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Taking your airline to new heights

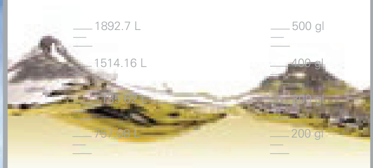
JET STREAM

A conversation with Wolfgang Prock-Schauer, the chief executive officer of Jet Airways.

Special Section

FUELING UP

A look at the rising cost of fuel and its effect on the industry.



INSIDE

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ECONNECTING With Business Travelers

After pursuing a direct distribution strategy, jetBlue reestablished participation in the four major global distribution systems to reach corporate travelers and boost its average fare.

By Carter Davis | *Ascend* Contributors

When jetBlue began looking for a revenue premium, it found it in a different place — the global distribution systems.

After rejoining the GDSs last year, the airline quickly discovered that making its inventory available through the systems immediately generated "a greater amount of business … than the company thought" and at an average fare that was "US$35 higher per segment, net of cost," according to jetBlue Chief Executive Office David Neeleman. And the additional passengers, he said, were "customers we've never seen before" — 66 percent of bookings through the GDS channel represented new business.

The move to participate in GDSs signified a shift in strategy for jetBlue, which previously preferred to go it alone. The carrier had been among the vanguard of airlines spurning GDS participation. By the end of 2004, the airline had decided to pull out of all GDSs and distribute its product directly to customers. As a low-cost carrier with a well-regarded product, the strategy seemed to make sense — significantly reduced distribution costs while still filling planes with loyal customers.

JetBlue chose to take a number of steps to emphasize a completely direct distribution strategy. The airline developed a corporate booking portal branded "companyBlue" to serve the needs of corporate travelers. When companyBlue did not provide enough penetration, jetBlue developed relationships with content aggregator

Photo courtesy of jetBlue

After re-entering three global distribution systems last year, jetBlue found that 66 percent of its bookings made through the GDS channel consisted of new customers, and the carrier realized an average fare increase of US$35 per segment.

Photo supplied by Carlos Aleman/Airliners.net

Photo courtesy of jetBlue

Photo courtesy of jetBlue

Photo by Jerry Search/Airliners.net

Known for its premium product at a practical price, jetBlue's aircraft offer all-leather seats, numerous DIRECTV and XM Satellite channels in every seat and spa kits for overnight flights. The exceptional customer amenities have led to a loyal customer following.

BookingBuilder in 2004, corporate booking tool Cliqbook in mid 2005 and Travelport, a corporate booking tool, in 2006.

Despite these efforts, by the fourth quarter of 2005, jetBlue was rethinking its position. The airline posted its first quarterly loss in three years, and Neeleman acknowledged in jetBlue's fourth-quarter earnings call that it was "on the lower end of the industry" ranking seventh out of seven low-cost carriers and 14th out of 14 network and LCCs as reported by the U.S. Department of Transportation's Bureau of Transportation Statistics. Neeleman admitted the airline needed to "get another US$10 or so per ticket" from its then average fare of US$109 to achieve profitability.

Contributing to the airline's challenges were rising crude oil prices, which had reached a then staggering US$51 a barrel.

"The whole fare thing has to be rethought," Neeleman said at the JP Morgan Transportation Conference in February 2006. "Our customers will pay us a little bit more money. They love jetBlue. We just have to ask for it."

And jetBlue felt it could ask for the revenue premium by reaching corporate travelers through GDSs.

In addition to improving jetBlue's revenue management capabilities, Neeleman said the carrier was seriously looking at GDS participation and even mentioned fellow LCC AirTran Airways' recent full-content agreement with the *Sabre Travel Network*® business as a potential model. While not explicitly stating that GDS participation was a necessary step to raise average fares, Neeleman did say in early 2006 that jetBlue would do "a lot more" to be in corporate booking tools.

By June, the path to GDS participation was clear as Neeleman acknowledged at the Merrill Lynch Global Transportation Conference that average fares were higher through the *Sabre*® global distribution system than those booked directly with jetblue.com. Last August, jetBlue reached agreements with *Sabre Travel Network* and Galileo International to distribute all its published fares and inventory to subscribers of the *Sabre* GDS and Galileo's GDS.

The airline sought to take advantage of the GDS fare premium, which derives from the customer segments it serves.

