

Government savings to impact on travel agencies' bottom line

Travel agencies may be forced to forego volume based override commissions and rebates as government plans to save up to R25bn a year through the tightening of their procurement system. According to treasury's circular and the National Travel and Accommodation Project, Government has ordered all departments not to renew any of their contracts during this transitional phase until 31 August 2016.



Mikha'il Ernest

Government and Treasury are aiming for their new measures to make the procurement process more transparent and efficient to allow for greater savings. Currently, the South African Government is said to spend between R9bn-R10bn annually on travel and accommodation, making this the largest consumer of its routine spending. This is where the Office of the Chief Procurement Officer (OCPO) are looking to save and that might come at the expense of travel agents.

"At the moment it feels like a tug of war between travel agents and government" says Mikha'il Ernest, global head of neXt. The government says that, of the annual travel spend, about R1bn has gone into commissions for travel agents, "commission that most travel agents simply do not disclose when tendering for government business" says Ernest. "Whilst this is in no way an illegal act, I feel it is simply a question of ethical business practice and having the integrity to be transparent to your clients."

The OCPO has already begun renegotiating directly with airlines to get cheaper rates and save on the commissions that go to travel agencies. Within the travel industry, and more specifically travel management companies (TMC), the impact of the government's decision to seek out NET Fares without room for overrides may be a major blow for the TMCs' bottom line, and seems to have been met with plenty of confusion and anger from the TMCs.

That being said, agents will feel hard done by this decision due to many factors such as the amount of work and service put into these accounts and the slow payment received from the government.

Ernest says "Understandably, many would feel they do not need to disclose their supplier agreements as it may be sensitive or commercially confidential or they may even feel it has nothing to do with their client. This is where I disagree, I feel it has everything to do with the client. Travel agents should focus on transparency, focus on service levels and that's what should warrant your fee."

The government is also looking to introduce an automated system to allow the state to solicit up to 100 quotes. This in turn will abolish the current "three quote system" being applied when buying goods and services.