

UNITED STATES OF AMERICA

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DEPARTMENT OF TRANSPORTATION

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NATIONAL COMMISSION TO ENSURE
CONSUMER INFORMATION AND CHOICE
IN THE AIRLINE INDUSTRY

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HEARING

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THURSDAY,

JULY 11, 2002

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SAN FRANCISCO, CALIFORNIA

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The Commission met at the Fairmont Hotel, 950 Mason Street, the Crown Room, San Francisco, California at 9:37 a.m., Mr. David Winstead, Chairman, presiding.

PANEL COMMISSIONERS:

DAVID WINSTEAD, Chairman
MARYLES CASTO, Member
PAUL RUDEN, Member
JOYCE ROGGE, Member
ANN B. MITCHELL, Member
PATRICK W. MURPHY, Member

STAFF PRESENT:

Richard Fahy, Executive Director
Angel Anderson, Administrative Director/Fund
Administrator
William Jackman, Media Relations

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PRESENTERS:

Michael Mulvagh, American Express

Brian Barth, SideStep

Dan Ko, Qixo

Les Ottolenghi, AgentWare

David Rojahn, DTR Travel

Robert Kern, PNR Travel

Steve Hewins, Hewins Travel Consultants

George Delanoy, Brea Travel

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P-R-O-C-E-E-D-I-N-G-S

(9:37 a.m.)

CHAIRMAN WINSTEAD: Good morning. I'm David Winstead, and I'm the Chairman of the Commission to Ensure Consumer Information and Choice in the Aviation Industry, Airline Industry.

I welcome you to San Francisco, those of you to come from out of town. And we really appreciate you taking your time to join us today.

This is the third hearing that the Commission's had since it started officially on sort of May 15th. And San Francisco is the third stop on our hearing schedule. We started in Washington about a month ago, and we'll continue and return back to D.C. on July the 31st for a hearing in Washington again.

Again, we appreciate you coming and we look forward to hearing from you today, as well as anybody else that you're aware of in the industry that might want to testify. We still have the July 31st hearing scheduled.

The Commission was created by the Aviation Investment and Reform Act, 21st Century. And it was enacted in April of 2000. And our charge was basically to study the market conditions and position of the retail travel agencies in today's competitive travel market.

And the Commission was sort of charged with examining the financial condition of travel agencies and their

1 decline and, if so, what has been the effect of that decline on
2 the consumer.

3 And I will tell you that over the first two
4 hearings we've had a lot of testimony. We've tried to steer in
5 our questions to that point, that is, trying to make sure that we
6 understand, from the input we received in these hearings, what
7 impact of it's having on the consumers, the primary objective of
8 our hearings.

9 As I mentioned, our two prior hearings have
10 supplied a lot of substantial testimony on the current conditions
11 of travel agents. And we will hear more about that today, as
12 well as airlines. And we've had many website travel companies
13 testify as well.

14 The second major focus of the Commission by its
15 statute was to explore whether there are impediments to
16 information regarding the services and products offered by the
17 airline industry and, if so, the effect of these impediments on
18 travel agents, internet-based distributors in the distribution
19 chain of airline information, as well as and, again, ultimately
20 on the consumer. I think we're trying again to understand it
21 from both the travel agency standpoint, but the traveling public.

22 I mentioned that in our hearings in Chicago and
23 Washington we did have a lot of airlines represented. We had
24 organizations representing travel agents, as we do here today
25 again. We had a number of companies that are in the computer

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1 reservation system.

2 And in addition to statements on the financial
3 conditions of travel agents and airlines there were a lot of
4 public policy questions that were raised and we dealt with about
5 the offering of fares on the websites and whether there are
6 limitations or issues dealing with excluding fares to certain
7 members of the travel industry and the consumer. And so we have
8 heard a lot of that in our prior two hearings.

9 Today we will hear again from a number of travel
10 agencies, some of which have come a long way to join us and we
11 very much appreciate that; also from major travel companies, such
12 as our first witness; companies that provide booking engines and
13 software services to the travel industry.

14 I would, just in introducing myself, I'm an
15 attorney in Washington D.C. and spent four years running an
16 intermodal transportation agency, the Maryland Department of
17 Transportation, which includes BWI Airport.

18 But I had my first real experience, thanks to
19 Maryles yesterday, going to Casto Travel here in San Francisco
20 and sitting at a computer terminal and really seeing how the
21 systems in travel agencies around the country visually look and
22 how they operate. So I found that very instructive.

23 I think that we want to make sure that in both your
24 testimony and questions that we solicit, and we will do that,
25 responses to issues that we are now facing. And I think what we

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1 ought to continue to do in this hearing today is to try to focus
2 in on conditions, impediments, and impact on consumers, but also
3 what your recommendations are in ways that those issues can be
4 dealt with and ways that consumer information on travel and
5 airline services can be made more easily and more completely
6 available and more transparent, if you will, to the consumer.

7 I like to, before we can, go around the desk here
8 and ask each of the Commissioners to kind of introduced
9 themselves, I would like to publicly thank Maryles for not only
10 her service on the Commission but her hosting us out here. She's
11 gotten this wonderful room that was at no cost, which I
12 understand, which I very much appreciate, and also providing and
13 working with our staff, the Commission, in getting accommodations
14 for everybody here.

15 I would mention, before I ask the Commissioners for
16 comments, I would mention that we have a very good staff. We
17 are, as I mentioned in the beginning, a six-month Commission. At
18 the end of six months we will be issuing a report and responding
19 to the charges that we were asked and the ones that I mentioned
20 earlier that are in the statute.

21 We're very pleased and I think of very appreciative
22 of having Dick Fahy, behind me, who is Executive Director of the
23 Commission. And he has many, many years, three decades of
24 experience as a lawyer, both with airlines and in the
25 distribution systems that we're dealing with here today on the

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1 subject, as well as the travel industry. So we very much
2 appreciate his ability to work full time over the next six months
3 with us.

4 As I said, before we get into our first witness,
5 I'd like to start on my far right with our host of this great
6 hearing.

7 Maryles, are there any comments? I thought it
8 would be helpful for all of you to understand who the
9 Commissioners are and where they're coming from in terms of their
10 professions and interests. So, Maryles, maybe you could start
11 out.

12 MS. CASTO: Well, I was very glad that the
13 Commission decided to have our meeting here in San Francisco and
14 really thank you for the Fairmont because they really came out
15 and, you know, made this available for us, the room. And it's a
16 beautiful room; it's a new room. So it's given us an opportunity
17 to see it.

18 And I am very involved in our Commission, of
19 course, and very glad that I'm participating as a travel agent.
20 There's a lot of issues, I think, that we are listening to and we
21 are very open to all the witnesses that have been testifying.

22 CHAIRMAN WINSTEAD: Thanks, Maryles.

23 Ann?

24 MS. MITCHELL: I'm Ann Mitchell from Starkville,
25 Mississippi. And I'm the small agency representative on the

1 Commission and have benefited greatly from the earlier testimony.

2 And if my eyes will hold out, I'll keep reading and keep
3 studying.

4 And it will be a challenge and an opportunity for
5 us to go through all of the data that we have received, and
6 information, recommendations, and come up with a product that
7 will produce something that is good for the entire travel agency
8 community, the airline industry, the CRS community and, most of
9 all, the consumer.

10 CHAIRMAN WINSTEAD: Paul?

11 MR. RUDEN: I'm Paul Ruden. I work for the
12 American Society of Travel Agents. And I guess that explains
13 where I'm coming from here. I would observe that in keeping with
14 what the Chairman said about Maryles getting us this room, that
15 it's a small example of what a good travel agent can do.

16 (Laughter.)

17 MS. CASTO: Thank you, Paul.

18 MR. RUDEN: The other thing I would say, referring
19 again to David's comments about our experience yesterday at Casto
20 Travel, one of the things we saw was a product that searches the
21 web for webfares and enables a working agent to see those up
22 fares against what the CRS produced, and then to go back to the
23 CRS to see those fares, in fact, can be found.

24 And it was interesting. The webfares in some cases
25 appeared to be cheaper at first look. But in I think every case

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1 that we found, and there was no systematic approach to do this so
2 the results I think have to replicate what would normally occur,
3 in most cases the so-called lower webfare was actually for a
4 different product. It was for a different service. Either the
5 return trip was different, the times of day were radically
6 different, maybe there were connections, and so forth.

7 And it's instructive, as we keep accepting this
8 often repeated but to some extent false assertion that the
9 webfares are always cheaper. If they are for a different
10 service, they may be less. But it's not the same. You're not
11 comparing apples to apples in each case. And I thought that was
12 really an interesting thing to see in practice.

13 Thank you.

14 CHAIRMAN WINSTEAD: Thanks, Paul.

15 Joyce?

16 MS. ROGGE: I'm Joyce Rogge. And I'm the Senior
17 Vice President of Marketing at Southwest Airlines. And I'm very
18 pleased to be able to serve on this Commission. At Southwest one
19 of our big focuses is keeping our costs low. And I think that
20 throughout the testimony we have heard that the costs for travel
21 have been a big burden and from every place down the chain.

22 And I think that that's one of the things that we
23 needed to keep focused on and hopefully learn a lot today from
24 the witnesses that we have on how that is working in the web
25 environment. So I look forward to hearing some good testimony on

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1 that.

2 CHAIRMAN WINSTEAD: Pat?

3 MR. MURPHY: My name is Patrick Murphy. I'm an
4 aviation consultant in Washington D.C., having spent
5 approximately 30 years in the U.S. Department of Transportation
6 and Civil Aeronautics Board working on airline issues. I also
7 represent some airports. And I'm very pleased to be here in San
8 Francisco, since one of our clients is San Francisco
9 International Airport. We're delighted to be here.

10 David, I would just mention the two things with
11 regards to the substance.

12 First, since our last hearing or just about the
13 same time as our last hearing, the Department of Transportation
14 put out a report to Congress on their efforts to monitor Orbitz.

15 And I think that's a superb document. For me it's been
16 extremely helpful since we've heard so much testimony about
17 Orbitz. For me this was helpful, and I encourage all of the
18 Commissioners to review that.

19 Secondly, I understand and encourage the Department
20 to get out of OMB soon their proposed revisions to the CRS rules,
21 which have not been revised in 10 years. And understand those
22 proposals are in the Office of the Management and Budget. And
23 when they come out, they'll be available for public comment. But
24 I think how the Department plans to deal with the CRS systems in
25 the future will affect our report.

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1 Thanks.

2 CHAIRMAN WINSTEAD: Thanks, Pat, for that comment.

3 And I'm sure that you will have a lot of questions during the
4 day with our witnesses.

5 We do have copies of the Orbitz report. I think we
6 can probably make that available to everybody here. And I know
7 certainly copies from DOT are available, as well.

8 I wanted to mention what we wanted to try to do,
9 we've had some pretty full hearings to date, the one in
10 Washington, one in Chicago. The one in Chicago was very
11 extensive and lasted most of the day. What we did it was break
12 for lunch, but it was a little later than I think we want to.
13 And so what I'd like to do, and if you all have copies of the
14 agenda, is to go through four witnesses this morning, maybe take
15 a quick break after the second, and then come back and try to
16 conclude, if we can, about 12:00, 12:15. And then break for
17 lunch and come back for afternoon witnesses. So that's sort of
18 the protocol.

19 I will tell you that many of the Commissioners, as
20 you've heard, have had many decades of experience on different
21 aspects of this industry, from the DOT perspective, to the travel
22 agents, to the airlines, and others.

23 So we really do want to give you all an opportunity
24 to have enough time, not only to deliver your testimony, but
25 answer a lot of questions that I think the Commissioners will

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1 have. And certainly one thing that I've erred as chairman, at
2 least on the last hearing, was that we really tried to provide
3 enough time for everybody. And that even in some cases we went
4 over 30 minutes in terms of testimony and some questioning from
5 the desk here. It went quite a bit longer than that.

6 So I think we're fine today in terms of the people
7 who were signed up. Please, if there's anybody else, let Dick
8 know, that might want to comment.

9 But that's sort of the protocol. And if we could
10 keep maybe the presentations to 15 or 20 minutes, allowing for
11 maybe half an hour for both testimony and Q&A, I think we will be
12 pretty much on track.

13 Getting right underway, and I'm sure the
14 Commissioners will be asking questions, during and after
15 testimony, if something comes up. I hope you would be willing to
16 respond and then we can go through all the four witnesses this
17 morning.

18 Michael Mulvagh is Vice President of Industry
19 Affairs and Communications for American Express. And, like all
20 the witnesses, we very much appreciate it, he did submit in
21 advance copies of this testimony. I know they're available here
22 today for anybody in the audience that would like a copy.

23 But, Mike, we really appreciate you coming to spend
24 time with us. You've got a great company, provide a lot of vital
25 services to the traveling public and to businesses. So we

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1 appreciate you coming.

2 Why don't you just go ahead and proceed on
3 testimony? And then we'll get into questions.

4 MR. MULVAGH: Thank you, very much.

5 On behalf of American Express I would like to thank
6 you for asking me here today, and for the opportunity to address
7 the critical issues that Secretary Mineta has asked this
8 Commission to examine. We commend the Secretary and Congress for
9 creating this forum, and we would like to recognize the members
10 of the Commission for the time and effort they are devoting to
11 these very important issues.

12 American Express is a Fortune 100 global services
13 company with a diverse portfolio of products and services. We
14 operate the world's largest travel management company and, as
15 such, are typically known for working with some of the world's
16 largest multinational corporations.

17 However, American Express also specializes in
18 servicing a number of other customer segments, including over
19 5,000 small businesses with less than 100 employees and
20 travelers.

21 In addition, we have a wide-ranging global
22 franchise network composed of hundreds of small,
23 independently-owned travel agencies. And we also operate an
24 extensive network of consumer-oriented leisure travel locations.

25 And so we are here today to lend our perspective to

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1 the issues at hand from the vantage point of a large
2 multinational corporation who provides travel management services
3 to small businesses and individuals.

4 To begin, it may be helpful if I tell you who were
5 not. We are not a GDS; we are not an airline or airline website
6 owner; we are not an association; and we're not a small business.

7 You have heard from each one of these industry
8 partners in previous hearings, and they have all presented their
9 own points of view, some of which American Express agrees with
10 and some which it does not.

11 Our intent here is to not come and engage in what
12 the media has called the "Washington food fight" to put Orbitz of
13 business or to squelch the benefits of the internet to the
14 consumer.

15 Quite the contrary; American Express welcomes fair
16 and equitable competition where there is clear consumer benefit.

17 Our intent in being here today is to convey our
18 thoughts regarding the travel agency financial condition and the
19 question of consumer choice.

20 We also are here today to ask two for things: We
21 want the ability to offer all airline inventory and fares to our
22 business and leisure travelers in an efficient and meaningful way
23 and we want the existing DOT GDS rules to be applied to any
24 airline-owned distribution system.

25 The industry is abuzz with talk of distribution

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1 cost elimination. From commission cuts, to airline performance
2 incentives, to the notion of airlines subsidizing credit card
3 service fees, no one, certainly not American Express, disagrees
4 that distribution cost elimination is a bad thing.

5 By now you've heard many points of view regarding
6 agency compensation elimination and reductions that impact agency
7 financials. The recently-eliminated airline commissions were
8 payments for ticket issuance, exchanges, voids, and refunds as
9 laid out in ARC and IATA regulations. Nothing more.

10 So with the transferring of the commission cost to
11 the consumer, the airlines now have a free ticket distribution
12 system and have been successful at getting their core product
13 into the hands of over 70 percent of their customers at no cost.

14 Let's be clear: That is not to say there is no cost associated
15 with product distribution.

16 There are associated marketing, promotion and sales
17 costs, such as volume incentives to move share, similar to the
18 distribution costs that are built into every other industry.

19 However, as the entire industry strives to return
20 to solvency by lowering costs, an imbalance has been created in
21 terms of consumer choice when it comes to information and access
22 to all inventory and fares.

23 Business and leisure travelers who choose to work
24 with American Express cannot easily and efficiently get
25 information and access to lowest fares needed to run their

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1 businesses or to visit friends and family.

2 Economy-conscious travelers must now book outside
3 their preferred booking programs and locations, and book directly
4 on an airline-owned distribution system, such as Orbitz, if they
5 are to be sure they have researched all avenues pertaining to
6 lowest airfares.

7 Because of this trend, agencies that have serviced
8 individuals such as these in the past will see reduced or
9 negative customer growth and their earnings will decline further.

10 In turn, the number of agency locations will be
11 reduced and the traveler will have fewer options when it comes to
12 booking their travel. When the number of choices a consumer has
13 is reduced, it is typical that the cost to the consumer rises.

14 In the past, American Express and other entities
15 have made attempts to gain full inventory and airfare access for
16 the consumer and there have been a number of different reactions
17 from airlines:

18 *Airline Position 1: Webfare access should not be*
19 *an issue, as there is such limited inventory and it is very*
20 *restricted.*

21 The Counterpoint is: If that is the case, then
22 opening full access to travel agencies and hence their customers
23 will not erode revenues due to the low number of available seats.

24 *Airline Position 2: These fares are leisure fares*
25 *and do not fit the typical needs of business travelers.*

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1 The Counterpoint is: As we all well know, today's
2 financial pressures have forced business travelers to behave like
3 leisure travelers, so access to these fares would be very helpful
4 for small business travelers trying to lower their travel and
5 entertainment costs.

6 *Airline Position 3: Certain airfares cannot be*
7 *offered through the GDS due to the high associated fees.*

8 The Counterpoint is: On a recent price quote
9 comparing the same itinerary between an airline website, Orbitz
10 and through a GDS, the GDS fare was higher by \$98 than both the
11 airline website and Orbitz. This difference is not solely
12 attributable to the GDS fee.

13 The entire industry, including American Express, is
14 struggling with how to help customers get access to and benefit
15 from the lowest fares in the marketplace. American Express has
16 and continues to work through a number of different proposals and
17 options, and we will continue to do so on behalf of our customers
18 until we have reached a meaningful resolution.

19 Technology solutions have been just one approach
20 American Express has taken. It is a fallacy to believe that a
21 technology patch is a viable long-term fare access solution.

22 Indeed, an entire industry is being built and huge
23 costs are being borne by agencies and customers around a problem
24 that does not need to exist if only the airlines and airline
25 website owners would give full airfare access.

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1 Costly technology fixes are not the solution, as
2 the industry goal is to reduce cost, not to keep adding cost.
3 Airlines can and do change the ability of these technology
4 patches to access their information in the flip of a switch. And
5 today's technology solution is obsolete tomorrow.

6 On a second point regarding technology, there has
7 been previous hearing testimony that the success of Orbitz is due
8 to its superior search engine capabilities. Orbitz does have a
9 good site, but its search engine technology is not unique and has
10 been widely available to anyone on the market. It is also
11 powered by an existing GDS that is familiar throughout the
12 industry.

13 American Express is of the opinion that it is not
14 the search engine that makes ventures such as Orbitz successful,
15 but rather that it has a protected position with respect to
16 lowest fares.

17 From a financial perspective, while American
18 Express is not a small business, we too have had some significant
19 economic challenges in our recent past. Our business was
20 dramatically affected by the weakened economy in 2001 and by the
21 events of September 11th.

22 As a result, we saw a decline in revenues and
23 volume by some 20 to 25 percent. In the fourth quarter of 2001,
24 we downsized our workforce by over 5,000 people. We had to make
25 some extremely hard decisions.

1 In the end our costs were brought into line with
2 our lower sales volume; we stabilized our business and are now on
3 a solid footing.

4 However, this was not an easy process, and we
5 continue to see an erosion of customers who are forced to book on
6 sites that will not provide American Express with full access.
7 This trend continues to provide extreme challenges to the
8 industry, especially to the small agency or franchise owners that
9 we work with.

10 Prior to commission elimination, over 70 percent of
11 American Express revenues were derived from airline compensation
12 and less than 30 percent from customers. In only two years this
13 model has been completely reversed and today the opposite is
14 true.

15 Because of the dramatic changes in airline
16 compensation, American Express has had to derisk its business and
17 quickly transition our entire travel unit through a new economic
18 model and change our focus entirely.

19 Today, the bulk of our revenues are derived from
20 our paying customers. And as an agent for our customers that is
21 why we are here testifying today. We are faring well under this
22 new model. But American Express had the ability to reengineer
23 our business as a result of our size and our customer and product
24 mix.

25 Our smaller competitors and our franchise partners

1 did not and do not have that luxury. According to the Airline
2 Reporting Corporation, the number of retail travel locations in
3 the United States decreased by 14 percent in May 2002 year over
4 year. This trend will no doubt continue and over time it is
5 inevitable that travel agencies without large breadth and scope
6 of a mega-agency and without the resources or ability to provide
7 customers with the lowest fares in the marketplace will not
8 survive.

9 American Express strongly believes that both small
10 businesses and individual consumers are the backbone that creates
11 the economic growth that powers and stabilizes the U.S. economy.

12 These groups contribute heavily to the economy and
13 should have the ability to choose and do business how they
14 please. Without widespread fair and meaningful inventory and
15 airfare access, small businesses and consumers are ending up the
16 losers as the benefits gained from consolidating, tracking, and
17 managing their total costs are diluted.

18 Smaller travel agencies and franchises seeking to
19 reinvest in efficiencies to help their small business customers
20 centralize and manage their spending will be forced to close
21 their doors, and customers will have less choice of where to
22 fulfill their business and personal travel needs in the future.

23 With respect to airline marketing practices and
24 their impact on consumer choice, the American Express point of
25 view is very clear: Orbitz is an airline-owned distribution

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1 system marketing their services to individuals and businesses and
2 should be regulated by the existing GDS rules.

3 GDS rules were originally created to ensure there
4 was fairness of pricing amongst all airline-owned distribution
5 systems and to curb the possibility of anti-consumer behavior.

6 In its beginning stages, Orbitz was marketed as a
7 consumer travel agency with low restricted airfares suitable for
8 leisure travelers. Over time Orbitz advanced its product
9 offering to include hotels, cars, package tours, and cruises.

10 And most recently Orbitz and its airline owners
11 have begun marketing the fact that businesses can now load in
12 their negotiated corporate airfares. Orbitz has evolved into an
13 airline-owned inventory distribution system, offering multiple
14 products and services to both consumers and businesses, and
15 should be governed and treated in the same manner as existing
16 GDSs.

17 Many have likened the Orbitz model to the following
18 scenario: If the five largest computer manufacturers got
19 together, created a vertical product distribution system, offered
20 pricing through that system that no other consumer outlets would
21 not have access to, and loaded in all their proprietary customer
22 pricing rates, there would be reason for concern. This does not
23 appear to be the case when the same scenario is applied to the
24 airlines and Orbitz.

25 One of the main questions the Commission is trying

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1 to answer is, "Is the consumer impacted by not having meaningful
2 comparative information they need to make an educated choice?"

3 The answer as of today is yes. Small business
4 owners and consumers looking to make a decision on airfare
5 purchases are typically faced with the following questions:

6 *"If I book through an online or traditional agency,
7 will they be able to get me the lowest fares in the market,
8 including internet fares?"*

9 *"If I book on Orbitz or another airline-owned
10 website, will I be getting all information on all information on
11 all carriers and be able to make the best purchasing decision?"*

12 *"How many sites will I have to visit to find the
13 best fare?"*

14 While each question poses its own unique set of
15 problems, the truth is that as of today the questions above are
16 still valid. No existing airline-owned website has all the
17 domestic and international carriers and fares. Factually
18 speaking, all GDSs do not either.

19 However, GDSs are still the largest repository of
20 neutral inventory and fare data in the world and still used by
21 virtually every travel agency and airline around the world except
22 for low-cost carriers.

23 GDSs include both domestic and international fares
24 and are thus the best source consumers have today of comparative
25 information for making decisions when purchasing airline travel.

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1 So it appears that for now, GDSs are in the best
2 interest of the consumer. But we are still faced with the
3 argument of high GDS costs when compared to the airline-owned
4 distribution channel.

5 If the main issue at hand to solving the fare
6 access problem is GDS cost, then cost issues can always be solved
7 by mutual business agreements that should not be a barrier to
8 progress.

9 However, if the main issue surrounding inventory
10 and fare access is not cost, but rather customer ownership,
11 traveler loyalty, and marketing aspirations, then this issue is
12 not easily solved and will continue to exist in our industry
13 today, and the travel consumer will end up being negatively
14 impacted in the long run as the industry works to find a
15 solution.

16 The EU Commission investigating OPODO, the
17 European-owned airline distribution system and website, have
18 recognized that it poses serious risk to consumer choice should
19 it not be fully consumer-proofed. I am optimistic that this
20 committee can help the DOT come to the same conclusion regarding
21 Orbitz.

22 So in closing, American Express believes that what
23 is in the best interests of the traveling consumer is for travel
24 agencies to be given full access to all airline inventory and
25 fares, and that GDS rules be applied consistently and fairly to

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1 any airline-owned inventory and fare distribution system.

2 I would like to thank each of you for this
3 opportunity to speak here today, and I would be happy to answer
4 any questions that you may have.

5 CHAIRMAN WINSTEAD: Mike, thank you very much. I
6 think your testimony was extremely helpful in both the questions
7 that it posed and the answers that you responded to, as well as
8 the airline position, the counterpoint of the airline position,
9 some of the issues that American Express is concerned about.

10 You talked about some layoffs since September the
11 11th. What's happened on the franchise side in terms of the
12 numbers and what's happened over the last two years in terms of
13 any decrease in franchise numbers?

14 MR. MULVAGH: I think this is on. Yes.

15 CHAIRMAN WINSTEAD: We can hear you.

16 MR. MULVAGH: I represent the corporate travel side
17 of American Express.

18 CHAIRMAN WINSTEAD: Right.

19 MR. MULVAGH: So I'm not the best person to speak
20 on our franchise operation. But what I can do is speak about our
21 consumer travel organization.

22 We made a business decision to change our focus and
23 to move our model of consumer travel to now be focused on our
24 card members. It was not economically feasible for us to
25 continue to do business the way that we were doing it in a

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1 widespread fashion and to focus on the individual consumer
2 without another value proposition. So we have changed our focus
3 and we are now focusing our consumer initiatives on our existing
4 card members.

5 Again, with respect to our franchise operations, I
6 can only tell you that they are feeling the pressure of not being
7 able to compete with fares that are not available to them. And
8 this is a very difficult position for them to be in. I don't
9 have the numbers that would tell you the number of the franchises
10 we have increased or lost over the last while.

11 CHAIRMAN WINSTEAD: Could you get that for us?

12 MR. MULVAGH: Sure.

13 CHAIRMAN WINSTEAD: That would be great.

14 In one of the drafts, I'm not sure, I think there
15 were some changes that you had in the draft distributed today.
16 But in an earlier draft you mentioned you had approached airlines
17 on this issue of gaining access to their webfares, but that you
18 were refused in some discussions, even though you offered
19 absorbing cost to do that. And those costs, did they talk at all
20 about or a discussion about booking fee expenses in that approach
21 when you offered to cover the costs?

22 MR. MULVAGH: We talked with the number of our
23 supplier partners about a number of different options for gaining
24 access to webfares. Some of those included subsidization of the
25 GDS fee; some of those included the outright full absorption of

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1 the GDS fee. Each time we did that we were told no, we would
2 still not have access to the fares.

3 So our impression is that the GDS fee is not really
4 the cost here. So we're trying to grapple with how to understand
5 what is the true cost and what is the true reason for not being
6 able to get access to these fares if the cost issue is
7 eliminated.

8 CHAIRMAN WINSTEAD: I think Paul commented, Mike,
9 and I mentioned in my opening of my experience yesterday at the
10 Casto Travel. On page 9 at the bottom you talk about to the
11 issue of consumer access. And I must say that I know that the
12 engines and the software support for travel agents is constantly
13 changing.

14 I mean, I think one thing I've learned over the
15 last month or so is just how vibrant this industry is from the
16 standpoint of providers of software services, and engines, and
17 other technology. Yesterday, one of the questions I had was just
18 the amount of time it would take to actually be able to access
19 both CRS and the websites. And I'm wondering how you view that
20 difficulty in terms of what it takes now to do it versus what
21 might be developing for the future that we get.

22 MR. MULVAGH: Sure. Like a lot of travel
23 management companies we are a very transactionally-driven
24 business. And most of our pricing is based on transactions,
25 meaning a booking.

1 So to maintain our profitability and the integrity
2 of our pricing, everything we do is around transactional
3 processing efficiency. Because there's a plethora of different
4 technology solutions out there, I can talk to a couple of them.

5 The first set we would call sort of off-line, you
6 know, search engine-type for abilities. And what that entails is
7 a travel agent, perhaps working on a GDS, will look for a fare in
8 that system. And then they would have to switch off of that
9 system, whether it be in the same terminal, or go to another
10 location in their office.

11 In our case it's basically the same terminal. Log
12 on to an internet site so that they can either access the fare
13 directly from a airline website, or from Orbitz, or some other
14 location. Then see if that traveler wants to have that fare and
15 then build a record that way.

16 So in that case they're having to go out live and
17 look for the fare and come back to the traveler with options.
18 That takes a lot of time to come out of a native system, if you
19 will, move on to an internet-based system, and then move back.
20 And, again, there are technology solutions that are coming up now
21 that will do that behind the scenes.

