Service Fees and Commission Cuts

Opportunities and Best Practices for Travel Agencies

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Index

Executive Summary 3

Introduction 4

- The end of airline commission 4
- Disappearance of airline commission across markets 6
- Consequences for the travel agency business 7
- Some useful definitions 8

Distribution: new models, new entrants, new solutions 9

- The growing independence of airlines 9
- The Internet continues to change the rules 10
- The rise of the consumer 10
- The travel agency business-mix 11

Successful travel agencies apply effective service-fee schemes 13

- The US agency marketplace: from fear to success 13
- Scandinavia leads the way in Europe 14
- German business travel agencies: the rise of the transaction-fee model 16
- In summary: key market trends 17
- Types and levels of service fees charged 18

Serving the customer in a changed travel environment 19

- Customise your service fees 20
- Communicate fees openly 21
- Recommendations 22

Main conclusions 23

Bibliography 24

About this paper

This research was conducted in 2007 by Amadeus and is based on existing studies, press releases and third party research papers made worldwide on service fees over the last 3 years. The purpose of this paper is to help travel agencies understand how they can optimise their business and improve their profitability after airlines have reduced or eliminated travel agency commission. It provides the most up-to-date information on service fee policies available today and describes opportunities for travel agencies to add value to their services.

Executive Summary

The reduction or removal of airline commission continues to challenge travel agencies' profitability. It is crucial to understand what trends travel agencies need to be aware of to ensure that they stay ahead of the game and one step ahead of their competitors. This paper will focus on how to optimise profitability and increase travel agencies' revenues with service-fee models.

> Service fees help travel agencies increase their revenue
Service fees are not only a way to compensate for the loss of airline commission but also a way to generate new revenue sources for travel agencies that guarantee their long-term profitability. Indeed research conducted in 2006 by Hermes Consulting reports that 73% of the total revenue of Scandinavian business travel agencies comes from service fees.

> Successful travel agencies apply effective service-fee schemes
Many travel agencies are expanding their service-fee models, both in terms of the amounts charged and the number of services for which they charge fees.
As service fees are a valuable source of revenue, they have become much stricter when applying fees and now avoid waiving fees wherever possible.

> Airline related fees are still top of the list
Travel agents apply fees most often for airline related services. They charge differentiated fees depending on the destination, type of reservation (e.g. frequent flyer), number of tickets sold or type of airline (e.g. full service versus "no frills").

> Service fees increase customer loyalty and satisfaction
Despite common perception, charging service fees does not result in a loss in clients. In the US, travel agencies apply the highest number of service fees.
Nevertheless, in 2005, they reported a 90% customer retention rate.
Besides, fees can be tailored to suit individual customers. This helps travel agencies target their customers with tailored services based on their past purchasing patterns and identify services for which customers' willingness to pay is greater, such as trip planning, hotel only or special promotions.

The revenue mix for travel agencies is increasingly shifting to service fees as airlines have lowered or cut commissions. With markets such as the US or Scandinavia which are far ahead in this trend, successful travel agencies in many European countries are fast adopting, and constantly upgrading, their service fee schemes.

Introduction

The end of airline commission

> By cutting agents' commission, airlines decrease their dependence on travel agents as a distribution channel.

For more than 20 years, travel agencies had a monopoly on two aspects of air travel: information and ticketing.
Now they have lost these monopolies: information is plentiful and tickets are more and more irrelevant.
By cutting agents' commission, airlines decrease their dependence on travel agencies as a distribution channel. The process started in the US in 1995 when seven airlines, (American, Delta, US, Trans World, United, Northwest and Continental Airlines) joined forces to put a cap on commissions paid to travel agencies. They set an upper limit for travel agents' commissions fixed at 50 USD for domestic flights[1], and at 100 USD in 1998 for international flights.
In October 1999, airline commissions were reduced to 5% and finally eliminated in the US in March 2002 (on average, one commission cut every 14 months).
Three key variables triggered the end of the commission model:

- The unsustainable financial losses by airlines due to the growth of low-cost carriers (LCCs) leading to an increase in the number of bankruptcies.
- No negative consequences from previous commission cuts: airlines had progressively lowered the commission payments starting in February 1995.
- No effective recourse for travel agencies (group actions prohibited by US law).

The effect was a loss of one third of operating travel agency locations in the United States. In 2000 there were more than 30 000 retail travel agency locations; in 2005 just after the last commission cut, slightly fewer than 21 000.

In Europe, airline commission had remained unchanged (9%) for more than 15 years. The first difficulties appeared with the liberalisation of airline transportation and domestic air services.
The main consequences were:

- The appearance of new airlines and new air routes.
- An increase in the number of bankruptcies.
- New competition forced down air fares.
- The development of LCCs (e.g. Easyjet) following the example of Southwest in the US.
- The necessity to cut production costs especially with the development of LCCs, with "low-cost" meaning low production costs and not low fares, even if the two are closely linked.

[1] *This new step meant that travel agencies received a 10% commission on all tickets up to 500 USD. Anything over 500 USD was limited to a 50 USD commission. The 50 USD cap was immediately adopted by all the other major airlines except Alaska, TWA and Southwest.*

Thus in Europe, travel agents' commission fell progressively from 9% to 7% in a first wave between 1997 and 1999, followed by another wave of decreases after 2001. Since 1 January 2003, commissions have virtually disappeared from the Scandinavian market. The process was faster in Europe than in the US which explains the greater difficulties European travel agencies have faced in adapting to this new environment.

This could have been a dangerous game for airlines if only one of them decided to bypass its intermediaries, who could then have gone to the competition.
But all airlines were in favour of zero commission which will come into general use sooner or later. The unknown element is the adaptation time required by customers and their travel agents to the new distribution models creating a confusing environment.

