

The National Commission To Ensure Consumer Information and Choice in the Airline Industry

Testimony of George Delanoy

President of Brea Travel

July 11, 2002

Chairman Winstead and Committee Members, thank you for giving me this opportunity to appear before you today.

The objective of this commission is “to ensure consumer information and choice in the airline industry”. What I’d like to present today is the unique role of the brick-and-mortar travel agency in reaching this objective. As a matter of fact, I believe it’s the greatest conduit in the distribution system for achieving this objective! And even beyond this, the brick-and-mortar travel agency could play a significant role in the turn-around of this industry, under the right operating conditions.

The perspective which I bring to this issue is perhaps different than most others you’ve heard since I have been involved in both big business and small business. In the big business world, I’ve been the president of a \$20 million division of a major food processing company and the marketing head of a \$500 million entertainment company. In the small business world I’ve been the owner of Brea Travel since 1985.

Our agency, Brea Travel, is in the city of Brea with a population of about 36,000, about 10 miles north of Disneyland. Our agency was started in 1960 and currently has annual revenues in the range of \$1.5 million. We have 19 full-time employees. Our business has three distinct operating groups: leisure, accounting for 55% of revenues, corporate with 30%; and group with 15%.

Our business, like other travel retailers, has changed substantially in the past few years, specifically as related to the reduction in airline commissions. For example, in FY 2000 (ending in March 2000), our airline commissions were almost \$375,000 or 25% of our total revenues. Two years later, FY 2002, our airline commissions were down to \$147,000. That \$147,000 will virtually disappear in our current fiscal year.

Our airline sales, on the other hand are still close to \$3 million, but with about \$150,000 in fee income which, in essence, is a price increase our customers have been willing to accept. But you cannot survive a 25% reduction in revenues without making significant changes in your business. In addition to higher fees, we have offset the lost revenues with cost-cutting and a change in our business mix. The results are lower bottom-line profit, a salary freeze, limited capital expenditures, and less compensation for the owners.

So much for our travel agency background.

Throughout my business career, I've been involved in marketing, which means that I have always been concerned about, and studied, the consumer. I've talked with them about everything from bar soap to king crab to rollercoasters! In one case, research on lunch box desserts lead to my conceiving and developing a nationally accepted product called Snack Pack.

You can understand, therefore, that my travel business has been built on trying to understand, and satisfy, the consumer. And this is the context for the remarks that follow.

The consumer has spoken most loudly and clearly with their use of the Internet for booking air travel. This is a tremendous tool and a great example of how technology has improved what choices consumers have. Internet bookings, through on-line agencies and airline websites, now account for perhaps 20-25% of airline reservations

However, off-line agencies, or brick-and-mortar operations, even with higher prices due to fees, still account for over 70% of such reservations! There must be a good reason. And that reason is that only these “off-line” agencies provide service and value which the client is willing to pay for.

So in the remaining few minutes that I have, I would like to discuss the importance to the consumer of the much-maligned brick-and-mortar travel agency and why it is the greatest conduit in our travel system for providing consumer information and choice...

At Brea Travel, for example, within any given year, we have quarterly mailings of our newsletter to 7,500 demographically selected homeowners; a 3-times/year travel catalog sent to 5,000 of our best customers; about 30 postcard mailings, and 10-15 other specialty mailings. All of which adds up to more the 75,000 pieces of mail sent to our clients each year. We get feed-back from our clients with follow-up phone calls to them after their trip; meeting with them at our annual Travel Fair; or talking with them at about 6 promotional evenings we have each year. Our one-on-one personal contacts through telephone calls and in the selling process add countless thousands of other opportunities for developing strong consumer relations.

Our communication with them relating to airline travel is so much more than booking tickets or providing flight options. These person-to-person contacts become most meaningful when our clients have problems or questions to discuss. On an everyday basis, we will handle changes in airline schedules; refunds to clients when prices are lowered; phone calls from clients at airports who have missed a connection; and so on. You have already heard many examples of the tremendous responses of travel agencies during the 9/11 crisis. In our case we had 100 women golfers stranded in Calgary, Canada for four days. We made special hotel arrangements for them, used our entire staff to call their relatives every day with an update, and negotiated with their insurance carrier to arrange a reimbursement of some of their extra expenses.

As we all know, such service is impractical, and therefore absent, from the operations of an airline or on-line agency.

