul travel on low-cost airlines in five years	24.2	29.3

Travellers working for small companies will probably more involved in their air-travel purchase decisions, and consequently will (a) be more likely to be aware of the cost of tickets, and (b) seek cheaper prices. In contrast, travellers working for larger companies are more likely to work within the prescriptions of a travel policy, and (as we have seen in this set of results) are likely to be less involved in the purchase and to seek cheap flights. Where a large company has a complex set of deals with various airlines, travellers are likely to be discouraged from making their own travel decisions, as those decisions are likely to be (a) sub-optimal from the company's perspective, and (b) a waste of a significant amount of time. Travel managers will have focused on deals with traditional airlines that (a) can be monitored, and (b) enforced through booking procedures that rely on the travel agent to flag travel plans falling outside the travel policy. Travel agents are loathe to book low-cost airlines, as they receive no or very low commission from these transactions; so it is not surprising that only 4 percent of the flights booked by the companies surveyed were with these budget airlines. However, 60 percent of travel managers said that their company encourages the use of low-cost airlines where appropriate, indicating that the proportion of short-haul travel placed with low-cost airlines for these large companies is set to rise. Indeed, travel managers thought the proportion of short haul trips made on low-cost airlines would rise to 22 percent in five years time. Travellers thought this proportion would be even higher (29 percent). If low-cost airlines aim to achieve this level of penetration in the large-company market, these airlines will need to show a satisfactory level of service while also providing sufficient cost savings to recompense for the poorer deals corporates would subsequently be able to achieve with traditional airlines because of their reduced volumes of traditional-airline travel.

The majority of travel managers and travellers thought low-cost airlines offer good value for money. Sixty-five percent of managers indicated a positive attitude towards these budget airlines, but a significant proportion of travellers (29 percent) held negative opinions about the services low-cost airlines offered. Figures 4 and 5 show the main advantages and disadvantages of low-cost airline services indicated by the respondents.

Respondents were asked to suggest up to three advantages and three disadvantages of these airlines. Price is clearly seen (by both travellers and travel managers) as the main advantage of low-cost airlines, with the ease of use being suggested by 15 percent of travel managers as an advantage.

Both travel managers and travellers highlighted a number of disadvantages of using low-cost airlines. Schedule was identified as being the main disadvantage, followed by the ticket restrictions generally applied to low-cost airline tickets. A number of travellers noted a general lack of quality on these airlines, while travel managers were more concerned about punctuality and reliability.

For the low-cost airlines to gain in the business-traveller segment of the market, travel managers must shift their strategies to consolidate travel in one alliance group's services. To persuade the travel managers to switch, the low-cost carriers will need to: (a) provide consistent, reliable, high frequency services on a widened route network; and also (b) alter the non-

Figure 4. Advantages of low-cost airlines usage

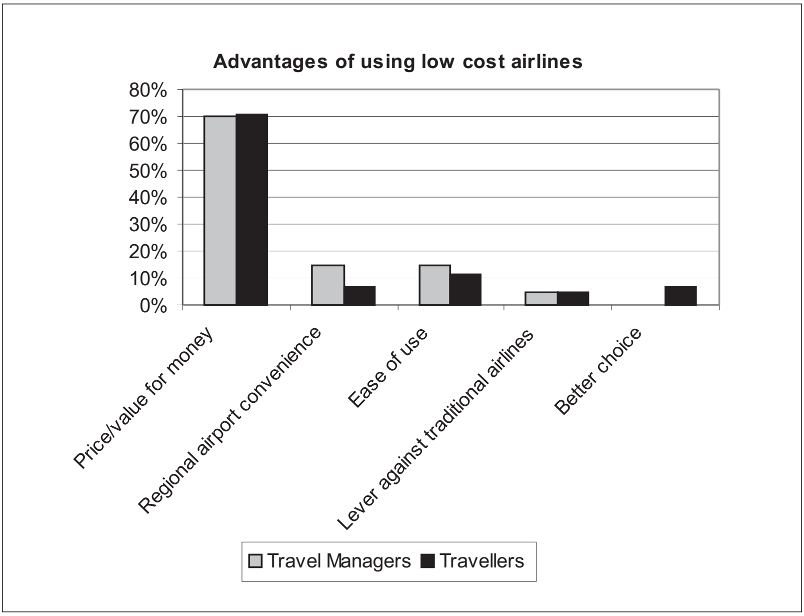
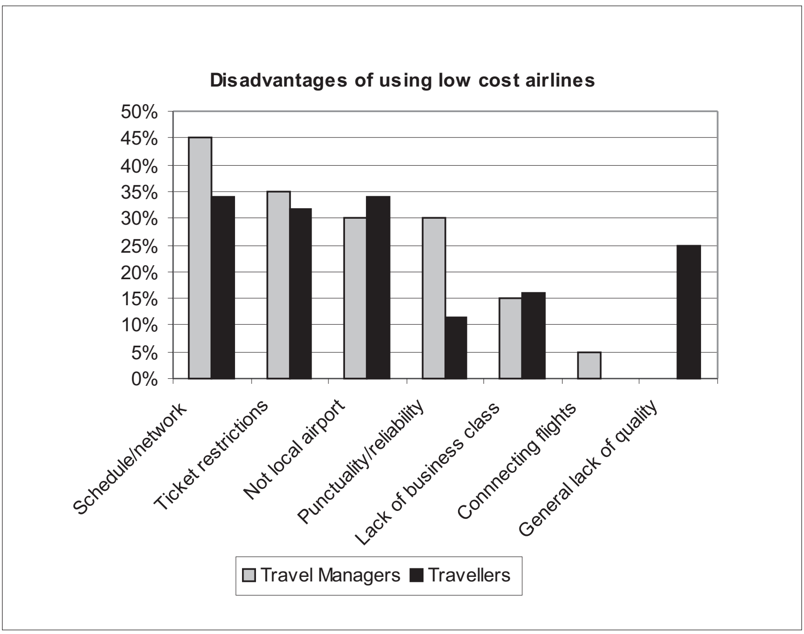