22 The other one, which is more costly and more
23 prevalent, is actually where we do a fare search. It's called
24 WebBot technology, where you make a booking, you search after the
25 call is finished for a lowest fare. It does a number of

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1 different checks at a number of different locations, and then
2 comes back with an option.

3 And if that option is lower than the price that
4 you've booked, then the travel counselor must get back in touch
5 with the traveler. Most likely it's on a different carrier, a
6 different time, what-have-you. Make that offer available to
7 them, and either rebook or continue on with the search.

8 So in a business that's very transactionally driven
9 this adds an enormous amount of process time on to our
10 transactionally-driven business. As such, our profitability goes
11 down, the time it takes goes down, and the efficiencies are lost.

12 So again, you know, as I mentioned in my testimony,
13 the technology solutions are really not the best option, but we
14 really have at this point no choice.

15 CHAIRMAN WINSTEAD: Mike, I've got a few more
16 questions. When I talked in the first question about your
17 approach to the airlines, which ones did you approach and what
18 was the rationale that they responded in terms of not being able
19 to --

20 MR. MULVAGH: Yes. We're under a confidentiality
21 agreement and can't discuss that.

22 CHAIRMAN WINSTEAD: Okay. Fair enough.

23 All right. Let me opened it up for some of the
24 other Commissioners in terms of questions that I'm sure they
25 have.

1 Take it from Pat.

2 MR. MURPHY: Thank you. I also appreciate the
3 testimony. It was really very helpful. I had about a half a
4 dozen questions. I'll try to get through them quickly.

5 On page 4 you talked about if a customer wants
6 access to all inventory and fares. Today that situation is
7 imbalanced, I think is your term. When a customer comes to you
8 and wants to fly on what are now the most successful airlines in
9 the industry, let's say Southwest and Jet Blue.

10 MR. MULVAGH: Yes.

11 MR. MURPHY: They use different outlets as they try
12 to reduce their costs. How would you deal with that if they came
13 to you and wanted to fly on one of those two airlines?

14 MR. MULVAGH: Sure. I'll speak to the Southwest
15 model.

16 For American Express it actually is not a perfect,
17 but it's a good solution. Right now we can view Southwest
18 information in one particular CRS that we use, Sabre. The
19 counselor does not have to go off of their booking system unless
20 there is a web-only fare. Then it results in a telephone call to
21 Southwest.

22 And the PNR, the booking record, is maintained and
23 held within our systems. We retain the information in terms of,
24 you know, customer information, future negotiating information,
25 what-have-you.

1 So with respect to Southwest, although it's not a
2 perfect model, it works well and we've integrated our systems as
3 best we can. Where we'd like to go further is to, you know,
4 eliminate the telephone call aspect. But for now it's working
5 fine.

6 With respect to Jet Blue, you know, they're a very
7 new carrier. And we are obviously anxious to work with them to
8 develop some efficiencies, as well. So we don't have the same
9 opportunity there just as of yet, but we're hopeful that we can
10 mimic the same system with Southwest.

11 MR. MURPHY: Okay. On page 5 you talked about, as
12 your third counterpoint or your bottom counterpoint, that some
13 models suggest it's now cheaper to distribute tickets through an
14 agency rather than through Orbitz. Can you just elaborate on
15 that a little bit?

16 MR. MULVAGH: Yes. Unfortunately, you have an old
17 testimony copy.

18 MR. MURPHY: Okay.

19 MR. MULVAGH: The new one says GDS fees, but I can
20 comment on that.

21 MR. MURPHY: Okay.

22 MR. MULVAGH: There have been a number of different
23 -- I wouldn't say studies -- I would say positions that show,
24 since the costs of commission have been eliminated, that it's
25 feasible that on a apples-to-apples basis the travel agency

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1 community could be considered a lower cost option that Orbitz,
2 because Orbitz has a GDS fee associated with it and they pay a
3 per-booking fee on top of that.

4 So in terms of the total compensation it's
5 different. It's actually lower when you're just looking at the
6 apples-to-apples comparison of the GDS and the commission,
7 compared side to side.

8 MR. MURPHY: Okay. On page 6 you talk about how
9 the airlines, if they would only give full access to their
10 airfares, which is all we hear over and over again. What do you
11 think the motives are? Why do the airlines not give full access
12 to their airfares?

13 MR. MULVAGH: As I said, I think that we're trying
14 to understand the real core issue. If it's cost, we want to
15 address the cost issues and we want to remove that barrier. If
16 it's other than that, if it's a marketing situation, or if it's a
17 customer ownership situation, then we don't know how to compete
18 with that. You know, that's a whole different business case. So
19 I don't want to speculate. But we're hoping that it's cost based
20 as opposed to a different situation.

21 MR. MURPHY: Okay. And on page 8 you talk about
22 it's inevitable that travel agencies without large breadth will
23 not survive. What is your vision of the future of the travel
24 agency industry? What will it look like?

25 MR. MULVAGH: If I use our Small Business Travel

1 Division as a starting point, we service a number of different
2 individual travelers and small businesses. And we have seen an
3 erosion of that business because we just cannot compete to get
4 the lowest fare. And that portion of our business is falling in
5 terms of our profitability, in terms of our volume.

6 So, you know, our vision for the future is that
7 unless we can carve out a unique value proposition for that
8 customer segment that's going to be a tough one to stay in and
9 remain profitable.

10 If I was personally to speculate what the future
11 would be, I would say that unless a travel agency does have a
12 wide product offering, the wide scope of customers that we have,
13 the ability to cross-sell other products and services, I'm not
14 sure why someone would be in this industry because of the margins
15 that would be involved and because of their inability to compete,
16 if not just for pure location convenience for the traveler.

17 Perhaps there will be, as in the airline industry,
18 a few major, major players and some smaller ancillary players,
19 because they have the financial resources and the ability to do
20 so.

21 MR. MURPHY: And I guess the \$64 question then for
22 this Commission is: Okay, if the travel agency industry
23 restructures to a larger model, larger-sized business model, how
24 is the consumer affected? Is the consumer well served with the
25 internet and a different structure in the travel agency industry,

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1 or not?

2 MR. MULVAGH: I would like to think they would be.

3 As in American Express, we have different resources focusing on
4 different segments. We poured a lot of time, effort, money,
5 marketing into our Small Business Travel and Consumer Travel
6 Division. And we'd like to continue to do so because it is less
7 volatile than a corporate environment.

8 So to answer the \$64 question, you know, we feel
9 that, given the ability to compete for that business in a fair
10 and equitable way, the consumer would benefit because of the
11 honest brokerage, the one-stop shopping, the things that we can
12 bring to them that one shop could not.

13 MR. MURPHY: Okay. If I could ask the Chairman's
14 indulgence, one more question, and I'm taking more than my share
15 of time.

16 CHAIRMAN WINSTEAD: Sure. Thanks, Pat.

17 MR. MURPHY: But one last question. You do
18 recommend that Orbitz as an airline-owned system be subject to
19 the GDS rules. Which aspect of those rules; what you have in
20 mind? What is it that they're not having to comply with that you
21 would like to see them comply with?

22 MR. MULVAGH: Yes. Basically one thing, that is,
23 that all fares be made available, as in the GDS, that are there.

24 They would go through the normal process of listing their fares
25 through AT Pico and through the GDS, and that there is no

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1 competitive advantage to not getting access to all the fares that
2 are available.

3 MR. MURPHY: Fare availability?

4 MR. MULVAGH: Yes.

5 MR. MURPHY: Thank you, very much.

6 MR. MULVAGH: And actually, beyond that point, and
7 inventory as well. It's not just fare availability. It's the
8 actual ability to book that fare.

9 MR. MURPHY: Thank you, Mike.

10 Joyce, did you have a question?

11 MS. ROGGE: Yes. I'll just follow up on that. And
12 thank you for being here today. We appreciate it.

13 If you could clarify for me that your
14 recommendation is that in following the GDS rules, or applying
15 those rules to Orbitz or other travel sites, do you make a
16 distinction between sites that are jointly owned or that have
17 multiple airline fares on them, as opposed to as, for example, an
18 independent airline site?

19 MR. MULVAGH: Sure. I don't mean to give the
20 impression that we think that all airline sites should be
21 regulated and that they should follow the GDS rules.

22 When you have five-member owners of a distribution
23 system of their product, that sounds like an airline distribution
24 system, a jointly-owned integrated airline distribution system
25 and should be regulated.

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1 An individual airline consumer site or one that
2 represents a certain percentage of the market that is less than
3 the rules -- and I can't remember exactly what the figure is --
4 we don't feel has the same consumer impact than a large
5 multi-airline-owned site.

6 Does that answer your question?

7 MS. ROGGE: It does. Thank you.

8 And then going back to another part of your
9 testimony when you're talking about -- I'm sure I'm not going to
10 say this right -- but OPODO?

11 MR. MULVAGH: Yes.

12 MS. ROGGE: Can you describe that a little bit more
13 for me, and what action has the EU taken exactly?

14 MR. MULVAGH: Sure. OPODO, OPODO, as they call it
15 in Britain, --

16 MS. ROGGE: OPODO.

17 MR. MULVAGH: -- is a very similar structure to
18 Orbitz, where it's owned by a majority of the major players in
19 Europe. And the EC Commission has given them the go-ahead, but
20 the main features of, or the main differences is that there is no
21 MFN clause in OPODO. And so it's basically a travel agency that
22 has a great website and offers the same sort of products and
23 services that any other travel agency will offer.

24 Now EUCDO, which is equivalent to -- you know, it's
25 a very large travel agency association in Europe -- have noticed

1 that there is the odd thing creeping in here and there that looks
2 like a fare that's only available through OPODO and not through
3 any other channel. And so they are asking the EC to launch an
4 investigation into that.

5 But the main difference is that any fare difference
6 is actually being explained by the fact that the agency has
7 chosen to lower their margin to offer that lower fare. And
8 that's fine. That's a business decision. That's something that,
9 you know, anybody who operates a travel agency can do at any
10 time. And that's a competitive decision that they make.

11 However, it seems that it's not based on any
12 advantage in terms of getting a lower fare and having it
13 exclusively, as opposed to just deciding to make a business
14 decision to cut their profit.

15 MS. ROGGE: All right, thanks.

16 MR. MULVAGH: Sure.

17 CHAIRMAN WINSTEAD: Okay. That's fine. Paul?

18 MR. RUDEN: I think it's very significant that
19 American Express is here, because you occupy, it seems to me, a
20 somewhat unique -- if that's not an oxymoron -- a unique position
21 in the marketplace having, as you point out, a significant owned
22 set of outlets and also a very substantial franchise set of
23 agencies that you refer to as "partners." Most of those
24 franchise entities are pretty small travel agencies, aren't they?

25 MR. MULVAGH: Correct.

1 MR. RUDEN: And they're franchisees so you have a
2 contractual relationship with them that enables them to use the
3 American Express name, and so forth, but you don't guarantee
4 their profitability?

5 MR. MULVAGH: No.

6 MR. RUDEN: When you opened up your testimony, Mr.
7 Mulvagh, you early on talked about the function that commissions
8 performed as been payments for ticket issuances and essentially
9 ticketing transactions of one sort or another and nothing more
10 than that.

11 But would you agree that the distribution system
12 that those commissions paid for, which was nationally ubiquitous,
13 has something to do with the demand for air travel? In other
14 words, the existence of a nationally-ubiquitous system of local
15 distributors helps stimulate the purchase of the product for
16 which they exist in the marketplace.

17 MR. MULVAGH: Can you paraphrase the question? I'm
18 not following you on that.

19 MR. RUDEN: Yes. Let me try to speak English.

20 (Laughter.)

21 MR. RUDEN: If you didn't have any travel agents,
22 if it were more difficult to acquire travel because there were
23 travel agents everywhere, --

24 MR. MULVAGH: Yes.

25 MR. RUDEN: -- as they tend to be today throughout

1 the country in small communities, large, all over the place. If
2 you didn't have that, it would be more difficult to buy it and
3 therefore the search costs and the other consequences of trying
4 to buy travel would be higher and less travel would be purchased;
5 would you agree with that?

6 MR. MULVAGH: I would agree with you that the cost
7 would be higher. As I said, in my testimony, that when the
8 number of locations or players in a certain market is reduced,
9 it's typical that the cost to the consumer will go up. And then
10 to follow your line of thinking, it's reasonable, if the cost is
11 going up, then the average consumer would have less ability to
12 purchase that.

13 MR. RUDEN: In line with the questions that the
14 Chairman was asking about your negotiations with the airlines
15 that mysteriously to some extent, produced no, no good results,
16 we now hear -- and it's cited in the Orbitz report to -- or the
17 DOT report to Congress on Orbitz that some of the online agencies
18 have succeeded in acquiring some low fares, low webfares.

19 There is no real description of just what
20 percentage of them they're getting or any real details about it.

21 But your understanding is also, I take it, that that is
22 happening in the marketplace now?

23 MR. MULVAGH: Yes. I also read previous hearing
24 testimony from a couple of carriers that suggested that that
25 opportunity is open for negotiation. So, as I said, we will go

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1 back and continue to go back and a chip away until we are able to
2 get access to the fares that we would like to do and are working
3 with carriers on an ongoing basis to do so.

4 MR. RUDEN: What accounts for that change of heart,
5 do you think, if that's what is?

6 MR. MULVAGH: This is speculation on my part, but I
7 would say that over time if you look at the amount of focus and
8 attention, media, pressure from customers, pressure from
9 associations, the motivation for something like Orbitz to
10 withhold their IPO, I think the volume of pressure that is out in
11 the market for this to happen has taken shape and really
12 contributed to that movement.

13 MR. RUDEN: Very interesting.

14 With respect to your discussion of technology
15 patches, your testimony rejects those in part because you say
16 that the industry's goal is to reduce costs rather than to keep
17 adding costs. The industry you're referring to there is the
18 distributor industry, the travel agency part of the industry, not
19 the airline part?

20 MR. MULVAGH: I would say the entire industry
21 focused on cost reduction.

22 MR. RUDEN: Do you believe it's the airlines' view
23 that they should help travel agents reduce travel agent costs
24 today?

25 MR. MULVAGH: No.

1 MR. RUDEN: Okay. The small agencies who make up
2 your franchises, franchisees, they have a particularly difficult
3 time, don't they, with these patches that you described as a
4 somewhat ephemeral? They can't afford to keep investing in the
5 software *de jour* to stay in tune with whatever the airline
6 manipulations are of access to those fares and how you get them?

7 MR. MULVAGH: If you -- sorry.

8 MR. RUDEN: And my ultimate question is: Take that
9 as a given, because I think it really can't be denied. My real
10 question is: American Express is no position -- and this is
11 again why I think it's so important that you are here, you are
12 the biggest and in some sense the most diverse of all the travel
13 retailers in the country -- but you're not in a position to do
14 that for all those small businesses, and keep doing it as things
15 keep changing and new software emerges and replaces the old, just
16 to get access to these fares.

17 MR. MULVAGH: We're not even able to do that for
18 our own business. When you look at the various tools that are
19 out there and the companies who represents those solutions, some
20 of which you'll hear from today, there are reports and findings
21 that certain airlines or sites will switch access and will not
22 allow that technology solution to search its site and come back
23 with information available.

24 So we've had to design our own system for our
25 travelers. And we've had to have a number of different options

1 for them. Some of them are from a manual process. Some of them
2 are a very technologically-based process that does the things we
3 spoke about.

4 But if all of a sudden that were to be regulated
5 and there would be a ruling that said you cannot -- intellectual
6 property, what-have-you -- cannot access an airline's website
7 because that's not feasible to do so, we would have a lot of cost
8 for something that didn't work. And that's for our own network.

9 If you think about all of our franchisees who are
10 not part of our MIS system necessarily, they don't have perhaps
11 the same CRS that we use; they have different back office
12 processing systems, it's impossible. It's impossible for us to
13 provide a those services on an ongoing basis.

14 MR. RUDEN: Finally, there's a lot of stuff here
15 that I could go on about, but I won't keep on, given my
16 reputation for asking too many questions.

17 CHAIRMAN WINSTEAD: Mike, I don't think -- you
18 wouldn't -- if we have questions, there are a lot of questions,
19 probably more than we can ask. Can you respond to them? Can we
20 submit them in writing?

21 MR. MULVAGH: Certainly.

22 CHAIRMAN WINSTEAD: Great.

23 MR. RUDEN: I have just two things. And
24 unfortunately they relate to the infamous "O" word.

25 When you were asked earlier about the GDS cost of

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1 transacting business versus the Orbitz cost, there's another
2 factor at work in an analysis, isn't there, and that is that
3 Orbitz has a guaranty of these transaction fees that no one in
4 the industry has, including the giant American Express, a
5 guaranty that no matter what happens to commissions Orbitz still
6 gets paid?

7 MR. MULVAGH: That is my understanding, yes.

8 MR. RUDEN: And so that value, would you agree, it
9 not be something that you would put in a financial statement *per*
10 *se*, but it certainly has relevance. There are 43 airlines making
11 that guaranty to your competitor that you don't get or no one
12 else gets, and that that should be factored into the question of
13 who's got what costs, because that is an important value to have
14 that assurance that the matter what happens you're going to get
15 paid something.

16 MR. MULVAGH: Agreed.

17 MR. RUDEN: Finally, you somewhat genteelly -- and
18 I understand why, I think, at the end of your testimony -- talk
19 about whether the issue here is really GDS costs, or something
20 else. And you mentioned three things: Customer ownership,
21 travel loyalty, and marketing aspirations.

22 Your testimony pretty strongly suggests that it's
23 not GDS costs that really explain what's going on. These other
24 things really translate into the question, don't they, of who
25 controls the marketplace, who controls the customer, whether it's

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1 going to be the airlines that control it together through Orbitz,
2 or whether someone else will control it, as they have the past.

3 MR. MULVAGH: If you look at all the competition
4 for the customer today, factored in the desire to reduce the
5 distribution cost, if that can be done in a one-to-one marketing
6 arrangement with a customer, no matter who it is, and the cost is
7 reduced, then you're golden. You have the opportunity to hold on
8 to your repeat customer. You don't have the associated costs
9 that are required to have a widespread sales network and
10 distribution network.

11 So, again, if it's not costs, as we've supposed,
12 we've offered to pay the cost. If it's not that, then it seems
13 likely that then the second next question we would ask is, "Well,
14 what is it?" It seems to be a marketing customer ownership
15 issue.

16 MR. RUDEN: If it's something to do with domination
17 of the market, or control of the market, that's not likely to be
18 something you're going to negotiate your way to a satisfactory
19 solution on, is it?

20 MR. MULVAGH: It does not seem likely.

21 MR. RUDEN: Thank you very much.

22 CHAIRMAN WINSTEAD: Thanks Paul.

23 Ann?

24 MS. MITCHELL: Thank you so much for your
25 testimony. It was very thoughtfully presented. And as Paul

1 mentioned, you certainly represent a varied marketplace.

2 When you were talking about negotiating paying the
3 GDS fees, if that was their problem, what kind of fee level were
4 you willing to go to, because it's been suggested in previous
5 testimony, particularly by Orbitz and some of the others, that
6 the GDS costs are very out of line. But you're saying you would
7 have been willing to pay that. And, if so, could you explain
8 that?

9 MR. MULVAGH: You know, the GDS costs obviously
10 vary from GDS to airline, as well. It's a complex arrangement
11 between the Agency, and you all know that. But again we offered
12 to subsidize, to either bring down the cost of distribution,
13 because we believe that there is always a cost of distribution of
14 your product. And in some cases we offered to pay the whole
15 thing. And I don't know if you're looking for specific dollar
16 amounts or what that entails, but --

17 MS. MITCHELL: Well, we have asked several of our
18 people who have presented to us costs from the airlines and the
19 GDS people. And the answers that we get are all across the
20 board.

21 MR. MULVAGH: Yes.

22 MS. MITCHELL: So it's a little bit confusing and
23 puzzling to try to determine who's telling what, and what does it
24 really mean in the marketplace and whether or not the
25 distribution cost of a product should be expected to be zero?

1 MR. MULVAGH: If I could indulge you, I'd like to
2 come back with that answer in terms of a GDS cost model, because
3 it takes into account a number of different things that I don't
4 think I could spend time here today. And, plus, I don't think I
5 have all the knowledge and the details. But what that would
6 entail is basically the circuitous cycle of how that would work.

7 May I do that?

8 MS. MITCHELL: Yes.

9 MR. MULVAGH: Yes.

10 MS. MITCHELL: Thank you.

11 MR. MULVAGH: Thank you.

12 MS. MITCHELL: Thank you.

13 It's been suggested to us through some of the
14 previous testimony that there should not be any recommendations
15 or decisions made based on what might happen, particularly in
16 regard to Orbitz and others.

17 What would be your view on that as representative
18 of a large organization? Should we wait until it's several years
19 down the road, travel agencies have fallen by the way right and
20 left, and the consumer is compromised in its ability to get
21 airline arrangements?

22 MR. MULVAGH: As I stated in my opening, we're not
23 here to suggest we regulate internet, or that we regulate
24 opportunity, or the ability for new products and new entrants and
25 new services to come to the marketplace.

1 But if I could take a sidestep and compare what
2 happens when choice is taken away to the pricing of a market like
3 Minneapolis, or Rochester, or Detroit, or what-have-you. When
4 there is less opportunity, the price goes up. And so to answer
5 your question, we believe that market forces should be allowed to
6 decide what happens.

7 However, we think it's very prudent to look at what
8 does happen when a dominant market force comes into play,
9 eliminates competition because of a favorable opportunity that
10 they have that no one else has, and then becomes a sole player in
11 a market. And that's the position that I'm coming from. Does
12 that --

13 MS. MITCHELL: So you think it would be much more
14 difficult to reverse it after happens than to address it now when
15 we can take information and look at what is likely to happen --

16 MR. MULVAGH: Yes, I do.

17 MS. MITCHELL: -- based on history?

18 I was particularly amused at your acronyms in EU
19 arena. I had said to the Committee early on that I thought we
20 might be less successful if we don't come up with a catchy
21 acronym for our Commission. And so far we haven't come up with
22 one, so if you'll help us we'll appreciate it.

23 Thank you.

24 MR. MULVAGH: I'll look at the naming convention on
25 the way home.

1 (Laughter.)

2 CHAIRMAN WINSTEAD: Maryles?

3 MS. CASTO: Being at the end everybody's asked the
4 questions that I was going to ask.

5 CHAIRMAN WINSTEAD: Okay.

6 MS. CASTO: But just a question.

7 On page 4 you had said, "Business and leisure
8 travelers who choose to work with American Express cannot easily
9 and efficiently get information and access to the lowest fare..."

10 To what level of ease and efficiency should the
11 systems be to be in the consumer's best interest?

12 MR. MULVAGH: If I understand your question, it is
13 what is the answer for the consumer, is that what you're -- I'm
14 sorry.

15 MS. CASTO: You're saying that you "cannot easily
16 and efficiently get information and access..."

17 MR. MULVAGH: Yes.

18 MS. CASTO: And my question is: To what level of
19 ease and efficiency should do the system be to be in the interest
20 of the consumer?

21 MR. MULVAGH: Okay. Yes. And, again, I don't want
22 to come off as sounding like the GDS is the solution.

23 MS. CASTO: Yes.

24 MR. MULVAGH: If there's an economic way to manage
25 this process that's efficient for everyone where there is

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1 consumer benefit but everyone also is not disadvantaged, then we
2 think that that is the solution. And what that solution would be
3 is again spreading the wealth, the full access to the consumer of
4 the lowest fares in the marketplace.

5 And I'm hoping I'm answering your question. But
6 really we're looking for that it's a level playing field, that
7 there is the opportunity for American Express and other agencies
8 to compete fairly and to have access to these fares that our
9 customers are asking us for.

10 MS. CASTO: Okay. Did you object to Orbitz when it
11 was focused on leisure travelers or only when it begun loading
12 negotiated corporate fares?

13 MR. MULVAGH: No. From the very beginning,
14 American Express has been concerned with the MFN clause and with
15 the in-kind marketing agreements. So, no, this is not a new
16 position. It has been that way since prior to Orbitz' launch.

17 MS. CASTO: Okay. That's about all I had.

18 CHAIRMAN WINSTEAD: Thanks, Maryles.

19 Given questions that have been asked, is there any
20 other pressing?

21 Mike, I really appreciate your -- we all do --
22 great testimony, great response to the questions. And, with
23 indulgence, Dick might have some other questions that we haven't
24 covered that he might submit to you.

25 MR. MULVAGH: Okay.

1 CHAIRMAN WINSTEAD: If you could provide some
2 written response, that would be great.

3 MR. MULVAGH: Sure. Just to recap, I'm going to
4 come back to you with the franchise view in terms of how that's
5 been impacted, the number of locations that we've -- I'm sorry --
6 the number of participants we have versus last year, as well as
7 clarifying the GDS cost model that we work within. And I will
8 come back to you with that.

9 CHAIRMAN WINSTEAD: Great.

10 MR. MULVAGH: Yes.

11 CHAIRMAN WINSTEAD: Well, thank you very much.

12 MS. CASTO: Thank you.

13 CHAIRMAN WINSTEAD: I appreciate you joining us,
14 and it was very constructive and informative. Thank you very
15 much.

16 MS. MITCHELL: Yes, thank you.

17 CHAIRMAN WINSTEAD: Let me ask if we could take
18 just a ten-minute break here. We have three witnesses, and I'm
19 instructed that it probably would be best that we set up all
20 three here. And then we'll go through individual presentations.

21 The restrooms are right back here on the left. And
22 why don't we take like a ten-minute break while we set up for the
23 remaining three witnesses for this morning.

24 Thanks.

25 (Recess taken from 10:44 a.m. to 10:59 a.m.)

1 CHAIRMAN WINSTEAD: If we might start back in, I'd
2 appreciate your indulgence. We have three witnesses that we've
3 asked to sort of sit up together, even though we'll take them
4 individually.

5 Brian Barth is CEO of SideStep and has joined us
6 just off of vacation he tells me. This is a vacation for most of
7 us, coming to San Francisco.

8 Well, why don't we go ahead, Brian, while I
9 introduce the other ones. Why don't you introduce yourself, your
10 company, and then get into your testimony.

11 MR. BARTH: Well, actually I've included some of
12 that in the thing I wrote here.

13 CHAIRMAN WINSTEAD: Good.

14 MR. BARTH: I'm Brian Barth, the CEO of SideStep.
15 We're a local company here. We're down in Santa Clara about 30
16 miles south of here, glad to be here.

17 CHAIRMAN WINSTEAD: Thank you.

18 MR. BARTH: So good morning, everybody.

19 I thought I'd start by giving you some background
20 information on SideStep, the technology company that we founded
21 back in 1999.

22 From the start our vision has been to build a
23 special kind of search engine that makes it easy for users to
24 instantaneously access rapidly-changing information from across
25 the internet. As our technology matured we discovered that it

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1 worked extraordinarily well for accessing travel. Since travel
2 is a very sizable and dynamic market, SideStep has focused all of
3 its efforts on providing access to the largest and most useful
4 assortment of travel options online.

5 SideStep currently connects to more than 130
6 different internet-connected systems, including traditional
7 published inventory, web-only fares, and special negotiated
8 rates.

9 SideStep makes it easy to book directly on a
10 variety of websites which are typically a very low-cost
11 distribution channel. Once the buyer has made their selection,
12 SideStep streamlines the purchasing process by navigating the
13 buyer directly to the point-of-purchase webpage with brands that
14 they can trust.

15 Since SideStep introduces buyers directly to our
16 travel partners, we give them the opportunity to build richer,
17 closer relationships with their customers.

18 The standard version of SideStep is available for
19 free from our website and a number of our airline, hotel, and
20 rental car partners. Our system provides access to one of the
21 broadest selections of fares and rates available online,
22 including more than 45,000 hotel properties, 585 different
23 domestic and international airlines, and over 2800 rental car
24 locations.

25 SideStep has won numerous awards, including Forbes'

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1 Best the Web, and CIO Magazine's WebBusiness 50 Award, and is
2 frequently mentioned in the consumer press.

3 We regularly receive accolades from travel agents
4 who find our system useful. Furthermore, companies that sell
5 travel have embraced us nearly across the board. We continue to
6 be encouraged by the number of quality travel companies that are
7 asking to participate in our system.

8 With the strong support of the travel industry, and
9 from travel buyers of all types, the SideStep service which
10 formally launched a year and half ago has grown to become one of
11 the most popular online travel systems for both leisure and
12 business travel.

13 This growth to nearly two million users has been
14 driven primarily by word-of-mouth from satisfied users.

15 SideStep is currently facilitating annualized gross
16 bookings in excess of \$200 million and is growing organically at
17 a rate in excess of 30 percent quarter over quarter. SideStep is
18 both cash flow positive and profitable.

19 The SideStep system is based on the latest
20 distributed internet architectures and technologies which result
21 in increased system performance at a dramatically lower cost.
22 For example, rather than using large numbers of dedicated
23 proprietary communication links to each of our partners, SideStep
24 utilizes low-cost internet bandwidth.

