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Travel Market Analysis 2002 – 2004: Update

Prepared For The National Commission
To Ensure Consumer Information And
Choice In The Airline Industry

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Background And Objectives

On May 16, 2002, the Secretary for the Department of Transportation announced the establishment of the National Commission To Ensure Consumer Information And Choice In The Airline Industry (NCECIC). This Commission was created by the Aviation Investment and Reform Act for the 21st Century (AIR-21) to study the market position and general condition of traditional retail travel agencies in today's competitive market for the sale of travel services.

The Commission has engaged PhoCusWright Inc. to identify whether the financial condition of travel agencies is declining as a result of the migration to online tools and access to Web fares, and, if so, the effect that this will have on consumers.

As follow up to PhoCusWright's Market Analysis 2002-2004 report (July 25, 2002), the NCECIC requested PhoCusWright to identify the required service fee that the average-sized travel agency would need to charge in order to break even.

Assumptions

This report addendum was prepared under the assumptions that a travel agency's operating costs remain constant and that the service fee was the only vehicle being used to cover expenses to enable the agency to reach break even. In addition, the total of the "salary" and "benefits/bonuses" expense categories were adjusted to total (approximately) 45% of the budget, so as to represent a more realistic proportion of an average travel agency's operating expenses.

Summary Of Findings

Required Service Fee On Every Booking

A service fee of \$16 would need to be imposed on every reservation booking completed by the travel agency to ensure that operating expenses equaled operating revenue. This fee structure means that the agency would *not* have the discretion to waive the service fee for loyal customers, bookings with multiple travelers (i.e., families of four) and bookings that include multiple types of transactions (i.e., hotel, air and car). In addition, this approach allows for the agency to charge only once for the reservation service it performs, but not for any back-end support like refunds, exchanges, cancellations, etc.

Required Service Fee On Select Bookings

If the average travel agency wanted the discretion to impose a service fee or not, a service fee of \$28 would need to be instituted on select bookings to ensure that operating expenses equaled operating revenue. This fee guideline represents a more realistic use of service fees within a travel agency operation, as it recognizes the value of customer willingness to pay, customer satisfaction and client loyalty to a specific agency, and attempts to balance these customer retention variables with agency profitability.

This approach applies some of the key findings highlighted in the American Society of Travel Agents' (ASTA) Service Fee Report (April 2001). This study identified that, on average, travel agencies do not unilaterally charge service fees, and, when a service fee is imposed, the same service fee is not applied to every booking and every type of transaction. While it is important that an agency be compensated for the professional services it performs, the resources (i.e., time, agent expertise) required to complete these services varies, and so should the service fee.

In this scenario, the fee guideline recognizes that an agency performs reservation, follow-up and research services for which it should be compensated. This means imposing a combination of front-end, back-end and "other" fees, and, in some instances, charging for multiple services on the same booking. Front-end fees refer to the per booking or reservation charges for assistance in making an air, hotel, car, cruise and/or tour booking. Back-end fees correspond to charges associated with cancellations, refunds, exchanges, etc. with a booking that has already been made by the travel agency. "Other" fees refer to ancillary or special travel agency services such as researching FITs.

Because an agency in this scenario has fee discretion and not all reservations require back-end or ancillary agency support, various levels of incidence were used to derive an average service fee of \$28. The following incidences were used:

Type of Booking	Service Fee Incidence
<u>Front-end Services</u>	
Air Reservation	70%
Hotel Reservation	18%
Car Reservation	15%
Tour/Cruise	30%
<u>Back-end Service Fees</u>	
Air Support	25%
Hotel Support	10%
Car Support	5%
Tour/Cruise Support	10%
"Other" Service Fees*	10%

Note: Applies to cruise/tour bookings only. Source: PhoCusWright Inc., ASTA Service Fees Report (April, 2001)

Clearly, if an agency deployed these service fees on a higher incidence, a lower average service fee per booking would need to be imposed to achieve the agency's break even point.