Figure 5. Disadvantages of low-cost airline usage



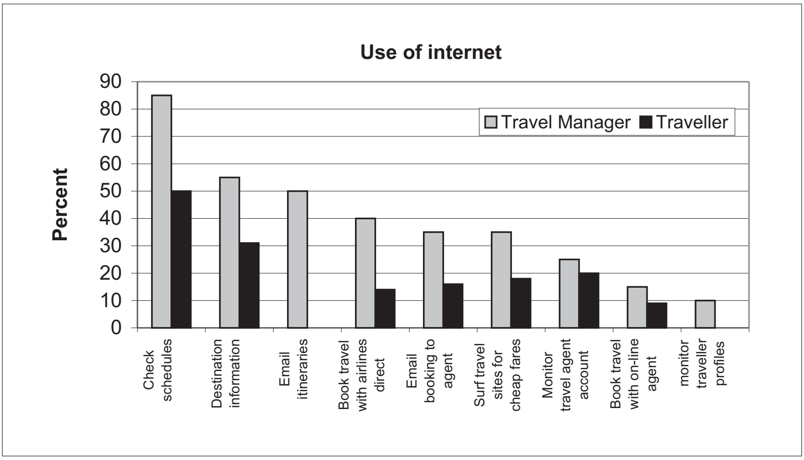
flexible ticketing regime. While some low-cost airlines have introduced flexible "business" fare types and have increased frequency on some routes to levels expected by frequent flyers, none yet have the wide route network, high frequency and flexible ticketing necessary.

Effect of Changing Distribution Patterns and Booking Tools

Internet technology has begun to change the way in which airlines can distribute their products. A company can either book online via travel-agency booking sites, an Internet-based booking agent, with the airline direct, or via various portals provided by airline groups (such as Orbitz), CRSs (such as Travelocity), or consolidators (such as priceline.com). With such a wide range of booking options, it is perhaps surprising that travel managers and travellers in the survey book less than 5 percent of their flights online. This general reticence is not due to lack of Internet infrastructure. Ninety-five percent of travel managers and 91 percent of travellers in the survey currently have access to the Internet. Of the companies surveyed, 15 percent have an extranet account with their agent and allowed travellers to book online. However, 72 percent of travel managers discouraged travellers from booking online. Nearly half (47 percent) of the managers believe that traveller online-booking hinders their role to minimise travel spending and also makes it harder to monitor and control such spending. One in four travel managers thought, however, that they were aided by travellers' use of online booking, mainly through the reduction of administrative burdens. The general feeling was that online booking was set to grow. The travel managers believed that, on average, 42 percent of travel would be booked online by their travellers within a five-years time span. Travellers thought this amount would be even higher (62 percent).

With the development of so many potential channels open to the corporate, should the corporate try to direct all bookings via a single port? This may be possible in some companies, particularly if booking lead times are long and changes in itinerary are rare. But for most companies, such rigid administration may be onerous. The use of traveller-held corporate credit cards for all travel expenses is one method through which travel managers can monitor and control their companies' spending while allowing the use of many different booking channels. The fairly rigid approach of the travel managers in the study to limit their travellers access to Internet booking may be overcome if real-time booking approval systems (using a credit card) are made available.