25 Similarly, rather than relying on a few large

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1 computers to run the system, SideStep architectural allows us to
2 run across many small inexpensive computers working together.
3 And we can add these computers one at a time whenever more
4 capacity is needed. Most importantly, taking advantage of the
5 latest technology's lower cost ultimately enables low prices for
6 consumers.

7 Across the internet SideStep has a number of
8 communication technologies that make it easy and inexpensive for
9 systems to communicate. The most exciting era of development is
10 called, "Web Services." All the major computer software
11 companies, such as Microsoft, IBM, and Sun Microsystems support
12 Web Services.

13 For example, SideStep has been searching for fares
14 and booking transactions using XML Web Services with Dollar Rent-
15 a-Car for some time now.

16 SideStep is also a member of Open Travel Alliance,
17 which will make it even easier for travel distribution systems to
18 speak the same language over the internet.

19 Not all of SideStep's partners have these latest
20 capabilities yet. Fortunately, our system is extremely flexible
21 in that we have been able to connect to any internet-connected
22 system with no work on the part of our partners.

23 Some of these communication methods are based on
24 older techniques, such as EDI, while others are based on
25 technology that emulates user interaction on a website.

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1 In working together with our partners we've been
2 steadily improving internet distribution systems and further
3 reducing costs. The benefits of SideStep's distribution model
4 are so dramatic and clear we believe that only a company with
5 ulterior motives would ultimately decline to participate.

6 SideStep has also produced a number of customized
7 versions of our system for many of our partners. For example,
8 Carlson Wagonlit Travel has licensed a customized version of
9 SideStep for their travel agents that fully integrates special
10 nonpublic travel inventory in addition to displaying webfares and
11 published fares.

12 Additionally CWT's edition of SideStep has a
13 customized to display with additional information of interest to
14 their travel agents. As long as webfares are available to
15 systems like SideStep, all types of users will be ensured access
16 to the widest range of inventory at the lowest possible cost.
17 Whether using our free standard version or a customized licensed
18 version, SideStep makes it easy for consumers and travel agents
19 to access the broadest variety of inventory, including webfares.

20 Thank you very much for your time and attention.

21 CHAIRMAN WINSTEAD: Brian, thank you.

22 I'm sure the other Commissioners have got
23 questions.

24 Can you explain a little bit under your business
25 model on the revenue and profit side in terms of how you're

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1 earning money and sort of where the payments are coming from in
2 terms of your customers. And then also tell us a little bit
3 about the -- if you're willing to -- fee structures.

4 MR. BARTH: Yes. Well, actually it's probably a
5 long discussion, and there's a lot of -- let me just kind of
6 broadly categorize it for you, --

7 CHAIRMAN WINSTEAD: Sure.

8 MR. BARTH: -- which is that generally we are paid
9 by the companies that we search and sell travel services for.
10 And, for example, for our consumer model it has to be that case,
11 because it is free for the consumer.

12 For our licensed versions, like for example Carlson
13 Wagonlit, you know, they paid for a customized system which is
14 actually really slick and they've been having really good
15 metrics, that it's saving their travel agents a lot of time and
16 productivity overall. And, of course, in that case there's a
17 number of sources of inventory that are private to them. It is
18 internet connected. That's the common theme.

19 But those systems, of course, we, you know,
20 wouldn't be paid. These would be private systems of various
21 sorts for their purposes. So it's kind of the general flavor of
22 it. You got to remember that, you know, when we have 130
23 different suppliers in our system, and adding all the time, and
24 we have quite a few different customized versions of our system,
25 there's an awful lot of arrangements out there. But, you know,

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1 the majority of our revenues are generated by referral fees to
2 the companies that we sell travel with.

3 CHAIRMAN WINSTEAD: Okay. There's been some
4 comment in prior hearings about the web search systems that
5 you're using, and you understand this perhaps better than I do,
6 the screen scraping technology that imposes, some have commented,
7 a resource burden on the airlines and the CRS systems. Is that
8 something that has been applied in the past, or...?

9 MR. BARTH: Yes, you know what? That actually is
10 really dependent upon the partner and their particular systems.
11 The trend going forward is that that is probably a very
12 short-term sort of problem in that if you kind of go and look
13 what's happening across the industry there's all of these systems
14 called off-host faring systems, where it's, you know, essentially
15 what ITA has done where they're doing all of the searching
16 completely independent of the booking process.

17 I mean, there's more projects, if you go talk to
18 people, underway for off-host faring systems than you can
19 probably count easily. And, you know, it's mainly because the
20 need has arisen because people are generally searching a lot more
21 than they used to. And so the problem is being solved. But it
22 doesn't mean that there haven't been some justified concerns.

23 For example, if you had a website and you foolishly
24 signed an agreement to pay somebody a nickel a search, you know,
25 just because that was sort of the old way of thinking, well, it

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1 was justified that, you know, until you renegotiate and kind of
2 get with the new way of doing things, you probably have a
3 legitimate claim.

4 Going forward with that that's really not going to
5 be a valid claim. If you look at -- you know, the cost of these
6 systems is incredibly low. They are very scalable. They're all
7 based on very low-cost hardware.

8 For example, you know, Intel is busy, you know,
9 down the Peninsula building cheaper and cheaper processors all
10 the time. I mean, search is going to become almost free, from a
11 cost perspective.

12 CHAIRMAN WINSTEAD: In American Express' testimony
13 they talked about the airlines that, you know, can change the
14 ability of your technology to access fares in really the flip of
15 a switch. And has that actually happened in your case?

16 MR. BARTH: Say that again?

17 CHAIRMAN WINSTEAD: In terms of the ability of the
18 technology to access the fares, in terms of the airlines being
19 able to basically cut off that technology; is that a concern that
20 you have?

21 MR. BARTH: Well, I think one of the things that
22 would be interesting to compare, because our model might be a
23 little bit different than a lot of these guys.

24 For example, for us the bigger issue, you know,
25 we're not sort of out there trying to take fares that we don't

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1 get paid on. So we have a little bit of a less of an issue with
2 that where we're -- you know, for example so the models are that
3 you take the fares and you add your own mark up to them.

4 For us, you know, there's sort of a whole series of
5 technology issues where, you know, you can shut people out. And
6 then there's ways around that. And there's this continual
7 cat-and-mouse.

8 Where that ends, I don't know from a technical
9 perspective. From a practical perspective for us, since we're in
10 business and trying to get paid, you know, clearly that's our
11 primary issue.

12 CHAIRMAN WINSTEAD: Thank you. I appreciate it.

13 Let me turn to the other Commissioners.

14 MS. ROGGE: I have one. When you the focus on the
15 consumer model, which is one of the things that the Commission is
16 very focused on, is the consumer information and choice. And,
17 you know, I'm familiar with your product. And how many users do
18 you have that are SideStep customers, I guess?

19 MR. BARTH: Yes. We have about two million people
20 who have come and found SideStep and installed it. And we
21 consider about half of them really active travel shoppers. So we
22 have a pretty good number of people who are using it.

23 MS. ROGGE: And really just kind of the record,
24 because I'm not sure how familiar everyone is, you might take us
25 through the process for what a customer does as far as

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1 downloading it to their own computer at home.

2 MR. BARTH: Yes. It's actually -- most people -- I
3 would say that there's probably a large portion of people who
4 don't even realize that it's not just a website because we've
5 tried to make it extraordinarily easy to use.

6 But you simply go to SideStep or there's a lot of
7 other airlines, and rental car companies, and hotels that have
8 been sending it out on our behalf just because they like the
9 system.

10 And you click on a button. It actually installs in
11 the side panel of your web browser. And what it does is it goes
12 and it pulls together a summary of all of this information from
13 all over the internet.

14 And the thing that's very different about us is
15 that we don't actually -- we're not the merchant of record. We
16 don't take the booking ourselves. We actually just help navigate
17 the person to a convenient point to make the purchase. So that
18 is something that's a pretty big difference between the way our
19 system works than a lot of the ones you might be familiar with.

20 MS. ROGGE: And does the consumer know -- yes, that
21 answers my question -- and does the consumer know, you know,
22 sitting at your desk at home, are they aware of the fact that
23 you're searching through some of what is out there as the supply,
24 but perhaps not all?

25 And the reason I'm asking that question is that

1 there's been a lot of testimony and discussion about the consumer
2 having access to everything all at once. And is that really
3 feasible, or will consumers need to, you know, check more than
4 one thing?

5 MR. BARTH: Yes. And I think from a practical
6 perspective at the moment we think we have, and we can't really
7 find anything that isn't just some very, very small niche thing,
8 or that isn't sort of already in our pipeline that we feel like
9 we're missing. Although, you know, it's hard to say what the
10 future has in store. But right now I think we believe you can --
11 I mean, I don't know of anything that you can't get through our
12 system.

13 MS. ROGGE: Okay. And then one last question.

14 When you were talking about the travel agency
15 product, how many travel agencies do you -- beyond the customized
16 product for Carlson, how many do you have, like independent
17 agencies, small agencies that have access to your product?

18 MR. BARTH: Well, we know, and this is a lot more
19 hearsay than any statistical measurement that we take in, is that
20 there's a lot of travel agencies. Essentially it's, you know,
21 we've heard -- they send fan mail from time to time saying, "We
22 love your system. It seems to work -- you know, it works really
23 well."

24 As a matter fact, just last week somebody sent me
25 something off some travel agency bulletin board that was posted.

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1 They said they really like it and they are using it. And most
2 people as -- I think the smaller agencies are feeling like the
3 free version that's essentially the same as what consumers use is
4 meeting their needs. And, of course, we're open as time goes
5 forward if there's, you know, features or things that we need.

6 And essentially what we did is we -- you know,
7 we're really technology people by background rather than travel
8 people. And we try to step back and build, you know, kind of the
9 best system we could think of. And, you know, we're actually
10 finding a lot of different are people using it. And we're really
11 happy. And it's really remarkable, the fact that since we
12 haven't really done any marketing, the fact it is, you know, in
13 this age of all of this marketing noise, that as many people have
14 found us as they have.

15 MS. ROGGE: So part of that two million subscriber
16 group that you talked about, many of those are actual businesses
17 that just use it as a consumer would?

18 MR. BARTH: Um-hum.

19 MS. ROGGE: Thank you. Thanks.

20 MR. BARTH: Hey, you're welcome.

21 CHAIRMAN WINSTEAD: Thanks, Brian.

22 Pat.

23 MR. MURPHY: As I understand then, you're not a
24 travel agent, internet travel agent? You're --

25 MR. BARTH: No.

1 MR. MURPHY: Okay.

2 MR. BARTH: Um-hum.

3 MR. MURPHY: So do you have -- because you merely
4 connect the user with the provider you do not, for example, have
5 telephone, people do not call you and ask questions about the
6 product, do they? You just hook them up with the ultimate
7 provider?

8 MR. BARTH: Exactly.

9 MR. MURPHY: Okay. And with the kind of growth
10 you're experiencing, congratulations on that, and the popularity
11 of your site. I mean, do you have a vision for where all this
12 takes the small travel agencies? Do you have any sense of how
13 they're going to adapt, adjust to all of this technology coming
14 their way?

15 MR. BARTH: Yes. Well, I was afraid I was going to
16 bore everybody with that little Web Services to comment. But I
17 think perhaps a lot of people in the travel industry don't fully
18 realize and appreciate what's happening there.

19 There is a massive movement happening in -- you
20 know, essentially the first generation of the internet was
21 getting, you know, content out to people. And this next
22 generation that's happening is getting computers talking directly
23 to computers that are spread out all over the place.

24 And the reason why this is going to work so well is
25 that even software companies which tend not to want to be

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1 cooperative together, you know, for example, you know, listing
2 out a company like Sun Microsystems and Microsoft. I mean, there
3 are really important elements of this that everybody is in
4 agreement with.

5 As a matter of fact, you know when I mentioned the
6 Dollar Rent-a-Car connection that we've been running for a while,
7 that actually -- they use a completely different operating
8 system. They use a different type of application server than we
9 do. Their entire system is different, yet there's a
10 standardization happening in this language of communication that
11 is really going to, I believe, change everything fundamentally.

12 And I think, you know, quite frankly, there's a lot
13 of people, you know, on the technology side of the industry that
14 see this coming. So they're really are some very, very big
15 things afoot that are going to have a big impact on distribution
16 costs and how all the capabilities of all these systems.

17 MR. MURPHY: That's helpful and makes our job way
18 more complicated, but thank you.

19 MR. BARTH: I'm sorry about that.

20 (Laughter.)

21 MR. MURPHY: Do you have any recommendations for
22 the role of the federal government here, or do we just step back
23 and let all this evolve? What are your thoughts?

24 MR. BARTH: Well, it's very hard to say really
25 because from our perspective, you know, we don't see any

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1 particular problems at the moment. It doesn't necessarily mean
2 there won't be.

3 So, you know, I really can't give you a particular
4 recommendation, except I think it's to apply a lot of the type of
5 internet principles that are just sort of commonly thought of
6 which is that, you know, information should be made available and
7 that, you know, as long as information is publicly available and
8 kept that way, then this will all sort itself out, I think. I
9 mean, the force of what's going on in the technology in there
10 right now is so strong that, you know, I really think that that
11 is going to take care of it.

12 MR. MURPHY: Thank you.

13 CHAIRMAN WINSTEAD: Great.

14 Maryles?

15 MS. CASTO: I have a couple of questions for you,
16 Brian.

17 MR. BARTH: Yes.

18 MS. CASTO: Thank you, by the way.

19 MR. BARTH: You're welcome.

20 MS. CASTO: First, have you found that the airlines
21 have denied access to their internet fares by your system, by use
22 of your system?

23 MR. BARTH: Well, you know, we know that there are
24 some airlines that some of their -- you know that seems a little
25 incongruent in their position.

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1 The thing from our perspective is because we have a
2 complete system, or we have, you know, through, you know, one
3 channel or another access to all of the webfares and everything,
4 it isn't an issue that we've really taken up. But you'll
5 certainly -- in fact, I think the other guys were planning on
6 making some comments about that. In a model where you want to
7 get paid on the buyer's side as opposed to the supplier's side, I
8 think, you know, you really do have to pay a lot more attention
9 to those kind of issues.

10 MS. CASTO: Okay. Does SideStep integrate with a
11 back office?

12 MR. BARTH: No.

13 MS. CASTO: And how does it integrate?

14 MR. BARTH: I'm probably the wrong guy to ask,
15 because I'm the least knowledgeable about travel agent systems.
16 But we know that -- we've done some modifications, for example,
17 for this Carlson Wagonlit system. We know that some travel
18 agents use us and just type the information. I don't know
19 exactly how their systems work.

20 And, in general, you know, we know the direction is
21 to make things easier to use. And as a matter of fact I think
22 that's probably a great question for Les, because I think they've
23 done a fair amount of that, not to put words in his mouth. So,
24 you know, I think these are all things that can be done very
25 well.

1 MS. CASTO: Okay. That's about all the questions I
2 have now.

3 CHAIRMAN WINSTEAD: Okay, great.

4 MS. MITCHELL: Brian, congratulations on being one
5 of the internet companies that makes money.

6 MR. BARTH: Thank you.

7 MS. MITCHELL: Really unique these days.

8 You mentioned that, in answer to Pat's question
9 about the government involvement, you thought that information
10 should continue to be made available?

11 MR. BARTH: Yes.

12 MS. MITCHELL: What is your view on some pretty
13 powerful groups of people getting together to control information
14 on the internet?

15 MR. BARTH: Yes. I think from our perspective, we
16 haven't, you know, I mean, like when you refer to groups, you
17 know, whether it's Orbitz, that you -- yes, this is something.
18 We've actually found them all to be surprisingly helpful and
19 cooperative.

20 To tell you the truth, I would actually think that,
21 you know, where some of these questions might reside more is with
22 the motivations of some the carriers themselves. But from, you
23 know, all of the other parties, you know, we haven't actually --
24 that's not been our experience. The question as to what the real
25 motivations for all the airlines are for that, now you've got

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1 something.

2 MS. MITCHELL: Okay. Thank you. So as long as
3 you're directing people to their website, they're real happy
4 about that?

5 MR. BARTH: Yes.

6 MS. MITCHELL: Okay.

7 MR. BARTH: As a matter of fact, actually we have
8 an abundance of people who are interested in having that help,
9 yes.

10 MS. MITCHELL: All right. You referred to XML and
11 the Open Travel Alliance. Would you explain how you would use
12 XML, please?

13 MR. BARTH: Yes, sure. As a matter of fact what
14 XML is, and its actually really -- you know, this is something
15 that is -- you know, a lot of times there will be technologies
16 that you ask yourself, is this something, is this sort of flash
17 in the pan, or is this something that really looks like it's
18 going to be a core piece of the puzzle for long time?

19 I would, you know, venture out to say that XML, you
20 know, pretty much without a doubt is pretty, you know, widely
21 embraced by just about everybody. And that what it really is is
22 just simply a very flexible way of being able to exchange
23 information between, you know, computers on the Internet.

24 MS. MITCHELL: Yes.

25 MR. BARTH: And the nice thing is, you know,

1 basically everything can get plugged into the internet these
2 days. But the next question is can you actually make it talk and
3 have everybody speak to sign language?

4 So that the layers of the puzzle are, one, you've
5 got to get everything wired together. That's sort of step one of
6 the internet. The next, the second thing is you got to get them
7 so they can sort of send messages back and forth. And then where
8 the Open Travel Alliance fits into that is to try to, you know,
9 for example, maybe we both speak a language, but I'm speaking
10 French and you're speaking German. I mean, that's kind of that
11 next layer that the Open Travel Alliance is looking to address.

12 And, quite frankly, it will certainly be wonderful
13 when that all gets straightened out. We actually haven't found
14 that to be a huge impediment because, for example, a lot of the
15 people that -- we are actually using XML with a number of our
16 partners. They aren't all speaking the same language. We've got
17 one speaking French, and Italian, and Japanese, essentially in
18 that metaphor. And it still works just fine. As a matter of
19 fact, it works very well.

20 MS. MITCHELL: Would you hazard a view on whether
21 or not the airlines at some point would be able to bypass the CRS
22 systems entirely using XML technology?

23 MR. BARTH: Oh, it's not that they really should.
24 And technically they should be very capable of doing it in that a
25 lot of the systems that they're using to build their web

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1 platforms on, for example, you look at, you know, IBM and their
2 WebSphere, or BEA WebLogic. All these servers that they're
3 actually building this on, they're building Web Services into it.

4 I mean, it's a "gimme" feature that not only can people talk to
5 the system, but so can another computers.

6 The real question is going to be what all of the
7 other motivations are. I mean, what it's going to solve is that
8 it technically is possible that it will be extraordinarily low
9 cost. And then there's all kinds of other issues. And that's
10 really going to be the test as to, you know, how do people behave
11 now this *Brave New World* has been enabled.

12 MS. MITCHELL: Are there privacy issues involved,
13 or are there ways to control access to certain information?

14 MR. BARTH: Yes. Well, first of all, the access is
15 a little bit different than privacy, so I'll take them both.

16 Privacy and security are generally taken care of.
17 I mean, there's great security in encryption and all that. And
18 so, you know, for example, losing your credit card, or the kind
19 of things that people sort of worry about, I think everyone's
20 sort of finally come to the realization that isn't really a big
21 issue.

22 As far as, you know, access I mean, one of the
23 promises of the web is that you actually can change your answers,
24 or what you do, based on who's asking. And the web is an
25 incredibly powerful CRM or one-to-one marketing vehicle. So, of

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1 course, you could use that in a variety of ways. And who knows?

2 MS. MITCHELL: Okay. Thank you very much.

3 MR. BARTH: Sure.

4 CHAIRMAN WINSTEAD: Paul?

5 MR. RUDEN: I'm interested in two aspects, I think,
6 of what you talked about it.

7 One was the notion that this is essentially -- that
8 information searching is free or nearly free. We've heard that
9 before about the internet. And a lot of companies built a
10 reputation on the notion that what they were doing essentially
11 had no cost. But there are costs. And you had to invest money
12 in programmers, and so forth, to build this thing which is now
13 available for download to consumers free, and to travel agencies
14 in some cases.

15 MR. BARTH: Um-hum.

16 MR. RUDEN: And you're recovering the cost of that.
17 You've chosen to recover the cost under your model by having the
18 suppliers pay you. Am I right so far?

19 MR. BARTH: Um-hum.

20 MR. RUDEN: Okay. So in that sense someone pays.
21 I mean, this is not free?

22 MR. BARTH: Right. I mean, actually --

23 MR. RUDEN: It wasn't a cost-free activity?

24 MR. BARTH: -- there is no free lunch, correct.

25 MR. RUDEN: Yes, okay. We're in agreement on that.

1 MR. BARTH: Actually, well, maybe to say that, "the
2 almost free," or -- I think it's the *de minimis* part of it that's
3 important. In fact, one of the things -- this should probably be
4 verified -- but, for example, it's my understanding, you know,
5 ITA, for example, which, you know, sells and is licensing their
6 search system to a lot of different companies, my understanding
7 of how they price it is on a booking basis, not on a search.

8 And I think that's a really interesting data point
9 in that, you know, people can do a lot. You know, what they're
10 really trying to do is recover their investment, you know, the
11 fixed-cost element of this investment. But on a variable cost
12 basis I think what the message is, if I'm not misreading it, is
13 that, you know, it's very, very low.

14 I mean, these are inexpensive processors. You
15 know, as we know what the telecom companies bandwidth is quite
16 inexpensive these days. And I think that's the message. And I
17 think you're absolutely right in saying, you know, you still --
18 the expensive part of all this is you need to get a lot of really
19 smart people to build these pretty, you know, big, brave, new
20 software architectures.

21 MR. RUDEN: All right. Well, then from a supplier
22 point of view, they see this thing that you've built that, if I
23 understand it right, I download it on a computer. Let's say I'm
24 a small business, an agency, a travel agency. I download it to
25 the office computers. I have an inquiry from a customer. I can

1 use the software to search the Web. I have a CRS I can use to
2 search the CRS database.

3 MR. BARTH: Yes.

4 MR. RUDEN: And if the decision that the customer
5 makes, with the agent's help, is I want to book this particular
6 thing on the web because you found perhaps a lower price. Your
7 software takes the agent to that website. And they then transact
8 business as if they were the customer.

9 MR. BARTH: (Nodding head up and down.)

10 Um-hum.

11 MR. RUDEN: And --

12 CHAIRMAN WINSTEAD: Speak up.

13 MS. ROGGE: You can say yes --

14 MR. BARTH: Oh, yes.

15 MS. ROGGE: -- for the recorder.

16 MR. BARTH: Okay. Thanks. Nodding doesn't work.

17 Okay.

18 (Laughter.)

19 MR. RUDEN: And the suppliers are cooperating with
20 you. In what sense do they cooperate? Well, what is the nature
21 of the cooperation that you require from them in order to make
22 that happen?

23 MR. BARTH: Well, the nice thing -- so there's sort
24 of the two parts of it. There's a technical part and a business
25 part.

1 The technical part, one of the reasons why our
2 system has been so successful is we've made it extraordinarily
3 easy for people to participate. Basically, you can be in our
4 system without having to make any changes technically to yours.
5 We've never encountered a system that we couldn't connect and
6 integrate successfully.

7 From a business perspective, you know, we need to
8 have some model or some way of being able to generate revenue if
9 we're going to provide it free to the buyer. And so that's the
10 business side of it. And we need to negotiate something. And I
11 think, you know, the general thing, from our perspective, is that
12 we -- you know, our primary cost aside from, you know, some of
13 the technology development it is, you know, going forward, going
14 to be attaining reach.

15 And I think that generally if you look at what the
16 expensive pieces of the internet are is, you know, getting the
17 word out to people. And, for example, a lot of people have --
18 and perhaps some of you haven't even heard of us before.

19 MR. RUDEN: Well, that kind of goes to what I'm
20 trying to explore a little bit here. The airlines have invested
21 in Orbitz. Orbitz, you don't have to download it, but you can go
22 there and it purports to give you the web. And it purports also
23 to give you the CRS component.

24 MR. BARTH: Um-hum.

25 MR. RUDEN: And you book it in Orbitz instead of

1 going to the website. But fundamentally, if you're a travel
2 agent, you still have to pretend you're the customer to conclude
3 that booking. So they have a device that does essentially what
4 your device does insofar the air part is concerned.

5 I'm right so far?

6 MR. BARTH: Well, actually there are a lot of
7 important differences. But I don't know how much the whole
8 Committee wants to hear about it.

9 MR. RUDEN: Well, I'm not interested in the
10 technical differences. I'm interested in understanding why the
11 airlines cooperate with you, why they pay you, and what might
12 cause them to stop paying you?

13 MR. BARTH: All right. Yes. Well, and that's
14 actually really what I was driving at in a lot of my comments,
15 which is that we think that the benefits of our system are just
16 so obvious. And it's not like it's closed. I mean, it's very
17 clearcut. I mean, it's very low cost. It's very efficient. You
18 got the customer on and on and on.

19 As a matter of fact, any other issue that anyone's
20 ever come up with -- for example, we've got a search cost issue,
21 or something, we say, "Okay. Well, we've got a solution for it."

22 And so that's not to say that we -- you know, all
23 will be well, because there, you know, may be other issues. We
24 don't know what they are yet, though, if they are out there.

25 MR. RUDEN: Well, is your cost to the suppliers,

1 the airlines suppliers, less than the cost to them of Orbitz, as
2 you understand it?

3 MR. BARTH: Yes, as far as I know.

4 MR. RUDEN: Significantly less?

5 MR. BARTH: I believe so, yeah. But, again, I
6 don't purport to be an expert on what everybody is paying to
7 everybody else in the industry, either.

8 MR. RUDEN: All right. Okay.

9 MR. BARTH: But I mean I think we generally
10 endeavor, and we intend to do this, going forward. You know,
11 perhaps it's our background of being technologists. I mean,
12 we've been here in Silicon Valley, a lot of people, the company,
13 for, you know, quite some time. And, you know, the general
14 trend, when you're a technology company, is you better be
15 delivering a lot more performance of a lower cost on a pretty
16 regular schedule or you're going to not be around for much
17 longer.

18 And I think that kind of the era that were entering
19 now is that the internet, because it's managed to get all this
20 stuff connected, we're kind of at the cusp of something new and
21 different where, you know, really new things can happen. That's
22 my perspective.

23 MR. RUDEN: Thank you very much.

24 MR. BARTH: Okay. Your welcome.

25 MR. RUDEN: Thank you, Mr. Chairman.

1 CHAIRMAN WINSTEAD: Okay, Paul.

2 Fine, thank you very much. Appreciate your
3 response.

4 I think, Dan, if we could go to you on the agenda.
5 You're next.

6 MR. KO: Sure.

7 CHAIRMAN WINSTEAD: And then finish out with the
8 Les.

9 And I'm sure there are questions that, you know,
10 that some of you would like to respond to that are being asked of
11 Brian, so we'll open up afterwards.

12 MR. KO: Well, thank you again for inviting me
13 here. I'm very excited to speak. And it was very interesting to
14 hear what American Express had to say, what Brian had to say.

15 CHAIRMAN WINSTEAD: Please state in the record your
16 title and name.

17 MR. KO: Sure. I'm founder and CEO of Qixio, Q-i-x-
18 o. And I'll do just a quick background on myself, because I
19 think it might be relevant to this discussion. My background, I
20 actually used to be an attorney for a few years. And then I got
21 into a software business. And I got into a consolidator, airline
22 consolidator business, by accident, four years ago.

23 My friend dared me to make this booking engine for
24 airline consolidator fares, which -- the booking engine didn't
25 exist, you know, four or five years ago. So I thought that seems

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1 kind of easy. So I tried it, and we figured out how to do it.
2 And it turned out to be a pretty well-known success. We sold our
3 system to consolidators for huge amounts of money.

4 And the company is called, by the way, Patheo. I
5 don't know if you've heard of it. By now we have thousands and
6 thousands of travel agents are either using our engine to find
7 consolidator fares, or they put this consolidator fare engine on
8 their website. So that's the background that I come from.

9 And two years ago I was, you know, very excited
10 that our engine searched, you know, kind of like, well, not just
11 those now with webfares, it searched about 20 consolidators
12 simultaneously which was a big deal, because a typical travel
13 agent had access to maybe two consolidator fares, by phone, two
14 consolidators. Now we're searching 20 of them simultaneously.
15 So I thought we got it, we're going to kill Expedia, and so
16 forth, that was very exciting.

17 (Laughter.)

18 MR. KO: And then what I find out was that the
19 webfares were actually kicking our butt most of the time in the
20 domestic fare area. By the way, in the international fares,
21 those consolidated fares could not be beaten even to this day.
22 Even to this day, consolidated fares are much better, you know,
23 than the webfares. We do comparison, you know, on a weekly basis
24 of all the fares. So we have a very good understanding of the
25 various price structures.

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1 But in the domestic area I realized that
2 consolidated fares were virtually nonexistent. And the webfares
3 were much, much cheaper and there were more of them. They were
4 increasing every day. So that's why I decided to get into this
5 business of searching webfares instead of consolidated fares,
6 because I saw the future there. And thankfully, you know, it
7 turned out to be a correct, a good bet.

