

# Assessing Value in Brazilian Travel Agencies



**HERMES**  
Management Consulting

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## Abstract

This white paper summarises the research conducted by Hermes Management Consulting (Hermes) in Brazil in order (a) better to understand Latin American travel agencies' cost drivers and (b) to evaluate ways of optimising the travel agency business. As well as communicating the results of the research, this paper describes the methodology used.

## Introduction

Although Global Distribution Systems (GDSs) can help with almost all services a travel agency offers, in Latin America this aspect of GDSs has not yet been fully appreciated. For this reason, even today GDSs are considered indispensable only for airline ticket sales.

Travel agencies are currently facing the additional challenge of an expected drop in income due to the possible reduction of commission payments by airlines.

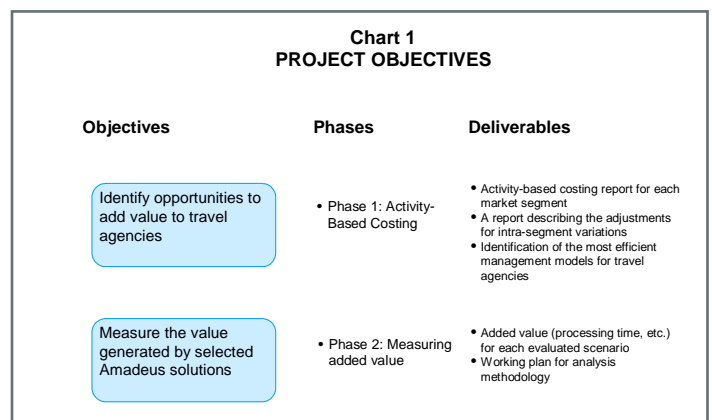
In this context, Hermes - in partnership with Amadeus, the leading GDS provider in the region - conducted a research project (a) to understand travel agencies' operational cost structure better and (b) to investigate how Amadeus solutions could add value to agencies' business in terms of time and money.

In order to identify opportunities to add value to different types of travel agencies in Brazil, a two-phase process was used (Chart1).

### Phase 1

In Phase 1 Hermes (a) carried out an overall market study, (b) selected travel agencies to participate in the project, and (c) concluded with an activity-based cost (ABC) analysis.

*Travel agencies in Latin America usually do not take full advantage of the GDSs' potential*



*An activity-based cost analysis was carried out to identify opportunities to add value to travel agencies (phase 1), followed by an analysis of the processing time saved by employing Amadeus solutions (phase 2)*

How was this done?

An initial, exhaustive analysis of activities across fifteen representative travel agencies in Brazil was carried out. These agencies were classified according to their main business sector: Leisure, Corporate, Tour Operator or Consolidator, and in relation to their respective sales levels: Large or Small/Medium.

Hermes then prepared an activity-based report on costs as well as a detailed report on the characteristics of each sector.

This evaluation allowed a comprehensive analysis of the cost per activity undertaken by each travel agency while, at the same time, providing important information on their efficiency in relation to their market sector.

## Phase 2

Phase 2 consisted of measuring and comparing the time needed to perform typical agency tasks both with and without selected Amadeus solutions.

The aim of this investigation was (a) an evaluation of the value added, primarily measured in the reduction of costs and processing time as well as in the increased income for each assessment scenario, (b) a report for each scenario/solution, and (c) a working plan of the measurement methodology.

## Project methodology

Phase 1 included three steps:

*Phase 1 consisted of:*  
*1. Questionnaire*  
*2. Process analysis*  
*3. Cost allocation*

### 1) Request for information

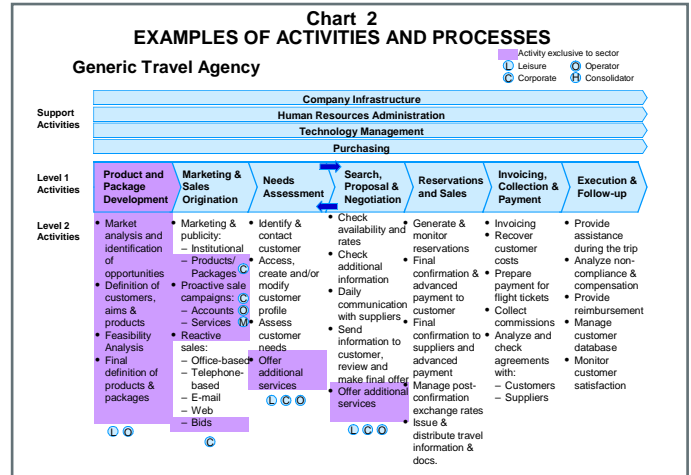
A detailed and thorough questionnaire was sent to each agency, requesting information relating to income, breakdown of expenses, the company's organisation chart, points of sale as well as IT, software and communications equipment.

