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## **What are the biggest challenges and opportunities with Preferred Supplier Relationships?**

**CTIE White Paper**

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## FORWARD

The topic, **“What are the biggest challenges and opportunities with Preferred Supplier Relationships”** will be addressed from the Author’s perspective as it has been shaped by a 34 year career in the Travel & Tourism Industry.

During this period the Author has been privileged to serve as a Teenage Ski Tour Promoter, a Retail Travel Agent, a Consortium Field Sales Representative, a Senior Field Sales Executive for two major Industry Vendors, the President of the largest Consortium of its day, the Vice President of Sales and Travel Industry Marketing for a major Airline “branded” Tour Operator and as a Consultant and Educator to Clients in many segments of the Travel and Tourism Industry.

In three separate positions cited above, significant “turnaround activity” was achieved. “Preferred Supplier Relationships” were the lynchpin undertaking behind each individual success story and every instance occurred within disparate Industry verticals.

The subject matter of this paper has been a topic of daily concern and scrutiny; whether addressed in the office, intra/inter-Company meetings, Advisory Board meetings or at larger Industry Events. The perspectives offered in this paper are derived from “both sides of the desk” and reflect true life situations that are part of our Industry’s history. This may very well be the quintessential “CTIE White Paper Reality Show”.

Inasmuch as some of the instances cited in this Paper have taken place under the auspices of contract confidentiality/non-disclosure the Author, as necessary and appropriate, has no ethical choice but to take the liberty of altering the names of Companies involved. It would be difficult, at best, to “write fiction like this” therefore all “cases studies” that follow are true, to the last syllable. Both the challenges and opportunities will be addressed from a “reality vs Pollyanna” vantage point.

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## **What are Preferred Supplier Relationships?**

Before identifying the greatest challenges and opportunities within Preferred Supplier Relationships, it is appropriate to define the phenomena. It has become broadly accepted that Preferred Supplier Relationships are those in which there is reciprocated “give and take” between Supplier and Distributor/Agency (the terms are interchangeable) or among Supplier, the Intermediary Marketing Company (Agency Group/National Account) and Distributor.

In the Travel Community, this “give and take” is typically demonstrated by Travel Suppliers offering some or all of the following: incentive commissions, cooperative advertising considerations, preferential pricing, value added considerations such as upgrades, special reservation desks, recognition programs, etc... to select individual Agency locations or to Groups of Agencies/National Accounts/Intermediary Marketing Companies (i.e. Franchises, Associate Programs, Consortia, Co-Ops, etc..).

In return for these considerations, Suppliers expect to receive a disproportionately greater market share or sales volume (within their competitive market verticals) from Preferred Distributors and/or Agency Groups. Also, and most importantly, it is expected that a limited number of competing Preferred Suppliers would be engaged to enhance the likelihood for success.

## **What are the Implications?**

To effectively embrace Preferred Supplier Relationships, one must be prepared to subscribe to the quote from George Orwell’s novel, “ANIMAL FARM”: “All animals are equal, but some are more equal than others”.

The very essence of Preferred Relationships mandates an uneven playing field. Not all Agencies or Agency Groups are treated equally. There is positive retribution (and remuneration) for superior performance. Conversely, those Agencies/Groups who cannot bring incremental benefit to Suppliers in the form of superior sales performance do not reap rewards.

## **What are some Historical Marketplace Realities/Challenges?**

Traditionally, every Travel Agency Owner would like to be in control (to whatever extent possible) of their destiny. In the context of Preferred Supplier Relationships, Intermediary Marketing Companies and Member Agencies, this dynamic creates some inherent conflict(s).

While it may (at face value) appear to sound jaded, Suppliers want as much as possible for as little as possible. Let’s be realistic; how many individuals or Companies have ever approached a “buying proposition” with the predisposition:

“I’ll take the worst possible deal and I’m willing to pay top dollar”? This behavior is typically exhibited only by the spouse paying alimony subsequent to a divorce they initiated.