Some airlines still pay domestic commission[2] but they are also moving slowly towards zero commission. CSA Czech Airlines, for example, has already started to decrease agents' commission.

[2] *Countries in Europe where airlines still pay domestic commission: Portugal (TAP - Air Portugal) with 1% (but 0% in Germany), Ireland (Aer Lingus) 1% since 2003, Italy (Alitalia) 1% since 2004 (but 0% in UK), Austria (Austrian Airlines) 1 % since 2006, Romania (Tarom) 1% since 2006 (but 0% in Germany), Greece (Olympic Airways) between 6.94% and 8.5% depending on the destination and type of flight, Cyprus (Cyprus Airways) and Croatia (Croatia Airlines) with 7%, Poland (LOT Polish Airlines) 1% since 2004 (but 0% in Germany), Spain (Iberia) with 0.4% since January 2007.*

Disappearance of commission across markets

Domestic commission cuts across markets

	Airline	Date	Domestic Commission Level
United States	**Delta**	**2002**	**0%**
Ireland	Aer Lingus	2003	1%
Finland	**Finnair**	**2003**	**0%**
Danemark	**KLM**	**2003**	**0%**
Scandinavia	**SAS**	**2003**	**0%**
Russia	**Aeroflot Russian Airlines**	**2004**	**0%**
Italy	Alitalia	2004	1%
Poland	LOT Polish Airlines	2004	1%
Germany	**Lufthansa**	**2004**	**0%**
France	**Air France**	**2005**	**0%**
United Kingdom	**British Airways**	**2005**	**0%**
Belgium	**SNBrussels Airlines**	**2005**	**0%**
Austria	Austrian Airlines	2006	1%
Romania	Tarom	2006	1%
Spain	Iberia	2007	0.4%

Consequences of commission cuts for the travel agency business

New environment

Travel agencies are at a competitive disadvantage with regard to suppliers' direct websites where airlines are able to control seat availability and prices.

According to a survey conducted by Amadeus among 600 Amadeus travel agencies customers and prospects, 34% of the interviewees quoted the "reduced revenues from commission" as their biggest challenge. Indeed the decision by the airlines to reduce and/or eliminate travel agency commission has led them to use technology that many of them distrust or are not inclined to use, and to compare prices and travel schedules constantly. As a result of this new environment, traditional travel agencies are at a competitive disadvantage with regard to online travel agencies and to airline carriers which have developed their own direct websites where they are able to control seat availability and prices. Nevertheless, travel agents' pay programmes remain. From some airlines, travel agents receive negotiated incentive commission closely linked to their performance. Airlines also consider passing part of the GDS fees on to the agencies as incentives.

To reduce their reliance on airline commission payments, travel agencies are applying one or more of the following strategic options:

a. streamlining their operations, controlling staff costs whilst ensuring the customer feels as little impact as possible;
b. expanding or moving into the leisure business where commissions on non-air products remain high (cruise, hotel, etc);
c. specialising in geographic areas or becoming niche players for specific leisure products (e.g. destination weddings, student travel, group travel, cruises only, etc.);
d. establishing a service fee driven business model.

Fees for services

Most travel agents have managed the commission cuts by migrating to a "fees for services" business model - applying charges to each transaction.

This paper will focus on the strategic option: establishing a service fee driven business model - applying charges to each transaction. Indeed this choice has the added benefit of putting an explicit value on the service they provide to their customers.
Hence in some countries such as the US or Scandinavia, travel agents have already developed effective service-fee schemes and are constantly searching for solutions to generate more revenues. The whole travel agency profession is going through a transition where travel agents are in a state of managing the unknowable. The structural changes that are taking place in the industry are such that travel agents need to be able to provide added value for which they can charge the client and a lot of them are now doing better than they were before commission was cut. However, fees have raised the total cost of travel for the traveller and customers are unwilling to pay for a service they did not have to pay for in the past.

What is specific to business or corporate travel?

The amount of commission paid by airlines has a direct impact on corporate travel buyers. This is because business travel agencies usually pass their commission receipts on to larger clients. The clients have in turn effectively treated the fee as a subsidy for their travel management programme, with a profit remaining even after paying the fee. From now on, the fee will be greater than the commission, so a company's travel costs will no longer be offset by commissions; indeed travel costs are forced upwards by the addition of service fees.
But certain characteristics of the business travel market allowed this sector to adapt more easily to the disappearance of commission. Business travel agencies have always had different relationships with different customers; they usually have long-term buyer relationships, set up long before the commission cap. Some of them quickly renegotiated their contracts to include a transaction or management fee, knowing that the majority of these fee arrangements are specific to the needs of the client.
This situation made the transition to zero commission somewhat easier for a lot of them. Besides, they do not see themselves as airline ticket distribution outlets but are good at managing corporate travel expenses. They track and manage costs, ensure that corporate policies are applied, negotiate special fares arrangements and are seen as an information centre for employees and managers.

In the first part of this paper we will analyse the changes resulting from the loss of airline commission in the travel industry and understand the direct consequences for distribution. Then we will look at the countries that have applied service-fee models successfully in order to propose some recommendations. The last part will focus on best practices used to increase customer acceptance.

Some useful definitions

Definitions

> Service Fee

> Transaction Fee

> Management Fee

In this paper, we have identified three different types of fees: service fees, transaction fees and management fees:

> **Service fee**: this is a generic term commonly used to define booking fees.
A "service fee" is the amount of money charged by the travel agency to the travel buyer (consumer or corporation) for services provided in addition to the actual product purchased (hotel booking, air ticket, etc.). In this instance, the full commission (when it exists) is passed back to the customer.