8 So that's how Qixo started two years ago. And we
9 launched in September of 2000. And we actually beat SideStep by
10 two months. We were the first to launch. And, you know, just
11 like SideStep, we got written up in a lot of press. Just, you
12 know, no marketing but space unique to the product we got
13 millions of users over the last two years. We are also very
14 profitable. Our revenues have grown more than a hundred percent
15 every year.

16 So I think the fact that I know nothing about
17 marketing and this company has grown in revenues tremendously,
18 you know, speaks a lot about, not only the product but the
19 concept, which is that the webfares collectively are very
20 compelling.

21 And just about how Qixo makes money is very
22 different from SideStep. We actually make nothing from the
23 airlines or the websites that we search. We make money by
24 charging customers service fees. We started out with \$10 per
25 booking. And we tried, "Okay, let's change it to \$10 per

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1 ticket." And people are still paying. And we said, "Okay, let's
2 charge \$20 per ticket." People are still paying. So we're at
3 around \$20 per ticket at this point. And because the savings are
4 so significant people are still paying.

5 Another distinguishing factor about our company is
6 that we focus primarily on airfares, because that's where we
7 found how compelling our value proposition is for consumers.
8 There are, to be exact, 27 sites that really have deals that
9 really matter.

10 And that includes Expedia, Travelocity, Orbitz, in
11 addition to AA.com, United.com, and so forth. Now to be able to
12 search these 27 sites faithfully, every single time you come in
13 and search is a very difficult task, because sites change
14 constantly. So we have to make sure that our engine -- our QA
15 team in place to make sure that we upgrade and make sure that,
16 you know, if AA.com changes, then we adapt and make that changing
17 effective within hopefully hours, so we don't miss any good
18 fares.

19 So there's a lot involved. And we'd like to, I
20 guess, you know, take pride in the fact that we really are
21 focused on the airfare business, because there is so much to be
22 done there.

23 Now out of the 27 sites, I'll go into a little more
24 details about what is involved in searching the 27 sites, not so
25 much from the technology point of view, I think Brian covered

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1 that really well, but more on the business end.

2 Okay, so do we get blocked? Yes.

3 Do we get cease-and-desist letters? Yes.

4 Are we working with some of them to maybe work out
5 a different deal? Yes.

6 So as a result of that we're not searching all 27
7 sites all of the time. Three sites, including Expedia, HotWire,
8 and AmericanAirlines.com, we intentionally do not search.
9 Expedia, mainly for legal reasons. HotWire, for strategic
10 reasons. All the HotWire searches are amazing. We don't search,
11 you know, because we have other strategic relationships now.
12 American Airlines, we're talking to them about arranging a
13 different deal.

14 Now there are two other companies that I'm not
15 going to mention their names, who are just mainly resorting to
16 blocking just using technology. And is that easy to get around?

17 Well, it was tough, because it constantly evolved. But to do we
18 get around them 50 percent of the time at this point? Yes.

19 We are constantly enhancing our technology so that
20 we get around the block a hundred percent of the time. As long
21 as they're going to implement a technology to block us, we're
22 going to do the same to get around the block. And the reason for
23 that is because our valued proposition is, you know, is to find
24 the best fares for the consumers. And we regret that we can't
25 search those last three.

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1 But my understanding is that, you know, no one else
2 in the industry is actually searching as many as we do, because
3 we're not making money from these websites. We make money by
4 finding the cheapest fare not, you know, not by just searching
5 maybe 10 or 15, but trying to search every 27 as often as
6 possible.

7 So I just wanted to point out the difficulty in
8 searching all those 27 sites and the value. And this brings up
9 another point of, well, if you just -- you know, this is about
10 Orbitz having too much leverage in this business.

11 But if you think about that and the fact that we
12 are going out of our way to try to search as many sites as
13 possible, you know, that says something. Basically what that
14 says, and we have, you know, plenty of data to prove this, is
15 that Orbitz does not have the best fares all, you know, not even
16 the majority of the time. Yes, they do have, you know, very
17 significantly. Based on certain itineraries that we tested it
18 was about 40 percent.

19 But the 60 percent were, you know, Expedia,
20 Travelocity. And Expedia has actually a lot of deals that even
21 Orbitz doesn't have, special deals. So it's hard to say that --
22 you know, it's a separate point.

23 But I don't see how, you know, making Orbitz put
24 its fares into this GDS system, and so on, really makes the life
25 that much better for the travel agents, because travel agents

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1 will still have answer when the customer says, "Well, you know, I
2 found this great fare on Expedia, you know, that's half of, you
3 know, what you found."

4 So, you know, it all goes to the point that even if
5 the airlines themselves are giving deals to Orbitz we often find
6 that, you know, United.com, for example, has fares that Orbitz
7 doesn't have, and so on. Not only Expedia, but the very airlines
8 like American Airlines and United Airlines, who are owners in
9 Orbitz, do not give all their fares.

10 On to the next point our engine is, our technology
11 is unique also because it comes with a booking engine. We don't
12 send you to the site where the fare came from. We actually give
13 you our interface. See, it feels like you're just always using
14 our engine. And then our booking engine on the back end
15 interfaces with Orbitz, and so on, to complete the booking
16 engine.

17 So that's a very important distinction between Qixo
18 and other players. But we do make it clear to the customer that
19 we are searching the other sites, and that we are booking on
20 their behalf on these other sites. And the consumer has no
21 choice, because we don't tell them where we got the fare from.

22 And, lastly, well, this is actually a third point,
23 we actually started out as a consumer company, and we've had a
24 lot of success. But purely by demand from the travel agents we
25 launched a travel agency product. And we launched it two months

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1 ago, you know, using the same search and booking engine
2 capabilities. But, in addition, we have a lot of the back end
3 integration features.

4 We allow an agent to book on our site and they can
5 track all their bookings. You know, if they were to book as a
6 consumer they would not be able to track all their bookings. But
7 an agent can book through our system and they can have -- if it's
8 a travel agency, the travel agency can create a 20-member profile
9 so that all their agents' bookings can be captured into one
10 database. So it's a complete tracking tool as well as a search
11 and booking engine.

12 And I don't know if you've heard of a company
13 called TRAMS, which is probably the most well-known company, a
14 back end company, for the travel agency business. We are one of
15 their -- probably the -- right at this point we have a product
16 actually out with TRAMS' product that integrates TRAMS' profiling
17 system with our engine. And also a company called Nexion, which
18 has thousands of travel agencies as their members. Nexion is
19 also a technology company. And there's also the similar kind of
20 integration and partnership there.

21 So it seems like we're moving ahead in the travel
22 agency arena as well, especially because of our new features.
23 And we don't have a customized version for one or two travel
24 agencies. We have a generic version that especially the small to
25 mid-size travel agencies can use. And we've signed up in the

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1 last two months hundreds of travel agencies already.

2 And, lastly, and this is -- I'm just kind of
3 answering also the questions that came up so that, you know, you
4 don't have to ask --

5 MS. SPEAKER: You'll save time.

6 MR. KO: Yes, exactly, save time and because those
7 are very good question. And I wanted to answer the right there
8 but, you know, it's not courteous.

9 Just about, you know, the vision of what all this
10 means for the travel agencies, you know, Qixio will have to
11 struggle with that, you know, theoretically, technologically and,
12 you know, realistically. And we really think that the internet
13 fares, the webfares will continue to thrive. There will be more
14 and more of them. And we don't think that including Orbitz and
15 the GDS itself will really cure for the problem, because more
16 than 50 percent of the time the consumer will be able to find
17 fares that are cheaper than what the travel agent finds, even if
18 the travel agent has access to Orbitz' fares.

19 So what we think the answer is for the travel
20 agents to slightly change their way of doing business. You know
21 this is, based on our observation, the travel agents are used to
22 getting the access to those itineraries and prices within seconds
23 through Sabre. And we've seen how it's done. I mean, it's very
24 fast. They're very good at it. With a few keystrokes, they can
25 search, you know, a lot of fares that are within the GDS.

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1 And it's not as the American Express VP pointed
2 out, it's not -- technology, yes. It does take time with even --
3 when we perfect our technology and dot search every 27 sites, and
4 do it really fast, it will still be about a good two minutes
5 until you get all fares.

6 And the travel agents don't seem to understand
7 that, don't want to understand that. And we think that's the
8 problem. And it's our duty to educate the travel agents, but I
9 think the real solution is for travel agents to adopt technology
10 like SideStep, Qixo, and AgentWare and understand that it takes a
11 minute or two and that is valuable to the customer to be this
12 way. And as a result they will earn the respect, because they're
13 taking the time, and they're using new technology to really save
14 fares. Just by waiting that extra minute they could really save
15 some time, hundreds of dollars, for their customers. And the
16 customers will appreciate that.

17 And as a result of doing that, the experience that
18 the consumers will get from the travel agency is that, okay,
19 travel agents may take a few minutes, but consistently they'll
20 find that, wow, the travel agent always has either beaten what I
21 found or has always matched it. And that's the experience I
22 believe that travel agents can create once they change their
23 habit a little bit.

24 And, yes, the webfares are going to continue to --
25 I think the internet bookings are something like 20 percent right

1 now. But, you know, the industry analysts say it's going to go
2 up to 40 percent. So I think that's going to happen, regardless.

3 But I don't think the travel agents will be wiped
4 out entirely. I think there'll be still a huge market for the
5 travel agents, just because there will be a lot of people who
6 just don't want to go to the internet. And I think the travel
7 agents can, you know, potentially thrive in that market by using
8 the appropriate technology.

9 Thank you.

10 CHAIRMAN WINSTEAD: Well, Dan, thank you.

11 With your indulgence, you mentioned that answered,
12 responded not only to testimony, which we had, but to a lot of
13 the questions that were raised.

14 MR. KO: Right.

15 CHAIRMAN WINSTEAD: With your indulgence, I'd like,
16 Les, if you could present your testimony?

17 MR. OTTOLENGHI: Sure.

18 CHAIRMAN WINSTEAD: And then if there are questions
19 we can come back to the panel.

20 Thanks. If you could just state your name for the
21 record?

22 MR. OTTOLENGHI: Certainly, absolutely.

23 CHAIRMAN WINSTEAD: And thanks for your testimony.
24 We got it earlier this week. Appreciate it.

25 MR. OTTOLENGHI: Good morning, ladies and

1 gentlemen. My name is Les Ottolenghi. And I am President of
2 AgentWare, which is a travel software company based in Atlanta,
3 Georgia.

4 It's an honor and privilege to appear before the
5 Commission. Therefore, on behalf of my company and myself, thank
6 you for this opportunity.

7 In respect to the time allotted and wanting to have
8 lunch and look out the windows here -- it's a very nice room --
9 I'll abbreviate my written text. And I have some printed copies
10 for any members of the press or other interested parties that are
11 back on the table here at the entrance.

12 In my remarks, therefore, I'll just address really
13 high-level concepts and our specific point of view with regard to
14 your questions. Hopefully we can get a little bit more specific
15 on to the topics you're most interested in.

16 To provide context and background, AgentWare was
17 founded by myself and Mr. Glenn Martin, who is also here today,
18 four years ago. And our activity is really the sale of a
19 software application called Travel Console directly to travel
20 agencies, travel managers, and the businesses they serve.

21 My collective experience, along with Mr. Martin,
22 includes the launching of the first travel website to take travel
23 reservations. That was in 1995 while we worked at Holiday Inn
24 Worldwide.

25 In addition, while I was CEO for Carlson Wagonlit

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1 Travel, and Mr. Martin was head of technology, we developed in
2 1996 the very first web-based reservation system for travel
3 agents. And this system integrated into Galileo and into
4 WorldSpan.

5 Today, outside of AgentWare, I teach at Emory
6 University's Business School and I teach very specifically
7 electronic commerce and IT strategies. And along with Mr. Martin
8 we serve on the Board of Marketing Studies at Cal Berkeley
9 University and at Harvard University.

10 So our latest activities, aside from AgentWare,
11 include two books and some articles written about electronic
12 commerce and travel.

13 As for AgentWare, the company is now the leading
14 provider of the webfare search technology for the travel retail
15 market. Our customer list includes our earlier testimony from
16 American Express. So American Express is one of our customers;
17 along with AAA; the Carlson Leisure Group, which is different
18 than the group that SideStep serves. This is the franchise
19 organization for Carlson. And Metropolitan Travel, UniGlobe,
20 Radius, CI Travel, BTI, and now Galileo GDS.

21 We are also licensing our technology now to IBM.
22 And as well we have become endorsed by ASTA, ARTA, and LSSN. And
23 we are co-marketing our product through ASTA. We're also a
24 member of OTA.

25 Therefore, thinking about the talk today, it's

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1 clear from simple market observations and our own experience that
2 the travel suppliers, major airlines in particular, believe that
3 their costs for distributing inventory are too costly,
4 specifically through the GDS. And that these airlines also
5 believe that the connection to the GDS on a technical level is
6 not as advanced as it should be, reflecting the remarks of my two
7 colleagues here.

8 As a result, airlines claim a necessity to develop
9 their own and alternative methods of distribution like Orbitz or
10 their own websites.

11 The bottom line for the travel agent, which is our
12 market, appears that it is the airlines' belief that their
13 reaching the travel agent distribution channel, via the GDS, is
14 too costly, or cost prohibitive.

15 Therefore, the airlines state that they are left no
16 choice but to sell their lowest fares on their own websites or
17 Orbitz and not placed these fares in other systems for
18 distribution.

19 Second point: At odds with the travel supplier's
20 disposition are GDS claims that they have the most efficient
21 distribution network available and are being denied, along with
22 travel agents, the opportunity to access and integrate all travel
23 fares into their systems.

24 Consequently, the GDS state that by denying travel
25 agents a fair competitive playing field consumers suffer. GDSs

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1 alternatively, however, have opened up or support significantly
2 online travel retail sites such as Travelocity and Expedia.

3 For their part and until recently, travel agents
4 have correctly stated that it is not possible for them to compete
5 with webfares that are being offered to the consumers,
6 specifically the ability to search the multitude of sites in less
7 than several hours to ensure any kind of consumer choice, and not
8 to mention the ability to actually book these webfares and
9 integrate these webfares, or reservations, into their back office
10 and front office systems.

11 The travel agents have stated they feel that this
12 situation exacerbates the already dire circumstances in which
13 they are no longer paid commissions. Yet, because they are not
14 able to keep records of bookings and webfares, they're not able
15 to now change their business model and charge service fees.

16 Travel agents have correctly concluded that the
17 lack of easy access and integration severely limits consumer
18 choice and the opportunity for consumers to get the best possible
19 travel choices and reservations.

20 From these different points of view, it is clear
21 that the travel industry in various segments, suppliers,
22 distributors, and the agents, are starting to fragment into
23 multiple channels of distribution and are starting to openly
24 oppose each other.

25 In sum, the consumer is starting to lose out,

1 losing out because they have not been able to choose travel
2 products from their favorite source or their favorite channel,
3 which is the travel agent, who often acts as the only unbiased
4 broker of travel products, the only full service for all choices
5 of travel products and, for that matter, the best service agent
6 for the consumer, a service agent who understands all the rules,
7 all the regulations, and all the different problems associated
8 with buying travel and servicing a travel consumer.

9 Therefore, this has been a problem at least until
10 now. At the consumer level there are clear choices. There's
11 SideStep and there is the Qixo Technology. But for the travel
12 agent there's really only one type of technology. And we
13 happened to have put the first type of that technology into the
14 marketplace.

15 If you'll turn to -- in the documents that I handed
16 out -- your PowerPoint presentation and look at slides 15 through
17 18, you'll see a little bit more of what I mean.

18 Specifically on those slides are screen shots of
19 the Travel Console product that we offer for the travel agency
20 community. If you'll look at slide 15 you'll see that a travel
21 agency using Travel Console can access the application from any
22 computer with internet access.

23 So all that an agency has to have is internet
24 access.

25 Is that slide the correct number for you, Maryles?

1 MS. CASTO: They're --

2 CHAIRMAN WINSTEAD: The numbers are --

3 MR. OTTOLENGHI: Oh, I'm sorry.

4 CHAIRMAN WINSTEAD: No problem.

5 MR. OTTOLENGHI: This is the problem with the
6 printout.

7 My apologies. When these were printed out, they
8 didn't print the numbers.

9 MS. ROGGE: The search screen, you're talking about
10 the search screen?

11 MR. OTTOLENGHI: The search screen is the first one
12 you want to look at, the very first picture on there.

13 My apologies for those of you in the audience
14 trying to follow along.

15 Everybody there?

16 COMMISSION MEMBERS: Yes.

17 MR. OTTOLENGHI: Okay. If you look at that very
18 first screen, --

19 MS. CASTO: Yes.

20 MR. OTTOLENGHI: That's perfect. That's exactly
21 it.

22 Yes. And your second document is the PowerPoint
23 slides, and it should be the picture of our travel search screen.

24 If you look at that screen, very simply a travel
25 agent only needs to enter in the city pair and date, and they can

1 search at least 35 airline sites and 47 air consolidators, along
2 with hotel and car rental companies and, of course, their own GDS
3 session, that is the GDS line that they have pulled into their
4 offices. And they will get as a result a comparison of all those
5 various rates.

6 If you flip over to the next two slides, you'll see
7 that there is, for the travel agent, the ability to choose which
8 of the suppliers they would like to search. And then on that
9 third page you'll see a results page or a results screen which
10 shows a summary table of all the various rates available.

11 By being able to conduct this search across
12 multiple sites with one input and as well to search the GDS, the
13 travel agent is given the capability to fairly compete with what
14 is on the internet and also provide the consumer with a broad
15 range in choice.

16 On the very last slide you will see a series of
17 tabs. When the travel agent would like to actually book travel
18 on behalf of a consumer, our technology provides a means by which
19 the travel agent can actually look at the data as it is naturally
20 represented on websites by just clicking at each one of those
21 tabs.

22 That means that clicking the tab that says, say,
23 Delta, for instance, or Southwest Airlines, they can actually
24 look at the Southwest Airlines or the Delta website. And then
25 they can push a "make booking" button, and they can actually book

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1 directly from that website on behalf of the consumer.

2 The AgentWare Travel Console technology further
3 enables the travel agent to service the consumer by actually
4 recording that reservation directly into the back office systems
5 of any travel agency using any of the major travel back offices
6 or front office systems.

7 So like Qixo, AgentWare integrates into TRAMS,
8 TravCom, and several other of the back office technologies. We
9 also integrate at the front office level, thereby allowing a
10 travel agent to utilize the customer profiles that they have
11 stored in their GDS or in their own separate front office system
12 and automatically populate the reservation forms on those
13 websites in order to make a reservation booking.

14 Of course, the process is better illustrated by an
15 actual demonstration, but given our format today that isn't
16 possible. But I would invite any of the Commission members that
17 if you would like to have an account with AgentWare and have that
18 set up, please just email or give us a call, and feel free to use
19 it as long as you wish.

20 In summary, AgentWare's Travel Console allows the
21 travel agency or even a business to search all the major travel
22 websites, major airlines included, in approximately 10 to 15
23 seconds.

24 Furthermore, AgentWare enables full back office and
25 front office integration, thereby equipping travel agents with

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1 full services for refunds and exchanges as they are available and
2 offered to various websites.

3 Moreover, Travel Console is fully integrated with
4 GDS systems and can be accessed from within a GDS, like Galileo,
5 for example, if an agency wishes to do so.

6 No charges are made to suppliers from webfares
7 driven through Travel Console. The only money that AgentWare
8 receives for the use of this technology is a monthly licensing
9 fee from the travel agency itself, which is approximately \$40 on
10 average per travel agent desktop.

11 Thus, the complete unbiased view of travel products
12 and the channel is available for travel agents through AgentWare
13 and therefore the world of travel webfares is not limited for
14 consumers to buy through travel agents.

15 In conclusion, supply issues, that is, the ability
16 to reduce distribution costs are addressed in a technology like
17 AgentWare. And for the GDS it's a means by which to also include
18 webfares where they are being denied access. And, of course, for
19 the travel agent it is a way to make them more competitive in the
20 marketplace and, of course, able to better serve the consumer and
21 the consumer's broad choices.

22 Thus, it is clear to see that, while major sectors
23 of the travel market are working out their new economics, it is
24 essential that no single or group of travel suppliers be allowed
25 to unfairly control the distribution channels and that the new

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1 technologies be nurtured and supported by all sectors of the
2 travel industry by providing full access to travel information
3 and supporting wide adoption of the advanced lower-cost
4 technologies that both my colleagues have described.

5 Thank you for your time this morning.

6 CHAIRMAN WINSTEAD: Great. Les, thank you and,
7 Dan, both, for your presentation. Also I think for me a lot of
8 these charts are very helpful in sort of breaking down the
9 distribution chain and providing some flowcharts.

10 I'd like to just open it up for questions for the
11 Commissioners. On page 9, Les, you mentioned that, you know, the
12 airlines are kind of going about blocking agencies from marketing
13 reservations on their websites. Can you elaborate a little bit
14 more on that? I think that was in your...

15 MR. OTTOLENGHI: Yes. I believe my statement there
16 is that they're not interested in seeing agencies get a full view
17 of this by making it easy to access the data. In other words,
18 without a tool like AgentWare, you really have to have a tool
19 like SideStep or Qixo.

20 And in the absence of our three companies, the
21 alternative is to surf for a number of hours across the internet
22 and see if you can actually find that fare from Atlanta to LAX
23 that was \$49, or something, you know, just something significant.

24 And I think that's where we're finding that the rub
25 is, that the travel agents aren't given these tools that make it

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1 easy for them to do this type of searching and then integrate in
2 their back office or front office systems since the fares are not
3 loaded in the GDS.

4 CHAIRMAN WINSTEAD: Yes. You just mentioned about
5 the objective of limiting the search process to like 15 seconds.

6 MR. OTTOLENGHI: Right.

7 CHAIRMAN WINSTEAD: Yesterday when we had my
8 education at Casto on this equipment and we had the screens that
9 gave us access to both the web and the CRS, I was told it was
10 like 10 or 15 minutes, or it could be as long as that. Is
11 that...?

12 MR. OTTOLENGHI: Well, I mean there's always a
13 better technology to be found out there. I mean I don't know
14 which technology you were looking at very specifically.

15 CHAIRMAN WINSTEAD: Right. This was in the
16 booking.

17 MS. CASTO: It was --

18 CHAIRMAN WINSTEAD: Yes. This is for the whole
19 booking function, not just the clicking.

20 MR. OTTOLENGHI: Right. Oh, okay. I was going to
21 say 10 or 15 minutes for search, there's certainly more advanced
22 technologies.

23 CHAIRMAN WINSTEAD: That's true.

24 MR. OTTOLENGHI: The booking process, it depends on
25 the automation function of: Can you take the customer profile

1 and actually populate those forms on the website automatically,
2 or do you have to do a lot of navigation between the moment you
3 find a fare, then you step to the process accepting that's the
4 fare and those are the correct, you know, parts of the itinerary
5 that you want to book on behalf of your customer, and then
6 ultimately filling in the screen with their information, and
7 getting back a reservation number, and so on.

8 And early on we faced that issue and came up with
9 the means by which to automate that process so that it isn't 10
10 or 15 minutes; it's anywhere between two and three.

11 CHAIRMAN WINSTEAD: Interesting. Let me open it up
12 to the Commissioners, because I know that both you and Dan have
13 generated some questions.

14 Yes, Ann.

15 MS. MITCHELL: Les, you mentioned that you had
16 recently made an agreement with Galileo, I believe you said.

17 MR. OTTOLENGHI: Yes.

18 MS. MITCHELL: Do you see a future where the GDS
19 would take this kind of technology and make it possible for the
20 GDS system to be more functional for the travel agent and less
21 expensive for the airline?

22 MR. OTTOLENGHI: I believe that is -- I mean I
23 think that's the crux of the matter. It's an excellent question,
24 because Brian made mention of this and so did Dan.

25 If the argument of: Is this the most

1 cost-effective distribution method, meaning going through the GDS
2 and to the travel agent, if that is really a problem, then there
3 has to be a shift to lower-cost platforms of technology.

4 And, in essence, if you're at GDS you've got the
5 issue of trying to cannibalize your present technology platform
6 and, therefore, the way you operate your business and move over
7 to this lower-cost platform. This is an incremental step.

8 And I think the GDS has recognized they have to
9 make that incremental step today. And the first part being
10 incorporating webfares on a lower-cost platform and then start to
11 open up their system to a lower-cost platform of technology.
12 Lower cost not only to the supplier, but lower cost to the travel
13 agent who has to hit productivity hurdles and all sorts of
14 thresholds in order to get this information and equipment in
15 other types of technology.

16 So, yes, I do see that GDS is incorporating this
17 and starting to make that move.

18 MS. MITCHELL: Based on your wide experience with
19 different suppliers, including the airlines, do you have a view
20 on what the airlines really want?

21 MR. OTTOLENGHI: That's an excellent question.

22 I think it depends on the airline. We've received,
23 you know, letters, and we've talked with several of the airlines,
24 major airlines, and then some of the regional or smaller
25 carriers.

1 And we found that with the major airlines their
2 interest really is toward the customer ownership relationship and
3 regardless of costs, no matter how low we might be, in fact, even
4 if we offer in some cases an airline to pay them for the actual
5 reservation, us to pay them out of our own pocket, they'll say,
6 "No, I just don't want this going through a travel agent
7 distribution channel. I want consumer direct. And, moreover,
8 it's not a matter of your technology costing me anything; you
9 don't charge me anything. And you've even offered to host my
10 fares on your system. So that's not the issue. It's not cost.
11 It's just that I want that relationship in place."

12 Some of the other airlines, however, who have had
13 very successful website programs and who've done very well on the
14 internet, for instance, don't feel the same way, I think. And
15 they recognize that the internet is a channel distribution, that
16 open systems are a better way for them to get their product out
17 into the marketplace. And I think they take a more progressive
18 view.

19 MS. MITCHELL: Thank you.

20 MS. ROGGE: I had a question.

21 CHAIRMAN WINSTEAD: Sure.

22 MS. ROGGE: I got confused a little bit.

23 When the agent picks in your example, Delta, do
24 they actually book that through the GDS and then pay a GDS fee,
25 or do they go directly to the Delta website?

1 MR. OTTOLENGHI: No. They go directly to the
2 website.

3 MS. ROGGE: And so the GDS is basically cut out of
4 that transaction and so they're not going to get their
5 productivity credits, or whatever?

6 MR. OTTOLENGHI: Well, the GDS isn't utilized for
7 the transaction now.

8 MS. ROGGE: So it wouldn't count towards what I've
9 learned as the productivity model?

10 MR. OTTOLENGHI: No.

11 MS. ROGGE: And in the process of doing that, do
12 you -- and I guess this is for both you and Daniel -- when the
13 searching is going on are you actually on the airline's site for
14 the searching, in other words, using the airline's computer
15 engine to kind of being looking around?

16 MR. OTTOLENGHI: The only time that the airline's
17 engine is used is only when a request is made for a search. In
18 other words, there isn't a bot that goes and scrapes the site and
19 keeps storing data on a constant basis to keep it updated.

20 It's only when actually a consumer makes a request
21 with a travel agent that a search is performed. And that data
22 then is -- all the rest of it is directed directly to the website
23 of the airline, meaning that the airline is getting a full view
24 or is providing a full view of itself to a travel agent as if
25 they were opening up a browser and looking at that website.

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1 MS. ROGGE: So it's as if the travel agency had
2 just gone to Delta.com or Southwest.com or AA.com.

3 MR. OTTOLENGHI: In fact, the way the technology
4 works, and I know that it's somewhat similar for both of these
5 gentlemen, is that we're not trying to obscure, you know, this,
6 the website necessarily. It's for -- at least for us, you're
7 able to metabrowse or open up multiple browsers at one time. So
8 it's essentially Microsoft and AgentWare enabling this process.

9 MS. ROGGE: And, Daniel, do you want to answer that
10 as well?

11 MR. KO: Yes. We actually also search the site
12 when the user makes the request. But we do -- maybe unlike
13 AgentWare, we don't show where we got the fare from, because if
14 we do that, then, -- you know, we make our money on the
15 transaction, whether it be for the travel agencies or for
16 consumers. We make money when they book through us, so that's
17 why we don't show the name of the source of the fare.

18 MS. ROGGE: So from the consumer's standpoint
19 they've gone to your website to begin with --

20 MR. KO: Right.

21 MS. ROGGE: -- as their travel source.

22 MR. KO: I guess their -- I guess sort of a mall.
23 They come to our site; they do a search. And they see all of
24 these fares.

25 MS. ROGGE: So their search just consists of -- I'm

1 not trying to interrupt, but just so I can get it straight, --

2 MR. KO: Sure, sure.

3 MS. ROGGE: -- because there's -- even though I go
4 out and look at all the stuff, it's changing all the time.

5 MR. KO: Right.

6 MS. ROGGE: But they're going out there saying, "I
7 want to go from" -- I forget what the example was, but -- Atlanta
8 to Chicago.

9 MR. KO: Right.

10 MS. ROGGE: That's their search.

11 MR. KO: Right.

12 MS. ROGGE: Okay. So they're not saying, "I want
13 to look At X Airline, Y Airline, Z Airline"?

14 MR. KO: Right. They can't do that at this point.

15 CHAIRMAN WINSTEAD: Yes. Paul.

16 MR. RUDEN: I used to think I was hard to confuse,
17 but I think I've gotten confused now. Maybe I'm not hearing it
18 all right. I'm hearing Mr. Barth say that he's paid by the
19 suppliers, and they're working with him and cooperating with him.

