THE CHALLENGE OF THE
TENDER PROCESS

In this issue Adam Knights, Group Sales and Marketing Director of ATPI, discusses the interesting differences in the propositions of travel management companies at tender time.

I recently attended an ITM forum directed at buyers who are about to go to a request for proposal (RFP) for their travel management services. This was a relatively small forum of around 15 buyers and selected suppliers which created a good environment for discussion. Like most "categories" of supply, the travel management sector often responds to tenders from procurement companies or in-house procurement teams.

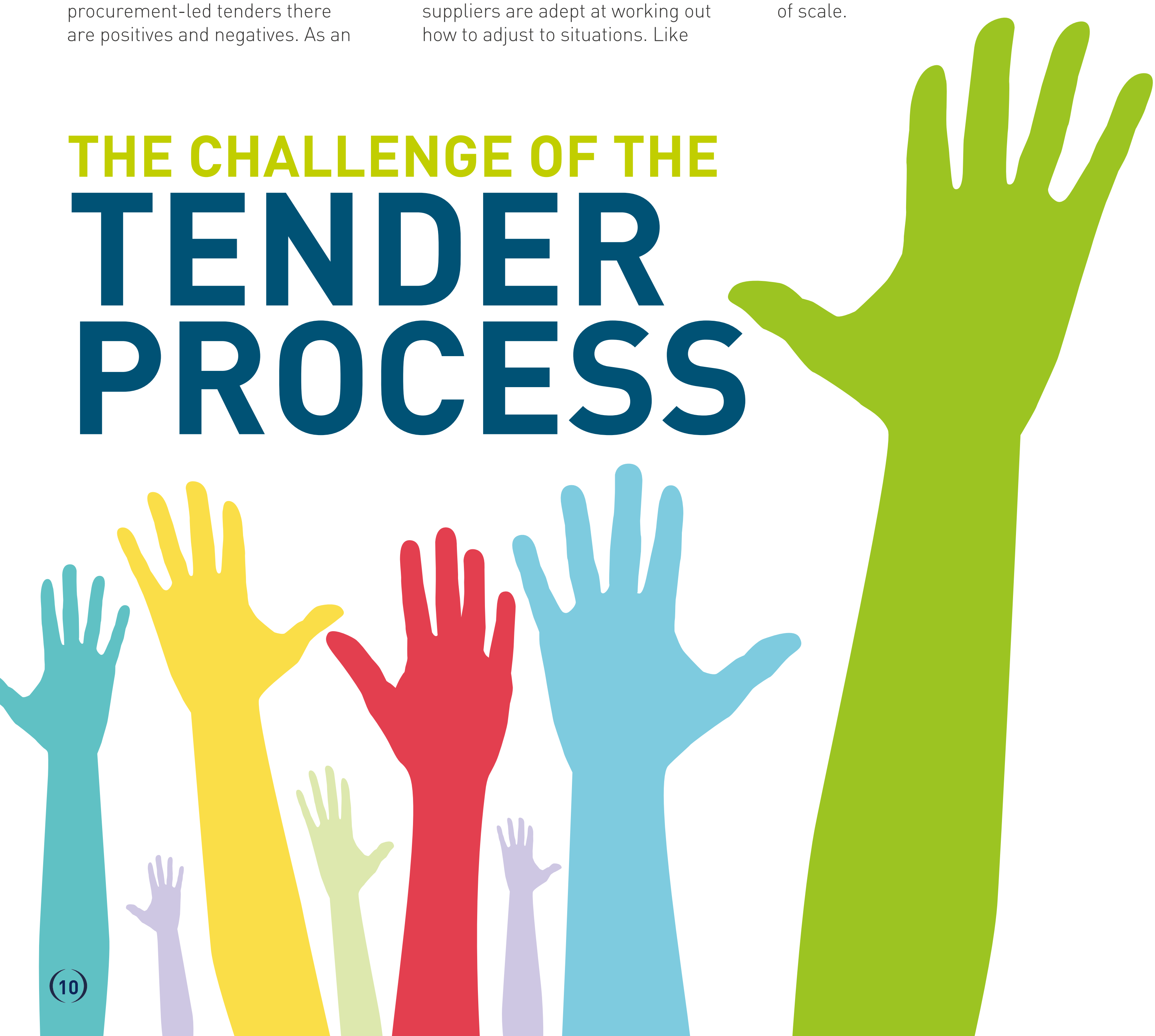
As a supplier dealing with procurement-led tenders there are positives and negatives. As an incumbent supplier, the "relationship" advantage is somewhat nullified as all parties are placed on an even playing field.

The cost of change is about the only advantage retained in a cold procurement process now. To the prospective supplier the opposite is true. One normally feels the opportunity is real (as procurement teams often pre-qualify exceptionally well) if one is included in the final cut. In many ways, the retention of existing business has become harder when a contract has reached its end or been extended a couple of times, while the sales process could be said to be more formulaic and less about the relationship.

