

White Paper

Charge ahead

How airlines' moves to reduce their credit card merchant fees drive up corporate travel costs

[Index >](#)

Corporate credit cards provide numerous important benefits to suppliers, travel agents and corporate stakeholders. These benefits, however, do not come cheaply. Card companies charge a fee every time their card is used for a purchase. For airline tickets, that fee is mostly paid by airlines.

In recent years, several factors have led airlines to search for ways to reduce or offset merchant fees, now their single largest distribution cost. In every instance in which airlines have passed along those fees to others, it inevitably has led to higher costs for corporate clients.

As of August 2010, only a handful of airlines globally had moved to unburden themselves of merchant fees. However, the implications to corporate clients and travel management companies of a change in the current credit card merchant model are so significant that the issue warrants careful attention.

This white paper explores why airlines are considering a shift in the current merchant fee model and how that change would affect corporate travel buyers. In addition, we recommend steps that corporate clients may take to address the threat to bottom lines and travel-process efficiencies posed by airline strategies to offset merchant fees.



Contents

Executive Summary	03
Anatomy of a credit card transaction	05
Why airlines are seeking to offset merchant fees	06
Airline models for offsetting merchant fees	07
The ramifications and challenges of merchant fee offsets	09
The benefit of credit cards	10
The case against airline merchant fee offsets	12
Corporate options for responding to merchant fee offsets	15

What is a merchant fee?

A merchant fee is a fee credit card companies charge businesses (“merchants”) that accept their card as payment for goods or services sold. Levied every time a merchant accepts a payment by card, these fees may add up to 3.0¹ percent to the price of an airline ticket.

In most business sectors, the retailer serves as the merchant and, consequently, pays the credit card fee. If wholesalers raise the price of a particular item, retailers may adjust prices accordingly. In the travel sector, however, travel management companies do not serve as retailers. Seat inventory and pricing for regular air fares are controlled by airlines, therefore, the airlines bear the expense of the merchant fee. This business model is nothing new, and airlines have long built the cost of merchant fees into their pricing strategies.

What is happening now?

Having already successfully reduced or eliminated travel agent commissions and global distribution system (GDS) fees, some airlines now are looking to do the same to merchant fees. Beginning in summer 2009, some airlines began moving to offset the merchant fees they incurred from tickets purchased with credit cards through travel agents.

Two distinct models for offsetting the fees have emerged:

1. Imposing surcharges on tickets purchased with credit cards
2. Blocking travel agencies from using airline merchant accounts for tickets purchased with credit cards

Why are airlines seeking to offset merchant fees?

The failure of airlines to improve revenue margins has intensified the pressure to reduce their costs. Credit card merchant fees now stand as the largest distribution cost for carriers. Other factors driving offsets for merchant fees include:

- Technological developments that provide a new mechanism for imposing surcharges on agents through GDSs
- Changes in regulations, particularly in Europe, that have removed legal obstacles to imposing surcharges
- A growing airline trend toward price unbundling
- Competition with low-cost carriers
- Loss of pricing power by airlines

How will changing the merchant fee model affect corporate travel costs?

Whether through the imposition of surcharges or by restricting travel agent access to airline merchant accounts, changing the current model for credit card fees is certain to drive up travel program costs for corporate clients. Surcharges add approximately \$7-\$14² (€5-€10) per ticket, while blocking TMC access to airline merchant accounts would add up to 3.0 percent per ticket, BCD Travel estimates.

Who benefits from the use of credit cards?

There is a good reason for the popularity of credit cards among all sectors of business travel.

Corporate clients benefit from card programs through rebates, consolidated expense management, data for supplier negotiation, protection against airline default, control over cash flow and employee satisfaction.

1. “Credit Card Dynamics,” The Wire...from AirPlus, October 2009.

2. All references to dollar figures in Charge ahead are in U.S. currency

Airlines benefit from card programs through opportunities for online sales, including ancillary services, income from co-branded cards, quick payment by card issuers, avoidance of invoice processing and insurance against payment default.

Travel management companies benefit from card programs through improved cash flow, lower administrative costs, a single settlement method for all suppliers, reduced fiscal liability and reduced credit risk.

Why are airline merchant fee offsets a bad idea?