> A **transaction fee** is the agreed amount of money charged by the travel agency for each transaction; that is for every single action or operation which is performed to achieve the booking. A transaction fee is designed to cover a travel agency's operational costs and includes a profit margin.

> A **management fee** represents a fixed amount of money (percentage or flat fee) added on top of the invoice based on different criteria, regardless of either transaction or volume. This fee is totally independent from the relationships between the travel agency and its suppliers. For example, it can be the agreed amount of money charged by the travel agency for a specific period (per month, per year, etc.).

Distribution: new models, new entrants, new solutions

The growing independence of airlines

Airlines adopted three different strategies:

> Reduce GDS fees

> Disintermediation

> Cut airline commissions

To face uncontrollable costs such as petrol costs and to recover from years of operating losses, airlines have been forced to cut distribution expenses in different areas.
In terms of distribution costs, airlines are employing three different strategies:

> Reduce GDS fees and progressively find agreements with the global GDSs.
> Disintermediation: go direct and bypass the established distribution chain by developing their own websites.
> Reducing or removing commission paid to travel agencies.

The decision to cut travel agencies' commission clearly shows that airlines wanted to decrease their reliance and dependence on travel agencies as a distribution channel.
In this context, the Internet appears to be an efficient and cost-effective distribution channel.
By creating their own web sites and selling directly to their customers, airlines are able to control seat availability and prices to their advantage and they have finally become even more successful than other supplier groups at bringing consumers to their web sites.

The Internet continues to change the rules

With the Internet, the former travel marketplace has been completely changed.
It allows travel suppliers to directly reach their potential customers through their own websites, and cut back on the commission they pay by having the ability to direct source and direct market. Also it allows real-time price changes. This threatens the traditional travel agency's business model and makes it harder for them to consistently offer lower prices.

Recent research conducted by Burst Media shows that the Internet is more and more used as the main travel planning resource. This means that online travel agencies compete with traditional travel agencies with regard to the products sold but also the services they provide. Indeed, according to the Manager of Market Research, Burst: "Travellers have flocked to the Internet – actively using it as an information resource and a place to make travel purchases".

In 2007, online booking travel will represent more than 30% of all travel booked in Europe. According to Forrester Research[3] (February 2007), amongst the European travellers who research their leisure trips via the Internet, 40% book their trip online and 27% buy from offline points of sale.

The rise of the consumer

Thanks mainly to the Internet, travel consumers have access to more information, can exchange this information more easily and therefore have a much greater influence over the online and offline content. They are driving change.
The way travel agencies will deal with their suppliers and direct competitors will be defined by their ability to react to these expectations and meet the needs of this new generation of sophisticated consumers.

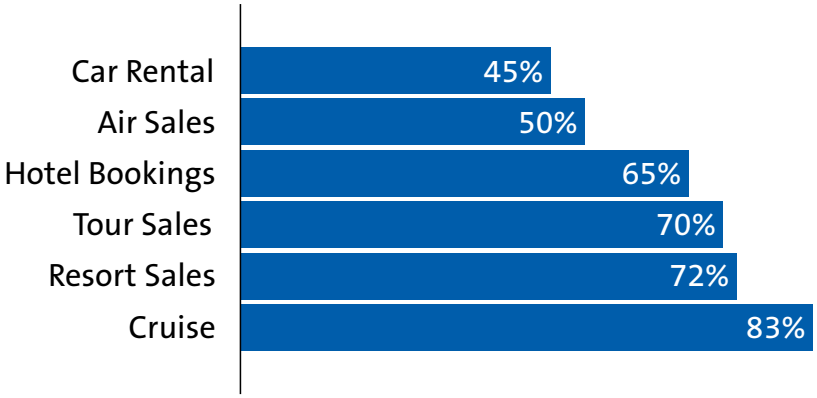
However this abundance of information can create confusion for customers. Indeed the more they have access to a lot of information (in terms of prices, travel suppliers' policies, type of packages, etc), the more they will need advice to make a choice.
The boom of the Internet and the easy access to information could be to the advantage of the travel agent who is the best person to find the right information and give unbiased consultancy. The competitive advantage of the travel agent will be to provide expertise and experienced consultancy to meet the needs of a specific traveller.

[3] *"Forrester Research Inc. is an independent technology and market research company that provides advice to global leaders in business and technology."*

The travel agency business-mix

A typical travel agency in the US, making 80% of its revenue in the leisure business, has seen its business mix change over recent years. Indeed, as agencies try to reduce their reliance on air ticket sales, they are constantly moving towards non-air bookings. Research data in the US and in some European countries shows a relationship between airline cuts and the decrease in the number of air ticket sales to the advantage of tour packages and cruise sales. This development is very clear in the United States (ASTA[4], 2006) where, in 2004, air ticket sales were not the main component of travel agency sales whereas tour package sales exceeded air sales figures.

Segment sales, US travel agent expectations for sales volume increase



Source: *Travel Weekly's 2004 US Travel Industry Survey.*

A survey conducted by Amadeus among 600 Amadeus travel agencies customers and prospects found that 34% cited "reduced revenues from commission" as the biggest challenge facing their business today; 27% cited "increased competition from the Internet". To face these changes, their main strategy is for 49% of respondents to "focus on revenue growth" and 19% on "online development".

What is the biggest challenge facing your business today?

>**Reduced Revenue from Commission**
- 34%: Global figures
- 50%: Western Europe figures

What is the main strategy for your agency?

