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Keith St. Clair

Travel Leaders Group, null@travellersgroup.com

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Guest Editorial: Debunking the Myths

Abstract

The modern retail travel industry has been plagued by myths created by popular media in an effort to create hype and readership, rather than report an accurate portrayal of the extraordinary health of the travel distribution system. Regardless of the structural changes in the travel industry, the outlook for growth and profitability of travel agencies and travel agents has never been better

Modern travel industry: Debunking the myths

by Keith St. Clair

The modern retail travel industry has been plagued by myths created by popular media in an effort to create hype and readership, rather than report an accurate portrayal of the extraordinary health of the travel distribution system. Regardless of the structural changes in the travel industry, the outlook for growth and profitability of travel agencies and travel agents has never been better.

The popular media have been acting the part of Chicken Little in the ongoing discussion of the Internet's effect on the retail travel distribution network. In the past few years, articles have come fast and furious about the demise of the travel agent. However, most of these articles are anecdotal at best, spurious at worst.

Several of the most popular myths can be dispelled when viewed in light of the facts. The most popular myths seem to be the following:

Myth 1: The Internet will drive travel agents out of business.

Myth 2: The airline commis-

sion cuts will drive travel agents out of business.

Myth 3: Travel agencies are closing and there will be a need for fewer travel agents in the future.

Myth 1: The Internet

Many pundits think the Internet will drive all travel agents out of business. The growth of some popular web sites has been well publicized, e.g., Travelocity, Expedia, Priceline, et al. Internet analysts think, prima facie, that this growth must all be coming at the expense of the storefront "brick" travel agency.

First, travel agent sales have actually risen significantly more than inflation over the past five years. In 1995 travel agents sold \$101 billion of travel, but in 1999 they sold over \$143 billion, a 40 percent increase, based on data from the Travel Weekly U.S. Agency Survey 2000.

More Americans are traveling than ever. In 1999, the Travel Industry Association of America documented that Americans took 1.05 billion trips. By 2000, they project this volume will reach 1.07 billion trips. Moreover, the FAA predicts that the number of airline passengers will grow from 574 million in 1996 to over 925 million in 2008, a 6 percent growth rate per year. As primary demand for travel grows, the agency community is benefiting substantially.

Second, the Internet is projected to be less than 10 percent of travel sales by 2003, according to Jupiter Communications, an Internet travel consulting firm. The majority of the sales going through web sites are point-to-point, low cost airline tickets that are unprofitable for a retail travel agency to provide. Additionally, much of this Internet-based growth is from airline web sites, which are merely shifting customers who previously would have called an airline company's toll-free number to the web. For these customers, the volume is not shifted from the agency to the airline, but merely from a high-cost telephone service to a more efficient one. Despite the Internet's growth, agents still book 80 percent of all airline tickets, 90 percent of tours, and 95 percent of cruises.

Third, "brick and click" agencies such as TraveLeaders have their own web sites that will do a large portion of Internet-based sales. This is the way retail agencies will offer their customers the

best of all worlds: high-touch service when they want it or an efficient 24/7 execution of an airline ticket transaction. This is best for consumers, and for the agencies themselves, as agents can now focus their time on counseling clients who need advice on where to go on vacation and which tour or cruise company to select to take them there.

Downsides exist

Finally, a consumer backlash may well trigger even more business for travel retailers. Trials of many web sites have revealed Internet-only booking may have serious downsides for consumers. Examples include the following:

- They have no "brick" locations so tickets booked on web sites have to be exchanged by the customer at an airport or city ticket office when they need to change their flight plans.
- Tickets booked on some sites (e.g., Priceline.com) are completely non-refundable and non-changeable. Once consumers put in a winning bid, they have no choice on routing, carrier, connections, or times and are allowed no changes.
- With "click-only" travel sales, there is no one to help a customer who is at the airport and whose flight is canceled, or to assist a customer after a bad experience with a hotel, resort, or car rental company.