Merchant fee offsets increase client travel costs by up to 3 percent but provide no benefits to the client in return; only airlines stand to benefit from increased revenue. The logic against merchant fee offsets is clear:

- Airlines control pricing and inventory; they have the ability to increase fares to cover their costs in a way that is transparent to buyers
- Offsets represent a new charge; merchant fees are an established cost of doing business for airlines and already are built into fares
- As the beneficiaries of ticket purchases via credit cards, airlines should shoulder the cost
- Merchant fee offsets drive customers towards less efficient accounting strategies, such as invoicing, that compromise industry best practices

How should corporate clients respond?

- Determine the cost to the organization of airline merchant fee offsets
- Assess the impact to the company of credit card rebates based on overall spend
- Educate finance and procurement executives of impending offsets
- Redress costs related to merchant fees by negotiating lower corporate fares
- Include provisions in preferred air agreements that trigger re-negotiation in the event of merchant fee offsets
- Work with card issuers to protect against airline offsets



How corporate card transactions are processed

One of the great advantages of credit cards is the speed and efficiency with which they process transactions and settle payments for all parties involved. Invisible to the traveler or buyer, a complex web of connected databases ensure that each service provider is paid its negotiated portion of each airline ticket sale. The diagram on this page maps out the steps involved in booking and settlement when airline tickets are purchased with credit cards.

Transaction process

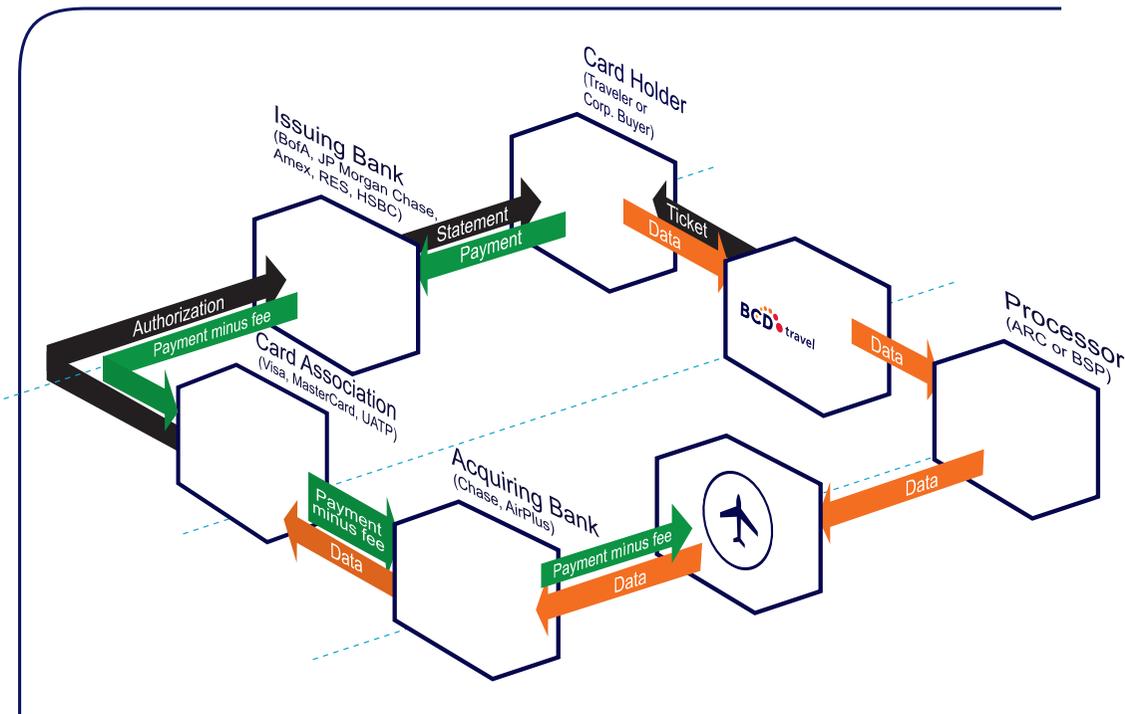
- Traveler/buyer makes reservation with credit card
- Travel agent sends data file to ARC or BSP
- ARC or BSP records transaction and passes along data
- Issuing bank posts transaction against the cardholder's credit account
- Card issuer sends payment via card association (e.g., Visa, MasterCard, UATP) to airline, minus fees
- Card issuer bills cardholder
- Cardholder pays card issuer

