

## Regional Development in Airlines and Travel Agents Relationship

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### **Abstract**

After labour and fuel, distribution is the third largest airline operating cost. On average 17% of airline operating cost is attributed to distribution costs which are associated with commissions to travel agents, ticketing, credit card fees, CRS fees, and promotion.

Airlines both in North America and in Europe have been developing strategies to reduce distribution costs primarily through travel agent commission cutting. In recent years they are questioning the role of travel agents in the distribution chain and renegotiating commission fee structures. As a result, some large agents have introduced a management fee philosophy where the clients, especially corporates, pay a fee to the travel agent in return for predetermined services. Such services includes providing up-to-the minute reports on travel patterns of employees, effectiveness of travel policies, advice on complicated itineraries, etc.

Such changes in airline and travel agent relationships initially started in the US and were followed by the European carriers. However, Asian carriers have been slow in following their US and European counterparts. This raises a number of questions: What are the barriers, if any for Asian carriers, to follow their counter parts in Europe and US? Would airlines in the three regions be able to by-pass travel agents and sell directly to their customers? Would the customers prefer to go direct to airlines? Would there be a variation in the airlines, and agents, relationship in each region?

This paper addresses the above questions by analysing the distribution strategies of major carriers in the US, Europe and Asia. It also discusses the changing relationship between airlines and travel agents, and the trend towards direct selling by airlines in each region. Through desk research and a survey of a selected number of carriers in Asia-Pacific, the future trends in distribution policy of airlines in this region is also assessed.

**Keywords:** *airline distribution, travel agents, commission*

### **1. Introduction**

The inability of airlines to distribute their products' cost effectively created the demand for agency relationships in the first place. However in recent years the relationship between the parties has changed, firstly in the US, and latterly within Europe. The causes of such a change were as follows:

- Airlines' drive to reduce costs
- Airlines wishing to have more direct contact with their clients

- Technology providing the possibility of a direct channel between airlines and its customers- both individual and corporate customers
- Large corporates becoming more professional in the way they purchase travel products

Distribution accounts for about 17% of airlines' total operating costs and ranks as the third largest cost for an airline after labour (IATA, December 2000). Commission costs account for approximately 8% of the costs, while ticketing for 2-3%, CRS fees for 2% and credit card fees for 2-3%. It must be born in mind that in recent years airlines have been successful in reducing such costs as illustrated in Figure 1.

### **Figure 1: Ticketing, Sales and Distribution Costs**

After labour costs, distribution costs were the second largest cost item upon which airlines could exert some influence. As technological developments meant that travel agency costs were reduced, airlines started to question the agents' commission levels, and the value of their services. At the same time they attempted to increase their direct sale mainly through call centres and internet.

An increasing number of corporates developed travel policies to the extent that around 50% of business travellers are subject to some form of policy laid down by the company for whom they work (Mason 2001). Such corporates seek reductions in their travel costs by striking direct deals with airlines. Corporate travel managers, therefore, invite suppliers to tender for "preferred supplier" status. They appear to be looking for efficiency, value, accurate data supply and comprehension of travel policy structures. However they require business travel agents' expertise to monitor their travel policy and provide them with management information.

While all the above have contributed towards the changes in the distribution model, it appears that it is the airlines' drive to reduce distribution costs through lowering commission rates that has played the major part.

The changes taking place in the airlines and travel agents relationship in all regions raise a number of questions which are as follows:

- What is the current distribution model?
- Have airlines been successful in by-passing travel agents?
- Would airlines in Asia-Pacific follow the trends in US and in Europe?
- Are there any barriers to prevent airlines in all regions to sell direct and by-pass travel agents?
- Do customers prefer to go direct to airlines to purchase their tickets?

To address the above questions first the airline distribution model in general is discussed, then a review of the developments in the US and Europe in relation to airline and travel agents relationship is provided. To determine the airline and agent's relationship in Asia Pacific a survey of key airlines in the area is carried out.

## **2. Airline distribution model**

Airlines can utilise many channels to sell their tickets to the customers. As shown below, they can sell **directly** through their sales offices; call centres; own website and to corporates. The **indirect** channels which are opened to them are traditional travel agents; on-line travel agents such as travelocity, Expedia, Priceline.com, last minute.com; on-line travel portals such as Orbitz in the US, Opodo in Europe, and Asia-portal; tour operators and consolidators. The indirect channels are backed up by Global Distribution Systems (GDSs)<sup>1</sup>.

### **Figure 2: Airlines Distribution Channels**

A large proportion, as much as three quarters, of airline tickets are sold through conventional travel agents. The chart below illustrates the major European scheduled airlines distribution by different channels.

### **Figure 3: European Major Airline Distribution Channels**

While travel agents are still airlines main channel of distribution, it is the most expensive method of ticket distribution. A comparison of cost of distribution by different channel is provided in Figure 4.

### **Figure 4: Airline Distribution Costs by Sales Channel - \$300 Ticket**

Source: JP Morgan, 1999

## **3. Airline and Agent Relationship Developments in the US and Europe**

Commissions, which after labour and fuel are the third largest expense faced by airlines, climbed from 4.3% of total operating costs in the USA in 1978 to 10.9% in 1993 (Airline Business Oct 2000). This was at the time when US economy was still in recession and airlines were making huge losses. Therefore, the pressure on airlines to reduce costs was more than ever. In February 1995, several US carriers including American, Continental, Delta Air Lines, Northwest and United capped travel agents commission rates for domestic travel at \$25 one way and \$50 return.

In September 1996, the American Society of Travel Agents (ASTA) took a number of airlines to court claiming that they had broken US competition laws by acting in collusion. The five airlines went for an out-of-court settlement by paying \$77 million. However they denied any wrongdoing, and stated that the action had been settled to avoid the diversion of management time and effort to such matters. However the capping has stayed in place.

In late 1999, most major US carriers slashed travel agent commission rates from 8% to 5%, this was at the time when travel agent groups were complaining about airlines efforts to steer customers towards Internet bookings. US carriers now pay a 5% commission on both domestic and international tickets; commissions on roundtrip

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<sup>1</sup> GDSs link customers and airlines electronically in the travel market place. Their databases rely on access to real-time inventory and pricing information within the suppliers' own systems.

domestic tickets are capped at \$50, while those on roundtrip international tickets are capped at \$100. Consequently, commission expenses have declined, dropping back to less than 5% of expenses from their high in the early 1990s. Figure 5 illustrates US carriers' commission costs per revenue passenger mile

**Figure 5: US Airline Commission Costs per Revenue Passenger Miles**

Source: ATA, 2000

Southwest Airlines, the only US major airline, which continued, paying travel agents a full 10% commission with no caps, announced in December 2000 that it would cut agent commissions starting 1 January 2001. Under a new commitment with the American Society of Travel Agents (ASTA), Southwest has agreed to pay an 8% commission on all ticketless transactions issued by traditional travel agencies, and 5% commission on all paper ticket transactions. A cap of \$30 on a one-way fare and of \$60 on a roundtrip fare will apply to both commission levels.

