

Analyzing Your Air Travel Budget For Savings (Identifying the \$3 CPM Trip)

Overview

Whitepaper Series

- *A Primer on the Business Aviation Industry*
- *Understanding Business Aviation's Costs*
- *The True Cost of Commercial Air Travel*
- ▶ **Analyzing Your Air Travel Budget For Savings**

The previous two whitepapers discussed (1) how to determine a Cost Per occupied seat Mile (CPM) measure of various business aviation alternatives and (2) how to calculate the true CPM of commercial air travel trip to account for lost productivity available with business aviation. This whitepaper takes this analysis to its next logical step and reviews how to use of these CPM measures to analyze company travel history and uncover opportunities for travel budget savings, using the \$3 CPM business aviation trip for comparison.

Why choose \$3 for CPM? There is an emerging sector of business aviation providers that are providing per-seat pricing in the \$2 - \$4 range. Historically, operators including charter, jet card, and fractional have offered whole aircraft pricing alternatives along with expensive surcharges, typically yielding CPMs in the \$5 - \$10 range. The only way a company could justify these relatively high costs was if (a) there are highly compensated c-level executives requiring efficient travel (i.e. high time-value employees) (b) there are frequently travelled routes to remote company, customer, or supplier locations that the airlines couldn't serve directly or at all (i.e. large productivity time gains) or (c) there are teams of employees often flying together to serve a critical business function (high jet capacity utilization).

However, charter operators and charter broker companies are applying new technologies and processes to efficiently match demand with available aircraft supply. These per seat, on-demand models are providing business jet transportation alternatives in the unprecedented CPM range of \$2 - \$4 per individual traveler trip. Therefore, travel budgets may need to be re-examined for savings opportunities in light of these new cost alternatives.

This whitepaper will first discuss how to identify traditionally high CPM trips which may be good candidates for these business aviation alternatives. Then a comprehensive approach for analyzing travel history, including needed travel metrics, is reviewed to help travel managers analyze savings opportunities.

high CPM candidate trips

Business Aviation

high CPM's and may be eligible for a lower cost business aviation alternative:

The following trip profiles will typically yield

- ▶ **Low passenger count** – Trips where there are only 1-2 people traveling will likely yield high relative CPM, simply because the cost of the trip is spread over a small number of people.
- ▶ **Multi-day travel** – Trips where the outbound and return legs are more than 2 days apart will likely result on re-positioning/empty legs or crew overnight or transportation charges, driving up CPM.
- ▶ **Larger aircraft than needed** – A trip whose profile can be met with a smaller jet will unnecessarily drive up CPM as well. For example, a 2 passenger trip that utilizes a company owned 10-seat large business jet for a 500 mile destination will result in a high CPM.

Commercial Air

up CPM due high productive time losses compared with business aviation alternatives:

The following commercial air trips may drive

- ▶ **Indirect Service** – Trips where a stop-over is required can add significant en-route time to the trip, driving up the lost productive time component of CPM.
- ▶ **Regional Destinations** – Trips in the range of 300-800 miles are subject to the same large hub airport inefficiencies associated security screening, aircraft boarding, ground holds, and air space bottlenecks as longer commercial trips, disproportionately driving up the lost productive time component of CPM.
- ▶ **High Value Employees** – Subjecting executive level travelers to commercial air travel on certain trips can mean high productivity time losses.
- ▶ **Premium Fares** – Any of the above characteristics combined with a premium fare class (non-refundable, business/first class) will further drive up total CPM.

key air travel metrics

The first step in performing an analysis of potential savings is collecting the right

metrics to calculate CPM for both business aviation and commercial air trips.

Business Aviation

For business aviation trips, most of the information required for this CPM calculation is already provided by your business aviation provider in terms of the total trip cost. If trip expense isn't readily available or

if you are analyzing future trips based on current business aviation options at your disposal, the methodology presented in the whitepaper, "Understanding Business Aviation's Costs" can be followed. Analysis is possible with these 3 trip variables:

- ▶ **Total Trip Cost**
- ▶ **Trip Mileage**
- ▶ **# of Travelers**

With this data, you can track your business aviation CPM for each flown segment as follows:

Segment	Date	Trip Cost	Miles (statute)	# Passengers	CPM
CMH to SUS	6/10/2010	\$6,000	410	2	\$7.32
SUS to CMH	6/12/2010	\$6,600	410	2	\$8.05
DET to OMA	6/14/2010	\$11,500	667	4	\$4.31
OMA to DET	6/14/2010	\$11,500	667	4	\$4.31
PWK to TEB	6/16/2010	\$14,300	720	3	\$6.62
TEB to PWK	6/19/2010	\$15,100	720	3	\$6.99
BKL to DPA	6/22/2010	\$10,100	340	4	\$7.43
DPA to STL	6/22/2010	\$8,200	245	4	\$8.37
STL to BKL	6/23/2010	\$13,800	500	4	\$6.90