Parties involved

- Card holder: the traveler or corporate buyer
- Issuing bank: the financial institution (i.e., American Express, Bank of America, J.P. Morgan Chase, RBS, HSBC, AirPlus) that provides a line of credit to the cardholder
- Card association: a network of financial institutions that issues cards and sets their terms of use (e.g., MasterCard, Visa, UATP)
- Airline: the merchant
- TMC: a broker that makes reservations and issues tickets
- Data processor: a data system that facilitates financial settlement between airlines and TMCs (e.g., Airlines Reporting Corporation and Billing and Settlement Plan)
- Acquiring bank: a financial institution that processes card transactions (Chase, Amex, UATP, Discover)

Payment trail

- Corporate buyer pays airline for ticket
- Airline pays card issuer a merchant fee via an acquiring bank
- Card issuer (potentially) pays airline for bulk frequent flyer miles
- Card issuer (potentially) pays corporate buyer a rebate
- Corporate buyer pays TMC a transaction fee



Why airlines are seeking to offset merchant fees

[Back to Index >](#)

Airlines are under intense pressure to reduce their costs, and credit card merchant fees now stand as the single largest distribution cost for most carriers. KLM Royal Dutch Airlines has estimated that credit card merchant fees represent up to 2 percent of the settled value of the tickets it sells.³

The world's airlines lost a combined \$50 billion between 2001 and 2009, according to an estimate by the International Air Transport Association.⁴ They are expected to lose \$2.8 billion in 2010.⁵ Many of the losses can be linked to high fuel costs and low passenger demand, particularly during the recent global recession.

Other factors driving airline decisions to offset merchant fees include:

Loss of pricing power

A number of factors, led by intense competition and excess capacity of airline seats, have eroded the ability of airlines to control pricing of tickets to ensure sustainable profits. The introduction of Internet fares cast new light on airline ticket pricing and allowed travelers to shop for the cheapest seats. In addition, airlines in recent years have fallen victim to a number of unpredictable events – from fluctuating fuel prices and economically driven swings in traveler behavior to viral epidemics and natural disasters. Unable to recoup costs through ticket sales alone, airlines are seeking additional sources of revenue such as ancillary services (e.g., fees for checked bags) and cost reduction such as merchant fee offsets.

Regulation

The Payment Services Directive, which took effect Nov. 1, 2009, in the majority of European Union countries and European Economic Areas (e.g. Switzerland, Norway and Iceland) prevents corporate card issuers from blocking merchant attempts to pass on merchant service charges. The move allowed airlines to begin imposing surcharges in some European markets.

Technology

Partly in response to airline merchandising, GDSs have improved their capability to support convenient payment options for à la carte services. As an example, GDSs in Europe have customized their technology to support airline surcharges for merchant fees based on local market needs. The Airline Traffic Publishing Company (ATPCO) also has enhanced its support for more than 100 optional service codes, including booking fees. In addition, ARC is developing an electronic miscellaneous document (EMD) as an industry standard for collecting ancillary fees outside of ticket purchases.

Ancillary fees / price unbundling

The emergence of ancillary fees provides airlines a context for passing along merchant fees. One of the few financial bright spots for airlines since 2007, ancillary fees (also known as price unbundling or merchandising) represent a departure from the traditional all-in-one pricing structure. Airlines now allow travelers to pay à la carte for everything from checked bags to preferential seating assignments to onboard Wi-Fi service.

Revenue from ancillary fees rose 560 percent from \$2.41 billion (€1.72 billion) in 2006 to \$13.5 billion (€11 billion) in 2009.⁶ The emergence of ancillary pricing allows airlines to position a fee for corporate card purchases as just one more item on the à la carte menu. Critics, however, point out that buyers receive no added value when merchant fees are passed to them.

3. Amon Cohen, "Buyers Try To Combat New KLM Agency Card Fee," Business Travel News, Aug. 26, 2009.

4. "Recovery Picks Up Pace but Still 2-Speed," IATA Industry Forecast, March 2010: p.4)

5. Ibid, p.1

6. Jay Sorensen, "Airlines worldwide fly high on ancillary services – 2009 revenues jump 43 percent to €11 billion (\$13.5 billion)," <http://www.amadeus.com/amadeus/x185075.html>, July 21, 2010

The precedent: British Airways vs. American Express

Airline strategies for reducing corporate card costs began to take shape in 2002, when British Airways (BA) became the first airline to openly challenge corporate card merchant fees and announced it would no longer absorb merchant fees imposed by American Express for corporate net fares (e.g., individually negotiated corporate fares sold without agency commissions) in the United Kingdom.