But our client-communications role is very pro-active as well as reactive to the demands of our clients. As everyone here knows, the travel environment has changed dramatically in the past 10 months. Clients are not sure about being away from family, about the security and hassles of travel, about the potential of another terrorist attack. These days, we see this most clearly in booking patterns with closer-in bookings and less of a commitment to far-away destinations.

So who can, and will, these clients talk to about their travel questions and dilemmas? The airlines? The on-line booking agency? No, they talk with their travel agency with whom they have built a lasting relationship over the years. They value our opinions and trust our judgments.

While on the subject of influencing positive attitudes toward travel in general, and air travel in particular, I'd like to mention the role of the brick-and-mortar travel agency in the community, or 10,000 communities, in which we operate. This is an area which big business is unable to reach... I know, I've been there.

Most travel agents are very active community leaders. This comes about through membership in the local Chamber of Commerce (in my case, as president one year); church and service club involvement; and support (through free travel goodies) for an endless number of great causes including high school grad nights; scouts, boys and girls clubs; Little League, senior citizens, and the list goes on and on. Some agencies even host their own local radio or television show.

Among all the retail businesses in town, we probably have some of the highest awareness because of this constant contact with various community leaders. And so many ask, "What's the latest news in the travel business", or "any suggestions for my next trip?" Or perhaps, even, "are the airlines going to make it?"

The significance of all this for this commission is that the “brick and mortar” travel agency is much more than just a place to purchase travel. We do influence attitudes toward travel...and we can be a major factor in helping the airlines in their herculean task of turning around their business.

By now, you have heard detailed testimony from the three critical components of our industry, airlines, GDSs, and travel agencies. Despite important, and expressed, differences in our respective businesses, we are inextricably linked by one common goal: ***To provide information and services to the consumer to enable, and encourage, him or her to travel.*** Without that single, positive decision, none of us are in business! That’s where our collective focus should be!

So what is the greatest impediment to achieving mutual support of these three industry components. It’s not CRS fees. It’s no longer the lost travel agency commissions from the airlines. It’s not Orbitz.

It is the basic difference between big business as I have come to understand it and small business: Big businesses – in this case, airlines – are concerned about CONTROL. Small businesses, on the other hand, are concerned about SERVICE.

The control I refer to is control of the consumer through control of information which the consumer receives. Bill Maloney, ASTA’s Chief Operating Officer, in his opening testimony gave numerous examples of the airlines on-going attempts to usurp the relationship of the travel agency and its clients in order to control the client’s travel patterns and decisions.

Such attempted airline control runs counter to the agency objective of providing the service its clients expect. The same holds true in such simple things as being able to provide our customers with the lowest fares possible.

You've already heard enough about Orbitz, but my comments are from the perspective of the consumer. Logic says to me that if more than 70% of consumers still purchase their airfare through brick-and-mortar travel agencies, and these companies have the trust of their clients, then why should they not be able to offer their clients the lowest available fare without enormous hassle and lower productivity?

In Conclusion ...

Therefore, I recommend that airlines consider a 180 degree turn in their current strategy and begin re-building their relationships with travel agencies with an objective, first, of sharing information which can be disseminated by agencies as well as the airlines themselves, and, second, to begin a new partnership with a shared goal of stimulating the airline business. This would mean the availability of current Orbitz fares to the off-line and on-line travel agency community.

This commission has a wonderful opportunity to go beyond your original charge of ensuring consumer information and choice in the airline industry by cutting through the vested interests exhibited in these hearings and providing a future operating platform for the industry that is built on mutual trust and support. We all need, and are dependent on, a healthy airline industry and this is more likely to be realized if we do the following:

1. Recognize our interdependence and the critical roles played by each component of our industry, including the brick-and-mortar travel agency.
2. Provide an information system for the consumer which allows maximum freedom of selection from different travel retailers, including brick-and-mortar agencies. But which also allows maximum freedom of information to these same retailers, i.e., a level playing field of airfare availability.
3. Rise above past restrictions, constraints, and partisan interests to allow airlines, travel agencies and CRS systems to meet together, as in Scandinavia, to consider a net price system which allows each segment to collect fees for their service and to cover their costs.

Finally, in closing, I would like to paraphrase some remarks from one of Joel Abels' recent columns in Travel Trade magazine: "America needs a profitable airline system and the airline industry needs travel agency support...By working together...travel agencies and airlines could make each others dreams come true. I sure hope both sides will forget past nightmares and give dreams a chance."*

I echo these sentiments.

Thank you, ladies and gentlemen of the Commission.

*June 24 edition of Travel Trade, page 3.