- Several computer magazine studies have concluded that purchasers of airline tickets on the Internet are paying more for their airline tickets than consumers who purchase them from travel agents. Travel agents know about money-saving options including offering different airports (e.g., Washington, D.C., and New York each have three major airports with very different pricing), adjusting schedules slightly (traveling at a different time or day of the week), using airline charters (many fly daily to Las Vegas, for example), or making brief stops without leaving the plane.
- The Internet-based sites do not and cannot intimately know the desires of the client, and cannot recommend hotels, cruise ships, or destinations that would be appropriate. On the Internet, it is nearly impossible to get impartial advice of the type a good, experienced travel agent can provide. The Internet is no different from travel magazine or television advertising, as all destinations, hotels, and cruise ships look great. However, there are real differences in what each offers that an experienced travel agent can help a consumer understand. Generally, customers are very satisfied with the travel agents they

use. According to a survey in *Travel Weekly*, 90 percent of leisure travelers value the advice of their travel agents. It is not surprising then that Forrester Research documented that 73 percent of on-line users look at travel websites, but only 21 percent of lookers book any travel on-line. The most common reason given by lookers who do not book is that they prefer to use travel agents.

Myth 2: Commissions

In the past five years, the airlines have changed the structure of how they pay commissions to travel agencies for issuing their tickets. Many believe this was a way for airlines to remove agencies from the distribution chain.

While agents historically did not charge consumers for their services, the commission changes helped them reevaluate their value proposition. In light of that reevaluation, agents have added to their revenues by combining commissions from airlines with service fees paid by consumers. Customers are happy to pay these fees to be sure they are getting the lowest possible price in the most efficient manner. In fact, the implementation of service fees has helped crystallize in the consumer's mind the value that agents add in advising and order-execution. Corporate customers are also willing to pay fees for airline, car, and hotel reservation

support because of the corporate travel agency's ability to secure negotiated rates on behalf of their customers.

Agents have also learned to focus more on travel products that are more profitable for

them to sell, such as cruises and tours, cars, and hotels. These are also areas where the agent's expertise helps them add more value in advising the client. For example, *Travel Weekly* documents that agency cruise sales grew from \$14.4 billion in 1995 to \$26.5 billion in 1999, an 84 percent increase.

It is unlikely that other suppliers such as tour companies and cruise lines would change commissions because agents have much greater leverage to move customer market share. Also, consumers have a wider variety of choices for these forms of travel. Additionally, there is an absence of the hub and spoke system and frequent flyer programs that the airlines leverage to monopolize markets, preventing agents from moving substantial market share. Finally, the cruise industry is bringing substantial new capacity on line in the next two years, without commensurate increases in primary demand. The result? Cruise lines will need travel agencies more than ever to direct clients to use their products.

Myth 3: Agencies close

Since many "mom and pop" agencies have closed their store-

fronts, the press has propagated the myth that there is a need for fewer travel agents today.

Yes, there is consolidation in this industry. Larger agencies, like TravelLeaders, have the economies of scale to invest in per-

sonnel and technology to be more efficient in serving customers and in supporting suppliers. Large agencies are merging with or acquiring smaller agencies, making the entire industry more efficient, productive, and profitable.

There is no reduction in employment because more people are traveling and needing assistance than ever before. In fact, agents issued more airline tickets and had higher sales in 1999 than any other year in history. Thus, although the number of agency locations is, in fact, down, the total number of working agents is higher today than ever before. That is why the U.S. Bureau of Labor Statistics projects a need for over 30 percent more travel agents by the year 2005.

Mark Twain once said, "The reports of my death are greatly exaggerated." The same can be said for the travel industry, which is growing faster than it ever has in history. The Internet is expanding the traveling public. As people travel more, they need industry personnel to assist and advise them.

The travel industry has never had more appeal to new entrants. Consolidation in the industry has resulted in larger companies that provide exceptional benefit pro-

grams and wages. Every agent has the opportunity to travel at discounted rates such as 75 percent off full coach airfare, 50 percent off hotel and car rental rates, and the opportunity to go on cruises for \$35 per day.

These unique benefits are provided to travel agents so they can personally experience more travel products and sell them better to their customers. The only requirements for getting into the travel industry are graduation from an accredited travel school, good people skills, and the desire to make clients' dreams come true. These dreams are still alive and well, and the travel agency sector is going strong for the long term.

***Kelth St. Clair** is chairman and CEO of Travelers Group, Coral Gables, Florida, and a company founder. He was a director of the Association of British Travel Agents and served as vice chairman of the ABTA Tour Operators Council and the association's representative on the board for London's third airport, Stansted.*