The move left TMCs in the UK having to book fares through their own merchant accounts and then pass the fees, averaging 2 percent per transaction, on to clients. American Express sued BA for breach of contract but later dropped its litigation without resolution in 2004. The two companies eventually mended their relationship and launched a co-branded credit card. In 2005, BA again began allowing travel agents to book corporate net fares on its merchant account.

In appraising the airline's gambit, a BA executive told *Business Travel News*⁷ the initiative failed to gain traction with other airlines and was unpopular with corporate clients. "The feedback from our customers was that they didn't like it," said Tiffany Hall, head of global sales and distribution for BA. Hall added that buyers took the added cost into consideration when negotiating preferred supplier agreements.

Recent strategies

In more recent years, both low-cost carriers and some traditional carriers in Europe have imposed card handling fees on travelers booking with credit cards directly with airlines. The fees have varied by airline and payment method (i.e., credit card, debit card, pre-paid cards).

Surcharging

On Aug. 4, 2009, KLM introduced a surcharge of \$10.50 (€7.50) per transaction for bookings made through travel agents in the Netherlands on the airline's merchant account. The surcharge applied only to lower, more-restricted fare types used predominantly by leisure passengers. Those restricted fares, however, have become more popular among corporate travelers in recent years as economic conditions have produced stricter corporate travel and entertainment (T&E) policies.

KLM's merchant fee initiative was followed with slight variations in the Netherlands by two other airlines. Brussels Airlines introduced a \$7 (€5) per transaction surcharge for restricted fares. Finnair introduced a \$14 (€10) per transaction surcharge for all fare types.

On Dec. 1, 2009, both KLM and its sister carrier, Air France, introduced a surcharge of \$10.30 (SEK75) for bookings made through agents in Sweden on the airlines' merchant accounts. Applied to all fares except corporate net fares, the surcharge was withdrawn July 27, 2010, after a new Swedish law blocked businesses from charging a fee when customers pay with a card. Finnair also announced it would begin on Oct. 1 charging a fee for travel agents in Finland for tickets purchased with cards and would introduce a fee for all credit card purchases in 2011.

Restricted merchant account model

In June 2009, United Airlines announced its intention to block an undisclosed number of travel agencies from using the airline's merchant account for tickets purchased with credit cards. The third-largest carrier in the United States, United said that under the new policy, erroneous use of its merchant account on or after July 20, 2009, would result in a debit memo of \$75 per ticket. The move would have effectively shifted merchant fees to corporate buyers by forcing travel agents to establish their own credit card merchant accounts. Lacking the means to control product pricing or ability to absorb merchant fees, agents would then have to pass the costs along to clients.

7. Amon Cohen, "BA Reverses Card Fee Policy," *Business Travel News*, Aug. 1, 2005.

If United applied the new policy to all travel agents industry-wide, agents would incur \$171 million annually in merchant fee costs, according to estimates by the American Society of Travel Agents.⁸ If other air carriers followed suit, more than \$1 billion per year would be shifted to agents and subsequently to customers, ultimately adding 2.5 percent to 3.5 percent to the cost of corporate travel, by ASTA estimates.

Following criticism from industry trade associations and elected officials to announcement of its new policy, United said in July 2009 it would delay implementation by up to 60 days. In a July 13, 2009, letter, members of the U.S. House of Representatives criticized the policy as undermining the protections granted to consumers by the federal Fair Credit Billing Act.

As of August 2010, United had neither revived its proposed policy nor issued \$75 debit memos to any agents booking through the airline's merchant agreement. The suspension of UA's new merchant account policy suggests the airline may have been using its June announcement to test the industry's appetite for such a change.

In March 2010, United notified some humanitarian organizations that, moving forward, they would be required to establish their own credit card merchant accounts as a prerequisite for renewing agreements for United consolidator fares.⁹ The move indicates that the airline is continuing to seek to identify customer segments upon which it can pass off merchant fees.

Regional models

Credit card purchases of airline tickets remain the exception to the rule in some regional markets. In Asia-Pacific, about 80 percent of transactions are settled by companies through invoices issued by travel agents. Accounting for about 20 percent of all transactions, credit card purchases are limited primarily to published fares.¹⁰ As a rule, airlines in APAC do not accept credit cards as payment for tickets purchased at a negotiated corporate rate. When accepting payment by credit card, it is also customary for airlines in APAC to charge an administration fee to offset merchant fees.