20 And I hear you two gentlemen saying that you're
21 being paid by somebody else and you're running into airlines
22 blocking you from doing what it is you're trying to do, which is
23 distribute their product to consumers at no cost to them.

24 Now if I'm hearing that right, that doesn't make
25 sense to me. Have I misunderstood? Is Mr. Barth just an

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1 optimist, or how do you explain this?

2 MR. BARTH: Well, one thing, of course, is that we
3 don't have everything in our system. You know, we have -- I
4 would say 99 percent of suppliers that we deal are great to work
5 with and cooperative. And I think also touching on one of the
6 important differences is that our system really does share the
7 customer.

8 So, you know, a lot of people have, you know,
9 whether it'd be rational or not, all kinds of ideas about CRM and
10 all the wonderful things they're going to do. We really do
11 support that, as opposed to trying to, you know, hang on to and
12 maintain the customer.

13 And if you really think about it, I think the way a
14 lot of people view -- our partners view our system is we probably
15 have one of the lowest cost ways of getting customers to your
16 site and acquiring new customers, too. So that's probably one of
17 the reasons why we get pretty good support.

18 You know, we aren't the main browser window. We
19 are this guy on the side who is helping take people to useful,
20 credible places to buy travel and making it easy for them.

21 MR. RUDEN: But at the end of the day you've
22 delivered a customer, a booking has been made in the supplier's
23 site in the customer's name. They now have that name. But
24 that's also true --

25 MR. BARTH: Right.

1 MR. RUDEN: -- with respect to Qixo and AgentWare,
2 that a booking is made on behalf of the consumer in the
3 consumer's name. They've got the name now. They can, you know,
4 drown you with emails, or do whatever they wish to do in the way
5 of future marketing. And yet I still hear, I still have this
6 problem, that they seem to like what you're doing and they don't
7 seem to like, in every case, what these gentlemen are doing.

8 Mr. Ko.

9 MR. KO: My guess is that maybe -- it's not all the
10 airlines in our case, either.

11 MR. RUDEN: I understand.

12 MR. KO: And maybe -- you know, we know for sure
13 that AmericanAirlines.com made a big fuss about what we're doing.
14 And maybe -- I'm not sure if SideStep's got the same issues.
15 Maybe they have certain airlines that they do have issues with.
16 I don't know. But it might be more airline specific.

17 But, you know, we do get support from the smaller
18 airlines, like SideStep does. But the bigger airlines, for
19 example, you know, AA.com and maybe some of the bigger ones like
20 United tend to be not fond of Qixo or AgentWare and maybe
21 SideStep as well. I don't know.

22 MR. RUDEN: While I have you, I understood you to
23 say that American has not given Orbitz all its webfares --

24 MR. KO: Right.

25 MR. RUDEN: -- based upon what your searching

1 shows.

2 MR. KO: The same with United.

3 MR. RUDEN: Do you understand the most favored
4 nation clause that permeates the Orbitz' relationship? Do you
5 know how that works?

6 MR. KO: Can you explain that to me?

7 MR. RUDEN: It basically says that if an airline
8 puts a webfare on its website it must give that webfare to
9 Orbitz.

10 MR. KO: I see.

11 MR. RUDEN: And so if I understand you right,
12 you're saying that your searches suggest that the members of what
13 I will call the "cartel" -- they take offense of that. I'm
14 sorry. But that's the way it looks like to me --

15 MR. KO: Right.

16 MR. RUDEN: -- are cheating on the cartel?

17 MR. KO: Yes. I mean they must be, because our
18 engine doesn't lie. We actually do a weekly test to see, you
19 know, which sites are worth searching. And it's showing over and
20 over again it's worth it to search the sites because you just can
21 get these random fares sometimes.

22 And it's also not intentionally. Sometimes
23 technology. You know, American Airlines has its own booking
24 engine, search engine. Orbitz has its own. So the technology is
25 imperfect.

1 For example, Orbitz uses ITA Software. American
2 Airlines, I understand, paid another company to develop its own
3 engine. So because the algorithm is so different by accident one
4 ends up with much cheaper fares than the other.

5 MR. RUDEN: By accident?

6 MR. KO: It may be. Maybe not. I don't know.

7 (Laughter.)

8 MR. KO: But all I know is that, yes, the airlines
9 themselves do not always get the fares to Orbitz.

10 MR. RUDEN: All right. Mr. Ko, you indicated that
11 you don't search three major websites.

12 MR. KO: Right.

13 MR. RUDEN: Is that disclosed? When a consumer is
14 using this, there's a disclosure upfront that those are not being
15 searched?

16 MR. KO: What we disclose is the sites that we do
17 search.

18 MR. RUDEN: Ah, okay.

19 MR. KO: We disclose 23 sites. We list it right
20 there, so the same sites.

21 MR. RUDEN: Les, I see on page 9 of at least a
22 version of your testimony, a printout of a results screen. And
23 it says in one of the notes that, "Travelocity, Expedia, and
24 Orbitz have been excluded from the summary table on the left."

25 Why, what is that all about?

1 MR. OTTOLENGHI: They prefer not to be placed in
2 the summary table.

3 MR. RUDEN: Does it mean you can't search them?

4 MR. OTTOLENGHI: No, no, we can search them. And
5 if you look in the tab area at the bottom those results from
6 Travelocity, Orbitz, and Expedia are available.

7 The reason that is, is that our search is not
8 conducted on our computer systems. It's actually conducted on
9 the individual travel agent's computer system. So they would
10 need to -- using the terms earlier -- "block" every travel agent.

11 And then we would have to ask questions about competitive
12 fairness, I'm sure.

13 MS. ROGGE: You know, just to make sure I
14 understood that while they're conferring, you do search them.

15 MR. OTTOLENGHI: For the summary table, we search
16 them to aggregate a set of results. On the bottom there, we
17 actually enable the computer of the travel agent to turn their
18 computer into a metabrowser, which is basic advanced technology
19 that can look at multiple browsers open at the same time.

20 MS. ROGGE: Interesting.

21 MR. OTTOLENGHI: What's that?

22 MS. ROGGE: Interesting.

23 MR. RUDEN: I gather there's a difference between -
24 - in the case of AgentWare, there's really two different
25 products. One is a small business kind of travel agent product

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1 which doesn't search at the same magnitude, if you will, or with
2 the same scope that the full version does, in my opinion?

3 MR. OTTOLENGHI: No. For the small, home office,
4 there is the limitation of how you do the profile integration and
5 the PNR integration or the back office integration. In those,
6 the option for the SOHO market, or the small office, or the small
7 travel agency, they don't need as much functionality for that
8 type of integration. They may be willing to cut and paste and do
9 other things into whatever fulfillment system they're using or
10 agency they're using for fulfillment.

11 So we limit it really to search functionality in
12 that case, and then the booking capability, but not the full
13 integration.

14 MR. RUDEN: Well, the reason I ask it is that one
15 of these attachments to the testimony says that there's a search
16 of 20 internet-based webfare suppliers, but the written testimony
17 says 96 publicly-available websites --

18 MR. OTTOLENGHI: Right.

19 MR. RUDEN: -- and 47 consolidator sources.

20 MR. OTTOLENGHI: That's an old graphic that you
21 have there.

22 MR. RUDEN: Okay. I think that's all the confusion
23 that I can solve in one day.

24 CHAIRMAN WINSTEAD: Okay. Pat.

25 MR. MURPHY: Yes. I have one question for Mr. Ko

1 who, by the way, I very much appreciated your anticipating the
2 questions, and I appreciated your answers.

3 MR. KO: Sure.

4 MR. MURPHY: Are you an internet travel agency? Do
5 you...

6 MR. KO: Well, we actually didn't want to be one,
7 but we ended up having to do a lot of the functionalities, for
8 example, customer service.

9 MR. MURPHY: Yes.

10 MR. KO: We offer 24-hour live chat on bookings.
11 And if a customer wants to cancel or change, modifications, if we
12 can do it, we actually do it for them. Otherwise, we tell them
13 to call the airline directly. But we have a lot of interaction
14 with the customers. And that may be one of the reasons why we've
15 also grown.

16 MR. MURPHY: Okay. And that's with the telephone?

17 MR. KO: It's become more and more live chat. We
18 do have a 1-800 number.

19 MR. MURPHY: Okay. The only thing I have, Mr.
20 Chairman, I just thought this was a really outstanding panel. I
21 was very much involved with working on the original CRS
22 regulations ten years ago when they were last revised. And I can
23 just say that every time some group asks for the government to
24 intervene, you're really trying to intervene at a point in time
25 as things sit at that point.

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1 And when you hear a group like this today you
2 understand trying to develop government policies on anything
3 while we're dealing with metabrowsers and people like this is a
4 very challenging task. And I thank you very much.

5 MR. RUDEN: I think the Standard Oil Trust made
6 that same argument when the Sherman Act was being considered.

7 (Laughter.)

8 MS. MITCHELL: Based on that comment, would any of
9 you care to comment about whether or not there should be, could
10 be some kind of addressing of the internet involvement and still
11 protect the customer and the opportunity to provide them what
12 they really need in the way of service?

13 MR. OTTOLENGHI: Certainly. I think the most
14 evident activity that this Commission is probably being engaged
15 in is the thought around: How can we make sure that information
16 is widely available to all the participants in the industry.

17 And I think anything that prohibits information,
18 the flow of information freely, is just anticompetitive and goes
19 against the basic foundations of what we do in this country.

20 And anything that would block that or stop that I
21 think is a mistake. It will not allow the industry to progress
22 to a more advanced state. It will prevent the very people who
23 provide value, which are all of the participants, the suppliers,
24 the distributors, and the retailers, from actually conducting
25 business. They'll get into a war with each other, and little

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1 technology companies will go do something else. We don't like
2 being cats in a dog fight.

3 MS. MITCHELL: What about little travel agencies?

4 MR. OTTOLENGHI: Little travel agencies really do
5 serve their customers very well. I mean I am an advocate there.

6 And --

7 MS. MITCHELL: But if they're not allowed access?

8 MR. OTTOLENGHI: If they're not allowed there,
9 they're going to be forced out of the market I think in an unfair
10 and uncompetitive way.

11 MS. MITCHELL: Thank you.

12 MR. RUDEN: Your view of that whole situation might
13 change, wouldn't it, if the five founders of Orbitz, for example,
14 decided to block all three of you across the board, separately,
15 mind you --

16 MR. KO: Yes.

17 MR. RUDEN: -- if they made separate decisions.

18 (Laughter.)

19 MR. RUDEN: I'm not suggesting, I'm not suggesting
20 that they would conspire, but that they might see their destiny
21 the same way at some point and decide that you, like the small
22 travel agents, are interfering with their yield management, for
23 example. You'd have a concern if that were to happen.

24 MR. OTTOLENGHI: Well, I mean I don't think I've
25 disagreed with that statement at all. I mean I think that's what

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1 I'm saying, is I don't think that's a healthy thing for any
2 mistake.

3 I mean I can't imagine why in any market you would
4 say, "Sorry, you can't bring your taxi or your bus to my mall.
5 I'm not going to actually service these people because I don't
6 like their color, I don't like their race, I don't like their
7 religion; I don't like who they are. So they can't buy when you
8 bring them on your bus. They're not allowed to enter here."

9 That's antiAmerican. I'm not trying to get on a
10 platform. But, I mean, think about it. That doesn't make any
11 sense.

12 MR. KO: Actually by the way, when it comes to
13 blocking, we are fairly confident that technology can never
14 prevent a website from being searched, and booked, and so forth.
15 So we're very confident about that.

16 And our biggest concern, and maybe this is where
17 the government can really be involved, is when -- you know, we do
18 believe that all three will grow very big and be very successful
19 and potentially be the main, bigger than Orbitz put together.

20 MR. OTTOLENGHI: I look forward to that day.

21 MR. KO: But when that day happens the problem is -
22 - we really believe that the airlines will at that point really
23 get together and say, "Let's sue these guys."

24 So I would actually like to see maybe the
25 government at that point getting involved and making it not

1 illegal to search these sites.

2 But on the technology front it is really
3 impossible. We figured out so many ways around the block.

4 And as for the just division for the travel, the
5 small travel agents and consumers -- I mean, I said this earlier
6 -- but I think really the healthy outcome for everybody is, okay,
7 let the consumers go more and more to the internet. That is
8 happening. So let's not try to stop that. But, you know, how do
9 we address the remaining travel agents who can't do business at
10 all because the internet is doing so much better.

11 And I think an agency maybe like ARTA, ASTA, and
12 companies like us should really do a better job of making travel
13 agents understand that using this technology for 40 bucks a month
14 or, you know, \$10 per transaction will really save their business
15 and make them very successful. I think that might be a healthier
16 outcome, in travel agents really adopting this technology and
17 really providing a lot of value to their customers.

18 CHAIRMAN WINSTEAD: Okay. Maryles, do you have
19 something?

20 MS. CASTO: Yes, just one question.

21 Do you have any comments on the American Express
22 testimony regarding extra burden on agents and the technology
23 patch? What are your comments to that, all of you, actually, the
24 three of you if you could give us your comments.

25 MR. KO: Now I think the burden that the American

1 Express VP mentioned was, number one, the time it takes, right,
2 to search all these sites and to book on these sites and, number
3 two, is the cost of technology.

4 I think the cost of the technology is fairly
5 reasonable: \$40 per month for us -- actually for travel agents
6 we charge -- we started out with \$15 per ticket to the travel
7 agent. And they can put on their markup on top of that. And we
8 run all the merchant account fees, so they don't have to worry
9 about the merchant account fees. But it's a very minimal cost.

10 And when the volume grows, we actually cut it down
11 to \$5 or sometimes \$3 per ticket. So we believe that the
12 technology is very cost effective.

13 Now on the time, the whole amount of time it takes
14 to do all this, on the searching end I think we've come to a
15 point where we've cut it down to less than two minutes for all of
16 us. And the booking process maybe another minute.

17 To be honest, I don't think it can be really faster
18 than that, because the internet itself is not that fast. And
19 that's something that agents will just have to accept and work
20 around.

21 MR. OTTOLENGHI: I believe the gentleman from
22 American Express, to add to Daniel's comment, is that search
23 process has probably been regulated a little bit better within
24 our technology so that it's faster and it's easier to do.

25 But he mentioned, and Brian mentioned, you know,

1 EML, OTA, those types of standards, as well as improvement in the
2 speed of websites that a travel supplier has or, for that matter,
3 a travel supplier opening up their system so that it's not just a
4 website. There's actually a reservation system interface that is
5 open to their system which would get rid of a lot of the problems
6 that he described, including what they consider substantial
7 costs, technically the substantial costs of distribution.
8 That'll eliminate or get rid of them.

9 MR. BARTH: Actually let me touch on that element
10 of speed, because I think it's a really important one of, you
11 know, are people really inherently disadvantaged because they're
12 accessing information over the internet.

13 And speed is actually something that we've put a
14 lot of effort into. And if you actually try our system, you'll
15 see we actually bring back results sort of whenever they're
16 ready.

17 And we've actually done a lot of work to even study
18 a lot of -- at least in our system, I mean you have to understand
19 that most of the delay or essentially almost all of the delay
20 that you'll ever see in getting an answer back is actually from
21 the other system. So we have some partner out there. And it's
22 sort of at whatever speed that operates is actually how fast a
23 person can get it back.

24 And the amount of time that our system adds --
25 we've actually done some measurements of this -- is about two-

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1 tenths of a second. So basically it's all waiting.

2 So it's kind of good to know that these systems
3 ultimately can be made very fast, you know, when you do things
4 like these XML and Web Service connections. They're
5 extraordinarily fast.

6 And one of the things that a lot of people may not
7 realize is that it's actually even a little bit faster to use a
8 system like ours than it is even to go there manually by
9 yourself, because there's a lot of pieces of the webpage, for
10 example, like all these big graphics and, you know, pictures of a
11 sunset, or something like this that, look, I mean, you know, the
12 person actually really doesn't need this to try to get a summary
13 of the information. So it's actually less load on our partners
14 so we can make it faster for all the systems involved.

15 Inherently, I mean in the future these can be very,
16 very quick.

17 MS. CASTO: Good. Well, I, too, make my home in
18 Silicon Valley. So it's nice to know that there are some
19 successful companies. And I hope you guys grow.

20 (Laughter.)

21 MR. KO: Thank you.

22 CHAIRMAN WINSTEAD: Any other pressing questions?

23 Again, thank you all for testifying. And there may
24 be questions that we might want to submit to you. Dick will get
25 back to you on that. But best of luck, continued success in your

1 business. And thanks for your input.

2 MR. BARTH: Thank you.

3 MR. KO: Thank you.

4 MR. OTTOLENGHI: Thank you.

5 CHAIRMAN WINSTEAD: We're going to come back at two
6 o'clock for the second panel for this afternoon. So we'll break
7 until 2:00.

8 (Luncheon recess taken from 12:28 p.m. to 2:05
9 p.m.)

10 CHAIRMAN WINSTEAD: Good afternoon, and thank you
11 all for reconvening. We appreciate you staying with us from this
12 morning to this afternoon.

13 And, Robert and David, thank you for joining us. I
14 thought we would do the afternoon session in two panels. If you
15 all could start off, we'd appreciate it. Again, we certainly
16 look forward. We've got copies of your testimony and had
17 opportunity to review it. And I'm sure we may have some
18 questions.

19 But do you want to start off maybe, David, and then
20 we'll switch it around to Robert.

21 MR. ROJAHN: Sure.

22 CHAIRMAN WINSTEAD: But if you could state your
23 name for the record?

24 MR. ROJAHN: Great. My name is David Rojahn. I'm
25 the president of DTR Travel in Englewood, Colorado. I'll refer

1 to my prepared talk today, too. I'll keep it very short and
2 simple.

3 Mr. Chairman, members of the Commission: Again, my
4 name is David Rojahn. I'm the president of DTR Travel located in
5 Englewood, Colorado, a suburb of Denver. We're a small agency
6 that my wife and I opened in 1993. Prior to that I was a
7 programmer actually for United Airlines, now Galileo, and had
8 been a programmer for System One and Sabre. I started in the
9 industry in 1978 as a reservation agent with, you remember,
10 Eastern Airlines. I feel my travel agency, airline, technical,
11 and small business experience is very valuable to this
12 Commission.

13 DTR Travel has three agents. We've generated in
14 year 2000 \$237,000 in gross commission revenues; 209,000 in year
15 2001; and 115,000 as of year-to-date. In year 2000, 86,000 of
16 that or 37 percent was generated from airline ticket sales;
17 54,000 or 26 percent in year 2001; and 19,000, now 17 percent
18 year-to-date.

19 And I quote these figures rather than saying:
20 We're a two-to-three-million-dollar gross agency, because in
21 today's environment gross sales is a meaningless number. It's
22 really commissions that really drive revenues in an agency model.
23 Our business mix is primarily leisure and small corporate
24 accounts. It's what I consider the everyday customer just trying
25 to make a living, just like myself.

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1 As you can see in the past two and a half years the
2 airlines have reduced what amounted to almost 40 percent of our
3 revenues to zero, not because of our inability to serve the
4 consumer or the consumer demanding to be able to purchase on the
5 internet, but because they can, pure and simple. As with any
6 small business, we have quickly adapted by charging service fees
7 and refocusing on other products and other services other than
8 airline tickets.

9 But today I don't really want to focus on my
10 business issues, for those are for me to work out and to work
11 through, or to really focus on airline practices. I think you
12 have a fair understanding of how business is conducted.

13 What I do want to focus on today is the impact of
14 internet distribution of airline tickets on the consumer. I
15 think this is the real issue before you.

16 I would also like to put on the record that I am a
17 proponent of the internet. With other ventures and my own agency
18 I've spent the last two years probably making more internet
19 bookings than, other than the technical people in the room,
20 anybody else in this room.

21 I understand from an airline perspective that they
22 must look at alternatives to the GDS systems in order to cut
23 costs. And travel agencies, including myself, must now recognize
24 that the internet will probably be the distribution channel of
25 choice for all airlines. My agents just don't rely on the GDS

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1 systems anymore. They must also be experts at navigating the
2 multitude of web booking sites. If we are to charge for our
3 services, we must be faster, better, and smarter than somebody
4 who does this once or twice a year.

5 Having spent much time on making online bookings,
6 this is where my concern really lies. And hopefully after this
7 morning, I thought I knew what I was doing, and I get confused.

8 The marketing tactics of the airlines and Orbitz
9 have inferred that if you want a cheaper airfare the internet is
10 the easiest and only place to get it. The underlying message is:
11 Why pay a travel agent a fee when you can do it yourself online.
12 With the click of a mouse, look at all the money you can save.

13 Knowing the complexities of fares and inventory
14 management, -- I'm going to repeat that -- knowing the
15 complexities of fares and inventory management, I know things
16 aren't quite as simple as they are touted.

17 Remember, I used to work on the other side of the
18 fence, so I know a little bit more about what's going on behind
19 the scenes than maybe some others. And this, more than anything
20 else, concerns me.

21 I equate this a little bit to Las Vegas where the
22 odds are all stacked in favor of the house. People flock to Las
23 Vegas in hopes of striking it big. Everyone's heard of somebody
24 that's come back from Vegas winning, but in reality most people
25 end up or don't win money. Professionals there have a much

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1 better chance but ultimately the odds are still stacked in the
2 house's favor.

3 Let's bring this analogy to the world of
4 distributing airline tickets directly to the consumer on the
5 internet. Consumers have always been able to buy direct,
6 directly from the airlines, but there's a big difference now.

7 The fact is that if you listen to the on-hold
8 messages with the airlines themselves, they basically say:
9 You'll be able to possibly find a better fare on our website.

10 Well, doesn't this strategy encourage the consumer
11 to not even call, but to go directly to the online for the best
12 value. So if call volumes to reservation offices decrease, why
13 not reduce head count? The real cost savings is reduction of
14 salaries and benefits. And I think if I were a reservation
15 agent, which I used to be, working for an airline, I'd be a
16 little more concerned in some respects than I as a travel agency
17 owner.

18 I hope you can see the strategy in driving
19 consumers away from the most expensive cost of business:
20 Employees; salaries; benefits; and the third most expensive cost,
21 distribution over the GDS and agent commissions.

22 I can't blame the airlines for taking this
23 strategy. It makes perfect sense through their eyes. But, as in
24 the Las Vegas analogy, it stacks the cards in their favor, not
25 the consumer's.

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1 On average, who can generate more profit for the
2 airlines, an amateur customer who thinks they know what they're
3 doing and are encouraged to buy through one distribution channel,
4 or a professional who understands the market, price points,
5 inventory management, and alternative sources of distribution?

6 If I'm in their shoes, I'd put the odds -- I lay my
7 odds on the amateurs.

8 The internet and webfares, in my opinion, are not
9 the issue. The real issue is allowing major competitors to own
10 and drive one distribution channel. There's a reason why
11 railroad companies cannot own the whole track, and there's a
12 reason why telecommunication companies must now allow competitors
13 access to their fiber networks and infrastructure. Is not public
14 air space the railroad tracks of today and the future?

15 Commerce is driven by access to air transportation.

16 And he who controls and limits the distribution channel for
17 their product ultimately wins, not the consumer. The odds will
18 always be continued to be stacked in favor of the house.

19 Consumer confidence is not really high right now
20 with Corporate America. It's hard to open the paper anymore
21 without a story about a large corporation's questionable business
22 practices.

23 Taxpayers are also questioning the amounts of
24 taxpayer money being spent to salvage some large corporations.
25 Don't get me wrong. I'm a business owner. I'm very pro-

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1 business, as long as the playing field is at least somewhat level
2 and we have the consumer's interest in mind.

3 In conclusion, I ask this Commission to look beyond
4 the surface of what is happening. Your job is not to solve or
5 care about my business problems or, for that matter, the business
6 problems the airlines face.

7 In a free capitalistic society the market will
8 determine who survives or who doesn't survive in the business
9 world. Yes, the market will decide. So I ask you now to put
10 your consumer hat on and make the decisions based on what's the
11 best interest of the consumer.

12 See, we forget to realize consumers are very, very
13 intelligent people. Given accurate information, they're very
14 capable of making prudent decisions. Educating the consumer
15 should be a key component for this Commission with respect to
16 informing the public of the various distribution channels and how
17 they work.

18 Given all the facts, the consumer can make the best
19 choice for themselves. I believe it's in the consumer's best
20 interest that the hard questions are asked now than rather
21 finding them out in the newspaper in the future.

22 All I ask is you make your decisions and you come
23 forth with recommendations remembering one simple fact. There's
24 a reason why the railroad companies cannot own all of the track.

25 I appreciate your time today in allowing me to

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1 address my concerns and answer any questions you have.

2 Thank you.

3 CHAIRMAN WINSTEAD: All right. Thank you, David.

4 Robert, why don't we go to your testimony and then
5 open it up for questions, if we could. Thank you.

6 MR. KERN: Great. Well, my name is Bob Kern. I'm
7 the president of PNR Travel. We're located in Los Angeles,
8 California. PNR Travel opened its office in 1991. We are
9 full-service travel agency that deals with all consumer travel
10 needs. We're one of the travel agencies that everybody's been
11 talking about all day as a small agency. That's what we are. I
12 personally have been a travel agent for more than 30 years.

13 I'd like to open my statement by saying that I do
14 not have a problem with the airlines looking for or finding a
15 better way to distribute their product. What I have a problem
16 with is the way that they have set out to do it.

17 Over the years the travel agency industry has
18 earned the respect and trust of the consumer. The consumer knows
19 that a travel agent is their only source of unbiased information
20 when it comes to travel. There are not many industries left
21 today that have their main focus as a consumer advocate. We live
22 every day trying hard to make the consumer's life easier and more
23 efficient. Being a travel agent is a very enjoyable occupation.

24 The airlines have done everything in their power
25 over the last few years to set policies and procedures to make

1 the travel agent's job more difficult. The following are
2 examples of how the airlines have changed in their everyday
3 dealings with PNR Travel.

4 The most obvious way that the airlines have changed
5 policies is the lowering of commissions. This commission that
6 was once paid at a rate of ten percent has now been lowered to
7 zero percent.

8 PNR Travel during the year 1995 brought in \$106,000
9 of airline commissions off of the total airline sales of 1.2
10 million.

11 During 2001 PNR Travel sold a total of 1.1 million
12 in airline sales. And as you are well aware, the commission is
13 now zero.

14 We have tried to pass this loss of earnings to the
15 travelers as best as we can. Our service fees for airline
16 tickets are averaging \$4400 per month. This is nowhere near the
17 amount that we have lost over the last few years.

18 It is next to impossible to recoup that loss of
19 commission by passing it on to the consumer. If we were to do
20 that we would drive the business into the waiting arms of the
21 airlines.

22 What instead has happened at PNR Travel is that we
23 have lowered our expenses to compensate for the amount that
24 service fees do not cover. Some examples of our cost-cutting
25 have been the lowering of employee pay from what was already

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1 known as a low-paying job.

2 We have 11 employees in our office with 907 square
3 feet of space. When you add all of the office furniture and
4 equipment along with clients we do tend to be very uncomfortable.

5
6 Our employees work more hours now than ever before.

7 We have not purchased any new office furniture since the
8 airlines began their strategy of lowering commissions. All of
9 our money goes into employee pay, basic expenses, and new
10 technology.

11 PNR Travel has not made a profit since the
12 beginning of 1995. I, personally, have not been paid a salary
13 since 1995. My acceptance of not receiving pay and my constant
14 loans has kept PNR Travel afloat.

15 The fear that I have, as time goes along, is the
16 morale of employees and the less time everyone is spending at
17 home with their families. In the longterm it will affect the
18 quality of work, the quality of employees, and the consumer's
19 well being.

20 It is very difficult for PNR Travel to work for
21 someone with no pay. I cannot believe how an entity believes
22 that they should not compensate for someone's work.

23 Debit memos have been another force the travel
24 agents have had to endure. There are many ways that a travel
25 agency can receive a debit memo that they do not owe. Some

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1 examples are as follows:

2 Airline employee misinforms agent on how to do a
3 particular ticketing situation; a discount code is put in the
4 wrong ticketing box on the ticket; procedure is followed
5 according to the *ARC Handbook*, but airlines think otherwise;
6 overinflated penalty fees for doing something in error; and
7 ignoring of airline-generated approvals for overwriting fare
8 rules to give someone a lower price.

9 When this happens we know that we are in it for a
10 long haul. It's just next to impossible to get someone to talk
11 to you about it. They always tell you that you need to do it in
12 writing. They do not even have a phone number on the debit memo
13 itself.

14 Once you have thoroughly researched it and found
15 out that you do not owe it, you then proceed to copy all
16 pertaining documents and send it to the airline. One of two
17 things will then happen: You will never receive a reply or you
18 will receive a reply stating something that absolutely makes no
19 sense and does not even pertain to what you are stating. In the
20 majority of the cases we will never hear back in response to our
21 dispute letter.

22 However, they will continue to send one invoice
23 after another requesting payment. Every time we get one of these
24 invoices we have to reply with our original dispute letter.