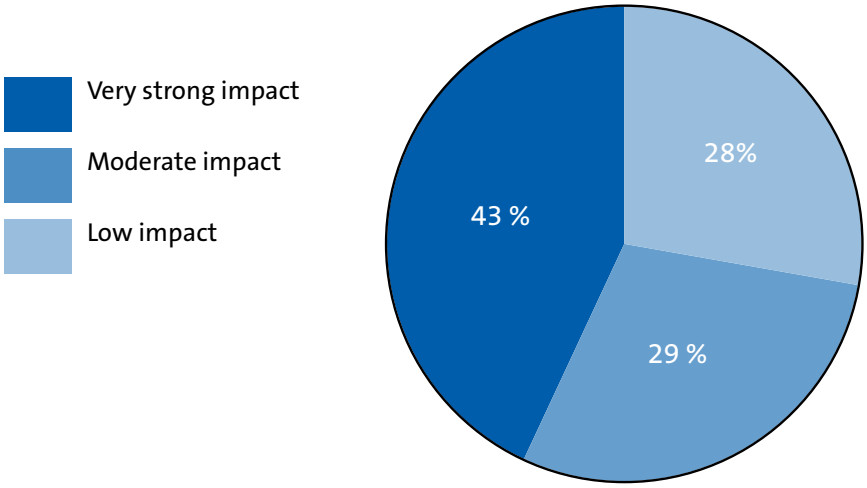
>**Revenue Growth**
- 49%: Global
- 47%: Western Europe

Source: *Amadeus Research 2006.*

[4] *ASTA: American Society of Travel Agents. ASTA agencies mostly concentrate on the domestic market (the US and Canada). 43% concern international bookings and 67% domestic. They are mostly leisure oriented (76% of their total business).*

These results show that Western European countries were significantly impacted by the loss of airline commission. In 2006, Gfk[5] conducted a survey among 988 French travel agencies to analyse the impact of the end of the commission model:

Impact of airline commission cut



Source: *Gfk Survey of 988 French travel agencies, 2006.*

French travel agencies have found some answers, however these are still in need of reinforcement:

> Following the agreement between the SNAV (French Association for Travel Agencies) and Air France, the airline will still pay a kind of commission up to 0.6% of generated turnover to help travel agencies deal with the end of commission.
> Alignment of small agents with networks and online sales.
> Development of alliances to increase bargaining power and negotiate special fare rates with suppliers.
> Introduction of fee schemes with business travel agencies more inclined to pay for travel agencies' services.

But what about the other countries that have successfully experienced the loss of commission and applied service fee policies?

[5] *The Gfk (Growth From Knowledge) Group is the No. 4 market research organisation worldwide. The Group has 130 companies located in 70 countries.*

Successful travel agencies apply effective service-fee schemes

The loss of commission has prompted travel agents to raise fees for the tickets they sell and to stress how they help customers in ways that others don't. Service fees are not only a way to compensate for the loss of airline commission but also a way to generate new revenue sources for travel agencies that will guarantee their long-term profitability. The next part of this paper will therefore focus on how travel agencies can optimise their profitability and revenues with service fees. We will detail and analyse the experience of countries that have successfully applied service fee schemes.
The table below summarises key information related to the US and some Western European countries which have developed effective service-fee schemes:

Everything you need to know about service fees

	Commission cut	Level of fees charged*	Top 3 charged services
United States	0% - 2002 (Delta Airlines)	5$ - 250$	1. Issuing airline tickets 2. Changing airline tickets 3. Special coupons & promotions
Scandinavia	0% - 2003 (SAS)	20€ to 100€	1. Issuing airline tickets 2. Ticket refunds 3. Rail tickets
France	0% - 2005 (Air France)	5€ - 150€	1. Distance fees for airline tickets (short, medium or long haul) 2. Rail tickets (SNCF) 3. Administrative fees
United Kingdom	0% - 2005 (British Airways)	N/A**	1. Fees on no-frills airlines 2. Credit card payments 3. Fees on scheduled air fares
Spain	0.4% - 2007 (Iberia)	20€ - 200€	1. Issuing airline tickets 2. Changing airline tickets 3. Ticket refunds

* Depends on the products/services purchased: e.g. number of passengers, cabin, paper or electronic ticketing, etc.
** Not available.

Sources: *ABTA Travel Statistics and Trends 2005; ASTA 2006 Service Fee report; Dr. Fried & Partner - "Understanding how service fee automation impacts travel agencies business", 2007; FAZ Institute - Geschäftsreisen - Mit Travelmanagement erfolgreich ans Ziel, 2004.*

The US agency marketplace: from fear to success

> **96.8%** of ASTA members reported that in 2005 they charged fees for at least some client services.

US agents have increasingly relied on customer-paid fees or service charges to replace lost airline revenues. Service fees are almost universal among ASTA (American Society of Travel Agents) agencies: 96.8% report they charge fees for at least some client services, and among those who effectively charge fees, rates continue to rise. Almost all travel agencies in the US, regardless of their size, charge service fees. And in the coming years more than a third (38.9%) of ASTA travel agencies plan to change their fees. The majority of these will increase most fees (61.1%) while a few (31%) plan to reduce them, and nearly a third (31%) will add fees for services that do not have a fee today.

For most agents, many fees are variable. For airline tickets, for example, the ASTA Agency Service Fees and Benchmarking Report states that 63% of respondents charge variable fees based on destination (domestic versus international), ticket price, number of tickets sold and the agency's relationship with the customer. Service fees range anywhere from 5 USD to 250 USD depending on the service level, and airline related services continue to top the list of services for which US agencies most often charge service fees. US agencies charge the most for trip planning and research (on average 65 USD).