### 2) Process analysis

This step consisted of a thorough assessment of business processes in order to gain an in-depth understanding of these. Interviews with agency employees were carried out to help understand the main activities performed within each agency and to identify which resources were used in each. During this research it was found that Leisure and Corporate travel agencies differed somewhat in their business systems depending on the sector within which they were operating (Leisure, Corporate, Tour Operator,

Consolidator). Based on this information, processes were documented and analysed on two levels for each type of agency.

Level 1 provides a description of the main processes used by the agencies (Chart 2) while level 2 deconstructs processes into sub-processes.



### 3) Cost allocation

Activity-based costing (ABC) methodology was used to determine the cost of each activity during the process, to identify cost reduction opportunities and, finally, to establish the differences between the most and the least efficient agencies.

Two cost allocation exercises were performed:

- A traditional costing, in which accounts were divided generically (Operating and Marketing Personnel, Administrative Personnel, Communication, Systems, Infrastructure, Marketing and Other)
- An activity-based costing, in which traditional accounts were allocated to each activity (Chart 3), taking into account the amount of resources (cost driver) used for each. With these criteria, costs were allocated to each activity and then assigned to ticket generation. This exercise was performed by gathering data (income, costs, time dedicated to each activity, space, systems) using different sources of information (accounting reports, interviews with managers and agents, time measurements, etc).

*Costs were allocated both in the traditional way and by activity*

**Chart 3  
COST ANALYSIS STRUCTURE BY ACTIVITY  
Corporate Travel Agencies**

Support Activities	Company Infrastructure	Human Resources Administration	Technology Management	Purchasing	Marketing & Sales Origination (1)	Needs Assessment (2)	Search, Proposal & Negotiation (3)	Reservations and Sales (4)	Invoicing, Collection & Payment (5)	Execution & Follow-up (6)	TOTAL
	10	9	8	7							
<b>Level 1 Activities</b>											
<b>Total Personnel Cost</b>	0.5	1.4	2.0	1.8	1.1	0.8	0.2	0.1	0.1	1.0	9.0
Operations & Marketing	0.5	1.4	2.0	1.8	0.2	0.7	0.1	0.0	0.0	0.2	6.9
Administration	0.0	0.0	0.0	0.0	0.9	0.1	0.1	0.0	0.1	0.1	0.8
Communications	0.1	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	1.0
Systems	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.2
Infrastructure	0.1	0.2	0.3	0.2	0.2	0.1	0.0	0.0	0.0	0.1	1.2
Marketing	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Other	0.1	0.1	0.1	0.2	0.5	0.1	0.0	0.0	0.1	0.2	2.5
<b>TOTAL</b>	1.1	1.8	2.7	2.5	2.0	1.1	0.2	0.7	0.2	2.4	14.6

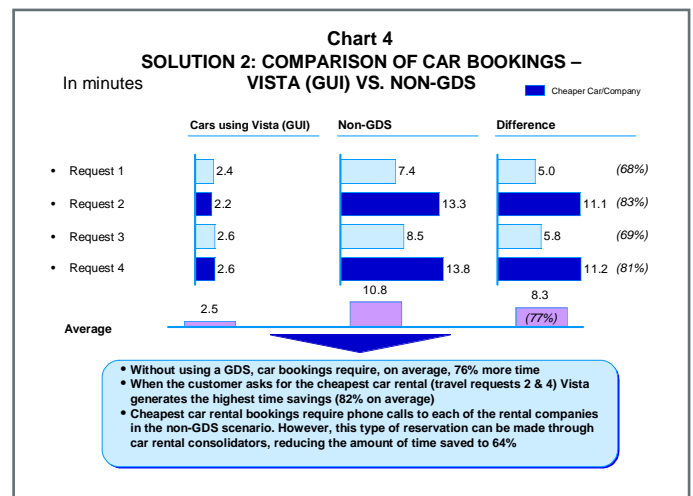


*In order to determine the value added by Amadeus solutions, time measurements were taken in five agencies in Brazil*

In the ABC study, costs were presented per ticket in US\$. A ticket unit includes a combination of all services provided by the travel agencies and represents the average transaction by customers (including air fares and ground services). In using this method, the study provides simple, standardised results, allowing to compare companies with different activities. However, the way in which a ticket unit was calculated presented discrepancies between the different sectors. This had to be taken into account while carrying out the analysis and drawing up conclusions. On average, Brazilian travel agencies sold 11 hotel units, and one car rental unit for every 100 airline tickets.

In Phase 2, the value added by Amadeus solutions to the travel agencies was established. The time taken to deal with travel scenarios and requirements was recorded in five Brazilian travel agencies. Specific scenarios and travel requirements were created for each Amadeus solution used, while the travel agents were given Amadeus training (Amadeus provided solutions for agencies if these were not previously available).