25 Sometimes we get a letter that states that if you

1 do not pay the debit memo they will pull your plate and not allow
2 you to sell them anymore. Usually what happens then is the
3 travel agent will go ahead and reluctantly pay the debit memo,
4 knowing full well that they did not owe the payment. PNR Travel
5 has done this on many occasions.

6 Usually these debit memos are very complicated and
7 most small travel agencies only have one person that really
8 understands how to reply to them. This causes the best agent in
9 the office to be spending a large amount of time dealing with
10 debit memos. This agent's time would be better spent on dealing
11 with the consumer's needs.

12 Travel agents should have some sort of recourse,
13 whether it is through the legal system or an arbitration system
14 to say their side of the story on a particular dispute. The
15 travel agent always has the burden of proof. We are guilty until
16 proven innocent. The way that it works now is that it's very
17 difficult to prove innocence.

18 The airlines are riddled with consumer complaints.

19 I have on many occasions, as other travel agents have, received
20 clients' phone calls from the airport telling us that the reason
21 that something is not going the way it should be is because a
22 travel agent made an error. Nearly all the time this is not
23 true. A person working for the airline is making us out as the
24 fall guy for not having the correct seat, a reservation, not
25 knowing about a scheduled change in upgrade, or many other

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1 situations that arise in an airport.

2 The good that usually comes from this is that we
3 are given the opportunity to fix the problem and become the good
4 guy. The bad thing about it is that we are always given a black
5 eye when we do not deserve it. That is not right. Whether
6 you're a company or an individual, when you make a mistake be a
7 good citizen and admit it.

8 As the airlines started their joint efforts in
9 lowering commission payments to us, I kept asking myself, "Why?
10 Why? Why are they destroying such a great system that they
11 themselves helped cultivate?"

12 I personally believe that it's because they want
13 more control over their pricing. The travel agent is a very
14 creative force when we develop many ways for the consumer to be
15 more efficient and cost-effective in their travel needs.

16 Because we are a small business, we have the
17 ability to spend more time and energy on these travel
18 arrangements. We are able to take the time that is needed to
19 locate the best deals for them.

20 This was just recently proven in the Topaz Survey
21 that stated that travel agents compared with some of the top
22 internet sites have the best airfares 93 percent of the time.
23 The airlines are not happy with this statistic. They would much
24 rather be receiving the control that the internet offers. The
25 internet is the travel agent's best friend. It has helped us

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1 help our clients in so many ways.

2 The problem that we have with the internet is the
3 fares offered are sometimes better than we have access to in our
4 GDS. When this happens we are forced to purchase through the
5 internet site for our client. Many difficulties arise because of
6 this.

7 The internet sites take a lot more time to book
8 than our GDS; future changes are very difficult and expensive;
9 upgrades cannot be done; and many other items are undoable.

10 When the internet offers a better price for the
11 client, we inform them of all the negative items. If they are
12 willing to accept those negatives, we proceed to book in that
13 fashion.

14 People ask me all the time, "Why do you keep
15 working so hard with all the problems that you face?"

16 I tell them that, "I believe in the system and that
17 someone needs to carry on the battle of getting someone to listen
18 and help us and that consumers become whole again."

19 I believe that the pendulum will swing back. And
20 after going through all that I have, I want to be there ready for
21 it. With all of the options available in the marketplace, the
22 professional travel agent is needed more now than ever before.

23 I just want to have a level playing field. We need
24 access to all fares. We need to be compensated for our work.
25 The consumer needs that and the travel agency industry needs

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1 that. I will be there to see that, the day that the travel
2 agency industry is profitable again.

3 I thank you for giving me, the small guy, an
4 opportunity to explain my side of the story. Thank you.

5 CHAIRMAN WINSTEAD: Robert, thank you.

6 David, I appreciate it.

7 I think both your perspectives on your businesses
8 and the impacts that recent developments have had are very
9 helpful.

10 David, in your testimony you dealt with from the
11 revenue side on the air side has decreased from 37 percent in
12 2000 to 17 percent. By any chance can you share with us the
13 service charge revenues decreased based on that, or can you give
14 us some sense of what that is?

15 MR. ROJAHN: Yes. We basically started with a \$10
16 per-itinerary service fee. We increased that to \$20. And then
17 the beginning of this year, we actually anticipated the airline
18 commissions going to zero. So we raised that before January. We
19 actually raised it coming into January of this year to \$25.

20 So those revenues are not even keeping up with the
21 amount of money that we lost in lost commissions.

22 CHAIRMAN WINSTEAD: Yes.

23 MR. ROJAHN: And at some point the market won't
24 bear much more. There are some agencies that are charging
25 upwards of 40 to \$50 per ticket in our market. That's not the

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1 norm; that's the exception.

2 And at some point they're still probably just
3 breaking even as far as what those service fees cost. Again,
4 from a consumer standpoint there's a threshold of what you'll pay
5 in perceived value, especially when you're inundated with
6 marketees that say the best place to go is the internet. So it's
7 very hard to compete in that arena.

8 CHAIRMAN WINSTEAD: Your company seems to have
9 been, before last fall with the economic impact of 9-11 and then
10 obviously the commission action in March, fairly diversified.

11 Would you say that was typical of agencies your
12 size or atypical, and how far back did you sort of start
13 purposely diversifying then?

14 MR. ROJAHN: We started back in -- was it '94 --
15 the first commission cuts?

16 MR. KERN: '95.

17 MR. ROJAHN: '95. We knew that this -- this wasn't
18 the first round. So we started purposely trying to evolve a way
19 from dependence on airline ticket revenue. So I don't know if we
20 were smarter or not quite as smart than somebody else. There's a
21 lot of agencies that were impacted even more so than ours,
22 because they didn't choose to make that business decision. There
23 are still agencies today that were very, very dependent on
24 airline ticket revenue, agencies my size.

25 So I don't know if we're typical or atypical. We

1 just chose to take that path. Again, I've worked on the other
2 side of the fence. So I could -- maybe not predict -- but I
3 could make my best, best guess that this is where it was going.

4 CHAIRMAN WINSTEAD: Interesting.

5 How about on your side, Bob? In terms of the
6 revenue per ticket; what happened? I know that, you know, you've
7 certainly gave us in the testimony the revenue side. But on a
8 per-ticket basis can you give us some sense of that?

9 MR. KERN: Yes, I sure can.

10 What basically happened, we were the type of agency
11 pre-'95 where we had built our whole agency on deluxe-type
12 travel, corporate travel, where we did nothing but like
13 firstclass and full coach. So that was our forte. Ninety
14 percent of our business was airline tickets. And so we were into
15 that little niche, or whatever.

16 So when the first cut came it dropped our revenues
17 by 60 percent, which was just a real -- that was the biggest cut
18 we had throughout all the years.

19 CHAIRMAN WINSTEAD: Yes.

20 MR. KERN: That first one was really tough.

21 We immediately starting charging \$15 per ticket at
22 that time. And since then we're now doing \$25 per ticket.

23 CHAIRMAN WINSTEAD: Yes.

24 MR. KERN: So over those five years -- but, you
25 know, we've had to go in other directions. There's a lot of

1 other areas where we can increase service fee, such as changing
2 tickets or, you know, doing frequent-flier miles. And we've had
3 to increase our revenue and service fees in a lot of different
4 areas over the years. But the per-ticket, 15 to 25 over the
5 years.

6 CHAIRMAN WINSTEAD: Twenty-five. And what percent
7 again is your split now, or maybe between air versus nonair?

8 MR. KERN: Right now we probably do about 40
9 percent, 30; high 30s, 40 percent air. We've changed a lot since
10 '95.

11 CHAIRMAN WINSTEAD: All right. Let me give some
12 opportunity to some of the other Commissioners. I appreciate
13 your response and testimony.

14 CHAIRMAN WINSTEAD: Do you have any? Yes, Joyce.

15 MS. ROGGE: I'll start.

16 In your testimony you were talking about that you
17 saw the need for the internet and that your agency is very
18 proactive in booking on the internet. And I was just wondering,
19 after we heard the testimony this morning about the different
20 products that are out there, what you used or how you went about
21 doing that?

22 MR. ROJAHN: We pretty much -- well, to answer your
23 first question, the reason why we were -- we were forced into
24 that situation. We were forced because in our market, price
25 points, we were losing business because we could not compete in a

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1 GDS world with a particular airline in our market.

2 I mean it wasn't five percent less. It was 50 to
3 \$200 less. And you can't go back to your customer and justify a
4 \$200 per ticket difference because we're good people. So that's
5 what drove us to starting to really seriously considering booking
6 on the internet.

7 Booking on the internet cost me upwards of three to
8 four times more work because it takes longer; I have to now
9 replug that into different systems; and I have to sometimes
10 repackage it for presentation purposes, meaning the itinerary.

11 So we were forced into that situation. Not only
12 did we start looking at tools to help us -- and you're seeing
13 tools come to the market --

14 MS. ROGGE: Yes.

15 MR. ROJAHN: -- which will help us, but ultimately
16 we're missing one key component with all the tools for the
17 internet booking, and that's the ability to observe inventory.

18 I missed the testimony this morning, but I think
19 that came up a little bit. That's where the value of our
20 services really come into play, that when we understand inventory
21 management and we can see that's part of the equation webfares
22 mean nothing if the inventory isn't there. I can get the best
23 price at my retail store, but if I don't have product on the
24 shelf, what difference is that?

25 And if I can't -- I don't understand how inventory

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1 is allocated, that's the piece that I'm most concerned about from
2 a customer standpoint, because if you take that out of the
3 equation, it's what's ever there when you walk in the store,
4 so...

5 MS. ROGGE: If AgentWare, for example, which was
6 one of the products they talked about this morning -- and, you
7 know, we didn't ask that question about the inventory, but I got
8 the impression they were only bringing back what was available at
9 the time.

10 MR. ROJAHN: Right.

11 MS. ROGGE: You aren't currently using any
12 off-the-shelf product? You're just doing it through what systems
13 you put in place yourself. Am I correct in that?

14 MR. ROJAHN: Correct. We've actually written
15 systems ourselves to be able to help us manage our cost. But
16 even with the world of internet booking to make it easy, again
17 I'm missing half the equation. And that's what people really pay
18 for my services for is to be able to make a prudent decision to
19 say, "You know, that flight's pretty much sold out. You're
20 probably not going to get the lowest fare. So if you really have
21 to go, let's not wait until the bitter end."

22 MS. ROGGE: Yes.

23 MR. ROJAHN: Some consumers end up not going
24 because they perceive that if I wait until the bitter end I'm
25 going to get bargain-basement price. So they end up not going or

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1 they make a different purchase decision because they think they
2 know what they're doing versus somebody making a professional
3 recommendation to say, "My gut's telling me you probably, even
4 though the fare might not be the lowest, now's the time to
5 purchase. If I'm in your shoes, this is what I would do."

6 MS. ROGGE: Yes.

7 MR. ROJAHN: The consumer doesn't see that side of
8 the equation, where traditionally we've been able to see it.

9 MS. ROGGE: Yes.

10 MR. ROJAHN: I believe the suppliers, the airlines,
11 would prefer us not seeing the inventory side, because then we
12 become much better shoppers on behalf of our consumers.

13 So if you're in their shoes, do you want a
14 professional shopper or somebody that just randomly comes in and
15 thinks they're getting good value?

16 MS. ROGGE: And, Robert, could you answer that, as
17 well, if you do use the internet and how you go about doing that?

18 MR. KERN: Yes. David said it very well.

19 We also use the internet quite a bit, and we're
20 moving so much of our business away from the GDS to the internet.

21 It's going very rapidly in that direction. But it goes back to
22 that same thing. It's the inventory that we look at; we read so
23 much in that inventory it's unreal on an everyday basis.

24 MS. ROGGE: Yes.

25 MR. KERN: And when we can't see it, we can't do

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1 our job for the consumer that we think we need to be doing for
2 the consumer. There's so many issues. It's like every time a
3 client books something or wants to book something, we're reading
4 something out of that inventory for them. When we can't do that,
5 they're not getting the best value for it.

6 An example that I was thinking of, that I was
7 talking earlier today on, is if somebody is flying to New York
8 and it's a businessman that's needing an early-morning meeting,
9 he'll come to me and say, "You know, book me on the flight. I
10 don't care which airlines it is, which flight it is, that I can
11 be assured of getting three seats across that I can crash on the
12 plane and sleep all the way."

13 And we have the ability and the tricks of knowing
14 how to do that.

15 MS. ROGGE: Yes.

16 MR. KERN: And when you take that away from us we
17 don't fulfill that need for that client. The next time the need
18 might be something completely different. But we're constantly
19 looking at that inventory and working it. And we're also
20 salespeople there. And there's so many times when we can sell
21 something to somebody if we see that inventory.

22 And like David said, you know, if we don't see it,
23 sometimes we'll lose a sale. And that hurts both the airlines
24 and us, and all travel, you know, all parts of the travel
25 industry.

1 MS. ROGGE: And when you take that sale that you do
2 make on the internet and book it directly and not through whoever
3 your GDS partner is, are there penalties that you suffer from
4 that?

5 MR. ROJAHN: There's penalties on two parts.
6 There's penalties because I'm under a contract to produce
7 segments. And I believe you understand that concept as far as
8 the booking thresholds. So I pay the penalty because I
9 potentially cannot meet those thresholds.

10 The other penalty is I've just used the airline's
11 internet booking site and I've just created a passive segment in
12 their GDS system, and guess who ends up paying the booking fee?

13 I've just used their most-cost effective system for
14 booking. And in order for me to manage my business I've created
15 something in the GDS that they now have to pay a booking fee on.
16 They're not real happy with that.

17 MS. ROGGE: When you go back and do it in the back
18 room, you mean?

19 MR. ROJAHN: Well, we basically put the itinerary
20 fees into our GDS system to drive our back office and to drive
21 our itinerary. And the airlines get dinged with the booking fee
22 to do that.

23 MS. ROGGE: Thanks. That's all I have. Thank you.

24 CHAIRMAN WINSTEAD: Other questions?

25 MS. MITCHELL: Yes, there are.

1 CHAIRMAN WINSTEAD: Ann.

2 MS. MITCHELL: Do you think the airlines are
3 banking on the fact that if you booked an internet fare and then
4 charged a service fee for it this time with the customer that the
5 next time they'll go just directly to that internet site?

6 MR. ROJAHN: Would you?

7 MS. MITCHELL: I would.

8 (Laughter.)

9 MR. ROJAHN: Right. I'm sure that's in somebody's
10 mind that, you know, if you perceive you could do it yourself,
11 why pay me to do it for you?

12 MS. MITCHELL: Yes.

13 MR. ROJAHN: If all the perception is, is I'm doing
14 a booking for you.

15 MS. MITCHELL: Yes.

16 MR. ROJAHN: Yes. And, in fact, if I'm in their
17 shoes, I would perceive that why use DTR Travel; you can do it
18 yourself.

19 MS. MITCHELL: Some of what you were saying
20 certainly was what many of us feel about the consumer, that we
21 would like to do whatever is best for the consumer.

22 Do you think there might be some criticism that
23 you're just trying to save the consumer from himself and that,
24 you know, let the buyer beware, that if he just doesn't know any
25 better, and he does it the wrong way, or does it the most...?

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1 MR. ROJAHN: My fear is the consumer doesn't know
2 what they don't know. And I don't mind that they book direct, if
3 they want to choose to do it themselves. Let's just make sure
4 they understand what they're doing when they make that decision,
5 because right now they're not very educated and they perceive
6 it's a very easy transaction.

7 And anybody who's been in this industry for any
8 length of time understands an airline fare is not an easy --
9 you're not buying salsa on the internet. It's actually very
10 complex. But the consumer is led to believe it's like going out
11 and buying a jar of salsa and how simple it is.

12 And sometimes you're paying more than you should if
13 you don't understand the complexities of fares and why the
14 airlines -- for very good reasons, for very good business reasons
15 -- price their products and their inventory and why there's 40
16 prices for one Point A to Point B for that set of inventory.
17 There's not just one price.

18 MS. MITCHELL: Of course, there have always been
19 people who book direct in any case.

20 MR. ROJAHN: Sure. There always has.

21 MS. MITCHELL: Bob, you had mentioned a rather
22 bleak description of the business you own for the last five
23 years. I had been wanting to ask one of the airlines how they
24 can operate in the red for years. I guess you're the closest
25 person I know to ask. You know, why do you continue a business

1 that is obviously not making its way?

2 MR. KERN: I have to explain that to my wife every
3 day also.

4 MS. MITCHELL: Oh.

5 MR. KERN: It's just, it's an investment for the
6 future. And I think there's a good future for the travel agent.
7 And I'm just waiting for it. And I'm preparing myself for it
8 and I'm building my business that will be strong when it gets to
9 that point. And that's exactly what I'm doing with all my income
10 and such that I have. I try to rebuild and build it bigger and
11 better. I just believe that there's something in our future for
12 us. And I'm going to darn well be there. I'm not going to allow
13 myself to go down the tubes.

14 But I didn't mean to be saying it's a bleak
15 picture, *per se*. I just wanted to give an honest opinion to this
16 Commission of what us regular-type travel agencies are
17 experiencing out there. That's what I wanted to basically show
18 to you. It wasn't that I, you know, feel down, or depressed, or
19 whatever.

20 I feel very excited about some of the opportunities
21 that I see in the future. And I see some good things out there,
22 but income is just not one of them. I'm sorry. I hope that
23 someday it'll come around and it'll be better.

24 But I think anybody that sits here and says that
25 they're making good money as a travel agency owner, they're

1 liars. It's just not happening, not to any of us.

2 MS. MITCHELL: Do you have a rich uncle, or
3 something?

4 MR. KERN: Well, --

5 MS. MITCHELL: I'm just kidding.

6 MR. KERN: No.

7 MS. MITCHELL: Thank you.

8 MR. KERN: You're welcome.

9 CHAIRMAN WINSTEAD: All right. Paul.

10 MR. RUDEN: I want to be sure that we understand,
11 all of us here on the Commission understand what you said about
12 yield management and inventory management.

13 Is it possible, using your GDS system, to look at
14 the array of fares and seats available at each fare level in a
15 single display?

16 MR. ROJAHN: On average, yes. On a single display?

17 MR. RUDEN: Yes.

18 MR. ROJAHN: Yes.

19 MR. RUDEN: So at any moment in time you can look
20 and see that -- whatever labels they go buy, the Q fare, the Y
21 fare, the ABC fare, the GRX fare, there's this many seats
22 available at this fare, and so forth, at your GDS display?

23 MR. KERN: That's correct.

24 MR. ROJAHN: That's correct.

25 MR. RUDEN: And you cannot do that on any known

1 website; is that correct?

2 MR. KERN: As far as I know that's correct.

3 MR. ROJAHN: I haven't found one yet.

4 MR. RUDEN: Well, that's all I wanted to know,
5 because I've seen that display myself, but I'm not testifying
6 here. And I want to be sure that it's understood that you have
7 that capacity only through that tool.

8 MR. KERN: That's true.

9 MR. ROJAHN: It's a very, very important tool for
10 the consumer and for the travel agent, very important.

11 MR. RUDEN: Thank you.

12 CHAIRMAN WINSTEAD: Maryles.

13 MS. CASTO: I don't have anything.

14 CHAIRMAN WINSTEAD: Okay. Pat.

15 MR. MURPHY: I guess I really don't have a
16 question. But, first of all, I very much appreciate your being
17 here. And hearing your testimony brings home how difficult it is
18 for the small travel agent.

19 And this morning -- I don't know if you were here
20 for the testimony of American Express, but --

21 MR. KERN: Yes.

22 MR. MURPHY: -- he made a statement that the trend
23 -- he talked about how "14 percent" of all the retail travel
24 agents stopped operating last year and "This trend will no doubt
25 continue, and over time, it is inevitable that travel agencies

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1 that without the large breadth and scope of a mega-agency and
2 without the resources or ability to provide customers the lowest
3 fares will not survive."

4 And your feeling, through optimism, is that you can
5 beat those odds or beat his opinion, anyhow, and survive as a
6 small specialty travel agency, as well.

7 Would you care to comment on that? I mean you're
8 here today. That says it all. But that's his view, operating
9 the largest travel agency.

10 MR. ROJAHN: We still believe we provide value add
11 in the distribution chain. Ultimately the consumer is going to
12 determine where we fit in there and what we end up selling.

13 It's unfortunate, though, we don't have control
14 sometimes on what we sell, because things, not just economic
15 reasons, but activities and decisions that are made that we have
16 no choice. You just come in one morning, and all of a sudden
17 your revenue is cut by X percent.

18 But I, like Bob, am very optimistic about the
19 future of the industry. I'm not so optimistic about, from a
20 consumer point of view, that they're being given all the
21 information. And that's the part I think -- I'm not, I'm not
22 worried about me personally. We'll figure it out, or we'll go do
23 something else.

24 The reason why I got back into the retail side of
25 the industry is because I didn't think there were enough people

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1 looking out for Joe Consumer on the street. That's the reason
2 why I opened up the agency. It wasn't for monetary reasons;
3 that's for sure. And it concerns me more today than it did in
4 1993.

5 MR. RUDEN: Well, --

6 CHAIRMAN WINSTEAD: Paul, go ahead.

7 MR. RUDEN: I don't want to interrupt Pat. I
8 thought he was done.

9 CHAIRMAN WINSTEAD: Pat, have you got some more?

10 MR. MURPHY: No, that's all I had. Thank you.

11 CHAIRMAN WINSTEAD: All right. Go ahead.

12 MR. RUDEN: This is -- I have to ask this, then,
13 because I hear all this optimism. But if -- and ASTA has advised
14 you all and all travel agents in the face of what's been going on
15 to curtail their sales of air transportation in favor of other
16 more, at least for the moment, lucrative lines of business.

17 And we heard American Express say today that if
18 things don't go well with respect to webfare access, for example,
19 there comes a point when people simply don't do the business
20 anymore.

21 And, Bob, you know, I appreciate your optimism. I
22 think it's a great thing to see, but you can't keep borrowing
23 forever. And you've already reduced significantly, I gather, the
24 portion of your business devoted to air transportation.

25 It's theoretically possible, I suppose, that small

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1 travel agents around the country can do what other kinds of
2 animal life do when they're threatened environmentally. They
3 find little places to hide away from the water or away from the
4 wind. And you can sell other stuff on that scaled-down basis,
5 but air travel still is a central part of what you do.

6 MR. KERN: That's correct.

7 MR. RUDEN: And I guess if the airlines -- my
8 question really is -- if the airlines find a way to shut you out
9 of the webfares and they continue advertising and promoting the
10 existence of those fares as the cheapest product in the market,
11 which cannot be purchased through you, does that alter your view
12 about the future, or are you still optimistic in the face of that
13 scenario?

14 MR. KERN: Well, I believe that if it keeps
15 continuing down the road that is continuing down now, I'm going
16 to eventually throw in the towel. There's no doubt about that.

17 I just hope that -- and I keep banking on that it
18 won't go down that road, that the pendulum is going to swing
19 back, and travel agents are going to be looked at a little bit
20 differently than they are right now. And I keep banking on that.

21 You have to understand, I've got 30 years in this
22 industry and you've got to understand that I've put a lot of
23 money and investment and time into this situation. And I'm not
24 going to throw in the towel just because somebody cut back my
25 commission, or whatever. I'm not going to allow what's happened

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1 in the last few years to be the instigator of my throwing in the
2 towel.

3 But I can guarantee you if it kept going down the
4 road it's going now, I would. And I believe also, out of all of
5 the agencies that are left, I'm going to probably be one of the
6 last ones to throw in the towel. There's going to be a heck of a
7 lot of others that'll throw in the towel before I do. Maybe
8 they're smarter than I am.

9 And it's going to be a sad day when that happens,
10 because the travel industry as a whole is going to get hurt
11 tremendously so by it, because the marketing that we do as
12 salesmen is unbelievable. Hotels, tour companies, everything.
13 And I can't imagine that happening, but it sure could.

14 MR. ROJAHN: Paul, I want to comment on that, too,
15 that my optimism is that some market condition out there will
16 help level the playing field. I haven't given up on that yet.
17 But if it continues the way it goes, I have to agree with Bob,
18 that my wife will not allow me to continue this business venture,
19 nor do I want to spend the time and effort.

20 At some point you got to say, "Look, I need to make
21 a good, honest living and I'm working too darn hard for too
22 little on behalf of the consumer when the playing field just
23 continues to be tipped, tilted not in our direction."

24 So I guess my optimism is that I'm hoping from a
25 consumer standpoint that either they smarten up or somebody

1 educates them, which we're trying to do in our own little way,
2 but we don't have the horsepower to say: This is reality; we
3 don't have those types of resources.

4 So if it continues the way it is, there is no
5 economic reason, because I have to believe that if this all fits
6 very well in the airline model, the cruise model will come next,
7 the hotel model, the car model, the tours.

8 Everyone will have a better way than using us as a
9 salesforce for them out there. So at that point, you're correct.

10 I'm not to that point yet, but it's -- the road isn't always as
11 rosy as I try to make it. But I'm hoping the market conditions
12 will change that.

13 MR. KERN: And you've got to understand, we try to
14 stay as optimistic as we can. I mean we mentally prepare
15 ourselves in that direction because nothing else is going to help
16 us. I mean, why do we want to think pessimistically. We battle
17 in those grounds, and we battle those issues, but we try to stay
18 optimistic and stay mentally in shape. And that's why I say
19 those things.

20 MR. ROJAHN: And kind of just to opine a thought to
21 that, our position within ASTA almost requires us to keep a
22 positive face.

23 MR. KERN: Yes.

24 MR. ROJAHN: If I'm a leader within my association,
25 and I'm painting a gloom-and-doom picture, am I not sending a

1 message to our fellow travel agencies out there? But you don't
2 want to be Pollyanna about it either. You want to have a
3 realistic business view of the world. But I think that's part of
4 the optimism, too, is I have to be. I've got people that look to
5 both Bob and my leadership to say, "Let's hang in there." That's
6 part of that.

7 MS. CASTO: David, can I just ask a question?

8 CHAIRMAN WINSTEAD: Absolutely.

9 MS. CASTO: Just a question. What do you want us
10 to recommend, this Commission? Both David and Robert.

11 MR. ROJAHN: What I'd like this Commission to
12 recommend -- and I don't know the "how," but I think the "what"
13 is that the consumer is better educated on, when they make an
14 internet purchase, what that really means.

15 And I think you have had enough testimony to be
16 able to know what that really means. And I'll go back to my
17 statement. You need to put the consumer hat on. I think you're
18 a much better educated consumer today than you were before these
19 hearings started, especially for -- there are people that are in
20 the industry, that if you put your consumer hat on, is this all
21 goodness out there?

22 That's what I recommend, for you to really look
23 through their eyes and say: Do they need more information to
24 make that decision whether or not, or which is the right place to
25 make that purchase. Maybe I'm not the right place. That's okay.

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1 Let them make that decision based on good, solid, valid
2 information versus conditions that are skewing me to one or
3 potentially one or two choices that -- I go back to the railroad
4 analogy.

5 I own the toys; I own the airways; and I own the
6 only way to purchase my product. I'm not so sure that's good
7 enough.

8 MR. MURPHY: Could I ask also a follow-up?

9 CHAIRMAN WINSTEAD: Yes.

10 MR. MURPHY: You had mentioned that some of the
11 other products that you sell may begin to shave their
12 arrangements with you as the airlines have: Hotels, car rentals?

13 Have you seen any of that yet? Are they shifting
14 their business models also?

15 MR. ROJAHN: Yes, sir. We've seen that, not only
16 in the cruise market because of what's happened in the airline
17 arena, that they've cut commissions as far as if we deal with an
18 air-inclusive cruise. We've seen it happen in the car rental
19 arena with corporate accounts. You see webfares.

20 Again, I deal in the world of internet booking, not
21 just from an airline standpoint. You see noncommissionable
22 webfares being offered on hotel sites that if I were to earn
23 income by booking that I, of course, will have to sell or charge
24 a fee to do it. But significant differences in those arenas,
25 too.

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1 MR. MURPHY: All of them, then cruises, car
2 rentals, hotels?

3 MR. ROJAHN: It's hard to say as from a pricing
4 standpoint, because inventory changes, and market conditions
5 changes, and specials changed to where it's hard to say that just
6 because it's on the web it's a lower price. I don't think I can
7 say that. I've seen enough cases of it where I've gone to the
8 internet and seen better pricing than maybe some of the more
9 traditional channels, though.

10 MR. MURPHY: Thank you.

11 CHAIRMAN WINSTEAD: Paul's got a question, but I've
12 got one.

13 On this level playing field, the access issues to
14 fares that we've heard so much about, what -- as you all look
15 from your business size and client base at the tools that, for
16 example, this morning we heard about -- I don't know whether you
17 were here, David. I don't know.

18 Okay. In that optimism where do you match these
19 developing tools and these entrepreneurs that are out there
20 trying to be a part of this and provide access to fare? Where do
21 you see those tools helping you to get to this level playing
22 field you keep referring to, in terms of what you know now and
23 what we've heard this morning, that is, that there are a lot of
24 innovative people out there that know the market side, the
25 internet side, the computer software programming side and seem to

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1 be able to get the money to interject some innovation into a
2 niche. Where do you see those tools helping you to get to that
3 level playing field? I guess that's the question.