US travel agencies - top 5 "charged services"

Top 5 "charged services"	Min	Max.
1. Issuing airline tickets	$ 8.00	$ 50.00
2. Airline ticket exchanges	$ 10.00	$ 100.00
3. Special coupons and promotions	$ 10.00	$ 150.00
4. Rail tickets	$ 5.00	$ 50.00
5. Frequent flyer reservations	$ 5.00	$ 250.00

Source: ASTA 2006, Agency Service Fees and Benchmarking Report.

The US experience shows that once travel agents overcame their initial hesitation to charge service fees, they quickly discovered that the implementation of service fees did not result in a loss in clients. In 2005, US travel agencies reported 90% customer retention rate.

Scandinavia leads the way in Europe

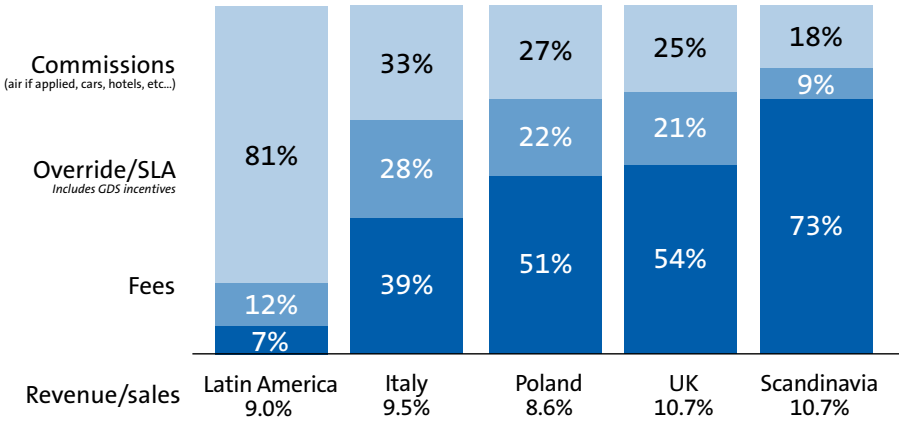
> **73%** of the Scandinavian business travel agencies' total revenue comes from service fees, and only 18% from commission.

One of the key challenges for Scandinavian travel agencies has been to maintain high net margins in spite of the reduction of their traditional revenue stream. Research conducted in 2006 by Hermes Consulting reports that in 2005 the Scandinavian travel agency market achieved the highest net margin (revenue/sales of 10.7%) compared to other European countries (see graph page 15). The main reason is the successful shift from commission to service fees, with 73% of the business travel agencies' total revenue coming from service fees, and only 18% coming from commission (cars, hotels, etc.), thus reducing the risks resulting from commission cuts. Their core reservation processes (including customer needs assessments[6], search / proposal & negotiation[7] and booking & sales[8]) represent the most significant expenses in both business and leisure travel agencies, accounting for more than 40% of their total costs. In this context, it was therefore considered better to make customers pay for these services, especially for leisure travel agencies which handle the least experienced customers and have the most complex set of products and packages.

Scandinavian countries have thus developed a very successful service-fee model and travel agents are now becoming true consultants: they apply "do-it-yourself" transactions and are destination specialists. Service-based pricing schemes are gaining notoriety and sooner or later may become universal.

In the case of business travel agencies, service fee calculations vary according to the sales channel, the type of product sold and the destination. They work with transparent service fees. As for leisure travel agencies[9], they include their service fees in the package price without detailing their services. They also often negotiate net fares with their suppliers and generate more revenue through mark-up[10] on these fares.

Revenue Sources mix for business travel agencies



Source: *Hermes Management Consulting, "Understanding travel agencies cost drivers and ways to optimise business in the Scandinavian countries", November 2006.*

The market trend clearly shows that the revenue mix for travel agencies is increasingly shifting to service fees as airlines have lowered or cut commission.
We can see that markets such as Scandinavia or the UK, which have adopted and developed service-fee policies, have the highest revenue / sales ratio.

[6] *contact and identification of customer, access/creation or modification of customer profile, understanding of customer needs, additional services offering.*

[7] *checking of availability and rates, checking of additional information, day-to-day relationship with suppliers, information to customer / revision and final proposal, additional services offering.*

[8] *generation and monitoring of reservations, client final confirmation and client payment in advance, final confirmation to suppliers and payment in advance, travel changes management, issuance and provision of pre-trip documents and information.*

[9] *Two types of leisure business models were identified: product-driven strategy focusing on stand-alone products and where fees are defined per product and, package-driven position strongly focusing on package development and customers pay an all-inclusive price for all services purchased.*

[10] *A mark-up is an additional monetary value applied to components that are purchased by the agency at pre-negotiated rates and then "re-sold" to the consumer. This business model is often referred to as the merchant model and can either incorporate the use of allotments or real-time availability (based on negotiated pre-paid rates with the provider). This practice was made popular by large online travel agencies such as Expedia and Lastminute.com. If both mark-ups and service fees allow travel agencies to sell a product at more than the cost (thus creating the margin), they differ significantly in that a mark-up is hidden from the consumer while a service fee is shown.*