The majors were not alone in adopting the cuts. Several smaller US carriers, including American Trans Air, America West, Alaska Airlines and Midwest Express, were quick to follow with similar reductions.

Large European carriers began in 1998 to lower agent commissions in their home market from 9% to around 7% for international routes and as low as 4% on domestic routes. European majors also announced that in other European markets they would follow the commission policy of the home carrier. This is because in most cases they are the dominant carrier in the home market, whereas in other European markets they cannot exercise much leverage with agents, as their markets share is limited. British Airways was the first European carrier to reduce commission fees to agents in 1998 and eventually introduced a flat fee policy in April 2001. Table below illustrates BA's commission levels compared with a typical commission at 7%.

**Table 1: British Airways Sector Payments/Roundtrip**

KLM also replaced their 7% commission rates with a fixed service fee of £22 per ticket in January 2001 (Travel Weekly, January 2001). Lufthansa is another major European airline to introduce a flat fee from 1 January 2002 in Germany. It is proposing to pay between \$8 and \$150 per sector booking depending on the class of travel and destination.

Large companies are also becoming more sophisticated in the way they buy travel products and are more aware of their leverage in negotiating volume discounts with airlines to reduce travel costs. An increasing number of corporates have developed travel policies to the extent that more than 50% of business travellers are subject to some form of policy laid down by the company for whom they work. A survey by Carlson Wagonlit (1998) indicated that some 79% of companies have a travel policy.

A survey by Mason (2001) in the UK market demonstrates that larger companies are more likely to have a travel policy as illustrated below.

**Table 2: Company Travel Policy by Size**

Airlines are also increasingly dealing directly with their corporate customers, bypassing the agency entirely. For example, Continental, which derives over 50% of its revenues from business travellers, has established net fares for its corporate customers. Such fares, which are widespread in the USA, involve major discounts on published tariffs paid directly to the corporate customer. In these arrangements, carriers bypass the corporation's agency entirely, paying it no commission. The agency then is left to derive its income from travel management service fees it charges the corporation.

There appears a steady increase in Internet-generated bookings among US and European airlines with the low costs carriers leading the way as illustrated in Figure 6. The majority of low cost carriers' on-line sales are on their own web site whereas the large schedule carriers on-line sales are through their own web site and on-line travel agents such as Travelocity, Expedia, Priceline.com and so on. For example 50% of Delta Air Lines' on-line booking is done by the airline site and the rest by on-line travel agencies. It can be seen from Figure 6 that major carriers sell a very small proportion of their tickets on-line. This is mainly due to the fact that they are not perceived by passengers as natural.

To reduce the cost of distribution and increasing on-line sales 5 airlines - United Airlines, American Airlines, Delta Air Lines, Northwest and Continental Airlines- in the US have invested in a multi-airline travel portal, Orbitz. Some 30 airlines have become the charter associates of Orbitz. The GDS behind Orbitz is Worldspan with which the company has an agreement to rebate member carriers one-third of the usual GDS booking fee. All other carriers will have their information displayed on Orbitz, but must pay the full GDS fee (Kirby, 2001). In Europe, the same policy has been adopted by BA, Air France, Lufthansa, Alitalia, KLM, Iberia, SAS, Aer Lingus, Austrian Airlines, British Midland and Finnair to launch a European on-line portal called Opodo.

**Figure 6: On-line Sales As % of Total (2000)**

### **3.1 Travel agents' role**

The role of agents has been changing from reservations to the provision of advice and consultancy for corporations. Agents, both in the US and Europe, appear to have been forced to change the nature of their business by charging corporate and leisure clients management or transaction fees for their services (Alamdari and Mason, 2000). They act as advisors to their corporate clients, helping them develop and enforce travel management policies.

They have also moved away from an over-dependence on airline commissions in recent years, concentrating instead on more lucrative market segments like cruises, tours and vacation packages.

The changes in airline distribution policy have led to a drop in the number of retail agency locations in the US by 9% from 33,593 in 1995 to 30,886 in 2000. The cuts have reduced the average commission payment by over 50%. To compensate for this fall in income, at least three-quarters of agencies in the US charge service fees (Airline Business, Oct 2000).

Large business agents appear to have accepted the change in their relationship with airlines and corporates. They believe that management fees are the way to create an effective link between airlines and customers. Carlson Wagonlit Travel has set up a travel consultancy service with the aim to manage and optimise their clients' travel spend. However the larger business travel agents believe that the costs involved in running a travel management company are pushed up by the increasing demands of corporate clients.

Smaller agencies are joining forces, through merger or consolidation, with larger agencies. Size is important because agencies that generate over \$100 million in sales can swing business to preferred airline partners that will reward them with override payments and discounted air fares, which they can mark up for higher profit.

It appears that independent small agents are under threats due to the commission cuts unless they are specialised in niche markets and have a good understanding of clients' needs. Alternatively, they become franchisee of large agents such American Express or Carlson Wagonlit, to give them access to brand name and market credibility.

#### **4. Airline and Travel Agent Relationship Developments in Asia-Pacific**

As discussed in the previous sections, the tendency towards agent commission cuts and direct sell has been prevailing in the European and US airline industry due to the ever-increasing distribution costs since early 1990s. The moves were further enhanced by the innovations of new electronic distribution channels and change of consumers' habits. However, in Asia-Pacific, the fastest-growing air transport regions of the world, carriers are still wavering on the way to the battlefield of distribution. Therefore, the primary objective of this paper is to assess if the trend will be followed by the Asia Pacific carriers, and whether there are any obstacles preventing them from following their counterpart in Europe and USA in cutting agent commissions.

A market survey was conducted, in August of 1999, in the form of questionnaires in selected countries of Asia Pacific, where the Internet penetration and air transport market are developed<sup>2</sup>. Thus, the questionnaire was sent out to 11 Asian airlines in 8 countries, plus two foreign carriers' branch offices in the area. Of the 13 airlines contacted eight replied. A response rate of around 62%.

The responding carriers were: Cathay Pacific, Japan Air Lines, Air Macau, Malaysia Airlines, China Airlines, EVA Airways, Thai Airways, United Airlines – Taipei branch

##### **4.1 Current distribution strategies**

Table 3 shows the current distribution channels used by the responding carriers and their significance to ticket sales. Of the 8 respondents, all sold tickets through travel

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<sup>2</sup> This survey was carried out by Henry Wu, a Cranfield MSc student, under the supervision of the Author.

agents and their own ticketing offices or call centers. All of the responding carriers indicated that above 80 percent of their companies' ticket sales are made through travel agents. In contrast, the new electronic channels only accounted for a trivial share.