Case study: **“Consuming Cruise Line”**. This (name changed) dominant player once had an unstated policy that created tremendous consternation between the Line and Intermediary Marketing Groups. The policy was that once a Member Agency generated 100 passengers in a calendar year, the Line would remove the Agency from The Intermediary’s Program and enroll the Agency in a direct Preferred Supplier Agreement with the Line.

To exacerbate the situation, the Line would remove Agencies upon passenger sales attainment without prior or subsequent notification to the Intermediary/National Account Headquarters. This policy, along with other policies deemed restrictive by Intermediary Groups, resulted in the Line’s loss of over 50% of its National Accounts within a two year period.

Undaunted, the Line protected the former “Preferred Commission Levels” for individual Agency locations within the departing National Accounts for (what was stated at the outset): “A one year period”. It must have been a slow time clock as most commissions were honored for two to three years.

The Line’s Sales/Senior Management would not admit to any negative impact or lost revenue from the departing National Accounts. Ironically, the Line initiated dialogue within three years with virtually all of these National Account Headquarters, each of whom (not coincidentally) had entered into Preferred Supplier Relationships with the Line’s direct competitors. It is a safe hypothesis that there was a compelling business motivation behind these overtures.

The above scenario is far from unique as it relates to certain Suppliers approach to the marketplace.

Case Study: **“Aardvark Airlines & Deplorable Airlines” (names changed)**. These two, highly competitive legacy carriers had/have a strikingly similar approach when dealing with Agency Groups. Their policies presented challenging marketing opportunities (to say the least) for National Account Headquarters seeking to deliver incremental income opportunities for their respective memberships.

In both cases National Account Agencies were expected to perform above quarterly “City Market Share Percentages” to be eligible for incentive/override commissions. Cities were “calculated up” to determine a National Performance Percentage. If the Agency Group, as a whole, exceeded the National Average, incentive commissions were earned.

These commissions were subsequently distributed by the National Account Headquarters to qualifying Member Agencies in their respective sales cities.

Sounds simple enough? Not quite!

In both instances, any Member Agency who enjoyed a direct override commission agreement/ Preferred Supplier Relationship was excluded from the National Account Program. This was only fair as “double dipping” or the collection of double incentives is a universally unaccepted taboo.

The challenges were as follows. Both carriers received the benefit of incremental marketing and heightened awareness to existing, affiliated Preferred Agencies as these locations were included in all National Account sponsored sales/marketing communication, promotion and training initiatives.

To compound the negative impact, these affiliated, Preferred Agencies were not excluded or “backed out” from Performance measurement criteria (City or National Averages). National Accounts were competing against their own members’ performance.

As in the example of the Cruise Line scenario, Member Agencies who demonstrated the ability to consistently deliver superior performance, when motivated under the National Account Incentive Program, were subsequently offered direct agreements by the carriers, usurping the National Account Headquarters in the process. Unlike the Cruise Line scenario, the carriers did notify the National Account Headquarters of their actions; at least most of the time.

In the case of **Aardvark Airlines**, their entry into the realm of National Accounts brought with it some very unusual provisos. Upon reaching agreement on the terms of the agreement Aardvark’s VP of Sales offered the following caveats to the Senior Management of their first leisure oriented National Account: “You may not promote the terms, the goals, the criteria or the incentive commission scale to your members in writing. Your performance will set the tone for the manner in which Aardvark approaches similar National Accounts in the future. And, quite frankly, we don’t think you can do the job”. Wow!

If I wasn’t in the room, I wouldn’t have believed my ears. However, in hindsight, this airline executive was being straightforward (some may call it blunt) and whether he was speaking from the heart or simply putting forth a competitive challenge, one thing is for certain; he got my attention.

In the first year of the relationship as the only National Account in our competitive vertical, my former company generated 22 million dollars in incremental sales for the carrier, despite the aforementioned challenges. What was our reward?

Once “the model” had been proven valid, the carrier wasted no time in executing Preferred Supplier Relationships with no less than six of our company’s direct vertical competitors. There was one difference; all restrictions relative to the written promotion of the agreement, its terms, goals, etc...were now lifted.

