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Service Producer Price Index for Travel Agency Activities

ISIC 7911

NACE 79.11

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1. Preface

The Central Statistics Office (CSO) does not currently compile a Services Producer Price Index (SPPI) for the activities of Travel Agencies, NACE Rev.2 79.11 as this class lies outside the scope of the limited range of service industries as set by European regulation.

2. Definition of the service being collected

In the Statistical Classification of Economic Activities in the European Community (NACE Rev.2), class 79.11 *Activities of Travel Agencies* includes the activities of agencies primarily engaged in selling travel, tour, transportation and accommodation services on a wholesale or retail basis to the general public and commercial clients. This class is part of division 79 *Travel Agency, Tour Operator and other reservation service and related activities* within section N *Administrative and Support Service Activities*.

Travel Agencies typically have no input into organising the travel, tour, transportation and accommodation services they are selling. This distinguishes them from NACE 79.12 *Tour Operator Activities*, which is defined as 'Arranging or assembling tours that are sold by travel agencies or directly by tour operators.'

The activities of Travel Agencies have undergone huge change since the 1990's. Until then the primary source of revenue was commissions on the sale of airline tickets. In Europe this commission was typically 9 per cent of the value of the ticket¹. In 1995 7 airlines in America capped the commission paid to travel agents for their flights at 50 dollars for domestic flights. In 1998 these airlines capped commission paid for international flights at 100 dollars, in 1999 commissions were reduced to 5 per cent of the ticket price, and in 2002 they were eliminated altogether in America. In Europe a similar process began in 1997. Commissions were 9 per cent of ticket prices at that time but by 2007 only a minority of European airlines paid any commission to travel agents. For example, the Irish national carrier Aer Lingus reduced its commission to 1 per cent in 2003 and eliminated commission entirely in 2011.

The ability of airlines to reduce and/or discontinue commission payments was reinforced by their new ability to sell tickets directly over the internet. During the 1990's airlines sold less than 10 per cent of their tickets directly (e.g. by telephone or from their own shops). It is estimated that over half of airline tickets worldwide are now sold directly by airlines, with low-cost carriers selling a higher percentage directly.²

Travel agents may still receive commission for booking flights through Global Distribution Systems (GDS). GDS's are computerised reservations systems and their operators charge airlines a fee for each flight (or flight segment) booked, sometimes passing a portion of this fee to the travel agent.³

Some travel agencies have been able to compensate for the loss of revenue from charging airlines commissions by charging travellers, particularly business travellers, customer service fees for

¹ Information in this paragraph is taken from the document 'Service Fees and Commission Cuts' by the Amadeus company. See

http://www.amadeus.com/travelagencies/documents/travelagencies/White%20Paper_ForWebUse.pdf

² http://conference2013.switchfly.com/pdf/HHarteveltdt_HudsonCrossing.pdf

³ The Economist 'The ineluctable middlemen' <http://www.economist.com/node/21560866>

arranging and booking flights. Travel Agencies also charge commissions on selling package holidays or cruises. Revenue is also generated from secondary activities in respect of the provision of ancillary services such as booking of car hire and creating custom designed trips.

As in the case of airlines, some of these other sources of revenue for travel agents have also attempted to reduce the commission they pay. For example, cruise lines include non-commissionable fees (NCF) in their prices. The travel agency will only receive commission on the commissionable portion of the price.

The internet has reduced the demand for the services provided by travel agencies. The following table from the CSO's Household Travel Survey shows that in Ireland people are much more likely to book their flights and accommodation directly, rather than through a travel agent. It also shows that package holidays are still booked from a travel agent or tour operator in the majority of cases.

Table 1. Outbound travel by Irish Residents - percentage distribution of trips taken classified by Method of Booking, Quarter 3, 2013

	Package	Transport	Accommodation
Direct	26.3	84.6	57.9
Via travel agent/tour operator	72.1	6.7	9.3
No booking required/ Don't know	1.6	8.6	32.8
Total	100	100	100

Some of the accommodation classified in this table as being booked 'Direct' may have been booked through an online travel agent (OTA), which people may not think of as a travel agency at all. OTAs sometimes offer all the products that a traditional travel agency does, but a large proportion of their revenue tends to come from hotel accommodation, where commission rates are still high.