It is worth noting that, though the results showed an unexpected high percentage of Asian carriers using Internet as a ticket sell channel, only United Airlines and Japan Airlines had online booking functions over the Web sites at the time of survey. The remaining three carriers generally only offered the promotional pricing information, online ticket auctions or online special purchase over the Net, yet the booking and ticketing are still made through travel agents or airline reservation staff.

### **Table 3: Distribution Channels & Their Significance to Ticket Sales**

Ticketless travel, mainly used for domestic traffic, has been around in Asia Pacific market for years, but only Malaysia Airlines set up the automatic teller machine (ATM) for ticketless travelers at selected locations. Passengers could make quick bookings, make online payments by credit card, select seats, and obtain the boarding passes by using one machine.

United Airlines is the only carrier marketing its corporate online software, United Connection, in the Asia Pacific market; however, the contracts and sales must be made between the headquarter and intended companies, instead of the local branch offices. The respondent from United Airlines indicated that the Intranet could hardly gain popularity in corporate markets, due to very low-profile promotion and agents' protests.

## **4.2 Travel agents remuneration**

At time of survey, the majority of Asia-Pacific carriers maintain their relations with travel agents by offering different types of compensation including base commission, over-ride commissions and consolidator overrides. Amongst 8 responding carriers, 7 provided base commission, normally 7-9% of ticket price. Air Macau does not offer base commission because the airline applied the 'Net Fare' system to all fare types, without granting issuing agents a certain level of commission. In the Asian air transport market, this system is widely used for all discounted fare types, letting travel agents add a mark-up to the given net price for their own profits. All of respondents offered over-ride commission or back-end incentives, a remuneration program granting agents 'bonus' commission provided their ticket revenues exceeded the targeted levels set by airlines.

### **Figure 7: Asian Airlines Type of Compensations**

Over half of respondents had marketing agreements with tour operator or ticket consolidators, who in most cases were entitled to a higher rebate or incentive levels which were specified in respective contracts.

The responding carriers unanimously agreed that high levels of agent commission and incentive overrides are both effective ways of generating their companies' ticket revenues. Almost two thirds of the respondents indicated that their companies increased commission levels to boost ticket sales during 1998 to 1999.

However, a powerful marketing tool as agent compensation is, to most airlines, the current commission payments had presented a threat to their operating cost structures. Three quarter of respondents pointed out that the payment had constituted a financial burden to their companies. While asked how their companies were going to cope with the problem, China Airlines, Cathay Pacific and Malaysia Airlines said they were trying to increase the direct share of ticket sales in order to avoid over-dependence on travel agents. China Airlines and Malaysia airlines have started their electronic ticketing trials in domestic or regional markets. Cathay claimed the first trial of online ticket auction proved very successful, and the company might consider expanding the services to wider markets. The foreign carrier, United Airlines, took a more aggressive step preventing the cost from increasing, reducing its international commission from 9% to 7%. The company also intended to increase the number of corporate net deals with local companies in an attempt to control ticket distribution costs. This is very different from the trend in USA and Europe where commission cuts were always introduced by the home carriers and followed by foreign airlines.

Although the majority of sampled carriers had identified the threats of ever-increasing agent commission cost and gradually established more direct-sell channels, except for few foreign and Japanese carriers, they were still hesitating on the moves towards commission reductions. Table 4 lists the reasons why Asia-Pacific carriers had not followed suit, in the same way that European and US carriers initiated commission caps from 1995.

**Table 4: Reasons Why Asia-Pacific Carriers Did Not Speed-up Commission Cuts**

As can be seen from the Table above, the powerful role of travel agents in controlling ticket distributions was the major reason preventing the airlines to take actions in cutting commissions. As most of Asian corporations had outsourced the travel department to travel agencies and leisure travelers traditionally preferred to purchase tour packages from agents, a drop in agent commission could mean a decline in market shares and passenger revenues. A quarter of responding carriers also referred to the present less-than-perfect electronic channels as a factor discouraging them from taking part in the battle with travel agents. Only one respondent said that no similar actions taken by other Asian carriers led to the current unchanged situation in Asia-Pacific travel markets.

### **4.3 Development of direct distribution channels**

Figure 8 illustrates the present and future developments of direct sell channels among Asia-Pacific carriers



### **Figure 8: Present & Future Developments of E-Channels by Asian Carriers**

As can be seen from 8, the current direct sell channels of Asia-Pacific carriers were relatively far behind by their European and US counterparts. However, a majority of responding carriers indicated that their companies would offer ticketless travel services in the future.

In contrast, responding carriers showed relatively little interest in developing the Intranet, and smart cards. The respondent of China Airlines pointed out that the small frequent flyer base and large numbers of individual business travellers discouraged their companies from developing these business-oriented distribution products. As many corporations had outsourced business travel to large business travel agencies, it might not be viable for Asia-Pacific carriers to market online booking software to their corporate accounts.

Table 5 lists a number of prerequisites considered by the sampled airlines prior to the developments of electronic channels and their significance to airlines' decisions.

**Table 5: Prerequisites Considered Prior to Electronic Developments & Their Significance to Asia-Pacific Carriers' Decisions**

The majority of responding carriers thought the Internet penetration rate would significantly affect their decisions whether to establish electronic channels or not. The current less-than-perfect technology was also regarded as a barrier to airlines increasing the bulk of ticket sales through the Internet or other online booking systems. A third of respondents also indicated their companies would consider developing electronic channels provided they were threatened by the competition. A quarter of respondents also concerned about the security of online transactions as users were afraid their credit card information being leaked out to the third parties.

As some research indicates (Hughes, 2001) that airline ticket sales have become the largest and fastest growing travel-related category online, the results of this Asia-Pacific carrier survey are somewhat less promising. Nearly 40% of responding carriers still treated the Internet more as a media with public relations functions than as a potential direct sell channel. This might explain why the airlines remained so conservative in expanding online services over the Net. This is backed up by McKinsey's research (2001) in Figure 9, which shows only one country in Asia Pacific is listed in the top 10 countries with highest proportion of internet active users.

Figure 10 demonstrates the current and planned online services included in the airlines' web sites. Apart from online schedule check and Internet booking, Asian carriers were relatively reluctant to fully utilize the potential of Internet in ticket sales. All of them were planning to equip online booking facilities on their web sites; however, only half would like to provide online pricing information for Internet users. EVA Airways stated that unless Internet bookings could be carried out with ticketless travel, most of online bookings still had to be ticketed by travel agents. Therefore, the airline thought it was unnecessary and risky to provide airfares online, as other competitors could be simply aware of its marketing activities. Apart from this, Asia-Pacific carriers seemed less keen to promote online, only 25% of respondents considered an addition of online auction services to their current web sites in the

future.