The bottom line was obvious if you were inclined to do the math. Now, the membership of seven of the largest Co-Ops and Consortia were motivated to book Aardvark Air. What impact did this have on the City and National Market Share Percentages? If you guessed: “Drove them through the roof”, go to the head of the class. The Supplier derived greater market share and paid less as a result. Classically ingenious; but, at whose expense?

Is it any wonder that we initiated negotiations with Deplorable Airlines, within 30 days, in response to Aardvarks’ actions?

The above instances illustrate the “behind the scenes, worst of the worst” challenges in Preferred Supplier Relationships from the perspective of an Intermediary Marketing/National Account Headquarters executive.

There are other, numerous and similar circumstance that can be cited as proof that Suppliers “want more for less”. However, additional concerns and challenges remain that warrant consideration as they have significant implications on the context and future of Preferred Supplier Relationships in the Travel Industry. Two that beg inclusion are:

Case Study: **Supplier Conversancy with Multi Channel Distribution.**

Unfortunately, due to a variety of factors, some Supplier executives are not “in tune” with marketplace realities and the true derivation of incremental revenue opportunities. In the Author’s opinion, there is no need to look further than the Hotel segment as an example.

The Hotel segment has never embraced (to any meaningful extent) the potential of Intermediary Groups as a resource to generate incremental revenues from leisure clientele or small corporate accounts who utilize member travel agencies. Any attempts made to secure incentive commissions and rate considerations that would protect Hoteliers’ rate integrity were met with less than success by me and my contemporaries when negotiating on behalf of our constituents.

Hotel Chains would cite “rate control” issues and the fear that Agency Groups would seek to control rates. Nothing was further from the truth. In fact, the net result of our Organizations’ efforts would have resulted in Hoteliers receiving higher rates and margins (by as much as 10-20%) when compared to the net rates they were offering large corporate accounts, wholesalers or entities who published “Corporate/Preferred Rate Hotel Books”. In short, “they didn’t get it”; or didn’t want to.

Even the Car Rental Industry recognized the value of Agency Groups and their members to cost efficiently reach these elusive market segments.

In retrospect, what were the actions of these recalcitrant Hotel executives who were reluctant to embrace Agency Groups? They were among the first to sign on with the “Online Giants” providing their lowest net rates in the process. The end result, in just a few ensuing years, saw these very same Hoteliers “back peddling” to recapture and re-establish brand value and rate integrity.

Why/how did this happen? Unlike Intermediary Groups, the “Online Giants” offered little or no limitations on the number of Suppliers per category/vertical/segment. The sales battle was now one solely predicated on price, with brand differentiation a distant second. Differentiating travel alternatives while providing travel values have and will continue to remain the hallmark of customer-centric Agencies with a “complete but select” portfolio of Preferred Suppliers.

Case Study: **“Thanks for the Business, now give us more”**. In the age of “tiered commission override programs”, Agencies and Agency Groups are confronted with ever increasing sales thresholds to earn incentive commissions. Suppliers will point to increased capacity (more Cruise Ships, Hotel expansion in traditional leisure travel destinations i.e. Mexico, the Caribbean, Orlando, Las Vegas, etc...) as justification for greater productivity.

Excluded from these conversations are their support of “Online Giants” and intensified “Supplier direct-to-consumer” sales efforts. While some may argue that these initiatives create greater consumer awareness for travel goods and services, the typical travel agency owner would likely be inclined to see these activities as competitive marketplace erosion.

**These realities necessitate that Agencies and Agency Groups select their Preferred Suppliers with great care and be prepared to confront the difficult issues during initial negotiations as opposed to after the fact. Negotiations typically take place once a year; selling in a competitive marketplace is a daily endeavor.**

**Yes, Virginia, there are Opportunities; many in fact!**

Despite consolidation in all Industry segments, when it comes to selling travel there are a plethora of alternatives; from both the supply side as well as the distribution side. Preferred Supplier Relationships help to make the process “manageable” for all involved.