OTAs operate according to one of two models; the 'merchant model' and the 'agency model'. Under the merchant model, the OTA negotiates to buy a certain amount of the hotel's inventory. It then sells it online, typically with a 20 per cent to 30 per cent commission. The customer pays the OTA, and the OTA pays the hotel later. In the 'agency model', there is no agreement on how much inventory the OTA will sell. The OTA takes a commission on every room booked through its website. This commission is typically smaller than in the merchant model. Under the agency model, the customer has the option to pay on the OTA website or when they check in at the hotel.

There are also business enterprises that provide travel metasearch engines, enabling the customer to compare the prices being offered by the various OTAs. They earn money from the OTAs on a Cost per Click (CPC) or Cost per Action (CPA) basis.

3. Pricing unit of measure being collected

The pricing unit for most services provided by travel agencies is per booking. As previously noted per flight segment fees may also be earned in respect of GDS bookings.

4. Market conditions and constraints

The following table, taken from CSO Annual Services Inquiry data, shows that employment and turnover in Travel Agencies in Ireland is fairly evenly split between enterprises with fewer than 10 persons employed, those with 10 to 49 persons employed, and those with 50 or more persons employed.

Table 1: Number of Enterprises, Persons Employed, and Turnover (thousands) in NACE 79.11 Travel Agencies 2012, by numbers of persons employed.

Persons Employed	Enterprises	Persons Employed	Turnover (thousands)	Enterprises percentage	Persons Employed percentage	Turnover percentage
1 to 9	178	789	227,749	84%	41%	26%
10 to 49	25	583	289,572	12%	30%	33%
50 or more	7	550	353,249	4%	29%	41%
Total	210	1,922	870,570			

The total Gross Value Added (GVA), which is a measure of output less intermediate consumption, was €67 million in 2012, or 7.6 per cent of total turnover. The low GVA for this activity reflects the high cost of sales, which accounts for 88 per cent of turnover, relative to the commission and fees earned. A PPI for travel agency activities in Ireland should be weighted on the basis of GVA rather than turnover. The total Gross Operating Surplus (GVA less compensation of employees), at €8.7 million, was 1 per cent of total turnover.

The pressures on the travel agency business, together with the impact of the recession in Ireland, are evident in the table below, taken from Business Demography results. It shows that the number of persons employed in Travel Agencies in Ireland decreased by over one-third between 2006 and 2012.

Table 2. Index of Enterprises and Employees in Travel Agencies (NACE 79.11, 2006-2012), 2006 = 100

	2006	2007	2008	2009	2010	2011	2012
Active Enterprises	100.0	100.3	100.0	96.4	89.0	90.0	91.6
Employees	100.0	98.9	94.3	76.1	61.8	62.2	63.0

5. Standard classification structure and product details/levels

5.1 Industrial Classification

Ireland uses the Statistical Classification of Economic Activities in the European Community NACE Rev.2 for national purposes. Travel agency activities are classified to NACE 79.11, within division 79 *Travel agency, tour operator and other reservation service and related activities* under section N *Administrative and support service activities*.

- 79 Travel agency, tour operator and other reservation service and related activities
 - 79.1 Travel agency and tour operator activities
 - 79.11 Travel agency activities
 - 79.12 Tour operator activities
 - 79.90 Other reservation service and related activities

The above NACE Rev.2 classification corresponds exactly to the ISIC Rev.4 classification.

5.2 Product Classification

Ireland uses the EU CPA 2008 for product classification. There are 8 subcategories at CPA 8-digit level that are part of the 4-digit level 7911 *Travel agency services*. These are grouped organised under 2 categories, one each for transport and for accommodation cruises and package tours. In the case of travel agency services for transport reservations, subcategories are based on type of transport.

- 79.11.1 Travel agency services for transport reservations
 - 79.11.11 Reservation services for airlines
 - 79.11.12 Reservation services for railways
 - 79.11.13 Reservation services for buses
 - 79.11.14 Reservation services for vehicle rental
 - 79.11.19 Other travel agency services for transport reservations
- 79.11.2 Travel agency services for reservation of accommodation, cruises and package tours
 - 79.11.21 Reservation services for accommodation
 - 79.11.22 Reservation services for cruises
 - 79.11.23 Reservation services for package tours

The corresponding CPC Ver.2 classification is very similar, the difference being the inclusion of a subclass for time-share exchange services under class 8552 *Reservation services for accommodation, cruises and package tours*. Under the CPA 2008 classification, 79.90.31 *Time-share exchange services* are classified under class 79.90 *Other reservation services and related services*.