**Figure 9: Top 10 countries with active internet users<sup>1</sup> (2000)**

<sup>1</sup> adults, 18 and older, who access the web at least 1 time a week for 1 hour

Source: McKinsey, 2001

**Figure 10: Services On Web Sites: Present / Future**

Though having very conservative attitudes towards online service expansion, Asia-Pacific carriers had mostly agreed that developing new electronic channels was an inevitable trend and had been incorporated into their distribution plans. The majority of responding carriers pointed out that in the future their companies would adopt the parallel distribution strategies – relying on travel agents and simultaneously developing more direct channels for ticket sales.

All responding carriers indicated that the tendency to sell tickets through parallel channels could avoid over-dependence on traditional travel intermediaries. Some 63% pointed out that their companies could benefit from cost saving as the share of passenger revenue generated by travel agents declined. A small proportion thought the airline could optimize the size of sales and ticketing department to increase labor productivity. With the direct sales channels, one of respondents said it could offer more customized services to customers as it could have more ‘direct dialogues’ with would-be passengers.

When asked how new technology would influence the regional travel industry, all of respondents predicted that more new players would enter the industry on the basis of electronic delivery (Figure 11). Three of respondents indicated that consumers would increasingly play a vital role in the travel distribution chain as they could fully decide their purchase patterns through a multiplicity of sell channels. Their behaviours and desires would be referred to as a guideline by airlines about developing new distribution strategies and allocating their resources through different channels.

**Figure 11: Impact of Technology on Asia-Pacific Travel Market**

A quarter predicted that there would be a consolidation of travel agency industry in the regions. Unlike in the US or Europe where the industry was undergoing a process of integration or alliance formation, the Asian currently remained very fragmented. Only one carrier thought the travel agents would be ultimately bypassed due to disintermediation.

#### **4.4 Impact of Technology on Asia-Pacific Travel Market**

Clearly those carriers whose home markets had a higher percentage of Internet population would be more likely to establish new channels than would others. This also suggests that there would be a varied, inconsistent pace of uptake of new technology among Asia-Pacific carriers due to the disproportionate Internet penetration rate of the region.

Judging from the airline distribution trend in the US and Europe, the majority of airlines initially confined the trials of new direct sell channels to their domestic market. This also accounts for the slow uptake of new electronic channels in

European and Asia-Pacific markets where the international traffic is prevalent. As indicated by Negline (2000) a lot of business traffic in Asia is not point to point, but rather triangular in nature. Therefore, often, more than one airline is involved in the booking, which further complicates the scope of a single airline to build an effective online sales presence.

Also the global alliance groupings should accelerate the pace of Asia Pacific member airlines catching up the distribution trend. The Asian carriers, who are a member of major alliance groupings, would be keener to develop consistent levels of services with their US and European alliance co-members to minimize inconveniences for travellers taking code-share or interline flights. The results show that responding airlines that currently are alliance members would be a little more aggressive to establish new electronic channels than non-alliance members would.

Although Asian carriers have been slightly trailing their European and US counterparts in launching internet-based offerings some moves are taking place. Recently nine of the region's carriers announced that they were joining forces to launch an online travel exchange. The exchange combines Air New Zealand, Ansett Australia, Asiana, Cathay Pacific, China Airlines, Malaysia Airlines, Qantas, Royal Brunei Airlines and Singapore Airlines. The joint venture will be operated and governed as a new business entity separate from each of the airlines, and run by an independent management team.

At the same time a few carriers have also followed the developments in commission cutting in the US and Europe very recently. Singapore Airline in October 1999 removed commission for published fares (also known as zero commission), and introduced documentation fees for agents when they issue published fare ticket. In September 2000 Singapore introduced nett fare ticketing, meaning that the actual agent fare is printed on the ticket. Therefore passengers get to know the cost of the ticket and hence the amount of mark-up by the agents.

Cathay Pacific has also cut the commissions it pays its Hong Kong agents - which generate over 30% of its bookings in Hong Kong - from 9% to 7%. JAL has announced at the beginning of 2001 its intention to reduce commission on ticket sales from 9% to 7% in a few European countries and pay 5% commission for domestic travel within Japan.

On-line travel agencies are also moving to Asian markets. Travelocity and Expedia, the two leading on-line travel agencies with 70% of on-line travel sales market have operations in Canada, Europe as well as in the USA. It is reported Travelocity is establishing an on-line distribution system in Asia (Air Transport Intelligence News, 2001).

It appears that the trend of airline distribution in Asia-Pacific region is following the recent trend but it will be more like that in Europe, rather than in the US. Establishing online presence in Europe or Asia is more difficult than it is in the US. This is because both in Asia and Europe one needs to have local sites in all nations and all languages as opposed to one site and one language. The Table below compares airlines' and consumers' attitudes towards electronic channels, air transport market, Internet penetration rate and regional travel industry.

**Table 6: Comparisons of Airline Distribution by Regions**

## **5. Conclusions**

It is clear that the role of travel agents in all regions has changed, though, at different speed. While US airlines are aggressively trying to by-pass agents European and especially Asian carriers have been more conservative. Although major carriers have identified that developing direct sell strategies based on electronic delivery would be an inevitable trend in the scenario of future ticket distribution, they have not been successful in completely by-passing travel agents and as a result their share of direct sell has remained very small. Factors affecting airlines' direct sell are:

- **The positions of travel agents:**  
As travel agents represented the lion's shares of airlines' passenger revenues, airlines, especially those in Asia-Pacific markets, fear that their move towards direct sell will create negative reactions from travel agents leading to loss of market share.
- **Internet penetration rate:**  
Clearly the more access customers have to internet the higher is the possibility of purchasing airline tickets directly. For example, in Asia, except specific areas like Hong Kong and Singapore, the rest of the region still have relatively low Internet penetration, compared with the US and European markets. The airlines do not find it viable to sell tickets through new channels, as only a small proportion of consumers will have access to it.
- **Consumer attitudes:**  
For decades, travellers, business or leisure, have greatly relied on travel agents for travel information and tour packages. It is their stereotype that they could have better deals and more neutral advice from agents than airline staff. In most cases, travel agents could have a great impact on customers' choices of airlines. The customers also are concerned with the security of purchasing tickets online.

With these issues, most airlines with the exception of low costs carriers still rely on travel agents for the bulk of ticket sales in the near future. However, they will simultaneously establish more new direct sell channels as they can alter the economics of distributing tickets. Among these alternative channels, the Internet booking and electronic ticketing are the main fields where most of the airlines will compete. However, the pace will vary from region to region and airline to airline as each has different attitudes towards the application of new technology to ticket distribution.

The following trend is expected to take place in airline distribution in the near future:

- As US and European airlines have benefited from the savings of distribution costs, Asian carriers will speed up their move towards the distribution revolution to have a similar competitive cost base.