8. "United To Require Some TMC Cash Settlement," Business Travel News, June 25, 2009.
9. With consolidator fares, travel agents serve much like a true retailer, buying seats from airlines in bulk at a wholesale price and reselling those seats to customers at a markup. When selling consolidator fares, agents accept card payments on their own merchant accounts. Because they control pricing, they have the ability to build the cost of merchant fees into the ticket price they charge customers.
10. A fare available to the general public and filed by an airline in a published tariff.

Whether through the imposition of surcharges or restricting travel agent access to airline merchant accounts, changing the current model for credit card fees is certain to drive up travel program costs for corporate clients. Since TMCs lack a mechanism for building the cost of merchant fees into the price of an air ticket, those costs must be passed along to the corporate client.

Surcharges imposed by some airlines in Europe to offset credit card merchant fees drive up buyer costs by \$7-\$14 (€5-€10) per booking. Blocking TMC access to airline merchant accounts would, by BCD Travel estimates, add up to 3 percent per ticket.

No added value for clients

When airlines imposed surcharges on travel agents reserving seats through GDSs a few years ago, the added cost came with added value. In return for the fees, travel agents and corporations received full access via GDSs to the airlines' complete inventory of fares. The added value allows corporations ultimately to recapture the cost of GDS surcharges in the form of cheaper airline tickets made available through GDSs. In the case of merchant fee offsets, however, the added cost to clients would offer no added value. Consequently, passing along merchant fees to corporations is tantamount to a price hike.

Crunching the numbers
 What merchant fee surcharges or offsets could cost annually to a corporate client with a \$20 million annual air spend

Annual air spend:	\$20 million
Average ticket price	\$500
Estimated # trips	40,000
Segments per trip	2.5
GDS opt-in fees @ 80 cents per segment	\$80,000
Surcharges @ \$10/ticket	\$400,000
Surcharges @ \$14/ticket	\$560,000
Merchant fee offsets @ 3%	\$600,000



According to the American Society of Travel Agents (ASTA), 88 percent of travel agency sales in the U.S. are settled through a credit card. There is a good reason for the popularity of credit cards among all sectors of business travel: clients, TMCs and airlines all benefit from using this payment method.

Card benefits to corporate clients

Rebates

The financial institutions that issue credit cards pay rebates of up to 0.5 percent of transaction value to companies with whom they've entered into corporate card agreements. Card issuers offer rebates, often tied to spending thresholds, as an incentive to companies to consolidate purchasing volume. When a large corporation channels the majority of its spend through a single credit card, the financial institution increases merchant fee revenue. As a general rule, the larger the spending volume purchased using the issuer's card, the larger the rebate.

Consolidated expense management

Expense management systems are a key tool for travel managers in tracking and enforcing T&E policies. Credit cards provide a powerful tool for capturing all varieties of charges incurred both before and during trips. Armed with that data, companies can track whether their travelers are using preferred airlines, hotels and car rental companies. Moreover, cards offer automated data feeds that integrate directly with enterprise resource planning (ERP) systems and "pre-populate" fields in expense management applications. "Pre-pop" can reduce expenses associated with having to produce actual expense reports.

Airline default protection

Since airline tickets are purchased ahead of flights, corporate buyers risk losing advance ticket payments in the event that an airline goes out of business. Corporate card issuers offer refunds to those left holding tickets aboard defunct airlines. Corporate card companies create a pool for these refunds by holding onto a portion of sales for a period before paying airlines the full ticket price.

Supplier negotiations

Solid data is essential to corporate buyers in negotiating preferential agreements with preferred suppliers. Credit cards provide data needed to document buyer volume.

Other benefits

- Employee satisfaction and retention thanks to loyalty rewards
- Travel, automobile collision and other insurance
- Streamlined administration
- Cash flow control



Card benefits to airlines

Increased sales

Credit cards are by far the most popular form of payment for airline services. Accepting payment by credit card provides airlines access to a larger number of consumers. Nowhere is the benefit to airlines of credit cards more apparent than in the online sale environment. Credit cards provide airline customers a convenient mechanism for purchasing tickets and ancillary services directly from carriers via their Web sites, allowing airlines to avoid fees associated with GDSs and travel agencies.

