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The Airline Contract, Reimagined

DRAFT V1.02

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TODAY

Buyers and travelers seek low prices which airlines resist,

So airline contracts focus on market shares and discounts.

But business travel is facing more scrutiny of its value and carbon emissions.

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INSIGHTS

25% to 30% of US-based business trips are low-value.*

Discounts are detrimental by enabling more low-priced, low-value trips.

Higher airfares weed out low-value trips.

* tClara white paper, “The Justified Business Trip”

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IMAGINE

An airline contract designed to

1) Reduce carbon emissions,

2) Increase travel's ROI, and

3) Get buyers, travelers, and airlines to achieve mutually important goals.

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THE MUTUAL INTEREST

“Reducing the carbon intensity of our air spend.”

Why focus on this one goal?

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THE **GATEWAY** GOAL

Because it is the gateway to 12 other important goals, including a higher ROI on travel spend.

Fair warning - the key is paying higher airfares.

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INTRODUCING

The Carbon-based Airline Contract

using the Carbon Intensity metric

THE CARBON INTENSITY METRIC

A Ticket's Carbon Intensity

$$\frac{\text{Ticket's CO2}}{\text{Ticket's Price}} = \frac{500\text{ kg}}{\$500} = \textbf{1.00 kg/\$}$$

The amount of CO2 for every dollar spent on the ticket.

A Corporate Account's Carbon Intensity

$$\frac{\text{Account's CO2}}{\text{Air Spend}} = \frac{1{,}000{,}000\text{ kg}}{\$1{,}000{,}000} = \textbf{1.00 kg/\$}$$

Buyers and airlines need to drive this number down.

HOW TO REDUCE CARBON INTENSITY

Shrink this

Ticket's CO2 / Ticket's Price = 500 kg / $500 = **1.00 kg/$**

By increasing the price paid.

RESULTS

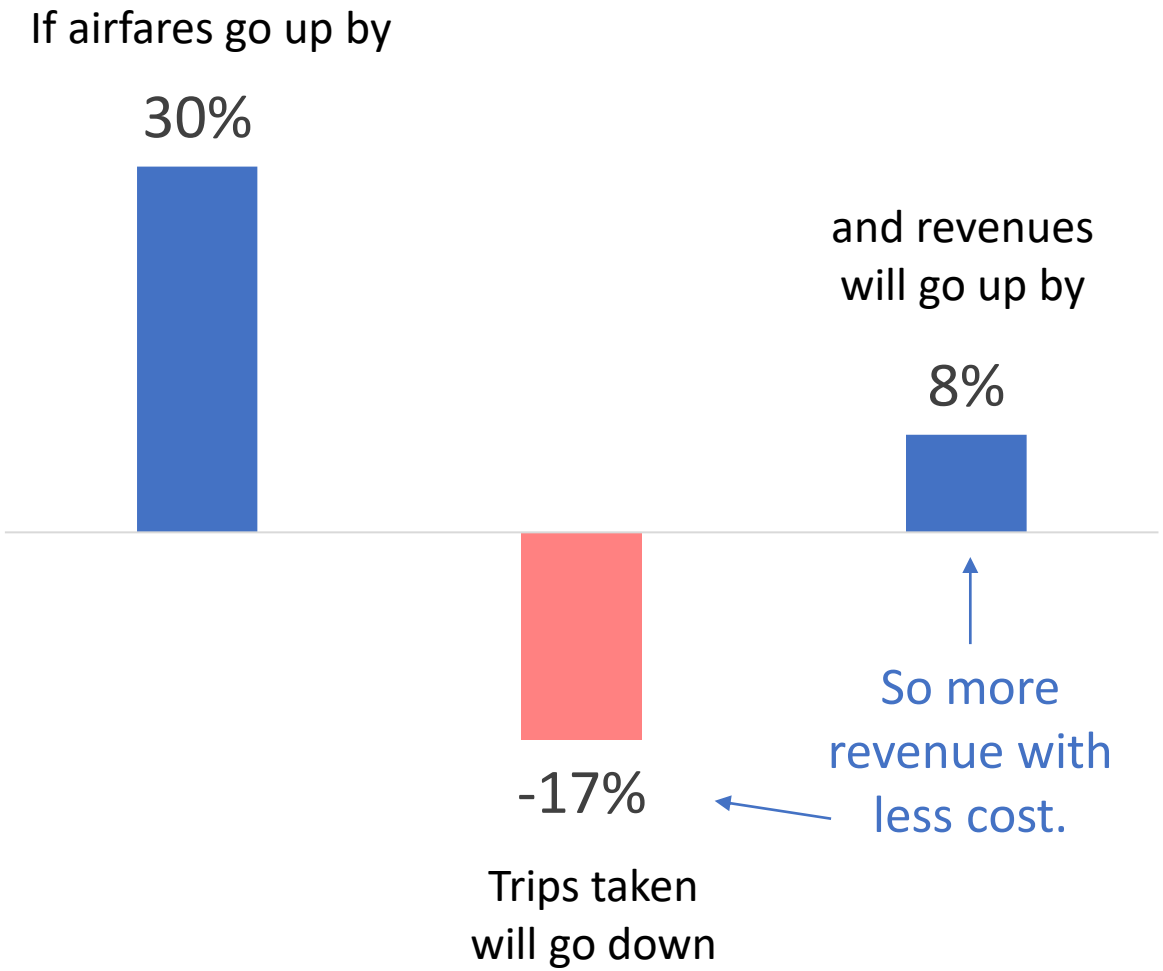
- ✓ Eliminates low-value trips
- ✓ Reduces carbon emissions
- ✓ Buys higher-quality trips
- ✓ Improves airline profits