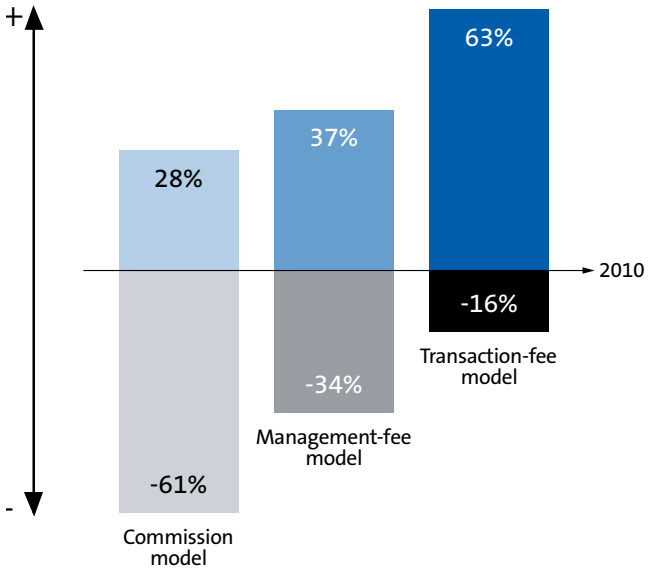
German business travel agencies: the rise of the transaction-fee model

With the introduction of zero commission by Lufthansa in 2004, German business travel agencies had to stop incentive payments to their corporate customers.
In the past they had transferred quite a high percentage of the commission they got from airlines to their customers. Now travel agents are using self-booking tools to compete with online travel agencies and to charge service fees.
A study conducted by FAZ[11] Institute in 2004 reveals that corporate customers' acceptance of online booking is increasing. Just before the shift, 49% of the biggest companies stated that they would still book via travel agencies if they decided to implement and/or raise fees; whereas 44% said that they would try to cut costs by booking through other channels.
With the reduction in commission and incentive levels, many German business travel agencies have adopted the transaction-fee model. This is more accurate than other fee models (one fee charged for each single action performed by the travel agent to achieve the booking), and the easiest to track (fees that can be easily identified thus providing more transparency).

As shown in the graph below, the transaction-fee model is expected to be the most commonly applied model in the future.
Indeed, since 2004 in Germany there has been a significant shift from commission-fee models to transaction-fee models. The commission model will progressively disappear. There will still be management fees or mixed calculation in some special cases (e.g. fees charged for a specific period: per month, per year, etc. regardless of either transaction or volume) but the model that will be widely adopted is the transaction-fee model.

The transaction-fee model provides more transparency compared with the others and allows travel agencies to charge specific fees that can be easily identified: consultancy, ticket reservation, visa services, etc. Due to the increased competition between travel agencies, they will need to be more and more transparent.
The transaction-fee model will help them manage their position on the market and offer differentiated services.
As a result, the key concerns for customers when choosing travel agencies are the fee model they apply, their professionalism and international approach.
Added to the development of service-fee schemes, many corporate customers have signed contracts with their travel agencies such as bonus-payments:
if the travel agencies are able to cut travel expenses by a significant percentage, they will pay bonuses.

Expected developments in the commision and fee models in Germany by 2010 (in % of the interviewees)



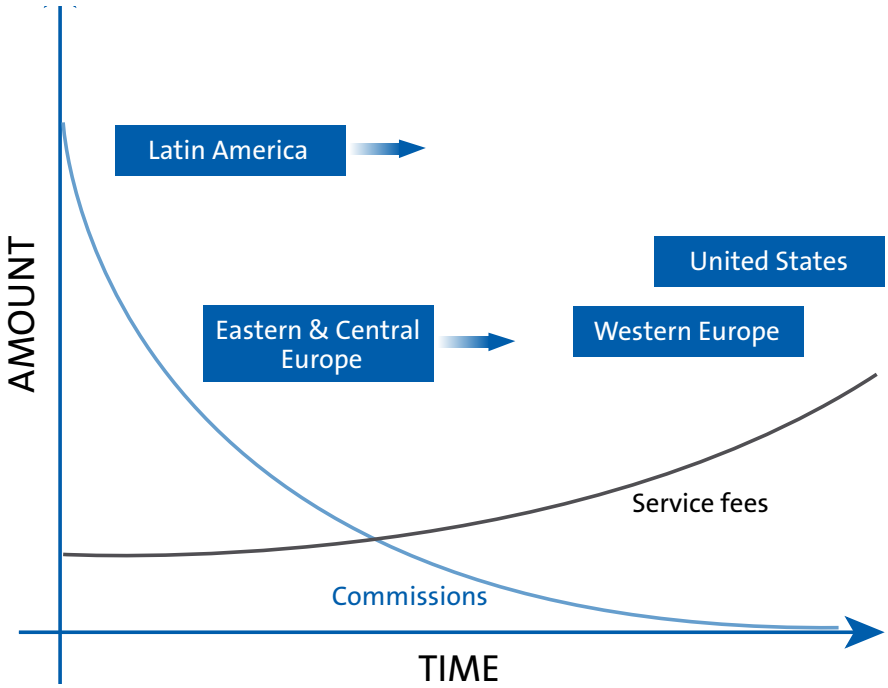
Source: *FAZ Institute - Geschaftsreisen - mit Travelmanagement erfolgreich ans Ziels, 2004.*

[11] *The FAZ Institute for Management, Market and Media information is a fully-owned subsidiary of the German newspaper: "Frankfurter Allgemeine Zeitung" GmbH*

In summary: key market trends

With a global reduction in commission, more and more travel agencies are moving towards a pricing model that will help them protect their revenues. Two widely used practices are the application of mark-ups and especially service fees.
The US and Scandinavia are far ahead in this trend and we can indeed expect other countries in Europe or Latin America to move quickly to a service-fee based model.

Zero commission market trend - service fees versus commissions



These markets should not fear changing their business model and should really understand the value of introducing service fee tools on time.
In Latin America, LAN Chile is moving this year to zero commission, and Colombian Airlines[12] is slightly reducing travel agencies' commission. Even if some airlines still pay high overcommissions[13], up to 10% to help travel agencies and allow a smooth transition, they will sooner or later stop. In this context, effective service-fee policies must be deployed. In Central and Eastern Europe, Aeroflot (Russia) has already applied zero commission, Tarom (Romania) and LOT Polish Airlines have reduced their commission to 1% and many other countries are to follow. These countries can learn from the experience of others and quickly adopt effective service-fee models.