Figure 6. Travel manager and traveller use of the Internet



Substitution of Air Travel by Other Forms of Communication

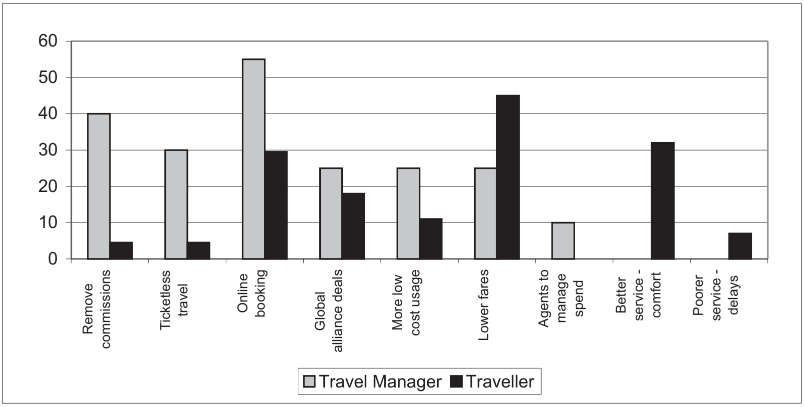
The final area considered in the survey was the effect of the development of video conferencing and the Internet on the demand for business-derived air travel. The vast majority (over 70 percent) of both travellers and travel managers believed these technologies have not had any substantial effect on the number of trips taken. While these forms of communication currently have little effect on the demand for air travel, both groups of respondents believed that, within a five-year time frame, these technologies will have improved sufficiently to allow for some substitution (depending on the time of work being performed). Twenty-two percent indicated that internal meetings and some meetings with well-established business partners might be conducted over some improved information technology solution, but the total proportion of such substitution would be small. However, the general feeling was that there is no substitute to meeting people face-to-face.

Indeed, 66 percent of travel managers thought that the company would increase its volume of business travel in the next five years. A large group (36 percent) believed that their company would increase the number of trips consumed by more than 15 percent from its currently level.

Future Changes

Figure 7 shows the unprompted responses to the question: “What do you see as the three main changes likely to happen in the business travel market in the next five years?”

Figure 7. Future changes in the business travel market



The travel managers highlighted changes in the airline/agent/corporate relationship, as commissions are removed and online booking and ticketless travel become much more widespread. A quarter of the managers viewed alliances (if these groupings can achieve global network coverage) as having an increasingly important role to play in the market. A significant number of travel managers also highlighted the growing use of low-cost carriers for short-haul travel, with fares falling as competition increases. Ten percent of respondents indicated that travel agents will become managers of a company's travel spending, as travel managers outsource the management and administration of this purchasing function. This outsourcing is a logical extension of the consultancy role that agents are increasingly looking to pursue as the airline/ agent/corporate relationship alters.

Travellers have a slightly different perspective on the business travel market in the next five years. They see continued growth in competition between airlines as providing lower fares, improved levels service, and better comfort. The other main change for travellers is the increase in online booking.

CONCLUSION

The research presented in this article aimed to provide further insights into the decision-making processes and buying behaviour of business travellers and the companies for which they work; it also sought to identify future trends in the market. The focus of the article was on larger companies, but it also compared findings about these companies with trends in business travellers that work for small and medium-sized companies.

There are two principal reasons for differences in the use of low-cost airlines by large and small companies. First, large companies travel 33 percent of the time on routes for which they have signed route-specific deals with traditional airlines, and this is likely to keep the majority of their business with these larger carriers. As airline alliances grow to enable carriers to offer global coverage of travel needs, large companies are likely to stay with one alliance grouping and to negotiate global deals.

Second, travel agents have been the traditional channel through which companies book travel. For small companies, the development of the Internet has provided a method though which they can compare prices. Without the volume of business to enable the company to negotiate route deals, small companies are increasingly using the Internet to select flights; travel agents have thus lost the ability to influence travel-purchasing decisions towards the larger traditional airlines. In contrast, large companies have used specialist business travel agents for booking travel as well as hotel accommodation and car rentals. Corporate infrastructure and monitoring and management systems are well developed for quick and efficient travel booking. This infrastructure is sufficiently well developed for the companies to continue using the travel agency channel for future booking. As the low-cost airlines generally do not sell though agents, this market is effectively closed to these carriers.

The companies surveyed have not yet embraced new booking technologies, with the majority of flights booked by phone. However, travel managers believe that online booking will become at least as popular as phone booking in the next few years. Not only does the technology need to develop further for this change to happen, but travel managers will also need to release travellers and secretaries to book online. Currently, travel managers discourage this practice.

The introduction of transaction fees by agents is changing the relationship between the airline, traveller, and agent, with the agent working on behalf of the traveller, not the airline. This change may lead to outsourcing of the travel-expense management to travel agents, with the travel-manager role changing into one of contract management. To do this, the agent, agents, or airline principal must demonstrate the ability to enact the chosen travel policy effectively.

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