- The alliance carrier will take actions in establishing electronic distribution channels in order to keep up with their counterparts in other regions. Although electronic ticketing is not yet possible between alliance partners.
- Though being the mainstream method of distribution, traditional travel agents will see their shares of airline ticket sales gradually deteriorating as a result of the emergence of alternative channels.
- The travel agency industry is expected to undergo a process of consolidation in the near future as a result of the new threats from commission cuts and direct sales channels. However, the pace of consolidations is estimated to be much slower in Asia-Pacific in comparison with that in European and US markets. The independent smaller agents are more likely to find it difficult to adjust their position. They are not large enough to provide a full service to corporates. Therefore, they could become under threat due to: less leverage to get good airline deals, the development of IT is too costly, and they cannot influence corporate choice.
- It can be predicted that the relations between travel agents and airlines will continue to be unsettled as the awareness of the need to reduce the distribution costs prevails among all air carriers. The tensions will be exacerbated by airlines' moves towards the developments of direct sell channels. However, it is perceived that the conflict in Asia-Pacific will not be as severe as that in Europe and US because agents in Asia are more used to the idea after witnessing the trends in commission cutting in the US and Europe
- Due to the present constraints of technology and lack of perceived independence by customers, the direct channels will only represent a small portion of total airline ticket sales. In the future, these channels may only win ground in the domestic or point-to-point markets. The situation would be different for low costs carriers, as they are usually perceived by customers offering the lowest fare in the market. Therefore it is more feasible for these carriers to sell direct to passengers.
- In the future, customers will select channels, whether direct or traditional, according to the complexity of itineraries and their own purchasing experience. It is forecasted that the electronic channels will win ground in the low complexity and value-added area. However, there will still be the need for complex journeys and high value-added travel services to be handled by travel agents.
- As the internet penetration rates increases and internet technology improves the on-line travel agents will gain more popularity. As this channel meets two important criteria in relation to customer choice of channels. First they are perceived as to be relatively independent and impartial, and second it would be a faster and more efficient way of purchasing airline tickets.

- It appears that the trend of airline distribution in Asia-Pacific region will be more like that in Europe, rather than in the US.

Travel agents will certainly have a role to play in all the regions but they need to move away from being a ticket booker to providing value added service to both individual and corporate customers especially in the area of complex itineraries. They must adapt to stay afloat in the internet era. The opportunities remain for those quick-thinking agencies that use the new technologies to stay ahead of the game.

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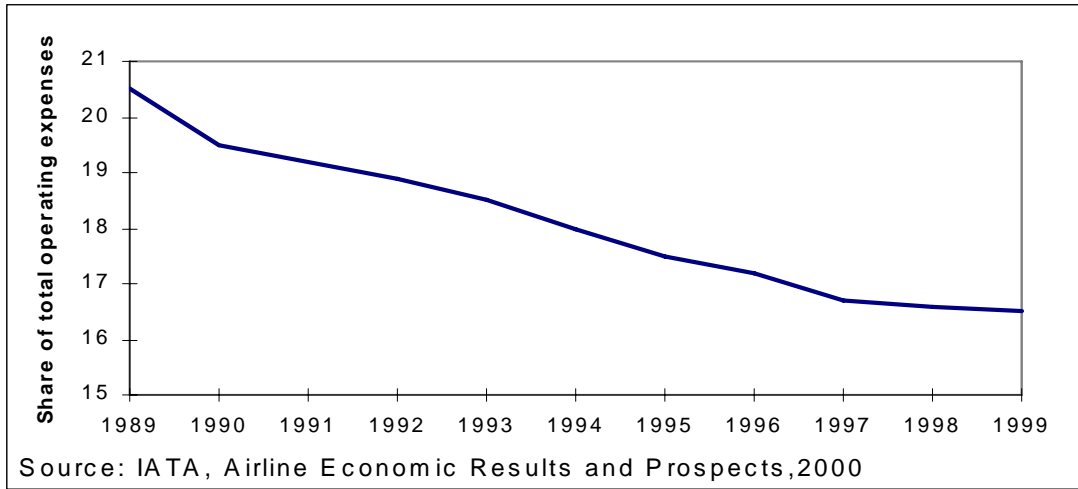
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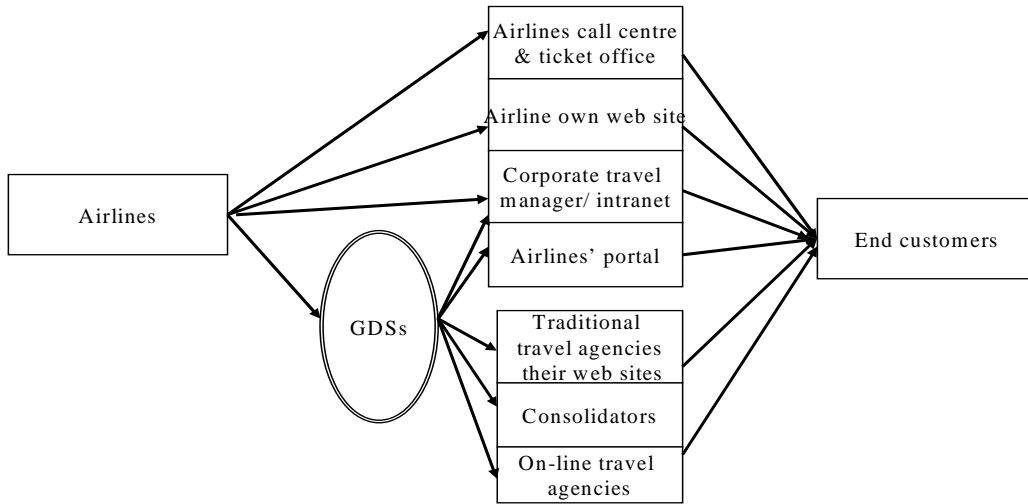
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**Figure 1: Ticketing, Sales and Distribution Costs**