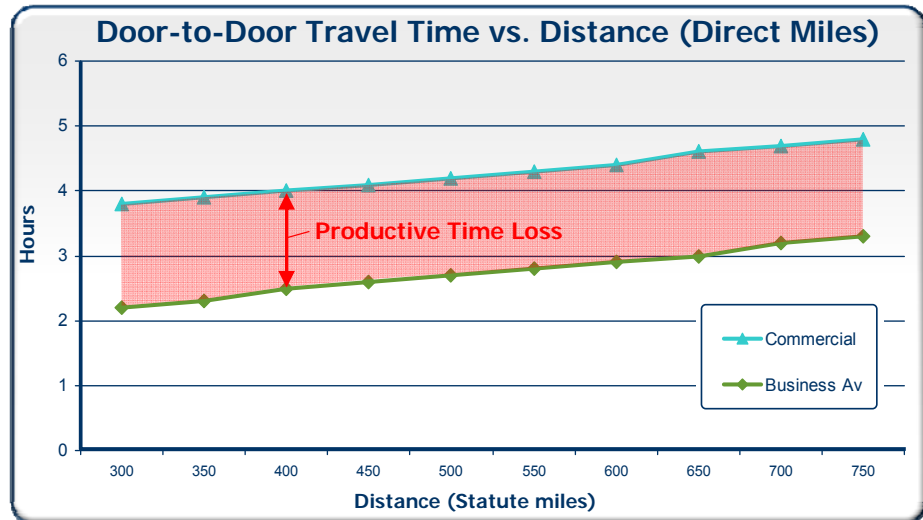
Commercial Aviation

For commercial air trips, cost Key Performance Indicators (KPIs) are often provided by your Travel Management

Company on a city pair and segment basis. To calculate the true CPM of each trip as discussed in the whitepaper, "The True Cost of Commercial Air Travel for Businesses", the following variables are needed::

- ▶ **Trip fare**
- ▶ **Employee Annual Compensation**
- ▶ **Door-to-Door Travel Time Loss vs. Business Aviation** – this is the most difficult piece of information to collect, however, there are published charts for commercial flight times that can be used and assumptions made about other trip components (drive to airport, check-in, boarding, etc.). Similarly, jet manufacturers and other

sources published trip times for trips of various distances travelled can be combined with assumptions about other trip components (taxi, boarding, etc.). The chart below represents a sample comparison between commercial and business aviation travel times (entry-level class jet used) for directly served city pairs of various distances:



With this data compiled as in the below example, you can start to see how CPM's compare on various city pair segment, by traveler trip:

Segment	Date	Fare	Direct?	Miles (statute)	Fare CPM	Employee Comp.	Prod. Time Loss (min)	Time Loss CPM	TOTAL CPM
MCI to PIT	6/10/2010	\$260	N	770	\$0.34	\$1,000,000	150	\$1.62	\$1.96
PIT to MCI	6/12/2010	\$260	N	770	\$0.34	\$1,000,000	150	\$1.62	\$1.96
CLE to BNA	6/15/2010	\$480	Y	450	\$1.07	\$800,000	120	\$1.78	\$2.84
BNA to CLE	6/16/2010	\$480	Y	450	\$1.07	\$800,000	110	\$1.63	\$2.70
CMH to STL	6/17/2010	\$380	N	410	\$0.93	\$750,000	90	\$1.37	\$2.30
STL to CMH	6/19/2010	\$420	N	410	\$1.02	\$750,000	100	\$1.52	\$2.55
ORD to EWR	6/22/2010	\$600	Y	720	\$0.83	\$1,200,000	90	\$1.25	\$2.08
EWR to ORD	6/22/2010	\$600	Y	720	\$0.83	\$1,200,000	90	\$1.25	\$2.08

analyzing savings opportunities

Once you have gathered this segment specific data for trips, you can categorize by segment and start to narrow your search for savings opportunities. The below charts show expensive segments in terms of Average CPM for both business aviation and commercial trips:

Business Aviation

Highest CPM Segments	# Segments	Avg. # Passengers	Total Avg. CPM	Total Spend
BKL – STP	20	3.1	\$8.50	\$210,800
SUS – DET	14	2.4	\$8.10	\$130,000
DPA – LUK	26	1.7	\$7.35	\$91,000
⋮				

Commercial

Highest CPM Segments	# Segments	Avg. Fare CPM	Avg. Lost Time CPM	Total Avg. CPM	Total Fare Spend	Prod. Loss
CMH - STL	60	\$0.55	\$2.60	\$3.15	\$14,000	(\$75,000)
CVG - MKE	42	\$0.62	\$1.80	\$2.42	\$8,300	(\$24,000)
ORD – LGA	84	\$0.45	\$1.90	\$2.35	\$28,400	(\$119,700)
⋮						

Once you’ve identified expensive segments, you can look within these segment’s trip history to isolate those trips which exceed \$3.00 CPM to determine overall budget savings opportunities. You can also categorize by airline or business aviation vendor (e.g. Jet Card vs. Charter) to further refine your savings analysis.

Projected savings with a \$3 CPM business aviation alternative

Air Category:	\$3.00+ CPM # Person Trips	Total Avg. CPM	Biz Av CPM	Budget Savings	Productivity Gains
Commercial	25	\$3.60	\$3.00	(\$39,000)	\$48,000
Business Aviation					
• Jet Card	20	\$8.50	\$3.00	\$71,500	
• Charter	12	\$10.25	\$3.00	\$78,300	
TOTAL SAVINGS				\$110,800	\$48,000

Note that the Commercial Budget Savings are negative since the business aviation fares will be more expensive than commercial fares. However, the gains are made up through gained productive time (column titled, “Productivity Gains”).



conclusion

By conducting a more comprehensive analysis of a company's air travel spending and trip history in CPM terms, travel managers may be surprised to learn that there are opportunities for costs savings with business aviation alternatives, especially newer per-seat offerings. These \$2 - \$4

CPM business aviation trips provide a new opportunity for companies to achieve cost savings (vs. traditional business aviation) while enabling productivity gains (vs. commercial aviation), particularly for high time-value employees.

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