Co-branded cards

Almost every major airline earns significant income through co-branded credit cards, which carry branding of both the card issuer (i.e., Bank of America, J.P. Morgan Chase, Citigroup, American Express) and the airline. Corporate card companies buy frequent flyer mileage from airlines, which they use to lure cardholders to their brand. In September 2009, Citigroup paid American Airlines (AA) \$1 billion for an advance purchase of frequent-flyer mileage to be distributed as rewards to cardholders. AA was at least the fifth major U.S. carrier to receive such payments.

Other benefits

- Guaranteed timely payment by card issuer
- Invoice processing avoidance
- Reduced payment default risk
- Reduced fraud risk

Card benefits to TMCs

Increased transactions

As brokers of airline ticket sales, TMCs share in many of the same benefits from credit cards as airlines. The popularity among buyers in using credit cards as payment for airline tickets increases the number of transactions for which travel agents receive fees.

Limited liability against default

The temporary holdback of payments to airlines by card issuers as a hedge against airline default can run in the tens of millions of dollars. Were the current merchant model altered, TMCs and corporate clients would bear the risk of loss from thousands of worthless tickets aboard a defunct airline's canceled flights. Under an alternate merchant model, an airline bankruptcy could represent a catastrophic liability for travel agents. Even though the probability of such a loss may be low, the consequences are so dire it would be irresponsible for a sound business to take on the risk.

Other benefits

- Improved cash flow with timely payments from card issuer
- Lower administrative costs, including those associated with billing and collections
- Reduced payment default risk

11. "AMR plans to raise \$2.9 billion, expand at four hubs," Bloomberg, Sept. 17, 2009.

The current merchant fee model did not emerge suddenly or by accident. Airlines reap clear benefits from credit card purchases, and operate under business plans with mechanisms for recouping those costs. The logic against airline offsets for merchant fees is clear:

Increased cost for corporate clients

Passing along merchant fees through TMCs drives up travel program costs even more than would simply hiking fares. Unable to absorb merchant fees, TMCs must pass along those charges to corporate customers, as well as related administrative costs. Surcharges and restricted access to airline merchant accounts represent a hike of up to 3.0 percent in corporate air travel costs. A company with an annual air spend of \$20 million could see their costs rise by as high as \$560,000 per year if all airlines adopted a surcharge. If airlines forced TMCs to establish their own merchant accounts it would add up to \$600,000 to buyer costs.

No benefit for corporate clients

When airlines began imposing surcharges for flights booked through GDSs, the additional cost came with a tangible added value: access to the full content of airfares. In return for the fees, travel agents and their clients received full access via GDSs to the airlines' complete inventory of fares. Corporations ultimately can recapture the added cost of GDS surcharges in the form of cheaper airline tickets. Passing off merchant fees on buyers, however, offers no added customer benefit in return for the additional charge.

TMCs are not merchants

Airlines, not travel management companies, control inventory and set prices. TMCs lack a mechanism for building the cost of merchant fees into the cost of airline tickets. Airlines, on the other hand, may adjust their pricing to cover the cost associated with credit cards. Therefore, it makes better business sense for airlines to bear the expense of merchant fees unless they are willing to give up pricing control and move to a more traditional retail model.



Cost of doing business

Merchant fees are an established cost of doing business for airlines and should be built into the price of fares. Changing the current merchant model, either by instituting surcharges or passing along merchant fees to TMCs, adds an additional new charge to the price of airline tickets. Both airline strategies for passing off merchant fees amount to charging customers twice without offering any additional service.

Airlines benefit from cards

Airlines benefit from corporate card use, beginning with increased sales – including direct sales via airline Web sites. Airlines also generate revenue through card co-branding agreements and the sale of frequent flyer miles to card issuers. Credit cards also offer airlines timely payment in advance of service (for tickets issued before flights) and reduce the risk associated with payment default.

Default protection

Airlines demand payment for tickets well ahead of flights. If an airline bankruptcy leads to cancelled flights, those left holding worthless tickets lose the money they paid in advance. Under the current merchant model, credit card companies offer refunds to buyers left holding worthless tickets. To cover their costs associated with those refunds, card issuers hold back a portion of payments to airlines for ticket sales. These holdbacks are negotiated between card issuers and individual airlines as part of the merchant agreement.

Were airline tickets purchased on the merchant accounts of travel agents, however, current agreements to protect owners of worthless tickets aboard defunct airlines would be undermined. Travel agents do not own inventory, so card issuers cannot negotiate holdback agreements with them. Consequently, card issuers and TMCs would have to seek other ways of reducing their liability. All conceivable strategies for reducing that risk would represent a regression from current best practices.