By offering its content through GDSs, jetBlue gained access to travel agencies of all varieties including online travel agencies

as well as wholesalers, consolidators and leisure travel agencies. Another benefit of GDS participation is reaching the corporate travel market. For most GDSs, the corporate travel market represents about 60 percent of its bookings. Of the corporate travel booked by GDSs, *Sabre Connected*℠ agencies generate about 58 percent of the bookings. Business travelers purchase higher fares to get less-restrictive fare rules, international flights or premium seating. Business travelers may purchase through any distribution channel; however, most corporations manage their own travel or use travel agencies that utilize GDSs. Given its customer mix, fare premiums will exist for a GDS compared to an airline's own direct distribution channels. A low-cost carrier such as jetBlue would see a median fare premium of approximately 15 percent. Regardless of the exact amount, jetBlue found fare premiums through GDS distribution more than make up for the added booking fee expense, which averages only 2 percent of fare revenue, adding to an already attractive customer segment.

Not only was corporate travel an attractive market, but accessing it seemed like a natural fit for jetBlue, which had been very successful in building a brand that represented a premium product for a reasonable price — all-leather seats, 36 channels of DIRECTV® and 100 channels of XM Satellite® in every seat, and spa kits for transcontinental overnight flights offered a relaxing travel experience. Customers responded to jetBlue's product by giving it the highest rankings in all factors of customer satisfaction (cost and fees; flight crew; in-flight services; check in; boarding, deplaning and baggage; aircraft; and flight reservations) for all airlines according to the J.D. Power and Associates 2006 North America airline satisfaction study. Customer satisfaction led to a devoted customer following.

"jetBlue does not have passengers; they have groupies that follow the airline around," aviation consultant Michael Boyd told the *Bradenton Herald*. "They have brand loyalty that other airlines would kill for."

While the jetBlue product and fares are attractive to corporate travelers, the purchase experience represented a roadblock to deep penetration. Gaining business travelers' share of wallet requires more than just low fares and a sophisticated Web site. Purchasing a ticket is straightforward enough but business travel requires more complex activities such as incorporating travel policies, maintaining traveler profiles and accounting for preferred vendor relationships. In addition, the corporate travel market requires additional services beyond travel purchase such as integration with expense reporting systems, payment and reimbursement, and reporting and analysis.

For jetBlue to serve the corporate travel market, it needed to address two additional factors:

- The need of corporations to allow its travelers to be as flexible as possible in arranging their travel schedules (including ticket changes or last-minute purchases). For many corporations, this is a necessity as client relationships may depend on it, but it also can be a quality-of-work issue for employees that allows corporations to distinguish themselves from competitors.
- The need for corporations to account for all employees traveling on business at any given moment. With employees on various airlines in various countries, assembling all this information becomes difficult. The combination of complex needs in procurement, cost control and traveler support creates a need for sophisticated systems to support these operating necessities.

Although some corporations choose to manage travel internally, many corporations will outsource this work to a travel management company. In either case, cost efficiency is paramount to effectively manage the travel budget. The cost of managing travel must be kept to a minimum. Cost efficiency drives corporations and agencies to examine all aspects of their travel management operation to determine where fewer resources can be applied, particularly in labor-intensive areas. While many processes are automated, manual, human intervention is required to procure travel or to serve the traveler after travel procurement. Time spent searching various airline Web sites to find the best travel option can be eliminated through using a GDS to shop multiple carriers at the same time. This aggregation reduces the time an agent spends serving customers and enables the agent to serve more customers in the same amount of time.

"All travel agencies regardless of their business mix will find it very costly to do business and meet their clients' needs if they have to search for content in multiple places," said Hertha Lasky, president of Hickory Beeline Travel.

HIGHlight

The move to participate in GDSs signified a shift in strategy for jetBlue, which previously preferred to go it alone.

In addition to shopping and booking capabilities, corporations and agencies depend on GDSs as the source for data for back-office systems since it is the primary source for reservations information. For cost efficiency and data acquisition, those needs can be fulfilled through the GDS.

jetBlue was aware of the benefits of reaching corporate travelers through GDSs. It had previously participated in all four major GDSs before its exit from the *Sabre* GDS in December 2004, which marked its departure from all the global systems. However, there was still a sizeable segment of the corporate travel market that remained out of reach. The more time and effort jetBlue spent courting the corporate travel market, the clearer it became that GDS participation would be a requirement, leading to agreements with *Sabre Travel Network* and Galileo, followed later by Worldspan and Amadeus.

Any concerns about GDSs stealing customers away from the airline's Web site, jetblue.com, were eased after the booking volume at the site remained steady at 80 percent of jetBlue's distribution — the same level as before it re-entered the GDSs. In addition, the increase in corporate travelers generated by GDS participation evened the airline's traffic through the week, increasing demand for Tuesday, Wednesday and Thursday flights. The airline expects to continue to penetrate the corporate travel market and realize as much as US$100 million in incremental revenue in 2007 through the GDS channel.

Now, said Noreen Courtney-Wilds, director of sales and distribution for jetBlue, the airline recognizes "the value of the GDS channel."

"We are happy to be able to offer our full content to agency and corporate customers who are subscribers [of the *Sabre* GDS]," she said.

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