- 8551 Travel agency services for transport reservations
 - 85511 Reservation services for air transportation
 - 85512 Reservation services for rail transportation
 - 85513 Reservation services for bus transportation
 - 85514 Reservation services for vehicle rental
 - 85519 Other transportation arrangement and reservation service n.e.c.
- 8552 Reservation services for accommodation, cruises and package tours
 - 85521 Reservation services for accommodation
 - 85522 Time-share exchange services
 - 85523 Reservation services for cruises
 - 85524 Reservation services for package tours

6. Evaluation of standard vs. definition and market conditions

With some enterprises it may not be clear whether they should be classified as NACE 7911 *Travel Agency Activities* or NACE 7912 *Tour Operator Activities*. In general, tour operators will have lower

cost of sales than travel agents (because they have themselves organized at least some of the services they are selling), and so their GVA will be a higher percentage of turnover. If an enterprise classified as NACE 7911 has relatively low cost of sales and relatively high GVA, it may be a sign that it is misclassified and should be more appropriately classified as a tour operator.

7. National Accounts concepts and measurement issues related to GDP measurement

The two CSO surveys that output information from travel agencies are the Annual Services Inquiry (ASI) and the Monthly Services Inquiry (MSI). The MSI collects turnover only. The ASI collects a wide range of variables, including turnover and GVA. In both surveys the statistical unit from which the data is collected is the Enterprise. This is as required by Eurostat in the Structural Business Statistics Regulation (number 295/2008) and the Short Term Statistics regulation (number 1165/98).

The NACE Rev. 2 classification system is used in both annual and quarterly National Accounts publications. It has been used in the annual 'National Income and Expenditure (NIE)' since the 2011 release. It has been used in the Quarterly National Accounts since the quarter 1 2012 release. This replaced the previously used national classification system.

The 'National Accounts Output and Value Added by Activity' release for 2002-2009, and the release for 2010 (the most recent release) also use the NACE Rev. 2 classification system.

In Ireland, annual Gross Domestic Product (GDP) has traditionally been collected using the Income and Expenditure methods only. The expenditure method makes some use of the Annual Services Inquiry, but in the case of travel agents, because the ASI does not identify turnover/output by end user type, it cannot distinguish between the final expenditure of consumers and business expenditure.

Annual GDP has been calculated in the 'National Accounts Output and Value Added by Activity' release for 2002-2009 (released in 2012), and the release for 2010 (released 2014). These estimates of GDP using the Output Method are compiled in line with the European System of Accounts 1995 (ESA95). This is transitional work to enable the CSO to meet the requirements of the European System of Accounts 2010 (ESA2010). Calculation of GDP from the output method uses turnover and output data from the Annual Services Inquiry, among other sources.

In 2010, the Value Added at basic prices of NACE 79 *Travel Agency, Tour Operator and other reservation service and related activities* accounted for 0.16% of the total Value Added in Ireland.

Quarterly GDP is calculated using the Output and Expenditure Methods. Calculation of GDP from the output method uses turnover data from the Monthly Services Inquiry.

8. Pricing mechanisms and criteria for choosing pricing methods.

Travel Agencies typically price services on the basis of booking fees and commissions. Booking fees are charged on a "fee per transaction" or "fee per click" basis. As these fees are explicit, the direct use of price of repeated services can be employed without difficulty, with some stratification reflecting fees for different services.

Commission fees, as previously noted, are typically earned by travel agents for selling package holidays or cruises or GDS bookings. Where these fees are based on percentage rates the percentage fee method can be employed by compilers. Under this method the percentage fee and related value of the product transacted are used to estimate the price of the final service output by multiplying the percentage and the value of the good. The SPPI will therefore reflect changes in commission rates and product values. The percentage fee and the value of the product may be collected from different sources. For example, the percentage fee may be collected as part of the SPPI survey while the value of the product transacted may be collected as part of the consumer price index (CPI) price survey.

9. Evaluation of comparability of turnover data with price index practices

No producer price indices are currently produced for the activities of Travel Agencies in Ireland.

10. Summary

Travel agents account for only a small part of the Irish economy. There has been considerable change in the business in the last twenty years, with the elimination of the most reliable source of income, commission from airline tickets. The ability of consumers to book more of their travel requirements directly over the internet has also put severe pressure on the industry. Online travel agents have emerged and these service producers generate much of their revenue from providing booking services for hotel accommodation, where it is still possible to get high commission rates.

The typical pricing mechanisms employed by travel agencies, “fee per transaction” and “commission fees” should not present significant challenges to SPPI compilers.