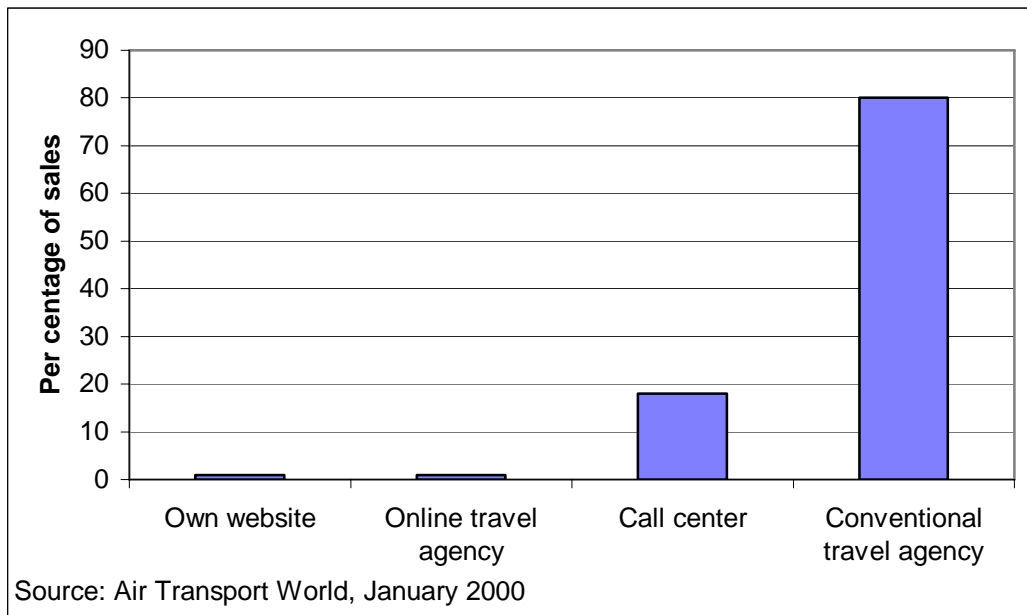




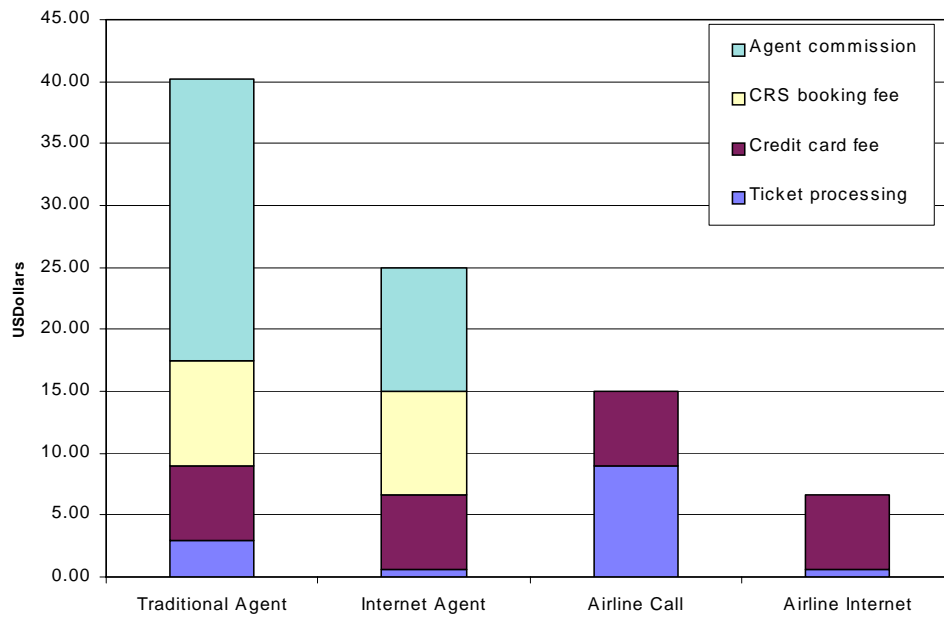
**Figure 2: Airlines Distribution Channels**



**Figure 3: European Major Airline Distribution Channels**



**Figure 4: Airline Distribution Costs by Sales Channel - \$300 Ticket**



Source: JP Morgan, 1999

**Figure 5: US Airline Commission Costs per Revenue Passenger Miles**

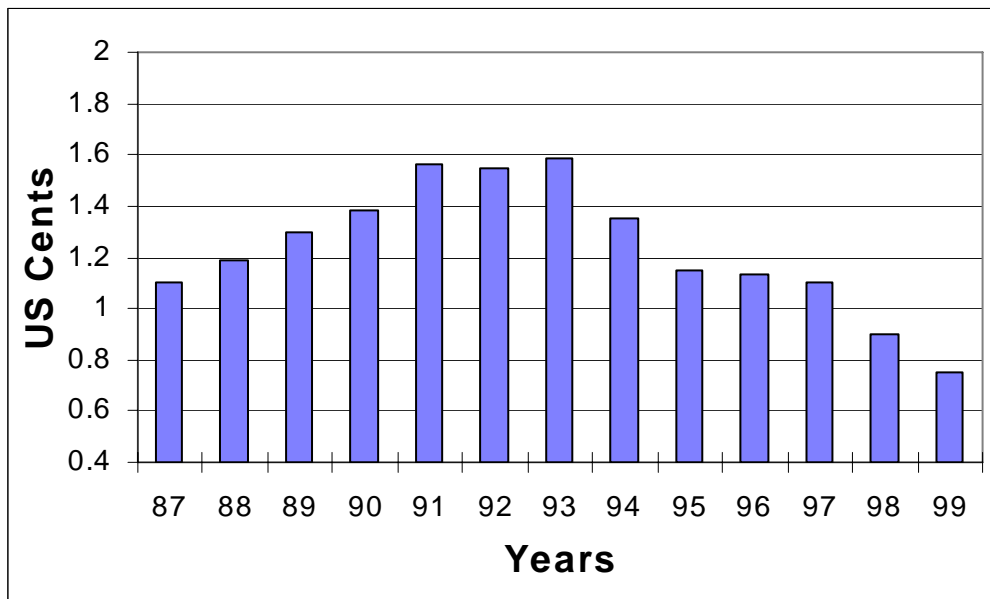
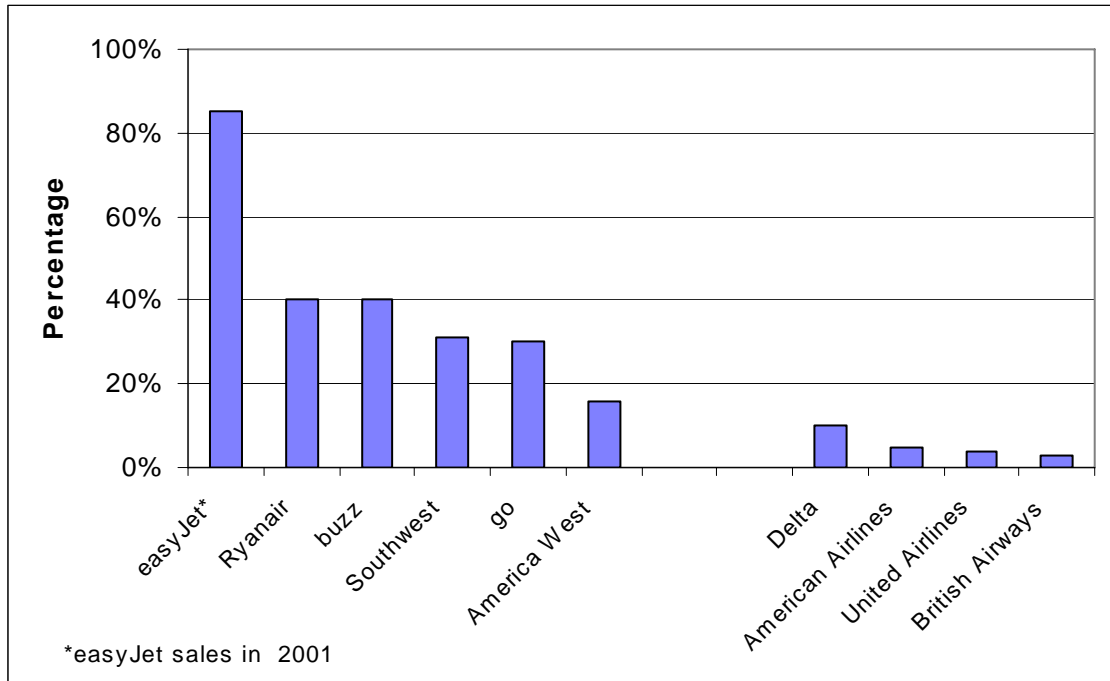
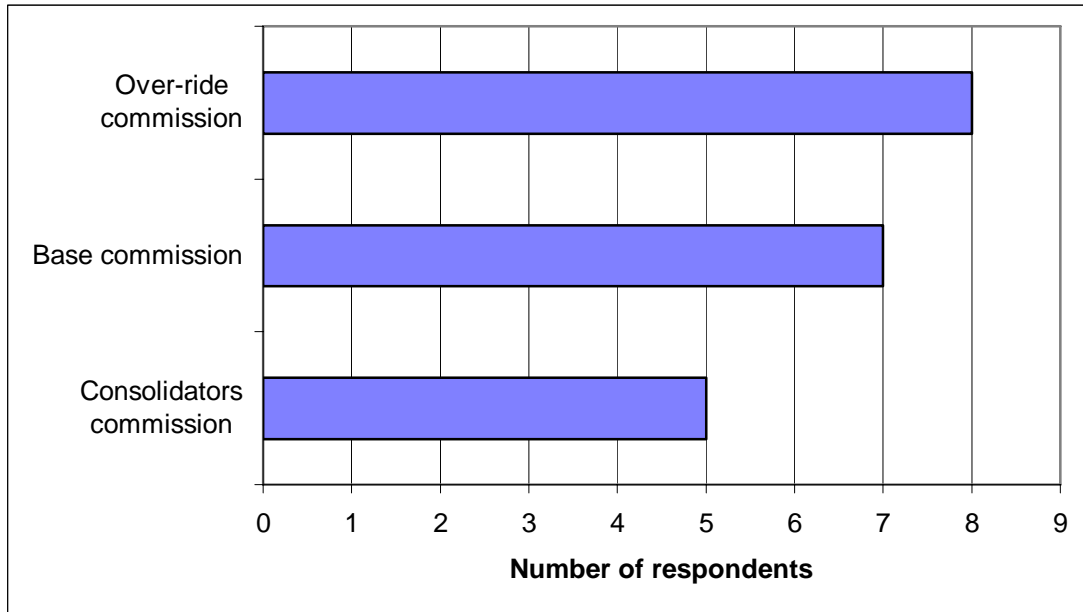


