

ACTEWEBCAST

ASSOCIATION OF CORPORATE TRAVEL EXECUTIVES



The Domino Effect: How Will US Corporate Air Programs Fare in the Consolidation Game?



Webcast Moderator:

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- Will the unions at NW/DL kill the deal?
- What can we expect to occur in the US airline industry before the end of 2008
- Why have the airlines avoided mergers in the past and why is it considered an option now?
- Will consolidation ensure higher fares will follow?
- Will consolidation cure what ails the industry?
- Is the prospect of mergers an indication that airlines are better managed today than

Presenter:

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TCG's Advice to Travel Managers

- No one has merged ... yet
 - It's all speculation at this point
 - 12 months ago, travel managers were asking if they should postpone airline contracting in the wake of the potential US Airways / Delta merger ... we recommended not
 - Our advice today is the same

TCG's Advice to Travel Managers

- Even if it's announced today
 - The unions) All need to
 - The shareholders) approve any
 - US regulators) potential mergers
 - EU regulators)

TCG's Advice to Travel Managers

- And then the fun begins
 - Corporate integration
 - Fleet integration
 - Pilot and employee integration
 - Schedule integration
 - Reservation system integration
 - Pricing integration
 - Corporate program integration

TCG's Advice to Travel Managers

- So ... it could easily take two years until a merger has any specific impact on your programs
 - In the mean time ...
 - Don't panic, plan and prepare

TCG's Advice to Travel Managers

- What is the likely impact of any merger
 - Carriers will be in a stronger position vis-à-vis corporate buyers
 - There will be fewer competitors, each with a larger footprint
 - Alliances will be in a stronger position
 - Particularly if Air France / KLM participate in a Delta / Northwest merger
 - Or Lufthansa (and bmi) participate in a United / Continental merger
 - And may provide an increasingly beneficial role in your program

TCG's Advice to Travel Managers

- What do we mean by a larger footprint?

– SECTOR	<u>DL</u>	<u>NW</u>	<u>DL+NW</u>	<u>CO</u>	<u>UA</u>	<u>CO+UA</u>
– Transatlantic	8%	5%	13%	7%	8%	15%
– Transpacific	2%	8%	9%	4%	13%	17%
– Latin America	10%	0%	10%	13%	4%	17%
– SECTOR	<u>AA</u>	<u>BA</u>	<u>AA+BA</u>	<u>AA</u>	<u>CO</u>	<u>AA+CO</u>
– Transatlantic	7%	12%	19%	7%	7%	14%
– Transpacific	3%	0%	3%	3%	4%	7%
– Latin America	35%	0%	35%	35%	13%	48%

Percentage of seats per day in each market. Source: OAG Worldwide

TCG's Advice to Travel Managers

- It may be stating the obvious, but it will be like saying ...
 - “If you want carrier A in your program, you will also have to select carrier B.”
 - Where you might not benefit by having carriers A and B in your program today.

TCG's Advice to Travel Managers

- Carriers are not looking to merge so they can get together and lower fares
 - They will look to reduce expenses
 - They will look to reduce (domestic) capacity
 - They will hope they are able to better control fares and overall yields
- Net/net domestic fares will likely go up

TCG's Advice to Travel Managers

- What should Corporate Travel Managers do?
 - Manage their programs
 - Assert control
 - When it comes time to negotiate with merged carriers, you will need to demonstrate that you have the ability to manage your program
 - Look for all the ways you can impact your program
 - Pre-trip authorization

TCG's Advice to Travel Managers

- The potential silver lining around higher domestic air fares
 - Corporate discounts have been and will continue to rise
 - Discounts will ~ once again ~ make a difference
 - In many cases, travelers will see beneficial fare differences on preferred carriers

TCG's Advice to Travel Managers

- What else is going on?
 - Less capacity in the domestic market will continue to create space for start-up LCCs
 - LCCs will play a moderating role on domestic fares
 - Increasing fuel costs will continue to create upward pressure on fares
 - Merged unions will have more leverage with the merged airlines, also creating upward pressure on expenses, and fares

TCG's Advice to Travel Managers

- What else is going on?
 - Open Skies will (is) create new dynamics and new competition in the Transatlantic market
 - This will put downward pressure on Transatlantic fares
 - And on airline profits

TCG's Advice to Travel Managers

- In summary
 - Don't panic, prepare
 - Analyze your relationships and travel patterns
 - Keep potential mergers in sight as you plan
 - Manage your programs as well as you can
 - Look at the potential benefits of alliance contracting ... versus the benefits of competition

Questions from
the Audience.....

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