[12] *In Colombia, a model imposed by law was adopted end of 2006 defining a mandatory service fee to prepare travel agencies to move toward zero commission.*
[13] *"Overcommission" is a mechanism by which a travel agency gets more commission if it books more than a certain number of travel components defined by contract with the provider.*

Types and level of service fees charged – international comparison

Comparative table: the US, France and Sweden (business and leisure travel agencies)

	Type of service fees	US (average)	France	Sweden
Airline related fees	**TICKET RELATED FEES**			
	> Issuing ticket	28$		
	> Price of the ticket			
	- <700€		42€	
	- 701-1200€		62€	
	- >1200€		82€	
	> Ticket change	32$	10€ to 30€	
	> Ticket cancellation		10€ to 30€	
	> Lost ticket			
	> Number of tickets sold			
	> Refund		10€	20€ to 25€
	> Class of the ticket			
	- First class			
	- Business		120€	80€
	- Economy			55€
	DESTINATION FEES			11% on ticket price or 30€
	> Domestic / short haul		19€ to 50€	
	> Regional / medium haul		30€ to 65€	
	> International / long haul		40€ to 90€	
	NO FRILLS AIRLINES	34$	10€ to 25€	50€ to 80€
	AIRLINE COMMISSION LEVEL		7% to 10% (<15€)	
	FREQUENT FLYER			
	SPECIAL COUPONS AND PROMOTIONS	38$		
Non-air related fees	**FEES ON LOW COMMISSION SALES**			
	CONSULTATION FEES			
	> Trip planning & research	65$	30€	
	> Tailor-made bookings		60€	
	> Hourly rate	48$		
	> Flat fee	78$		
	LEISURE RELATED FEES			
	> Rail tickets	25$	4€ to 20€	11€
	> Hotel booking only		8€ to 20€	
	> Car only		8€ to 20€	15€ to 20€
	> Ferry		8€ to 20€	
	> Insurance			
	> Tour Operator			Depends on commission
	MODE OF PAYMENT			
	> Credit Card		+ 3% of total	
	VISA/PASSPORT SERVICES		20€	
	QUOTATION FEES			
	> Individual		45€	
	> Groups		30€ to 115€	
	BOOKING CHANNEL			
	> Walk-in		highest	
	> Phone		moderate	
	> Internet		lowest	
	EXCEPTIONAL FEES			
	> For urgent procedure or last minute bookings D-7		15€ to 20€	
	> For not having paid in time			
	ACTIVITIES AND ENTERTAINMENT			
	> Wedding		40€	
	> Theatre ticket...			

Sources: *ASTA, 2006; Dr. Fried & Partner - "Understanding how service fee automation impacts travel agencies business", 2007.*

Serving the customer in a changed travel environment

> Communicate fees and structure fee models.

> Automate collection and calculation of fees.

> Do not be afraid to charge service fees.

> See service fees as new sources of revenue.

In today's travel industry, it is critical for travel agencies to maximise every possible revenue opportunity. However, some travel agents still do not charge, or even waive, service fees. The main reasons are: customer resistance to pay (why pay for a service which used to be free), difficulty in processing and collecting service fees (a lot of travel agencies do not have the appropriate calculation tools and often calculate fees manually), staff resistance or simply the fact that travel agents are not sure how to implement service fees.
To get around these difficulties it is important for travel agents to structure their service-fee models efficiently and define how they communicate fees to their customers. The calculation and collection of service fees are two critical processes; travel agents should avoid doing it manually and invest in service-fee management solutions to automate these processes as much as possible. Finally, they should not fear to charge customers for service fees. Indeed experience shows that it does not result in a loss of clientele and even represents new sources of revenues.

A survey by KPMG/TNS Sofres shows that in France, for example, 41% of customers are ready to pay more to benefit from their travel agencies' services.

> Travel agents can target customers with tailored services based on their past purchasing patterns, thus increasing customer loyalty and satisfaction.

Customise your service fees

Focus on customer retention. Travel agents can apply different fees depending on the type of service they want to charge for but they can also associate schemes with specific types of customers. Indeed with the development of Customer Relationship Management (CRM), travel agencies can add more value to their business: they are able to increase the number of new and repeat customers and set up e-marketing tools such as marketing campaign management, etc. This will enable them to target customers with tailored products but also with tailored services based on their past purchasing patterns, thus increasing customer loyalty and satisfaction, as well as their flexibility.

For example:

1. Travel agents can set up special fees for customers who change their reservations very frequently. After the third change, they could apply a fee of X€ per change.
2. Travel agents can charge a specific fee for loyal customers and easily cross-sell other services.
3. Thanks to CRM, travel agents can quickly find the best offer, charge less for trip research and more for other services...

Increase cross-selling and up-selling of services such as hotel rooms, car rentals, rail insurance, etc. and focus on the business segments which pay the highest commission. This is very useful for business travel agencies which need to define different categories of customers with different fees depending on their requirements, if it is a long-term relationship, number of people travelling, the period, etc.

Introduce formal training programs for staff. As customers are more and more well informed, they are looking for travel agents who know more about the travel products or packages they are looking for. Travel agents need specific training to enhance their service level quality but mainly to sell products with high margins.
It will also help them master the use of service-fee models.