The processing time for each Amadeus solution was then compared to the processing time for existing competing alternatives. As a result, productivity increases and cost reductions were measured following a strict scientific approach (Chart 4). These measurements are now part of the Amadeus "Show me the Value" database and are a quantitative expression of the value that Amadeus solutions add.



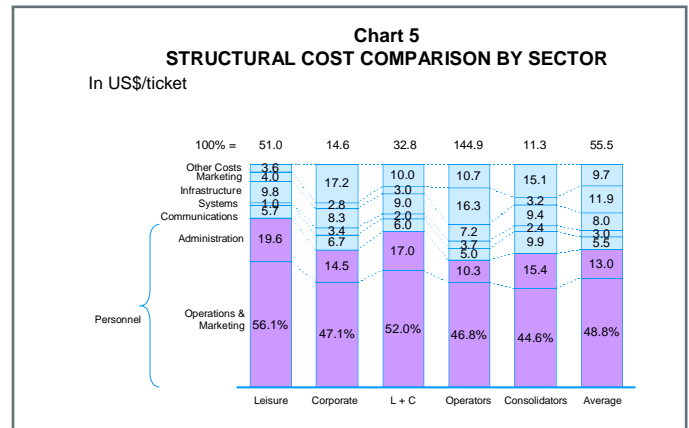
## Results

In summary, the main results from phase 1 were as follows:

### Average agency cost structure

The following conclusions were obtained by analysing the cost per billing item (Chart 5):

- In Brazil, the average cost per ticket sold is US\$ 55.80. This drops to US\$ 30.20 when only Leisure and Corporate agencies are considered.
- Tour Operators have the highest cost per ticket (US\$ 144.90). However, this sector also has the highest level of sales per ticket, due to the wide range of ground services included in its packages.
- Consolidators have the lowest cost per ticket (US\$ 11.30). This is mainly due to the large number of tickets sold and their exclusive focus on air travel services.
- Corporate agencies had a much lower average cost per ticket than Leisure agencies (US\$ 14.60 vs. US\$ 51.00). This can be partly explained by variations in scale due to a larger volume of business and a higher rate of automation in their administrative processes.
- Personnel costs represented an average 61% of total costs, as this was the largest expense in all sectors studied.
- Tour Operators had a much higher rate of Marketing costs (16%) than the other sectors due to their focus on promotions and advertising for packages.
- Communication costs are not significant as they have been decreasing regularly during the last few years, due to increased use of e-mail and internet, etc.

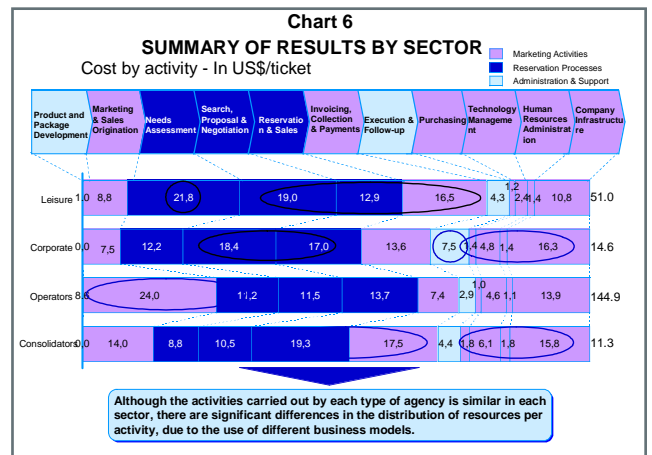


### Cost distribution per activity

The main conclusions drawn from the analysis of cost distribution per activity are presented below (Chart 6):

- Despite the fact that the activities carried out by the agencies were practically the same in each sector, there were certain differences in the distribution of resources for each activity due to varying business models.

*Agencies are increasingly forced to streamline their businesses, especially the high personnel-cost activities*





