



Chapter 4

IMPEDIMENTS TO AGENCY USE OF WEB FARES

Congress also asked the Commission to consider the impact of any impediments to information on both traditional and online agencies. The Commission concludes that the refusal of airlines to make some web fares available to agents through their CRSs, and therefore not efficiently accessible by agents, is an impediment to the operation of travel agencies and corporate travel departments.

A. Traditional Agents Require Additional Effort to Access Web Fares

WHILE TRAVEL AGENTS CAN GAIN ACCESS TO MOST WEB FARES, THE REAL PROBLEM IS THE INEFFICIENCY OF SUCH SEARCHES, COMPARED TO THE CRS SINGLE-SOURCE SYSTEM.

The Commission heard many complaints from agents about lack of access to web fares. They believe that the airlines' refusal to make web fares available through CRSs, even as they list those fares with Orbitz, creates a barrier for them, undermining the quality of service they provide their customers in comparing fares and generating travel options.¹

The Commission's investigation has found that, while travel agents can gain access to most web fares, the real problem is the inefficiency of such searches, compared to the CRS single-source system. Agents must undertake substantial additional effort to integrate searching for and booking web fares with their normal methods of conducting business. The ways in which web fares are now distributed, therefore, pose an indisputable impediment to efficient travel agent operations. Businesses continually modify their procedures to adjust to new circumstances, however, and agents can be expected to make such changes.

For example, the Commission received testimony that there are several software and Internet programs that search the web for fares, and also permit agents to book online.² Some of these third-party vendors appeared at the Commission's hearing in San Francisco to describe the new tools. These tools are available to even the smallest individual agent at what the vendors contend is a price these small agents can afford if analyzed on a cost-benefit basis. Some vendors license their software, others charge by the transaction. All of the tools search

many web sites.³ They may also connect with back-office accounting systems that offer agents customer tracking and billing services.⁴

A study for the Commission also indicates that all four CRSs are developing programs to enable agents to search web fares through their own CRS equipment.⁵ The rate of development and the business models differ from one CRS to another, but all CRSs want to offer corporate and leisure agents access to web fares.⁶ The third-party tools and CRS developments are detailed in Appendix F.



The Commission's hearings and research showed that third-party software allows agents to access a significant amount of online travel information, even though such information can be obtained only by using these additional software tools outside their CRSs.⁷ Reports received later in the Commission's deliberations, however, suggest that some online agents and airlines were attempting to block the ability of these tools to search their online fares. American Airlines has threatened litigation against third-party search engines that search its web site, and has filed a complaint requesting an injunction against one such company.

Correspondence from American to the Commission makes clear that American's resistance to permitting third-party delivery of web fares to travel agencies is part of a strategic design to transfer its CRS costs to agencies, and, failing that, to induce consumers to book on its own web site.⁸ American has proposed a plan under which agents can gain access to its web fares, but only if they absorb the cost of CRS fees on all bookings they make on American, not just on the web fare bookings. Agents have not greeted these fees and related agreements favorably.

While similarly discouraging web search engines, Northwest has announced a program that would permit agents to book web fares on Northwest's site, and to settle payment through the industry plan.⁹ As this report went to press, Sabre announced a new program, called Direct Connect Availability Three-Year Option, under which carriers that provide it all their web fares will receive a 10 percent discount off

the highest booking fee level. One major airline has agreed to participate in the program. The Commission notes that this development, which will provide that carrier's web fares to agents making approximately 47 percent of industry bookings, may be significant in providing travel agents access to airline web fares.¹⁰

The Commission believes that if the efforts to foreclose use of third-party search software succeed, they will not only delay progress in the evolution of Internet sales, but also undermine consumers' ability to obtain important fare benefits. If consumers cannot use tools that search multiple sites concurrently, they will be relegated to time-consuming consecutive searches. The Commission agrees that, if airlines publish fares beyond their own individual sites, they should be available to consumers through modern technology, so long as it does not impose undue burdens on carrier systems. Technological innovators and airlines are, of course, free to reach agreements on access to individual carrier web sites.

These software tools will require agents to change their way of doing business, forcing them to invest in the new software or Internet services. Even then, their operations will be less efficient than previously, when they handled the entire reservation transaction in their CRS.

Several aspects of selling web fares impose changes on current agency procedures:

- Agents may not control the passenger record as they do with CRS transactions.¹¹ This makes changes to a reservation record more difficult. It largely defeats the agent's ability to serve as a travel manager for the client and thereby bring added value to the process. Such inefficiencies would in any event be a serious issue for travel agencies, but especially so as many have been forced — by the other economic and industry forces described throughout this report — to pare their staffs to the minimum.
- Compared with using the CRS platform, working on the Internet is time-consuming. Web displays typically take longer to sort through and use.¹²

THE COMMISSION BELIEVES THAT, IF THE EFFORTS TO FORECLOSE USE OF THIRD-PARTY SEARCH SOFTWARE SUCCEED, THEY WILL NOT ONLY DELAY PROGRESS IN THE EVOLUTION OF INTERNET SALES BUT ALSO UNDERMINE CONSUMERS' ABILITY TO OBTAIN IMPORTANT FARE BENEFITS.