Communicate fees openly to your customers

Each travel organisation is concerned about the impact of these changes on the millions of customers who rely on travel agents to help them organise their travel plans. Some customers are comfortable using the Internet or making arrangements directly with the airlines, however many continue to rely on travel agents for unbiased information and expertise. With the sale of the airline ticket, the customer is charged the retail price for the ticket and then could be charged a separate fee for the sale of the ticket. The cost of distribution is shifted to the consumer, yet the airline still charges relatively the same price for the ticket if bought direct. Price wise, the travel agent is no longer price competitive and customers are sometimes not willing to pay more for the same ticket.

When charging fees, the experience shows that travel agents should:

Be honest and inform customers up front about the charges before finalising the booking; explain the value of the service provided and why it is worth paying for it. Travel agents should also communicate on the savings their customers have realised by booking through them, thus increasing customer acceptance. In any case, as travel agents work with public net fares, they are more or less obliged to communicate on fees.

Identify the services for which customers' willingness to pay is greater: the top five being trip planning, hotel only, special coupons, cruises and frequent flyer reservations. Fees are charged for services; this means that a first class ticket to Tokyo, for example, might not generate more fees than an economy ticket. The best method is to find and sell the ticket the customer really wants to have and charge for the action of searching for it.

Set up a reliable system to measure travel agents' commitment concerning a certain service quality to be sure that they offer the best quality service to their customers and set themselves apart from the competition. Service Level Agreements[14] can help identify the service quality travel agents provide. Customer satisfaction surveys are another technique to improve customer service whilst raising service fees.

Adapt behaviour according to the type of customer such as loyal customers, expensive packages, emergency travel, bereavement, etc.

[14] ***A Service Level Agreement*** *helps measure a commitment concerning a certain service quality. E.g.: "80% of all incoming calls will be answered within 20 seconds" or "we offer you the lowest available fares on the market for the offer you were looking for", etc...*

In summary: some recommendations

Challenges and success of the Service-Fee model

Challenges to Service-fee models	Amadeus Recommendations	Expected Results
Customer resistance to pay for services	Communicate to customers up-front	Increased customer acceptance
Staff uncertainty on how to charge fees	Educate on service fee schemes and solutions	Increased knowledge of travel agents and staff
Staff resistance to charging fees	Increase transparency	Increased staff confidence
Difficulty in processing fees at the point of sale	Automate processes & customise fees	Increased revenues

Customer loyalty and satisfaction

Travel Agent value

Main Conclusions

The reduction in commission paid by airlines has prompted travel agencies to streamline their business and adapt to new business models in order to guarantee their long-term profitability. This can be accomplished by shifting their commission-revenue model to a service-fee revenue model. Indeed service fees are not only a way to compensate for the loss of airline commissions but also a way to generate new revenue sources for travel agencies. As a result, many of them are expanding their service-fee models both in terms of the amounts charged and the number of services for which they charge fees.

In this context, travel agencies should overcome their hesitation to charge service fees because the implementation of service fees does not result in a loss in clients. If their service-fee models are effectively implemented, they will be able to increase customer loyalty and satisfaction.

It is crucial to understand what trends travel agencies need to be watching to ensure that they stay ahead of the game and one step ahead of their competitors. By generating more revenue from service fees, travel agencies will reduce the risks resulting from commission cuts and anticipate a potential shift to leisure services (tours, cars, cruises, etc.). Tour operators and rail companies have already lowered travel agents' commission and are asking them to sell more of their products if they want more commission or incentives.

To be profitable, travel agencies must sell the value of their services and expertise on prices to sustain long-term relationships with their customers. This means that they have to consider the impact of new technologies and identify cost-efficient service-fee management solutions to meet their business requirements.

Finally it is important for travel agencies to:
Educate. Educate staff and travel agents thanks to formal training programs on service-fee schemes and high margin products.
Communicate. Communicate to customers up-front and inform them of the new service fee driven business models so that they will become acquainted with the facts and will be more inclined to pay.
Automate. Automate processes when charging fees to avoid errors and increase travel agents' efficiency and productivity.

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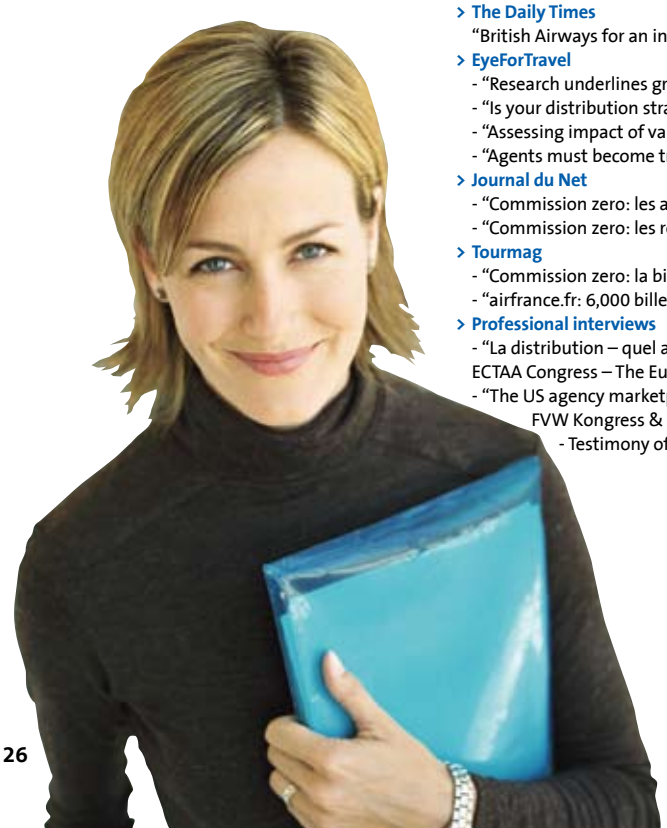

Notes

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