**“Identifiable Targets”**: Regardless of how large a Sales Organization any Travel Supplier may assemble, it is virtually impossible to physically visit or have meaningful centralized sales service with every Travel Agency. Preferred

Supplier Relationships help to narrow the scope of Supplier Sales activities.

By leveraging the Preferred Supplier Relationship that exists among a Supplier, a member Agency and its Group, Supplier Sales personnel have immediate entrée and common ground from which to build formidable business relationships.

Nigel Osborne, President of Destination Europe (at the time of this submission) perhaps best framed this dynamic many years ago when he stated: “My agreement with a Consortium provides me with a license to hunt”.

In reality, “the hunt” is most productive when there are reciprocated activities among all entities involved in Preferred Relationships.

**“There really is something to this leveraging approach”:** On two separate occasions, in two dramatically different Supplier Companies, I was charged with managing Sales Organizations. Both circumstances were similar inasmuch as I had inherited areas in decline; chronic under performers. Or, as I prefer to remember them, turnarounds waiting to happen.

In both instances, we altered the focus of the sales organization. Our new sales mantra was to call only on those accounts that were among our top producers (number varied based on environment) and/or to call only on Agencies belonging to National Accounts where we enjoyed “Preferred” status.

While additional initiatives were undertaken as part of an overall strategic plan, this tactical approach to “leveraged” account management yielded extraordinary results.

In the first case (Car Rental), our Region that had languished in 14<sup>th</sup> place out of 14 Regions for five years prior to my arrival catapulted into third place within 18 months.

In the second case (Tour Operator), our first year activities contributed to achieving the one of the most profitable performances in our Organizations’ history. What made the accomplishment all the sweeter was the fact that our results came on the heels of three years of fiscal losses.

From the perspective of an Agency (many of whom see fewer Supplier Sales representatives) it is a benefit to know that “a body exists in front of the Company” and that there is a point of contact for those occasions when human intervention is required. It is then incumbent upon the Supplier and their Sales Organization to be responsive and accommodating whenever possible and prudent to a Preferred Agency’s articulated needs.

**“Aggregating the Power of Many”:** For members of Agency Groups, there are innumerable benefits borne out of Preferred Supplier Relationships.

From professionally produced Preferred Supplier/Agency Group co-branded marketing materials (i.e. Consumer Magazines, direct mail solicitations, point of sale promotional materials, eCommerce initiatives, etc...) Agencies have access to business building marketing and sales support that only few Agencies can command on their own.

Pricing initiatives in the form of “blocked space Cruise pricing”, “dollars off” discounts from Preferred Tour Operators, Car Rental firms (and even some Hoteliers) can be powerful tools. As with marketing support, many of these “business drivers” are beyond the grasp of many Agencies based on their individual sales volume across the spectrum of Suppliers.

An added benefit provided by member-centric Agency Groups is to function as an advocate between Agency and Preferred Suppliers to facilitate problem resolution. This activity can be among the most meaningful to an Agency without “stand alone clout”.

**“Training and Education”:** Simply put: “it’s a lot easier to learn a lot about a little than is it to learn a lot about a lot”. It is rumored that Chaucer said this first.

Having a complement of Preferred Suppliers, either as a result of one-on-one relationships or as the result of National Account Affiliation affords an Agency with a limited line of products with which they must be expert. While indeed, Travel Agents are expected to possess the “knowledge of the Pharaohs” (just ask any consumer), by honing in on a select roster of product providers, Agencies can accelerate and focus their conversancy with a limited and manageable number of travel alternatives.

On the flip side of the coin, Suppliers have a targeted audience, an “A” list to cultivate when conducting “in field” presentations, seminars and ancillary training initiatives

There are numerous other benefits; however space constraints prohibit their inclusion in the White Paper.

**“At the end of the day, what does it really mean?”**

**As long as we have the four “C”s: Competition, Capacity and Confused Consumers, the future of Preferred Supplier Relationships in the Travel Industry is virtually assured.**

**To secure this future, Agencies would be wise to embrace the three “S”s: Sell, Sell, Sell.**