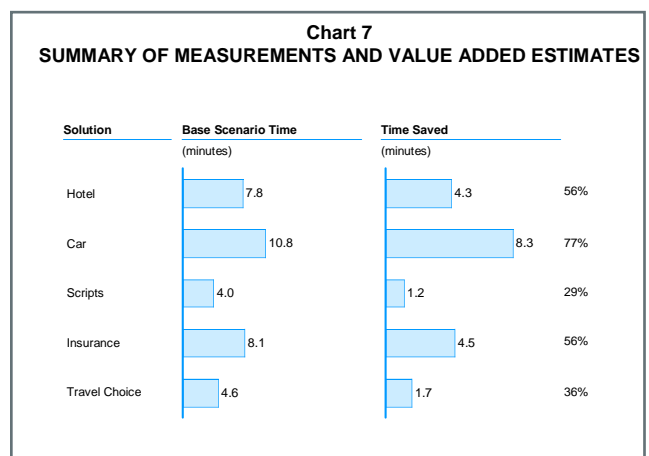
- "Needs Assessment" was the main activity for agencies in the Leisure sector. This was followed by "Search, Proposal and Negotiation", "Invoicing, Collection and Payment" and "Reservations and Sales".
- In the Corporate sector, "Search, Proposal and Negotiation" and "Reservations and Sales" activities had the highest costs per ticket. "Execution and Follow-up" costs were also important in this sector.
- Tour Operators allocated the majority of their resources to the development of travel products and packages. They also have the highest cost per ticket for "Sales Origination" as this sector invests the most in Marketing and Publicity.
- Support activities absorb more of the total costs for Consolidators and Corporate Agencies.
- "Search, Proposal and Negotiation" and "Reservation and Sales" activities required more resources in Brazil than in other markets as a result of dis-intermediation: some airlines offer budget products without involving the GDSs.
- In almost all cases, these costs could be reduced by increasing the use of Amadeus solutions, especially in ground services. In fact, agencies that used GDSs and Enterprise Resource Planning (ERP) systems virtually all the time were more efficient.

### Profitability analysis

- The gradual reduction in commissions paid by airlines is forcing travel agencies to streamline their businesses to guarantee sustained, long-term profitability. One way of reducing costs is to optimise and automate administrative processes.
- In addition to previously identified issues such as market trends and sector-specific business models, many opportunities for adding value to travel agencies were discovered. One such opportunity was the use of GDSs, which could add considerable value to products and services offered by agencies. Areas in which Amadeus solutions can make a considerable difference were found to be:
  - Ground services
  - Continued professional development for agency personnel
  - Back-office solutions
  - Consultancy services focusing on sales origination, business processes, organisational structure, Management Information Systems (MIS), etc.
  - Development of package holidays and group management.
  - Help-desk services

*Amadeus solutions are more efficient than existing competing alternatives*

The most important conclusion drawn from the time measurements in phase 2 was the fact that Amadeus solutions are more efficient than existing competitive alternatives (Chart 7).



- Normally, complex car and hotel bookings show the highest time savings. A saving of around 8.3 minutes was recorded for each car booking and 4.7 minutes for each hotel booking. Searching for the best car rental offer required particularly long processing times as, without the Amadeus solution, each company had to be contacted individually. For hotel bookings, searches by point of reference and hotel facilities were more time consuming and required more resources than those completed with the help of a GDS.
- 4.5 minutes were saved during insurance purchase transactions when compared to times recorded for on-line transactions.
- The use of scripts led to an average saving of 1.2 minutes when compared to manual operations.
- Although car reservations showed the highest time savings (8.3 minutes), the value added by a GDS was relatively low (US\$ 373 - 885 per agency per year) due to the low proportion of car bookings within the agencies' total business.
- With lower time savings (4.3 minutes), hotel reservations offered better value (US\$ 1,846 - 3,956 per agency per year) due to the larger proportion of hotel reservations within the agencies' business (9.4% of the total).
- Managing client profiles with Travel Choice also had significant impact (US\$ 1,802 - 4,852 per agency per year) as this solution can be applied to all types of reservation (air, hotels and cars).

Using Amadeus solutions, an average travel agency could increase yearly profits by US\$ 9,700 through increased productivity. In other words, an increase in productivity can also be expressed in terms of cost reduction. Depending on the solutions used, a travel agency could make yearly savings of US\$ 4,000 (calculated as the sum of savings in personnel, infrastructure and communications).

In addition, a clear improvement in levels of customer service was noted as the average response time could be reduced significantly.



Note: Figures are based on participating agencies, and results may vary according to agency size, profile and activity.

## About Hermes Management Consulting

Hermes Management Consulting ("Hermes") is a Latin American consultancy firm specialising in strategy, organization, operations and valuation studies. Hermes was founded in late 1994 by Osvaldo Gallo and Hernán Goyanes. Both founders are former senior members of McKinsey & Company, and have worked extensively for leading companies in Europe and Latin America.

Hermes has been very active in sector analyses, company valuations, mergers, corporate strategy and business plan development, as well as the identification and implementation of operational improvements. These projects have focused on the payment systems, supermarket, retail, consumer goods, health care, energy, logistics, apparel, telecommunications, tourism, entertainment and real estate sectors. Not only does Hermes have extensive experience in these sectors, it has also helped assess a variety of acquisition opportunities in numerous other industries.

Hermes has carried out strategy, organization, operational improvements and valuation projects, in Argentina, Brazil, Colombia, Costa Rica, Chile, Dominican Republic, Ecuador, France, Guatemala, Mexico, Paraguay, Peru, Spain, United States, Uruguay and Venezuela.