4 MR. KERN: Well, I see the more things that are out
5 there, the more reason that a travel agent is needed. So I see
6 those as kind of good things. It's just that we just need easier
7 access to those situations, because right now, like David said
8 earlier, it's taken us three, four, five times as much to sell an
9 airline ticket in time than it ever did before, because there's
10 so many sources now that we have to check out.

11 And before we used to be able to sit there on the
12 phone while the client was listening to us and be able to get
13 everything done, and set, and confirmed, and ticketed. Now it's
14 like sometimes we have to wait until tomorrow. I mean, "Is this
15 okay if we call you back in the morning. We'll get it squared
16 away."

17 I mean this is major time consumption, and there's
18 a lot of delays, because it starts piling up on you, the workload
19 does. So I see these tools that are coming out as good things in
20 a sense that it helps us sift through all those situations and
21 access all those different sites and stuff in a much more rapid
22 fashion. But it's got to tie back into, you know, our systems,
23 too. And it's got to get better, and better, and better.

24 CHAIRMAN WINSTEAD: Yes. And both of you all feel
25 -- you're fairly comfortable. ASTA was our first witness in

1 Washington about a month ago. And, you know, they had extensive
2 testimony. Maybe they've shared it with you through their
3 website or you've read it. And charts to support the economic
4 condition of agencies, and that sort of thing.

5 MR. ROJAHN: Sure.

6 CHAIRMAN WINSTEAD: Are you pretty comfortable with
7 their testimony and some of the things they've certainly
8 indicated that they would like to see this Commission consider in
9 terms of recommendations? Are you pretty much onboard?

10 MR. KERN: Yes.

11 MR. ROJAHN: Oh, definitely, definitely so.

12 MR. KERN: I mean, you know, the charts and stuff
13 that I was looking at are just so true. And there's a lot of
14 good value there.

15 MR. ROJAHN: David, if I -- I'm sorry.

16 CHAIRMAN WINSTEAD: That's all right.

17 MR. ROJAHN: I wanted to answer the question, too,
18 as far as --

19 CHAIRMAN WINSTEAD: Sure.

20 MR. ROJAHN: -- these tools. The tools definitely
21 will help us reduce costs as far as on the back-end side, meaning
22 to help manage a web booking after the booking is made.

23 And you heard it this morning. It was very
24 interesting to see one entity the airlines are very eager to work
25 with, two other entities not so eager. You have to start asking

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1 those questions why.

2 That's the part where those tools aren't going to
3 help me run my operation. Yes, they're going to reduce costs on
4 the back side. But if some entities are being blocked out of
5 access to information, because of your entity that you're selling
6 to, meaning AgentWare, "I'm the customer."

7 SideStep, the consumer's the customer. It's
8 interesting how some things are blocked; some things aren't
9 blocked. And I've got a real problem what that.

10 CHAIRMAN WINSTEAD: One other question. I think it
11 was in a discussion Paul and I've had at one point, is I've never
12 been to an ASTA meeting, although I'd love to. And I think the
13 last one I tried to get ahold of Paul, you were in Jamaica, as I
14 recall, like a great spot.

15 This educating the agent is a part of what you all
16 talked about. And I'm just curious. I know that nonprofit,
17 professional trade associations have limited resources. And
18 certainly since 9-11 you all have suffered losses in your
19 business. I'm sure that's reflected in the association.

20 But do you see the ability, collectively as a
21 profession, as these tools develop and as you all individually
22 share, I know you compete, but business plans and diversification
23 and support services, like travel books and things I've heard
24 from some of the people that, you know, they actually are selling
25 travel books as well as putting together a package -- is the

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1 industry -- do you feel that you can continue to learn through
2 your profession ways and models to get you to where you need to
3 be clearly, you know, economic duress in Bob's case in terms of
4 what's happened?

5 Is that a part of this equation? I mean we've
6 talked about access to fares; we've talked about you know what's
7 happened certainly in terms of the airline revenue drop. But is
8 a part of it again trying to get better business model plans
9 through sort of association-type programs and training? How do
10 you view that as a part of this? I know it's not your major
11 concern, but I was just curious.

12 MR. KERN: Well, you know, we in Southern
13 California have established a lot of different situations to help
14 out our fellow members. We've developed some like Saturday
15 seminars to where we bring people in to teach the agents how to
16 do different situations and such. So we're really big in that
17 area. I know I spend a lot of time on trying to train my fellow
18 members on how to do different issues. It's a constant battle
19 that we do.

20 And we have many, many meetings throughout the year
21 that we do different educational-type issues. But our Saturday
22 seminars that we've just recently set up over the last year have
23 been a very big help. And we train people.

24 And ASTA, you know, National ASTA does a lot of
25 issues like that in their different seminars and conferences and

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1 such.

2 CHAIRMAN WINSTEAD: Okay.

3 MR. ROJAHN: And I would agree with Bob.
4 Education, yes, we can all help each other and teach as far as
5 better ways of doing business. But you have to remember, there's
6 a lot of small agencies that are under contract that they cannot
7 change their business model tomorrow.

8 CHAIRMAN WINSTEAD: Right. Right.

9 MR. ROJAHN: And a year from now they might not be
10 in business at the time that they can change their business
11 model.

12 This dilemma with the vendors and the GDSs where
13 the GDSs want us there, the vendors don't want us there, and then
14 you've got this whole array of web stuff out there that people
15 are still trying to figure out. Even the techies are still
16 trying to figure out what you can have access to and what you
17 can't.

18 So it's just this is conglomerate of forces that at
19 some point some people are going to say, "You can educate me all
20 you want, but the conditions are such that I need to go do
21 something else."

22 CHAIRMAN WINSTEAD: Thank you.

23 Paul, you had a question.

24 MR. RUDEN: Yes. Just one final inquiry that is
25 not really on the subject of access to the webfares, but rather

1 addresses a very interesting development that took place not too
2 long ago in which SAS announced a completely different pricing
3 structure for their tickets.

4 They created a wholesale price, in effect, for
5 themselves, as well as for travel agents in Scandinavia and
6 permit or provide for differentiated add-ons, depending upon
7 their judgment about the cost of different channels.

8 In English it means that they mark up an e-ticket
9 differently than they would mark up an online ticket differently
10 than they would mark up a full coach ticket sold through a
11 traditional method.

12 And they would add these mark-ups or have these
13 mark-ups provided for on their own sales as well as having a
14 wholesale price for travel agents. Now that's a very, very
15 different concept of how to price than the system we have now,
16 which leaves you with the retail price to mark up.

17 MR. KERN: Yes.

18 MR. RUDEN: And my question is: Recognizing that
19 there are cost differences between the channels, would you think
20 that you could work effectively and efficiently with the
21 wholesale-retail price structure similar to -- it doesn't have to
22 be identical to SAS; interestingly, no other airline on the
23 planet has chosen to follow what they've done so far -- but could
24 that work for you -- that's my question -- rather than what
25 you've got now?

1 MR. KERN: Without a doubt. I mean that's
2 something that we are really hungry for. We should be the ones
3 that are driving the price or setting the price for our consumers
4 and let supply and demand take its course. And I would give
5 anything to have a system like that. And it would be a great
6 answer to all of our problems. That's my opinion.

7 MR. RUDEN: Do you agree with that?

8 MR. ROJAHN: Well, as long as my cost, because of
9 what I bring to the equation, is better than what the consumer
10 can get itself. I mean it's hard to mark up something that I'm
11 getting charged more for than somebody purchasing through another
12 channel anyway or direct.

13 It depends on how the model is as far as what those
14 costs, depending on distribution.

15 MR. RUDEN: The question I'm asking is predicated
16 on the assumption, which might not prove true in reality, but the
17 assumption that the wholesale price is the same for everyone
18 that, in effect, the carrier has pulled out what it judges its
19 own distribution costs to be and says: Beat that if you can.

20 MR. ROJAHN: If that's the assumption, then, yes.
21 That's a model I could work under because then agencies can
22 determine do they want to be a K-Mart or a Nordstrom's.

23 MR. RUDEN: That's right.

24 MR. ROJAHN: And you add your value add-in and your
25 pricing includes whatever services we want to bundle in. That

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1 model I would embrace and actually could utilize, because that
2 would distinguish me from somebody down the street if I choose to
3 bundle in other services.

4 MR. KERN: I've never seen an industry where it's
5 like Sears selling a TV set and saying, you know, Magnavox has
6 given it to us for \$200 and our service fee on top of that is 75
7 bucks; we're going to sell you the TV for 275. I mean who's ever
8 heard of that. And that's the environment that we're under. And
9 it's very hard to work under that.

10 And we cannot be, like David said, the K-Marts or
11 the Nordstrom's. We don't have that ability in that sense. You
12 know if we had deluxe, deluxe service, we should be able to get a
13 higher price than if we had no service.

14 MR. RUDEN: Okay. Thank you. That's it.

15 CHAIRMAN WINSTEAD: Great. Do we have any other
16 questions?

17 David and Bob, thank you very much for taking your
18 time.

19 MR. KERN: You're welcome.

20 MR. ROJAHN: You're welcome.

21 CHAIRMAN WINSTEAD: And if there are any other
22 questions we think of, we'll send them to you in writing.

23 MS. ROGGE: Thanks for coming.

24 CHAIRMAN WINSTEAD: But thanks again. I really
25 appreciate it.

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1 MR. KERN: Thank you.

2 MR. ROJAHN: Thank you.

3 MS. CASTO: Thank you.

4 CHAIRMAN WINSTEAD: Good luck to you.

5 We have our last two witnesses.

6 Steve Hewins, welcome.

7 George, nice to see you.

8 (Pause in the proceedings.)

9 CHAIRMAN WINSTEAD: Steve, why don't we start with
10 you. I think you were listed first on the agenda.

11 MR. HEWINS: Okay.

12 CHAIRMAN WINSTEAD: Thanks again for waiting. I
13 don't know whether you were here this morning for the testimony,
14 --

15 MR. HEWINS: Yes.

16 CHAIRMAN WINSTEAD: -- but we appreciate you
17 waiting until this after and --

18 MS. ROGGE: Hanging in there.

19 CHAIRMAN WINSTEAD: -- hanging in there with us.

20 MR. HEWINS: And it was very interesting, so it was
21 worth it.

22 CHAIRMAN WINSTEAD: Great.

23 MR. HEWINS: Yes, thanks.

24 CHAIRMAN WINSTEAD: So why don't you go ahead and
25 state your name --

1 MR. HEWINS: Okay.

2 CHAIRMAN WINSTEAD: -- and title and company for
3 the record?

4 MR. HEWINS: Certainly. My name is Steve Hewins,
5 and I am the president and founder of Hewins Travel Consultants,
6 Incorporated from Portland, Maine. I've been a travel agent for
7 24 years. My business will be 20 this November. In addition to
8 our Portland Headquarters we operate seven branch locations in
9 small cities and towns in the State of Maine. We also operate
10 our own website, too. We actually generate quite a few bookings
11 online as well.

12 We employ 60 people currently and have a business
13 mix of about 55 percent business travel and about 45 percent
14 that's made up of leisure travel groups and meetings.

15 We are also a franchisee of Carlson Wagonlit Travel
16 and have been since about 1990. I guess I would say I come to
17 you today from the front lines of the travel industry, as some of
18 my compatriots have been up here today as well.

19 My objectives are to represent the interest of the
20 traveling public and by extension the future of travel agencies
21 in America.

22 While Hewins Travel is a fairly large company by
23 travel agency standards, we're actually a small business as
24 classified by the SBA. In fact, we recently received a disaster
25 relief loan because of our revenues which are slightly under the

1 \$3 million ceiling, just under. But we were able to secure
2 disaster relief money based on the unfortunate events of last
3 fall. Although I will say that the airlines received billions in
4 federal grants. But unlike them I'll be paying back the
5 government for the next 30 years. I'm grateful for that help.
6 But obviously I have a vested interest in the survival of this
7 industry as well.

8 I have read the testimony and heard today, and
9 while I would like to respond in great detail to the rosy
10 pictures painted by the airlines and primarily their partners,
11 such as Orbitz, I know my time before this Committee is short.

12 That said, I can assure you that all is not rosy
13 with travel agencies and the traveling public from my
14 perspective.

15 Our air business, similar to what American Express
16 talked about this morning, is down about 22 percent year over
17 year. We've laid off about ten percent of our staff since last
18 year. We've closed an office and we've consolidated two others.

19 Overall my message I think is fairly simple, that I
20 believe the airlines cannot be allowed to mandate that a traveler
21 receive a lower fare through any particular channel. By not
22 allowing webfares to travel agencies through their GDSs,
23 companies that they themselves created many years ago, of course,
24 the airlines are manipulating the sale of air transportation in
25 America to the utter detriment of the traveling public in my

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1 view.

2 In his testimony in Chicago, which I read, Mr.
3 Doernhoefer of Orbitz recommends that the Commission, "be on the
4 side of technology innovation and consumer choice."

5 He goes on to assert that, "Consumers should be
6 free to decide how and where they want to purchase travel."
7 While this represents the wordsmithing of lawyers, it seems
8 amazing to me that I'm using the exact same words today in hopes
9 that you'll reach the exact opposite conclusion.

10 In a nutshell this explains what a difficult task I
11 think this Commission has separating the truth from the hype.

12 Contrary to how we've been portrayed, agencies like
13 Hewins Travel have never been opposed to technology and have
14 actually embraced all new technology since we were first wired to
15 the original computer systems back in the 1970s.

16 More importantly, travel agencies have always been
17 the last bastion of consumers' choice in transportation and
18 travel. I believe the exponential growth of agencies throughout
19 the '80s and '90s, when I built my business, was directly related
20 to the confidence that the public placed in us for advice and
21 counsel.

22 In 1982 I incorporated my business as Hewins Travel
23 Consultants. And I did that because I recognized then, as I do
24 today, that most of the public needs independent consulting when
25 it comes to arranging their travel plans wisely.

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1 As the airlines began cutting commissions in 1995
2 and culminating in a zero commission just over three months ago,
3 travel agents were employed to reinvent themselves and become
4 "information providers."

5 We were told by the airlines that the traveling
6 public would have to pay for this service because they would not.

7 Presumably, they felt we were worth nothing to them because we
8 steered the public to the best combinations of price and schedule
9 regardless of the airline and contrary to their own objectives.

10 Yet I'm concerned because I don't know how we're
11 supposed to assume that agreed-upon role as travel information
12 providers if we're not provided with all the information. How
13 can we fulfill this or meet the responsibility if the airlines
14 share rates through Orbitz and their own internet websites.

15 If selling webfares is so important to the
16 airlines, why do they not make them available to the largest
17 nonpaid sales distribution system in the world?

18 I've submitted examples of two itineraries which I
19 just passed to the Commission just now, better than the ones that
20 came across in the fax I think that was in my prepared remarks.

21 They show identical schedules. They were produced
22 by one of our senior corporate travel agents, by the way, someone
23 with 15 years experience who has been dealing with nothing but
24 corporate travel for the last almost 15 years. They were
25 produced within minutes of each other. One was off our GDS and

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1 the other was off the Orbitz website.

2 The price and schedule were for a U.S. Airways trip
3 from Portland, Maine to Memphis, Tennessee. The result was \$253
4 on Orbitz and 415 on our system.

5 You'll notice that I've highlighted the itinerary.

6 It's exactly the same. It's not like what was seen I guess at
7 Ms. Casto's agency by the Commission yesterday where there was an
8 unusual fare return or a different schedule. This is apples to
9 apples.

10 U.S. Airways isn't the only culprit. And given the
11 time we probably could have come up with similar examples from
12 United, American, Delta, or any of the majors.

13 My point is that travel agents need the same access
14 to these fares through our GDS, because we don't want to be
15 positioned as selling tickets for a higher price than people
16 should pay.

17 Ironically, while the airlines complain about poor
18 yields and low revenues -- and I guess U.S. Airways is an
19 excellent example. They just received federal government
20 bail-out money or conditionally I believe today it was announced.

21 But at the same time they compete against
22 themselves by offering a price \$162 lower than what our agency
23 has cost-effective access to. Since they pay no base commission
24 to Hewins Travel, is this worth the 10 or \$15 they would have
25 saved through their "high-cost GDS fees"? I think the answer is

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1 no.

2 Our business clients -- and we serve over 130
3 companies and organizations within the state -- pay us a
4 transaction fee to find the lowest fare and the best schedule for
5 each trip. Like most of American business, they prefer to out-
6 source travel while focusing on their core competencies.
7 Occasionally, as in the above example, a traveler would report a
8 webfare on an airline-owned site lower than what we have in our
9 GDS.

10 Yes, as I heard this morning, there are band-aid
11 fixes available. Incidentally, I'll make comment on one thing,
12 is we're actually investigating the Agent- --

13 MS. CASTO: -Ware.

14 MR. HEWINS: AgentWare. Thank you.

15 The cost of that is quite expensive for someone
16 like me. That would be 1600 bucks a month for us to adopt that
17 system, which wouldn't be bad if we were getting paid to absorb
18 that fee. But obviously we're struggling to break even, even
19 now.

20 That said, I will say the other system, SideStep,
21 in particular, is -- there are other systems out there like
22 FairChase and others that will search and find fares, and you can
23 book them on the airline website. That defeats the purpose of
24 the cost of the transaction for us, because we're not really
25 interested in going and booking something on an airline's website

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1 and then try to enter in as -- I think Bob mentioned -- back into
2 the GDS creating a passive segment in our system.

3 And at the same time the other system, Qixo there,
4 which I'm not that familiar with, but again that's booking it on
5 another site outside of our system. This creates inherent
6 problems, especially with corporate travel. And it drives up the
7 cost of travel management, both for us and for the companies that
8 pay us, and for the travelers within those companies that feel
9 compelled to search around for fares when they should be doing
10 their work that they're paid to do in their company.

11 Moreover, our new online booking system, we use a
12 system called HighWire by Galileo. We have several companies
13 with that system. We have a larger setup for all of our
14 corporate clients that don't have their own unique setup. They
15 can't find these fares. That's an internet booking system, but
16 they don't have access to webfares through that because it's
17 searching our GDS for the fares. That's a big problem with
18 corporate travel that utilize online booking systems.

19 I and thousands of my travel agent counterparts
20 across the country that I'm aware of and many people I've talked
21 to -- I've been on advisory boards within Carlson Wagonlit Travel
22 for quite some time and I have a chance to talk to many agencies
23 across the country, I think we want to sell travel effectively
24 for both consumers and our suppliers. And that includes selling
25 airline tickets in all price ranges.

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1 Hewins Travel, as I said earlier, has its own web
2 booking site for business and vacation travel, in addition to
3 brick-and-mortar offices. And similar to the airlines, Hewins
4 Travel continues to make difficult decisions involving laying off
5 valued employees, closing offices, consolidating businesses,
6 acquiring businesses as I do, and using new technology to improve
7 efficiencies.

8 But I don't expect this Commission will be swayed
9 by the airlines making those same claims, as we're all involved
10 in the same cost-cutting processes.

11 The most important need we have in order to fill
12 our ongoing and future role as travel consultants is a level
13 playing field, as several people have said. We have no problem
14 competing against other sales outlets online or offline, but we
15 can't compete against the airlines that produce themselves.

16 This is like the manufacturer Sony telling the
17 retailer Sears, you may sell our TVs, but we're going to sell
18 some of them cheaper on our website, and then we're going to get
19 together with Toshiba and Hitachi and put our own site together
20 and sell TVs there. This wouldn't happen in America. But why is
21 it only happening in the sale of air transportation in United
22 States of America?

23 The best interests of the traveling public require
24 that all airline webfares be available to all outlets, not simply
25 airline or airline-owned websites. The traveler doesn't have

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1 internet access, or doesn't have a credit card, or is too busy to
2 purchase their business or vacation trip online, or is elderly,
3 or simply wants to do business with humans, then let them call
4 Hewins Travel, receive the same webfare, pay a relatively small
5 transaction fee. It's fairly simple if that was all the issue
6 was.

7 According to their testimony in Chicago, Orbitz
8 aspires to be the next GDS. I think that was the first time I've
9 ever seen that in print. And if their FairSearch technology is
10 comparable, let them compete immediately for our business. And I
11 look forward to speaking with them.

12 However, the Orbitz GDS must operate under the same
13 DOT rules that all the GDSs adhere to and make their fares
14 available in all our GDSs now. Otherwise, the field is not level
15 and customers still do not have access to all fares through
16 Hewins Travel.

17 Finally, according to studies that I've read in
18 preparation for this presentation, a webfare booked through my
19 GDS costs about \$6. And I have no idea what it cost to
20 distribute those tickets outside of our GDS, but if that's the
21 only issue involved in making these webfares available at Hewins
22 Travel, then I'll gladly pay the difference in the cost to access
23 those webfares if I'm able to professionally serve the traveling
24 public.

25 I believe this Commission is committed to the

1 public's right, not the airlines, to choose where and how people
2 want to buy travel. And the evidence is becoming clear that the
3 travel agent's role is simply not to sell high-margin airline
4 tickets as conveyed to you by several airlines, but to do our job
5 effectively for the consumers we need access to all fares.

6 I implore you to send a strong message to Congress,
7 to the DOT and the DOJ. Those of us on the front lines with the
8 traveling public need your support. Thanks very much.

9 CHAIRMAN WINSTEAD: Great, Steve. Thank you. I'm
10 sure we have some questions.

11 But, George, do you want to...?

12 MR. DELANOY: Yes.

13 CHAIRMAN WINSTEAD: Thank you, sir.

14 MR. DELANOY: I'm not sure whether I'm batting
15 eighth today. I'd like to think I'm batting fourth. So I'll
16 move forward with that.

17 Chairman Winstead and Committee members, thanks for
18 giving me this opportunity.

19 The objective of this Commission, as you all know,
20 is to ensure consumer information and choice in the airline
21 industry. What I'd like to present today is the unique role of
22 the brick-and-mortar travel agency in reaching this objective.

23 As a matter of fact, I believe it's the greatest
24 conduit in the distribution system for achieving this objective.

25 And even beyond this, the brick-and-mortar travel agency could

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1 play a significant role in the turnaround of this industry under
2 the right operating conditions.

3 The perspective which I bring to this issue is
4 perhaps different than most people you've heard, since I've been
5 involved in both big business and small business. In the big
6 business world, I've been the president of a \$20 million division
7 of a food processing company and also the head of marketing for a
8 \$500 million entertainment company. That's one extreme.

9 The other extreme is now in the small business
10 world I've been the owner of Brea Travel since 1985. Our agency,
11 Brea Travel, is in the City of Brea with a population of 36,000,
12 about ten miles north of Disney. Our agency was started in 1960
13 and currently has annual revenues in the range of 1.5 million.
14 We have 19 full-time employees. Our business has three distinct
15 operating units. Leisure accounts for about 55 percent of our
16 revenues, corporate about 30, and group 15.

17 Our business, like other retail travel agencies
18 you've heard from, has changed substantially in the past few
19 years, specifically as related to the reduction in airline
20 commissions. In our fiscal year ending March 2000, that's the
21 fiscal year 2000, our airline commissions were almost \$375,000,
22 or 25 percent of our total revenues.

23 Two years later, fiscal year 2002, this had dropped
24 to 147,000. And as you know that 147,- will probably virtually
25 disappear this year.

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1 Our AOL sales, on the other hand, are still close
2 to three million, but with about 150,000 in fee income which, in
3 essence, is a price increase we passed on to our customers.

4 But you can't survive a 25-percent reduction in
5 revenues without making significant changes in your business. In
6 addition to higher fees, we have offset the lost revenues with
7 cost cutting and a change in our business mix. The current
8 results are a lower bottom-line profit, but I still say "profit";
9 a salary freeze; limited capital expenditures; and less, I'm
10 sorry to say, compensation for the owners. So much for our
11 travel agency background.

12 Throughout my business career, I've been involved
13 in marketing, which means that I've been concerned with and
14 studied the consumer. I've talked with them about everything
15 from bar soap to king crabs to rollercoasters, not all at the
16 same time.

17 In one case research on lunchbox desserts led to my
18 conceiving and developing a nationally-accepted product called
19 "Snack Pack." You can understand, therefore, that my travel
20 business has been built on trying to understand and satisfy that
21 consumer. And this is the context for virtually everything else
22 I have to say today.

23 The consumer has spoken most loudly and clearly
24 with the use of the internet for booking air travel. This is a
25 tremendous tool and a great example of how technology has

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1 improved on what choices consumers have. You've heard many times
2 internet bookings through online agencies and air websites
3 probably are now 20 to 25 percent of airline reservations.

4 However, offline agencies or brick-and-mortar
5 operations, even with higher prices due to fees, still account
6 for 70 percent of such reservations. There must be a good
7 reason. And that reason is that only these offline agencies
8 provide service and value which the client is willing to pay for.

9 In the few minutes left, I'd like to discuss the
10 importance to the consumer of the much maligned brick-and-mortar
11 travel agency, and why it is the greatest conduit in our travel
12 system for providing consumer information and choice.

13 At Brea Travel, for example, within any given year
14 we have quarterly mailings of a newsletter, like this (showing
15 brochure), "Surf on us," where we're talking about the internet
16 like everyone else is. That goes out to 7500
17 demographically-selected homeowners.

18 We have a three-times-a-year travel catalogue,
19 which is done through our consortium. That goes out to 5,000 of
20 our best customers.

21 We send about 30 postcard mailings and 10 to 15
22 other specialty mailings, all of which adds up to more than
23 75,000 pieces of mail sent to our clients each year. We get
24 feedback from our clients with follow-up phone calls to them
25 after their trip. We meet with them at our annual travel fair.

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1 We talk with them at about six promotional events we have each
2 year.

3 Our one-on-one personal contacts through telephone
4 calls and in the selling process add countless thousands of other
5 opportunities for developing strong client relations.

6 We use technology as well to service these clients.

7 There was a recent article in *Travel Agent* magazine titled,
8 "Technically an Agent's Success Story," talking about Brea
9 Travel. It's saying in one line down here, "Delaney also
10 empowers his agents to use internet sites that will help client,
11 whether it's an airline's own site or a travel portal such as
12 Orbitz." And we'll come back to that later on, I'm sure.

13 So we're constantly communicating with the
14 consumer. That's what we're talking about here today.
15 Communications with them relating to airline travel is so much
16 more than just booking tickets or providing flight options.

17 These person-to-person contacts become more
18 meaningful when our clients have problems or questions to
19 discuss. On an everyday basis, as some of you know, we will
20 handle changes in airline schedules, refunds to the clients when
21 prices are lowered, phone calls from clients at airports who have
22 missed connections, on and on.

23 You've heard many examples of what travel agencies
24 did after the 9-11 crisis. In our case we had 100 women golfers
25 stranded in Calgary, Canada for four days. We made special hotel

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1 arrangements for them. We used our entire staff to call their
2 relatives every day to let them know what was going on. We
3 negotiated with their insurance carrier to arrange a
4 reimbursement of some of these extra expenses that they had.

5 As we all know, such service is impractical and,
6 therefore, absent from the operations of an airline or an online
7 agency. But our client communications role is proactive as well
8 as reactive to the demands of our clients, because everyone here
9 knows the travel environment has changed dramatically in the past
10 ten months. Clients are not sure about being away from family.
11 They're not so sure about security and hassles of travel, about
12 the potential of another terrorist attack.

13 These days we see this most clearly in booking
14 patterns. People are booking closer in, less of a commitment to
15 far-away destinations. So who can and who will these clients
16 talk to about their travel questions and dilemmas. The airlines?
17 The online booking agency?

18 No. They talk with their local travel agency with
19 whom they have built a lasting relationship over the years. They
20 value our opinions and they trust our judgments.

21 While on the subject of influencing positive
22 attitudes toward travel, I'd like to mention the role of the
23 brick-and-mortar travel agency in the community, or the 10,000
24 communities, or whatever we operate in around this country. This
25 is an area which big business is unable to reach. I know. I've

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1 been there, the difficulty of reaching down into the community.

2 But this is where travel agencies come to the fore.

3 Most travel agents and these people like you're
4 meeting here today are very active community leaders. This comes
5 about through membership in the local Chamber of Commerce. I've
6 been president for one year. Church and service club
7 involvement. Support through travel goodies of an endless number
8 of great causes, including high school Grad Nights, Scouts, Boys'
9 and Girls' Clubs, Little League, Senior Citizens, and so on.
10 Some agencies even host their own TV or radio show.

11 Among all the retail businesses in town, we
12 probably have some of the highest awareness because of this
13 constant contact with community leaders. And so many ask,
14 "What's the latest in the travel business"; "Any suggestions for
15 my next trip"; or "Are the airlines going to make it?"

16 The significance of all this for this Commission is
17 that a brick-and-mortar travel agency is much more than a place
18 to purchase travel. We do influence attitudes toward travel. We
19 can be a major factor in helping the airlines in their Herculean
20 task of turning around their business.

