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The Wire...from ***AirPlus.***

(North America Edition)

Airline Consolidation: Tighter Market a Major Concern for Travel Budgets.

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The focus on a shrinking airline market—both domestic and international—is becoming more urgent for travel managers.

Stronger pricing power, reduced capacity, a weaker negotiation position...these are the top concerns of travel managers, according to a recent AirPlus International survey, as mergers, acquisitions, joint venture agreements and tight alliance partnerships continue to consolidate the market.

The long anticipated merger of American Airlines and US Airways is the latest in a series of mergers that has taken the domestic airline market from a recent past of six mainline carriers, to a near future with three main players. Within this new environment, airlines see benefits that include more rationalized route maps and better demand management. However, travel managers remain cautious about the changes.

Among surveyed buyers, the largest group—nearly 37 percent—currently manages contracts with individual airlines. Just over 28 percent manage global contracts, with half of those buyers working with individual airlines and the other half having transitioned to an alliance model. The latter, which expands preferred airline status to alliance members in return for volume commitments on international travel, has—for a handful of buyers—translated into an

For this issue of *The Wire*, AirPlus International surveyed 119 corporate travel buyers in North America from February 20 to March 5, 2013. More than 50 percent of respondents reported annual travel spend above $10 million and 24 percent reported spend above $50 million.

Which of the following best describes your current preferred airline contracts?

Domestic contract(s)	7.8%
Domestic + international contracts – individual airlines	36.9%
Global contract – individual airline(s)	14.6%
Global alliance contract	13.6%
No current air contract	23.3%
Other	3.9%

ability to consolidate their air volume overall and achieve better pricing. Others report better delivered services for elite status travelers, better data reporting, as well as a reduction in contract administration tasks and improved communication with suppliers.

Less than 8 percent of respondents bothered negotiating with carriers for domestic-volume-only contracts, while more than 23 percent remained without any preferred airline contracts. Indeed, over the past several years, domestic agreements have become table stakes for entering a negotiation with major airlines, while premium class and international volume have become the locus for corporate discounts.

The United States air industry continues to consolidate carriers. What are your biggest concerns for your travel program?

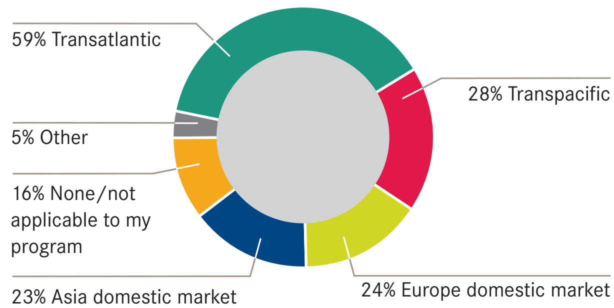
Higher prices due to less competition and/or lower capacity	84.5%
Reduced seat availability due to lower capacity in market overall	59.2%
Less negotiating leverage for domestic agreements	54.5%
Erosion of service due to less competition	44.7%
Less negotiating leverage for international/global agreements	33.0%
Fewer direct flights due to consolidation of hubs	33.0%
Fewer routes overall	28.2%
Reduced frequency on critical routes	28.2%
Erosion of service due to complexities of integrating systems	25.2%
Other	3.9%

* Total adds to more than 100 percent due to multiple responses allowed

The vast majority of surveyed buyers continues to be concerned about increasing fares and decreasing services as mega carriers dominate the US market. Nearly 85 percent of survey respondents cited concerns about higher fares due to less competition and lower capacity, while 59 percent were wary of reduced seat availability and the ability to get travelers from point A to B efficiently. Nearly 55 percent cited reduced negotiation leverage for domestic agreements as a critical concern. Close to 45 percent expected erosion of service due to reduced competition; a smaller number of respondents (25 percent) cited concern over erosion of service due to the complex integration of systems that is required for large mergers.

Buyers are also watching closely as international routes and carriers continue to consolidate. The transatlantic market was of most concern for survey respondents– whether due to the volume of business travel demand for this market or due to the amount of consolidation on transatlantic routes over the past few years.

Close alliance partnerships and joint ventures are consolidating international markets as well. Which routes/markets cause you the most concern?



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The transpacific market was of less concern, with more select consolidation, followed by the domestic European and Asian markets.

While results of the study do reveal concerns by travel managers, many industry experts, however, offer an alternative take on consolidation: that by utilizing organizational tools like mergers, joint venture and alliances, airlines are able to better manage risk and enhance their financial standing in an often volatile marketplace. This, in turn, ultimately leads to a more stable travel environment in which airlines are better able to consistently serve their corporate customers and travelers.

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