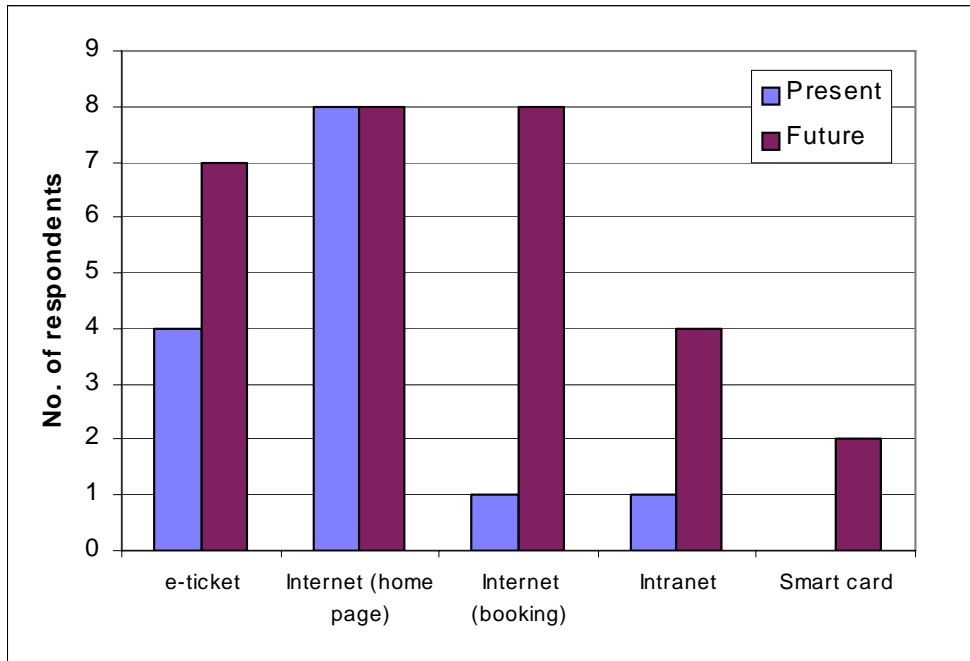
Figure 6: On-line Sales As % of Total (2000)



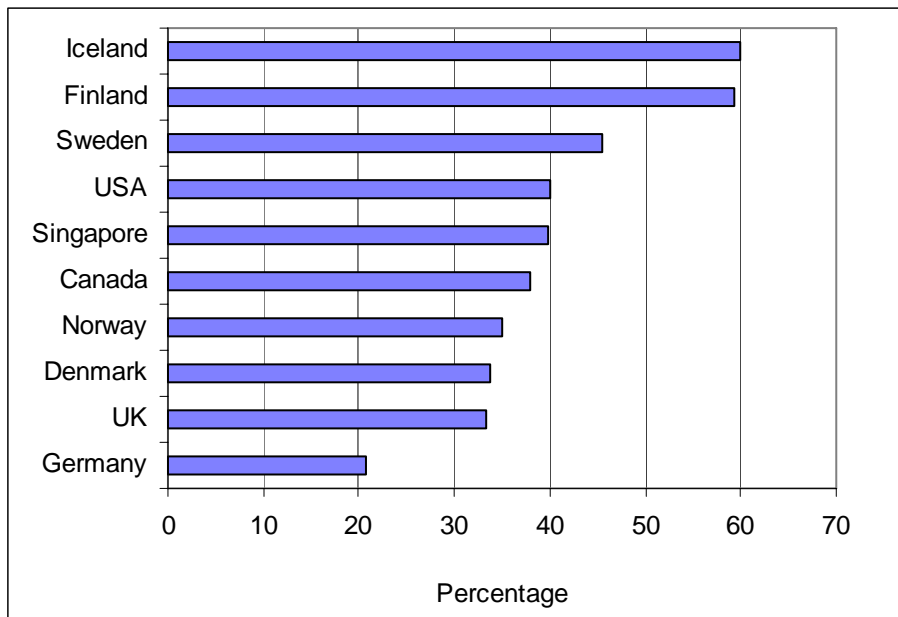
**Figure 7: Asian Airlines Type of Compensations**