That being said, like all things it is a matter of adjustment and most suppliers are adept at working out how to adjust to situations. Like all of the big travel management companies (TMCs) we have lost existing customers we really believed we should retain and won customers we thought the competitors shouldn't have lost, but what really interests me though is the outcome for the client.

The best scenario

The perfect situation for a client is to reduce costs through professional procurement while retaining all the required services currently enjoyed. This can often be achieved when a client has enjoyed a long relationship with a supplier and not tendered for many years. Another opportunity for companies is when they have multiple suppliers around the world or region they operate in and decide to consolidate, where possible, to fewer suppliers. Naturally this should lead to lower prices through economies of scale.



However, what happens when the client re-tenders after only three years (or less) and when that former process was done by the same procurement team?

This is where the ITM forum got interesting. One comment made by an excellent consulting company (Areka) stuck in my mind. The speaker said that she was increasingly experiencing travel management companies declining to bid for potential contracts. While she was naturally quick to say this was a minority, it was the first time I had heard of this in recent years.

The travel management sector is incredibly competitive and there are a large number of suppliers. In this environment, the purchasing teams should still have a large choice of potential candidates regardless of the occasional no bid. However, it was interesting nonetheless to hear this comment. I took it as an indication of a level of maturity now in the procurement process and one that the larger consulting companies recognise. Once you have done the obvious things mentioned above (consolidation of suppliers and professional re-tender once) you get to a point where there are diminishing returns.

> **At ATPI we really believe we are reaching that point now and the forum highlighted this, because once price has been driven to a certain level (accepting the given reductions for consolidation, etc) what comes next?**

The travel industry has become more efficient with online booking tools but this is already recognised in the price for online transactions. Labour costs are the main element of a travel contract and while inflation is dropping, they have still increased year-on-year and yet tenders still strive for further cost reductions.

I think it is broadly acknowledged that the travel management sector is competitive and that margins are not excessive which begs the question how can prices keep falling when costs are increasing?

All-Inclusive?

It was clear from the forum that the travel management sector has adapted quickly to the continued pressure on contract pricing. Many years ago travel contracts were pretty much inclusive of all services. It appears now that menu pricing has moved on to a different level. Here are some examples:

1. Handing off emergency tracking data to third parties (like ISOS) charged at anything from £1-£2 a booking.
2. Airline content fees (the fees travel management companies' pay to the GDS) are charged at anything from £0.70 to £1.50.
3. Calls to the out-of-hours service charged at premium rates (telephone) and premium fees.
4. Changes to bookings charged an additional service fee regardless of whether the agency incurs a fee from the airline.
5. Bookings made online are handled by a completely different service team to the offline team. (This may seem fine for "no touch" bookings but often the out-of-hours calls for these no touch bookings are handled by a call centre in another country and not the normal out-of-hours team handling the customer).

And two conditions that we do not use at ATPI, but they certainly opened my eyes to, was what some companies are including in their pricing structure:

"Our pricing is based on no more than one shopping call per enquiry."

"Our pricing is based on the transaction numbers quoted in the RFP. Any shortfall in the transaction numbers delivered will result in an invoice for the outstanding transactions or a re-negotiation of the transaction fees."

While these may be acceptable to some customers in the drive to force the perceived controllable cost (agency fees) ever lower, I do detect a change in the market.

Help when you need it

During a recent tender for a large pan European company, I was surprised to learn that they had above 70% adoption for the online tool in most countries and only tendered the contract three years ago. The contract price was clearly already competitive. When probing the client further it became clear that overall service had decreased since the last process. The client readily admitted that the incumbent TMC was operating within the contract, yet the contract hadn't been fully understood.

One clear example of this was in the out-of-hours fulfilment services. With 70% adoption, the client had achieved significant point-of-sale transaction fee savings, yet the client hadn't fully understood the implications of the out-of-hours service provision. Not only were they paying premium rates for out-of-hours calls (they hadn't had a true calculation of the number of out-of-hours calls from their previous agency) but they also didn't anticipate or even know that their travellers would be calling a call centre in Miami to try and change a simple European itinerary when the flight was delayed by fog. Because they had booked online the out-of-hours service also followed the "low cost" model. This client fully acknowledged that this was a learning experience and recognised that out of hours is when you need help quickly and efficiently and saving £10 at the point of sale becomes less important when you are stranded.

ATPI still services all out-of-hours calls in-house, with full details of your traveller's profiles and bookings available at all times, regardless of whether it is booked online or offline. However, as online "no touch" fees continue to come under pressure we need to shout louder during the tender process to highlight the differences!

Adam Knights
ATPI Group Sales
& Marketing Director