- Agents cannot consolidate invoices with other client financial records accumulated by the CRS system. Some web systems do have the ability to integrate records into some back-office accounting packages.¹³
- Agents receive no CRS booking credit for web bookings. Most CRS contracts with agents have a productivity clause in them. When a booking is made using the CRS, it reduces the potential subscriber fee that the agent will owe the CRS. An Internet booking bypasses the agent's CRS, and does not count toward the agent's booking requirements.¹⁴
- Passenger profiles and other information may have to be created and updated on multiple web sites.¹⁵

The lack of integrated information imposes costs on agents, both for separate search equipment and in the extra time required to perform the searches. These costs will ultimately be reflected in service charges to consumers. The Commission heard testimony that some agencies are adjusting to the new situation by using web booking tools, but are not yet able to conduct efficient operations utilizing web fares.¹⁶

B. Corporate Travel Departments Are Inconvenienced

Corporate travel departments also view the current distribution of web fares as an impediment to efficient operations. The typical travel department contracts with agencies to procure a wide range of services related to transportation. The agency not only handles the reservation transaction and provides extensive accounting information, but also ensures that the booking complies with corporate policy. When individual travelers act as their own travel agents and search for web fares, these departments contend, many of the benefits of the corporate structure are lost.¹⁷ The employees are wasting time, and usually fail to achieve significant savings over the corporate rates that the travel department has already negotiated with airlines.¹⁸ The contracts with airlines often require the company to meet minimum market share or volume thresholds. Fares booked on the Internet do not count against these thresholds.

Employees who use web fares create other problems for corporate travel departments: standard records can't be kept for employees flying on web tickets, and it becomes difficult to track compliance with company policies and practices.¹⁹ The September 11th terrorist attacks demonstrated the importance of this concern. Many corporate managers whose employees were traveling on web fares that day had substantial difficulty finding and contacting the web ticket purchasers.²⁰

Undoubtedly, web fares complicate the work of corporate travel managers. But if web fares provide significant savings, they will force corporate procedures to accommodate them. On the other hand, many corporate travel departments discourage employees from using web fares at all, believing the small potential savings are not worth the trouble.²¹

C. Online Agencies Face Competitive Pressure



Expedia and Travelocity claim that airlines are creating barriers by using Orbitz as the only significant online site to distribute web fares. They say this gives Orbitz a competitive advantage.²² The Commission agrees that Orbitz raises concerns and details these concerns in Chapter 5. Currently however, both Expedia and Travelocity continue to succeed in the marketplace.

For example, Expedia and Travelocity may not be able to offer web fares from all Orbitz charter associates, but they have already obtained, and could in the future obtain more, web fares from those airlines. Orbitz owners told the Commission they would do business with Expedia and Travelocity when their distribution costs become attractive. Both Orbitz rivals have preferential marketing agreements with various airlines which include incentive fees to boost volume.²³ These agreements, however, may require the online agents to take inventory risk, i.e., block out or buy seats for which they are responsible.

In addition, the Commission heard testimony that a multi-site search engine has found the lowest available airline fares on sites other than Orbitz. Although contractually prohibited by the Orbitz MFN clause, this software vendor claimed that some of Orbitz' owners do not provide it all of their lowest fares.²⁴ Continental has said that it does not have a special category of web fares, but does offer a ten percent web discount on regular fares.²⁵ Also, not all airlines give the same fares to all online agents. Carriers are testing distribution channels online, as they have always done offline.



Even if Expedia and Travelocity do not provide all fares for all people, they continue to innovate and expand into new markets. For example, Expedia operates as a merchant for hotel rooms and tours, assuming inventory risk and reselling that inventory at a price it establishes.²⁶ Since the launch of Orbitz, both have declared profits, despite the travel downturn. Expedia earned \$19.1 million on total revenue of \$145 million in

the second quarter of 2002.²⁷ Most of its sales now come from its merchant operations, and it acquired a major Hawaii tour operator in March, 2002.²⁸ Travelocity has been operating successfully as a public company, with first and second quarter revenue of \$82 and \$76 million. In April, 2002, it was re-acquired in its entirety by Sabre.

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Consumer Reports, which has conducted two in-depth studies of web fares, concluded that none of the three biggest online agency rivals always offered all the best fares.²⁹ They also found that none of the six online agents tested always offered fares equal to or lower than the fares offered by the CRSs. They found that particularly curious, since all of the sites are powered by CRSs. In fact, *Consumer Reports* rated Expedia and Travelocity as the two best sites.

Our results indicate two clear winners: Expedia and Travelocity. Expedia beats its competitors in providing the greatest numbers of lowest fares; Travelocity offered the best array of low fares coupled with viable flight choices; Travelocity had the best booking tools; Expedia and Travelocity offered the best customer service; and Expedia and Travelocity had the tightest privacy and security policies. Orbitz, which is owned by five

major airlines, performed well at providing lowest fares and viable flights, but it was edged out on most tests by either Expedia or Travelocity.

The newsletter recommended that consumers search several different web sites before booking travel.³⁰

The evidence lends support to the Commission's belief that an airline should be allowed to distribute its products as it sees fit. The marketplace tends to resolve such problems through competition, as is now occurring. It is quickly evolving, and Orbitz' competitors seem to be holding their own.