HIGHER AIRFARES WILL IMPROVE AN AIRLINE'S PROFITS

– up to a point.

Much depends on the business traveler's sensitivity to price increases, aka price elasticity.

IATA data shows airfares are somewhat inelastic*, meaning demand won't fall as fast as prices rise.



Source: IATA Economics Briefing No. 9: Air Travel Demand, 2008.
Estimated impact by tClara using -0.7 elasticity and the midpoint method.

REDUCING CARBON INTENSITY BY PAYING HIGHER AIRFARES LEADS TO 12 IMPORTANT GOALS

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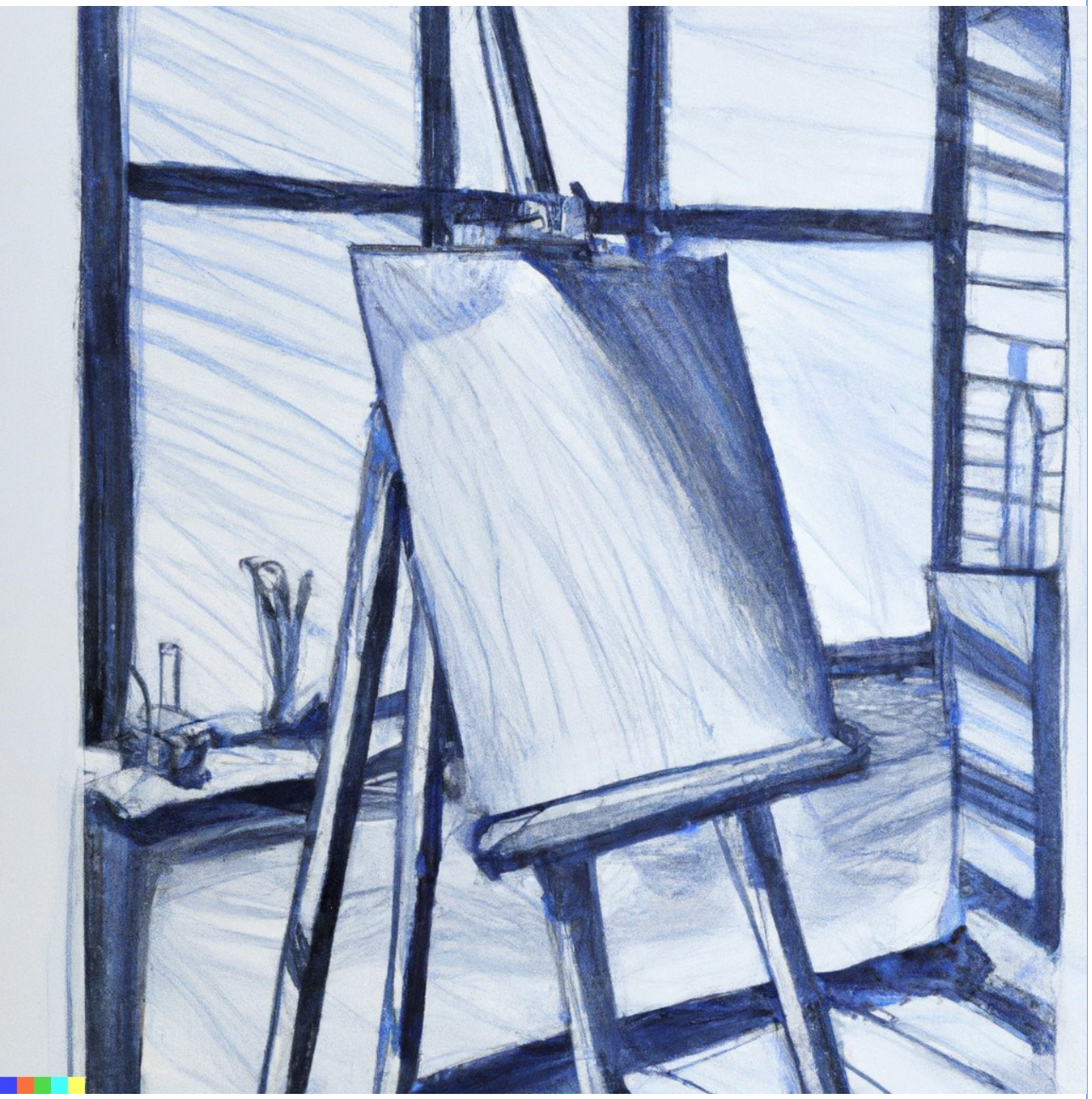
Fewer low-value trips	**Higher-quality trips**	**Higher airline profits**
Fewer carbon emissions	Less travel friction	More sustainable investments
More successful trips	Less traveler attrition	Less operational friction
Higher ROI on travel spend	Better traveler well-being	Better customer service

These nine goals are mutually beneficial to both buyer and airline. This is a strong win-win.