The cost to a TMC from the loss of thousands of advance ticket payments to a defunct airline could spell its doom. Sound business practices would demand that TMCs find a way to reduce their risk. Under one scenario, contracts between TMCs and corporate clients might leave the buyer assuming liability for worthless tickets. Under another, card issuers might set volume limits on TMCs. Under still another, issuing banks might exclude purchases from airlines they deem risky.

Process inefficiencies

Driving up the cost of corporate card transactions forces buyers to explore alternative forms of settlement. While invoicing certainly represents short-term savings, it also compromises speed, data capture and process efficiencies. In forcing buyers into a choice between two unsatisfactory alternatives, airlines risk undermining tangible value and setting back industry progress toward greater efficiencies and service levels.

Flawed pricing

Passing along merchant fees on corporate clients allows airlines to continue ignoring a fundamental problem with their business model: flawed pricing. The wide variation in the price of similar seats aboard the same flight betrays a complex pricing model aimed at minimizing the number of empty seats while maximizing revenue from business travelers. Offsetting merchant fees will not resolve the ongoing failure by airlines to balance capacity with demand or to align fares with costs. Shifting the burden for merchant fees to customers would sweep the dust beneath the carpet rather than clean it up.



Sustained objections from corporate clients might make airlines re-consider strategies for offsetting merchant fees. However, GDS surcharges by airlines also were extremely unpopular among corporations, yet that dissatisfaction failed to undercut airline business. The lesson from the 2002-2005 row between British Airways and American Express may be that larger clients can achieve better results at the negotiating table.

A Faustian bargain

If corporate clients do nothing to respond to airline strategies for offsetting merchant fees, they will simply absorb an increase in air travel costs of up to 3.0 percent. If clients abandon corporate card programs in favor of settling for airline tickets through invoicing, they will trade savings for inefficiencies which ultimately may outweigh those savings.

Problems with invoicing include:

- Loss of streamlined administration through a single process
- Loss of consolidated management information
- Lower rebates from the card issuer
- More processing for TMCs, leading to higher TMC fees
- Less automation, potentially compromising data integrity
- Shorter payment terms
- Advance payments to TMCs

Evaluate the cost of potential change

The first step toward protecting a company against new costs caused by airline merchant fee offsets is solid planning. Corporate clients should get ahead of the issue by working with their TMC to estimate the costs to the organization of specific airline tactics related to merchant fees. Travel managers need to begin communicating the potential risk of merchant fee offsets to senior financial and procurement figures in the organization.

Negotiate with airlines

One strategy for confronting merchant fee offsets should already be familiar to many corporate travel managers. Armed with data from their TMC showing projected costs from merchant fee offsets, clients can consider those costs during their next round of preferred supplier agreements. Preferred supplier agreements can include language that triggers re-negotiation clauses in the event that airlines pass along merchant fees.

Negotiate with card companies

Corporate clients should also discuss airline merchant fee offsets with their corporate card issuer to see what leverage the financial institution might offer to protect corporate buyers. Legal departments might offer language for a provision in corporate card agreements that offers protection against airline surcharges related to merchant fees.



For more information please contact

Six Concourse Parkway NE,
Suite 2400,
Atlanta, GA 30328

www.bcdtravel.com
marketingcommunications@bcdtravel.com

About BCD Travel

As a leading provider of global corporate travel management, BCD Travel simplifies and streamlines the business of travel. This benefits the organization on every level: from the bottom line to the business traveler. BCD Travel operates in more than 90 countries, with US\$14.6 billion in total sales and a combined worldwide work force of 10,800 people. BCD Travel is a BCD Holdings N.V. company. For more information, visit www.bcdtravel.com.

About BCD Holdings N.V.

BCD Holdings N.V., a Dutch family-owned company founded in 1975 by John Fentener van Vlissingen, is a market leader in the travel industry. The BCD Holdings companies are BCD Travel (global corporate travel management), Park 'N Fly (off-airport parking), TRX (travel transaction processing and data integration), Airtrade (consolidating and online travel), VakantieXperts (leisure), Vayama (online travel USA) and Parkmobile International (mobile parking and traffic applications). BCD Holdings employs approximately 13,000 people and operates in more than 90 countries with total sales, including franchising, of U.S.\$ 14.8 billion. For more information, visit www.bcd-nv.com.