21 By now you've heard detailed testimony from three
22 critical components of the industry: Airlines, GDSs, and travel
23 agencies. Despite important and expressed differences in our
24 respective businesses, we are inextricably linked by one common
25 goal: To provide information and services to the consumer to

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1 enable and encourage him or her to travel. Without that single
2 positive decision, none of us are in business. That's where our
3 collective focus should be.

4 So what is the greatest implement -- impediment --
5 excuse me -- to achieving mutual support of these three industry
6 components? To me it's not CRS fees. It's no longer the lost
7 agency commissions from the airlines. That's over. It's not
8 Orbitz.

9 It is the basic difference between big business, as
10 I have come to understand it, and small business. Big business,
11 in this case airlines -- and you've heard this before -- are
12 concerned about control. That's what this is all about. Small
13 businesses virtually across the board are concerned about
14 service. And so we have control on the one hand and service on
15 the other.

16 The "control" I refer to is "control" of the
17 consumer through control of information, which the consumer
18 receives.

19 You mentioned, Mr. Chairman, a few minutes ago Bill
20 Maloney's testimony. In his opening comments he gave numerous
21 examples of the airlines' ongoing attempts to usurp the
22 relationship of the travel agency and its clients in order to
23 control the client's travel patterns and decisions.

24 Such attempted airline control runs counter to the
25 agency objective of providing the service its clients expect.

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1 The same holds true in such simple things as being able to
2 provide our customers with the lowest fares possible.

3 You've already heard enough about Orbitz, but my
4 comments again are from the perspective of the consumer. Logic
5 says to me that if more than 70 percent of consumers still
6 purchase their airfare through brick-and-mortar travel agencies
7 and these companies have the trust of their clients, then why
8 should they not be able to offer their clients the lowest
9 available fare without enormous hassle and productivity.

10 And you've heard a little bit about that this
11 morning in terms of how much time it takes to book on Orbitz
12 versus other ways of booking.

13 In conclusion, I recommend that airlines consider a
14 180-degree turn in their current strategy and begin rebuilding
15 their relationships with travel agencies with an objective first
16 of sharing information, which can be disseminated by agencies as
17 well as the airlines themselves and, second, to begin a new
18 partnership with a shared goal of stimulating the airline
19 business. This would mean the availability of current Orbitz
20 fares to the offline and online travel community as well.

21 To me this Commission has a wonderful opportunity
22 to go even beyond your original charge of ensuring consumer
23 information and choice in the airline industry by cutting through
24 the vested interests exhibited in these hearings and providing a
25 future operating platform for the industry that is built on

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1 mutual trust and support.

2 We all need and are dependent upon a healthy
3 airline industry. And this is more likely to be realized if we
4 do the following:

5 One, recognize our interdependence and the critical
6 roles by each component of our industry, including certainly the
7 brick-and-mortar travel agency;

8 Two, provide an information system for the consumer
9 which allows maximum freedom of selection from different
10 retailers, but which also allows maximum freedom of information
11 to these retailers, the level playing field you've heard so much
12 about; and

13 Three, to Paul's point a minute ago, rise above
14 past restrictions, constraints, and partisan interest to allow
15 airlines, travel agencies, and CRS systems to meet together, as
16 in Scandinavia, to consider a net price system which allows each
17 segment to collect fees for their service and to cover all their
18 costs.

19 Finally, in closing, I'd like to paraphrase some
20 remarks from one of Joel Abels' recent columns in *Travel Trade*
21 magazine.

22 "America needs a profitable airline system and the
23 airline industry needs travel agency support. By working
24 together travel agencies and airlines could make each other's
25 dreams come true."

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1 I sure hope both sides will forget the past
2 nightmares and give dreams a chance. Thank you.

3 CHAIRMAN WINSTEAD: George, thank you, and Steve.
4 It was excellent testimony and a wonderful vision of the way I
5 think we need to go.

6 I'm sure we've got a number of questions. Back to
7 Steve. I've been trying to understand the economics. You've got
8 a fairly big agency. I guess 60 is pretty high up there.

9 In terms of service fees, how have you adjusted
10 again as you shifted from airline percentage to nonair, and also
11 in terms of the reduction in commission; what's happened with the
12 service fees?

13 MR. HEWINS: Well, beginning when the -- excuse me
14 -- when the commission cuts, as they went sequentially down over
15 time, I made a constant decision to charge fees only on airline
16 tickets. We charge no fees for anything else. We do charge sort
17 of a plan-to-go fee to build a vacation package, but that's
18 applied to the cost of the trip. But other than that, we don't
19 charge fees for anything else. So it's strictly on air. And
20 right now we charge \$30 a ticket for leisure and 38 for
21 corporate.

22 And we've got some volume discounts for very large
23 clients, but that's, you know, the bulk of our fee structure.
24 Online bookings are 15 on our website.

25 CHAIRMAN WINSTEAD: All right. George, again I

1 thought both your testimonies were excellent, and I think that,
2 you know the experience you've had in dealing with huge marketing
3 products nationwide down to your community in the threshold that
4 your company obviously has in that community is very interesting.

5 You talked on page 2 about the consumer has spoken
6 loud and clear about internet booking, --

7 MR. DELANOY: Right.

8 CHAIRMAN WINSTEAD: -- and, you know, with the
9 increase we've seen there. And obviously the 70 percent
10 threshold, again, on page 6 you're still talking about the 70
11 percent of consumers that go through the travel agency. I think
12 the partnership you're describing is what this Commission needs
13 to try to strive. We need to come to conclusions that bring the
14 partners back together for everybody's benefit.

15 In terms of, again, the tool question -- we heard a
16 lot about new tools this morning -- where do you see, from your
17 perspective, your size of agency and your market, those tools
18 taking your business to that objective?

19 MR. DELANOY: Well, I talked this morning --

20 CHAIRMAN WINSTEAD: I mean I'm quite aware of the
21 fare issue in your recommendation, but I'm wondering about what's
22 happening with all these innovative new approaches and access
23 points.

24 MR. DELANOY: Well, in terms of the discussion this
25 morning about AgentWare and the other, which I don't remember how

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1 to pronounce, but I think that's the kind of thing we need, but
2 it comes down to a cost-benefit kind of analysis. That is, you
3 know, I talked to each of them afterwards. And as Steve
4 commented a minute ago about \$40 per work station, that's a
5 prohibitive kind of cost.

6 I also talked to David about his costs of \$10 per
7 booking. And if an agency is charging anywhere from 25 to \$35
8 for a fee and they're paying 10 of that back in terms of that
9 kind of cost, that's 40 percent of that income from fee income,
10 so it's not going to work.

11 I think that's a great concept. I think it's going
12 to come along, or one of them will, as a tool that agencies can
13 use, but it's got to be in the sense to the economics of the
14 agency.

15 CHAIRMAN WINSTEAD: Steve, in your testimony you
16 stated from the standpoint of AgentWare, it's \$1600 a month,
17 right?

18 MR. HEWINS: Yes.

19 CHAIRMAN WINSTEAD: That's a lot of money.

20 MR. HEWINS: That's a lot of money.

21 CHAIRMAN WINSTEAD: You have to be fairly big to --
22 I mean, you're saying that you can't afford that and you had 60
23 people, right?

24 MR. HEWINS: Yes. Well, it's 40 work stations for
25 me. So that's -- some people, you know, may only book one of

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1 those a month, or something like that. I don't really know how
2 many it would be, but that's the issue.

3 CHAIRMAN WINSTEAD: Right.

4 MR. HEWINS: You need training, too. There's a big
5 training issue on using new systems.

6 CHAIRMAN WINSTEAD: Right, right. One thing, I
7 think the reason Congress set up this Commission is to reach out
8 and listen to the consumer. And, you know, you reflect that
9 obviously you all are the most in touch with the consumer and the
10 percentage of airline tickets that move through you all
11 substantiates that.

12 Help us a little bit. I mean it has to obviously
13 appeal to Congress and say, "Look, all these things are
14 happening, and we have to really look at this because this is a
15 vital industry and the consumer needs it."

16 In your mind, you do, George, in your explanation
17 about what you do in the community in sponsoring events and, you
18 know, charities and all that, you've clearly got a control of
19 your market focus.

20 MR. DELANOY: I don't know.

21 CHAIRMAN WINSTEAD: I mean I don't know what more a
22 marketer can do than what you're doing.

23 Again, the thing that puzzles me a little bit is
24 that how that 70 percent of consuming public can be better heard.

25 I mean this Commission has a role in that. But what other

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1 thoughts do you have? You all are out front. ASTA is out front.

2 Because, very frankly, you know, if you look at
3 what we've heard from three hearings now in terms of small
4 agencies and what's happening economically, the panel before you,
5 you're going to have, if things don't change, if tools are
6 developed or you have access to fares, you're going to continue
7 to have attrition. And as you have that attrition, you're going
8 to have more of that 70 percent of public --

9 MR. DELANOY: Sure.

10 CHAIRMAN WINSTEAD: -- that use you concerned.
11 Well, what's happened?

12 MR. DELANOY: I think that --

13 CHAIRMAN WINSTEAD: And I guess I'm just wondering
14 where you think the communication issue is.

15 MR. DELANOY: I'm sorry. I was going to answer
16 another question.

17 CHAIRMAN WINSTEAD: Okay.

18 MR. DELANOY: We're hearing the consumer through
19 what the consumer is doing, of course. And everyone's talked
20 about that, everyone we've heard from, which says there are new
21 tools out there which they're using and enjoying, some people.
22 Now others are not.

23 As I said here, we do provide value. And that's
24 the essence of the travel agency, providing value that that
25 consumer recognizes and is willing to pay for. And that's what

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1 happened since the demise of commissions.

2 A lot of agencies were worried about that. In 1995
3 I was the president of a consortium in Southern California. And
4 the first week after it was announced, I called a meeting called,
5 "Recognizing reality," and said, "This is, indeed, the new
6 reality that we're in of having to charge fees and in a sense
7 having to justify the value that we -- or the fees would justify
8 what we're bringing to our people."

9 So I think that's what's happening. But I'm not
10 sure I'm getting to the essence of what you want to hear.

11 CHAIRMAN WINSTEAD: Again, it strikes me that, you
12 know, these hearings, we've -- like in a lot of public forums
13 where you have specific groups that have an interest and concern.

14 And the figure and the attrition in the industry is what I'm
15 still concerned about and trying to figure out what you're
16 hearing.

17 MR. DELANOY: Well, what you do --

18 CHAIRMAN WINSTEAD: I mean for your customers you
19 do newsletters, and I assume you inform them about what the
20 outlooks are, what ASTA is doing, and that sort of thing. Is
21 that correct?

22 MR. DELANOY: Sure. And what all we do still, as
23 we've said, we've got to have a competitive price.

24 CHAIRMAN WINSTEAD: Right.

25 MR. DELANOY: And that's what the essence of the

1 Commission is: Are we, indeed, after all these things we've done
2 to build consumer confidence and trust, that's all great except
3 if our price is \$50 more, that's out the window.

4 CHAIRMAN WINSTEAD: Right.

5 MR. DELANOY: And if we're unable to compete
6 because of that, we're out the window.

7 MR. HEWINS: You know, a big part of that 70
8 percent is in corporate travel, which hasn't been widely heard, I
9 don't think, before the Commission. And my particular view on
10 that is that corporate travelers are not flocking to websites to
11 book their tickets. Not at least in most companies.

12 Individual, small businesses of one or two people,
13 maybe some are or are not. But we don't see, I don't see great
14 attrition of our business from the business side of travel.

15 CHAIRMAN WINSTEAD: We did hear in Washington,
16 MBTA, I believe, testified, for Turner, corporate manager of
17 travel for Turner Broadcasting. So we did hear one or two.

18 Well, let me open it here, but I'm sure we've got
19 some other questions.

20 MS. CASTO: Steve, we also use HighWire for our
21 online booking, and we're very happy with it. Just a few
22 questions.

23 You had said that it cost about \$40 for the
24 AgentWare, and that's prohibitive for you. If you make just two
25 more bookings per month, you can cover the cost; isn't that

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1 right?

2 MR. HEWINS: Two more bookings on?

3 MS. CASTO: AgentWare. I mean --

4 MR. HEWINS: Versus, versus what? Versus not
5 having AgentWare? I guess I don't follow the question. If I
6 made two more books a month?

7 MS. CASTO: Well, you're saying that it cost \$40.

8 MR. HEWINS: Forty dollars per work station per
9 month, right.

10 MS. CASTO: Yes. And how would you cover that
11 cost? If you did more booking in it, how many bookings do you
12 have to make to cover the cost at \$40?

13 MR. HEWINS: Well, 1600. I mean I also charge
14 what, \$30 a ticket on top of that. So I'm charging 30, but
15 paying whatever I am on that. I guess I don't really know what
16 that would be because I haven't really analyzed it the way that
17 you're asking the question. I'm just trying to, you know, keep
18 my cost down for transacting tickets.

19 MS. CASTO: Another question. Are you losing
20 bookings now because you can't find the low fare?

21 MR. HEWINS: Some.

22 MS. CASTO: Both of you. George, are you?

23 MR. HEWINS: Yes, definitely. You see, I'm not too
24 concerned about Travelocity, and Expedia, and those types of
25 sites. I'm only concerned about airlines and airline-owned

1 sites, because I've got fares, too, that are lower than what's on
2 Travelocity and Expedia, as well. I know that.

3 MS. CASTO: Yes.

4 MR. HEWINS: But the illustration I gave the
5 Commission here is the crux of the problem I think from my
6 perspective.

7 MS. CASTO: Okay. Thank you.

8 CHAIRMAN WINSTEAD: Pat.

9 MR. MURPHY: I have a question for Steve. I'm
10 fairly familiar with the Portland, Maine area. As a matter of
11 fact I just bought a ticket for my wife to travel up there in a
12 few weeks. And I booked her out of state through Manchester on
13 Southwest Airlines, --

14 MR. HEWINS: Correct.

15 MR. MURPHY: -- which, of course, many people in
16 Maine now drive out of state --

17 MR. HEWINS: That's correct.

18 MR. MURPHY: -- to get on Southwest. How has that
19 affected your business since Southwest --

20 MR. HEWINS: That's affected it a lot. And, of
21 course, the Southwest effect is clearly known to Joyce and
22 everybody else in the industry and that generally fares drop with
23 the other airlines as well.

24 That's another interesting factor about the web
25 search, because our agents check Portland, Maine; Manchester; and

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1 Boston on every single itinerary. That is policy at Hewins
2 Travel. So if you go to a website, many websites you're not
3 going to be able to shop different cities and different departure
4 points. So the traveler may book out of Portland, Maine and buy
5 something online when they could have gone to Manchester and
6 spent \$300 less. So that's an issue.

7 MR. MURPHY: Well, if they come to you and ask you
8 to book them through Manchester, do you still charge them \$30 for
9 that Southwest ticket?

10 MR. HEWINS: Yes. The same fee for everything,
11 yes.

12 MR. MURPHY: Okay.

13 CHAIRMAN WINSTEAD: Other? Paul.

14 MR. RUDEN: Yes, just a couple. I want to be
15 clear, because I heard Steve say you would pay a cost-base
16 differential related to CRS fees to get those fares, to get the
17 low internet fares.

18 MR. HEWINS: Yes.

19 MR. RUDEN: George, how do you feel about that?

20 MR. DELANOY: Ask the question again, Paul.

21 MR. RUDEN: The question is: Would you be better
22 off than you are today if you got access to all those internet
23 fares on your CRS, but you were, in effect, surcharged \$12 or
24 some number that is the average cost to the carriers of bookings
25 made through CRS?

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1 MR. DELANOY: Do you mean that we would pick up the
2 CRS fees?

3 MR. RUDEN: Yes.

4 MR. DELANOY: I don't know. I'd have to look at
5 that. And from the standpoint --

6 MR. RUDEN: You'd pick it up or pass it on, one or
7 the other, but you'd get access to all the fares.

8 MR. DELANOY: Well, the question is: How much can
9 we pass on with increased fees.

10 MR. RUDEN: Yes.

11 MR. DELANOY: And I think we may be reaching a
12 limit based upon, you know, some of the fall-off we've seen when
13 we increased the fees for the leisure side from 25 to \$35. Okay.

14
15 I would love the idea of the CRSs or having access
16 to these fares through the CRS system at some nominal cost, which
17 is what I don't think that is.

18 MR. HEWINS: Well, I think it is nominal, though.
19 That's what I believe it to be. You know, George may not have
20 seen the same statistics I've seen, but supposedly it's roughly
21 \$6 a booking fee for a web-type fare. And --

22 MR. RUDEN: The airlines are saying it's more like
23 12 to \$15.

24 MR. HEWINS: Yes. Galileo says six, so the
25 perspective is different. But even if it was 12, I don't know

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1 what it cost to put it through Orbitz, or to their own websites,
2 or anything else. But I would pay the difference if that is the
3 issue.

4 CHAIRMAN WINSTEAD: Compared to today, where you're
5 marking up the real retail price?

6 MR. HEWINS: Correct.

7 CHAIRMAN WINSTEAD: And that's the question I'm
8 posing to you, too, George.

9 MR. DELANOY: That question comes down somewhat I
10 think to agent productivity. If we're doing it now, that is,
11 we're checking Orbitz, which we are; we're checking the airline
12 website, which we have to do; we're checking our Galileo. So for
13 these bookings I've said to the agents working there, I want to
14 know at least -- we can't check them all, Paul -- but I want to
15 know at least for those big three how are we looking? And so
16 that's, indeed, lower productivity as you've already heard.

17 Now the question would come: Is the offsetting
18 cost for paying those fees more than that lower productivity?
19 And I don't know the answer to that.

20 MR. RUDEN: Fair enough.

21 How about the other question then. You heard me
22 ask it before about putting aside the internet fares now, just
23 speaking about fares in a general sense. And the concept is that
24 you would get the equivalent of a wholesale price and the
25 airlines would also, in effect, charge themselves a wholesale

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1 price and mark it up. They would mark up their sales through
2 their websites one level; they would mark up the price for
3 someone who called the res system on a 800 number another level;
4 and you would get that same wholesale price and would have to
5 compete on your cost of distributing. Better off than today or
6 worse off?

7 MR. DELANOY: Definitely better off. As I said
8 here, I'd like to see the airlines do something like that.

9 CHAIRMAN WINSTEAD: Do you agree with that, Steve?

10 MR. HEWINS: I agree with that, but I tend to be
11 more skeptical of the airline industry in that, you know, without
12 -- what you say at its face, yes.

13 MR. RUDEN: It's a hypothetical. I understand that
14 there are --

15 MR. HEWINS: True, but I'd be concerned about how
16 many costs get buried into that wholesale price so pretty soon
17 they're -- they're costs above that are pretty low, because
18 within that wholesale that they themselves have set are costs
19 that we have.

20 But in your example, absolutely, we'd be better
21 off.

22 MR. RUDEN: Thank you. Thank you.

23 CHAIRMAN WINSTEAD: Thank you, Paul.

24 Joyce.

25 MS. ROGGE: I don't have anything.

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1 CHAIRMAN WINSTEAD: Ann.

2 MS. MITCHELL: Both of you have indicated that the
3 travel agent is very active and helpful to the consumer in
4 purchasing air products and that we now still service 70 percent
5 of the flying public.

6 It's already been suggested that that could be
7 going down if the perception and reality to the consumer is that
8 we can no longer provide the kind of information to them that we
9 have provided in the past.

10 Would it be your view and, if so, would you commit
11 that if we were again in a better position with the airlines as
12 partners in promoting air travel that it would be in the
13 airline's best interest as well as, of course, the agency's best
14 interest to work together to stimulate the somewhat deflated
15 airline travel at this point?

16 MR. DELANOY: What I think of when you asked the
17 question is -- I don't know how many travel agencies there are,
18 maybe there's 17,000 or something, Paul, and there's maybe an
19 average of ten people on each agency, that's maybe 107- -- five
20 people average, so that's 85,000 people or a hundred thousand --
21 would you rather have people representing you who love you or
22 hate you in terms of 85,000 people around the country. And could
23 they perhaps in some small measure help you out if they really
24 felt you were a partner. And I think, indeed, they could.

25 MR. HEWINS: I actually think George said it well

1 when he was showing the examples of all the marketing and stuff
2 that he'd done, that all travel agencies do. And we're out there
3 marketing travel that involves the airlines. And if that all
4 goes away -- or if we're more encouraged to do more of that,
5 would that then stimulate travel more than simply airlines
6 putting fares on the web. I think that's a very important role
7 we have, is bringing all these things together with air as the
8 core of what we sell.

9 MR. DELANOY: And there were times, as you
10 remember, when we had -- or the airlines -- maybe they still do,
11 but I don't know of any -- advisory boards that they had where
12 there was dialogue going on. I was on one of those advisory
13 boards. And I felt they were very worthwhile sessions that we
14 had. Each side was listening as well as contributing. And so
15 that's just a small example of what can start in as working
16 together.

17 MR. HEWINS: If this Commission could encourage the
18 parties to get together in a constructive way as part of its
19 results, that would be a very positive, I think, conclusion.

20 MS. MITCHELL: One thing that has been pointed out
21 just in the last few minutes is that we've heard from the agency
22 community, the CRS community, the online people, the
23 entrepreneurs, and we've not heard directly from the consumer.
24 Do you think we should and, if so, do you have any suggestions
25 about how we might do that?

1 MR. DELANOY: Well, the normal thing is to either -
2 - one of the easy ways is so-called consumer focus groups where
3 you just bring some consumers together, as you do in your
4 business and I did in our businesses, and just sit down and talk
5 about what their perception is and what's going on with the
6 airlines, and travel agencies, and so on.

7 Those are relatively quick and relatively easy and
8 you can at least develop some hypotheses from them, if not
9 conclusive evidence of what you're going to do. So that's a
10 beginning.

11 And I would say that that's something you could
12 consider. Something longer that, quantitative surveys, you don't
13 have time for that.

14 CHAIRMAN WINSTEAD: That's very helpful. I'm sure
15 you did that when you were marketing those big brand products.

16 MR. DELANOY: That's right.

17 MR. RUDEN: Mr. Chairman, I think we have a new
18 assignment, which is divorce counseling. I have some personal
19 experience with that. And this is what this sounds like here if
20 we're going to try to patch things up with these unwilling -- at
21 least one party seems unwilling.

22 CHAIRMAN WINSTEAD: Well, you know, I think both of
23 your testimonies were very, very helpful, and you had solid
24 recommendations. And that's very helpful to the Commission. We
25 really appreciate it.

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1 Do you have any -- I think the Commission is fairly
2 satisfied, or are there any pressing questions?

3 Do you have any closing comments? I mean you've
4 reflected --

5 MR. RUDEN: I think Ann may have a question.

6 CHAIRMAN WINSTEAD: Oh, Ann, I'm sorry.

7 MS. MITCHELL: Well, actually one of our learned
8 helpful people with our Commission has had a great deal of
9 experience with DOT, and the airlines, and so forth. He was
10 wondering, that the law says that, and DOT has ruled, that you
11 agents are the agents of the airline, how can you be its
12 competitor?

13 MR. HEWINS: That's a good question. Normally in
14 an agent relationship there should be some compensation taking
15 place, I would think. But it's heard to be an agent for someone
16 when there's no, you know, money being transacted between the two
17 parties. But I guess the question is -- is the question a
18 rhetorical question?

19 Obviously, I would want to be adversarial.

20 MR. RUDEN: In fairness, it's a legal question.

21 I can suggest answers to it, but I don't know that
22 they're competent to do so.

23 (Aside comments and laughter.)

24 MR. HEWINS: I need legal counsel I think to advise
25 me on a response to that, I'm afraid.

1 CHAIRMAN WINSTEAD: Let me ask, Steve, again on the
2 tool side. I mean you all live with the CRS and GDSs and all.

3 You know, your comment about not being able to
4 afford that 1400 a month, you know, we saw this morning, that
5 these innovators are out there providing these tools to get into
6 gaps and get information that they get blocked from occasionally,
7 but don't you think that the level playing field issue, the
8 partnering issue, that may be a concept of a net fare issue that
9 would be considered. Certain people have recommended that for
10 the Commission.

11 But don't you think again that the tools will
12 continue to develop to the point where both the cost and the time
13 it takes to use them will begin to aid you all in overcoming that
14 confusion that's -- not confusion but the search that you have to
15 do for your clients?

16 I mean yesterday we saw at Casto the Orbitz fares
17 and the GDS -- I mean CRS fares on this side on the same screen,
18 and they were punching back and forth. And I know that that is a
19 hybrid. I mean apparently this program that I saw has only been
20 around for a year, but they're continuing to try to fund it and
21 develop it.

22 Won't that help a lot?

23 MR. HEWINS: I think --

24 CHAIRMAN WINSTEAD: When you have the efficient
25 tools and you have the time it takes to get the information to

1 the customer, it will improve your competitiveness.

2 MR. HEWINS: I think that's a fair statement. I
3 think the things that though inhibit that that have to be said is
4 that, number one, there are training issues involved in running -
5 -

6 CHAIRMAN WINSTEAD: Right.

7 MR. HEWINS: -- a separate set of things around,
8 because as you can see from looking at Casto Travel running these
9 systems is not an easy thing to do.

10 CHAIRMAN WINSTEAD: Right.

11 MR. HEWINS: It's not like MicrosoftWord or
12 something. It's very nonintuitive for many people. So just
13 learning that is an issue. And then adding another layer to it
14 makes it more time-consuming in training, and that sort of thing.

15 But one of the big issues for me -- yes, I could
16 afford \$1600 a month. That's why I was having a hard time
17 answering your question, because I'm negotiating with them, no
18 question about it.

19 MS. CASTO: Sure.

20 MR. HEWINS: But at the same time what is an issue
21 to me is that those books do not get counted against my segment
22 requirements with Galileo. And that is a very real issue for me
23 and for a lot of others, because I've got those thresholds to
24 meet.

25 So my preference would be -- those systems aren't

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1 even needed because it all ought to be in the GDS for my
2 purposes. Then serving customers would be simpler. But, like
3 you say, it may develop the way you're describing.

4 CHAIRMAN WINSTEAD: Right.

5 MS. MITCHELL: Would you have any recommendations
6 to us in our deliberations to make recommendations to the GDS
7 people about that very issue?

8 MR. HEWINS: Well, I don't think they would be --
9 they might be in a position to acquiesce on segments that are
10 booked through one of their sponsored systems like AgentWare, you
11 know, so that they count those segments in some way offsetting
12 our exposure to them. That would be an interesting thing.

13 But I think the only thing I could say is what I
14 sort of said earlier is that to implore the airlines to allow
15 those fares into the system is the larger point and then the
16 ability for us to pay the differential to offset the cost.
17 Removing the cost issue for the airlines is the big thing,
18 because then it gets to the core of the issue. It goes from a
19 cost thing to a control-a-customer, which was said earlier.

20 And if it is about the control of the customer,
21 then that becomes a difficult thing for the parties to resolve.
22 If it's a cost issue and we can deal with it, then that would be
23 the conclusion, I would think, that it would be good reach.
24 Otherwise, I don't know.

25 MR. RUDEN: Do you think it's a cost issue, or

1 something --

2 MR. HEWINS: No, I don't think it's a cost issue.
3 And that pains me to say that. Having done this for so long and
4 wanting to sell air tickets -- I mean I know ASTA tells many
5 travel agencies to focus on other products. But we focus on
6 other products and we sell airline tickets. And airline tickets
7 in corporate travel obviously is a big component of what we do.
8 And I don't ascribe to that. I want to grow in all directions.
9 And I think air travel is an important component of everything we
10 do in the travel agency business.

11 So I'm for simplifying and streamlining all those
12 connections to air. And anything that goes beyond that becomes
13 an added expense, a layer, a nonorganic problem that's created by
14 people that don't want to see travel agents be involved with
15 customers, in my view.

16 MR. DELANOY: I'd just like to make a comment about
17 cost cutting. And, again, you're listening to a marketing guy.

18 But I don't know of any companies that ever
19 survived just by cutting costs. They had to do something to the
20 top line. They had to do something to their market, to their
21 revenues. And so the focus of the airlines on a \$12 CRS fee, or
22 \$8, or whatever it is, they cut out already what, \$5 billion of
23 agency commissions. And did it help, or are they in the same
24 spot?

25 Now they're still focusing on costs' cost, and

1 that's not the -- as I've already said here, to me that's not the
2 essence of the problems the airlines have, but that's what they
3 keep banging away on.

4 MR. HEWINS: We're about generating demand.

5 MR. DELANOY: That's right.

6 CHAIRMAN WINSTEAD: All right. Well, if we don't
7 have any more questions again, Steve and George, thank you very
8 much. I thought your testimony was well thought out and it had
9 some solid recommendations for us. And we appreciate you're
10 taking the time.

11 MR. DELANOY: Thank you.

12 MR. HEWINS: Thanks very much.

13 MS. ROGGE: Thank you.

14 CHAIRMAN WINSTEAD: Just in conclusion, Dick, do
15 you have any...?

16 We do have a hearing -- I guess that's our final
17 schedule -- on July 31st in Washington. And if there are
18 additional people that would be interested, we do have some
19 people already signed up, but please let us know. And we again
20 thank everything for coming.

21 MS. CASTO: Thank you.

22 MS. MITCHELL: Thank you.

23 (The Commission hearing adjourned at 3:56 o'clock
24 p.m.)

25