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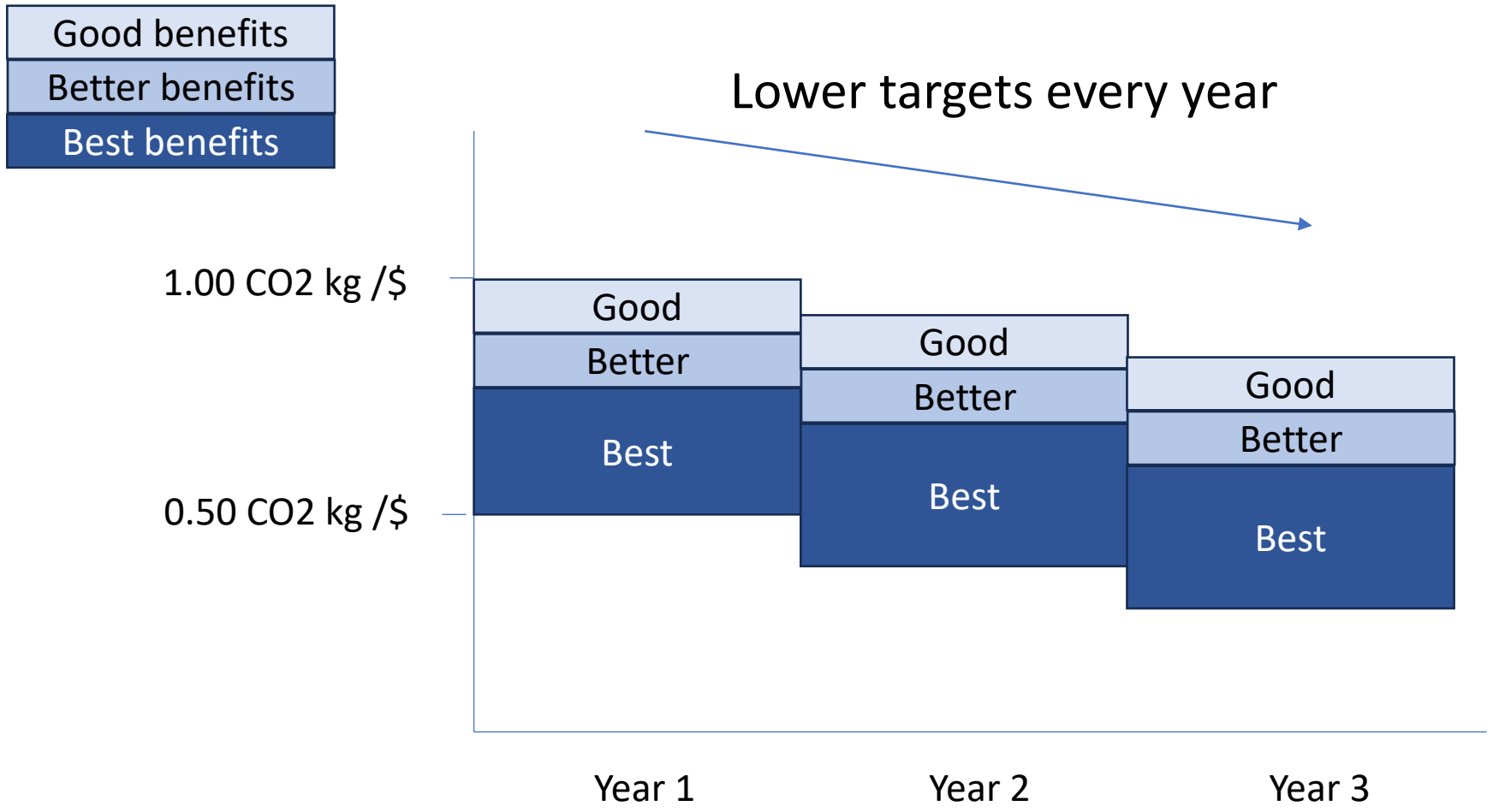
IMAGINATION

What might a carbon-based contract look like?

TIE THE CONTRACT'S BENEFITS TO LOWER LEVELS OF CARBON INTENSITY



A BUYER MIGHT WANT

- Priority services
- Access to better inventory
- Higher status for travelers
- Waivers and favors for non-ticket items, e.g., club pass
- Traveler friction reports
- ?

AN AIRLINE MIGHT WANT

- Spending goals
- Loyalty program enrollments
- Preferred status in OBT
- Marketing access to frequent travelers
- Traveler status on OA
- ?

IMPLEMENTATION ISSUES

- ❑ Agreement on CO2 calculations and ticket price elements
- ❑ Price and cost implications
- ❑ Agreement on carbon intensity goals and conditions
- ❑ Point-of-sale display of ticket's carbon intensity

Scott Gillespie

Nudging the travel industry forward

Industry Advisor

tClara

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Thought leadership for:

Travel strategy

Justifiable travel

Invisible carbon budgets

Traveler friction

Travel procurement

Perspectives gained at:

Airlines Reporting Corporation (ARC)

TRX (acquired by SAP Concur)

Travel Analytics (acquired by TRX)

Kearney

University of Chicago, MBA