**Figure 8: Present & Future Developments of E-Channels by Asian Carriers**



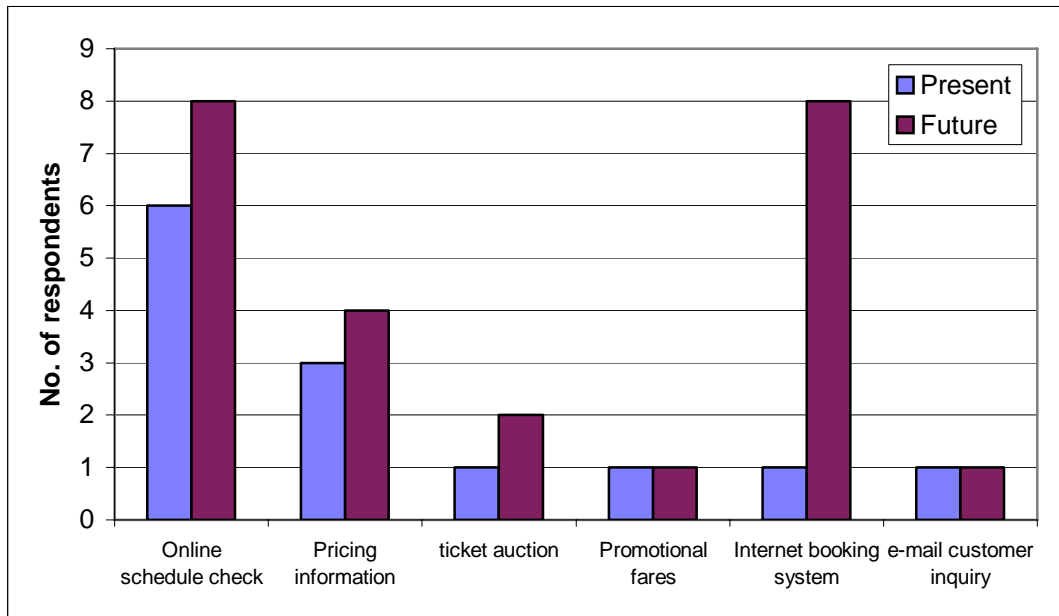
**Figure 9: Top 10 countries with active internet users<sup>1</sup> (2000)**



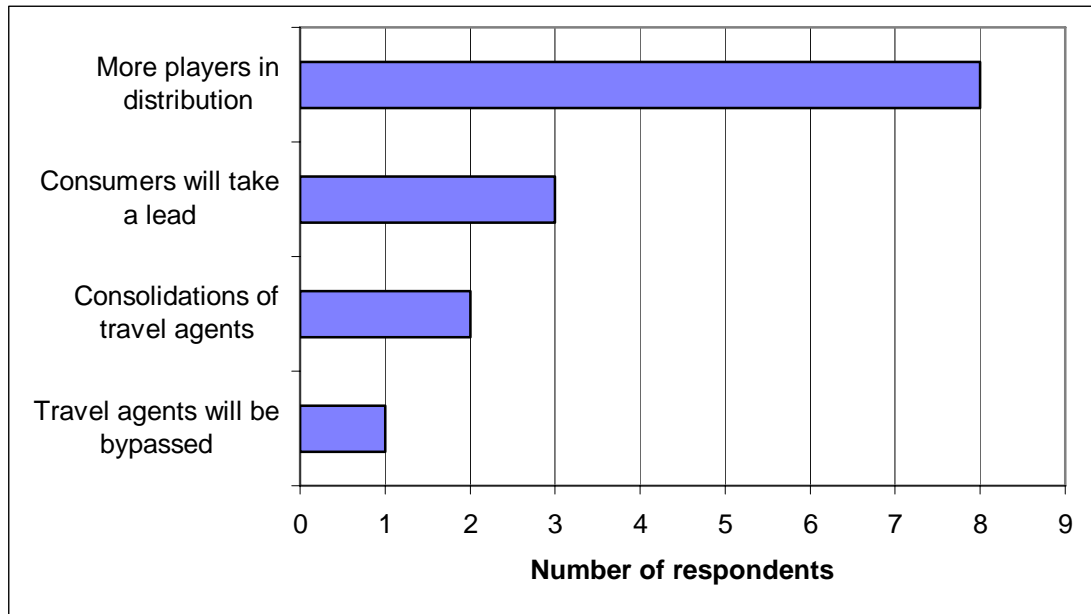
<sup>1</sup> adults, 18 and older, who access the web at least 1 time a week for 1 hour  
Source: McKinsey, 2001



Figure 10: Services On Web Sites: Present / Future



**Figure 11: Impact of Technology on Asia-Pacific Travel Market**



**Table 1: British Airways Sector Payments/Roundtrip**

	Restricted	Flexible	Typical Average commission @ 7%
International	£22	£40	£77
European	£12	£22	£24.50
Domestic	£12	£22	£14

**Table 2: Company Travel Policy by Size**

Company Size*	1-24	25-99	100-1000	1000-5000	5000+
Proportion of companies with travel policy	25.9%	48.5%	75.0%	67.9%	89.5%

\* Measured by the number of employees





**Table 3: Distribution Channels & Their Significance to Ticket Sales**

Distribution channels	Usage by no. of airlines	Very insignificant <span style="float: right;">Very significant</span>				
		1	2	3	4	5
Travel agents	8					
Ticket offices / Call center	8					
Internet	5					
Intranet (Corporate online)	1					
Self-booking kiosks (ATM for E-ticket)	1					

**Table 4: Reasons Why Asia-Pacific Carriers Did Not Speed-up Commission Cuts**

<b>Reasons</b>	<b>% of Respondents</b>
Great reliance on travel agents	75%
Do not want to jeopardize the relations with travel agents	63%
Immature direct sell channels	25%
No other Asian carriers started commission reductions	13%

**Table 5: Prerequisites Considered Prior to Electronic Developments & Their Significance to Asia-Pacific Carriers' Decisions**

Choice(s) of Prerequisites	% of respondents	Very insignificant <span style="float: right;">Very Significant</span>				
		1	2	3	4	5
Internet penetration rate	88%					
Further improvements in technology (i.e. more user-friendly)	100%					
Actions taken by competitors	75%					
Security features	25%					

**Table 6: Comparisons of Airline Distribution by Regions**

	<b>Europe</b>	<b>Asia-Pacific</b>	<b>U.S.</b>
<b>Airlines' attitudes towards direct sell</b>	Relatively conservative	Relatively conservative	Relatively aggressive
<b>Consumers' attitudes towards direct sell</b>	Relatively conservative	Relatively conservative	Relatively aggressive
<b>Markets</b>	Heterogeneous	Heterogeneous	Homogeneous
<b>Internet penetration</b>	Medium	Low	High
<b>Travel agency industry</b>	Semi-consolidated	Fragmented	Consolidated