

U.S. Producer Price Index for Travel
Agencies
NAICS 561510

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Agenda

- Definition of the service being priced
- Pricing unit of the service
- Market size
- National accounts concepts
- Pricing methods
- Quality adjustment
- Evaluation of comparability with turnover/output measures
- Summary

Definition of the Service

- Primary output is the provision of assistance with travel arrangements and bookings
- Industry activity includes:
 - The booking of flights, hotel rooms, tours, rental cars, and cruises
 - Business and leisure travel bookings
 - Traditional and online travel agency services
 - Travel management services provided to business customers

Global Distribution Systems (GDS)

- GDS are electronic systems that provide real-time links to reservation systems of multiple travel providers
- **Not** classified as travel agents in the U.S.
- GDS typically charge travel providers for each reservation delivered
- They often provide incentive fees to travel agents for using their systems

Traditional Travel Agencies

- Travel agencies that are “brick and mortar” or non-internet exclusive
- Traditional travel agencies typically:
 - Provide booking services through GDS
 - Provide customers with information and advice about their travel itineraries
 - Act as a support line if customers have problems with their bookings while travelling
 - Manage travel policies and budgets for client businesses

Online Travel Agencies (OTAs)

- OTAs provide online search and booking capabilities as well as the ability to assemble travel packages
- Services are provided under two different service delivery models
 - ▶ Agent model
 - ▶ Merchant model

OTA Agent Model

- OTA displays searchable GDS content on its website
- Bookings made on the OTA are passed through the GDS to the travel supplier
- The supplier settles transactions directly with the customer
- The OTA receives a commission from the travel supplier

OTA Merchant Model

- OTA negotiates a discounted wholesale price for a certain amount of a travel supplier's inventory
- OTA adds a markup to the booking price
- The reservation information is transmitted to the supplier
- OTA settles the transaction with the customer and is billed by the supplier at a later date

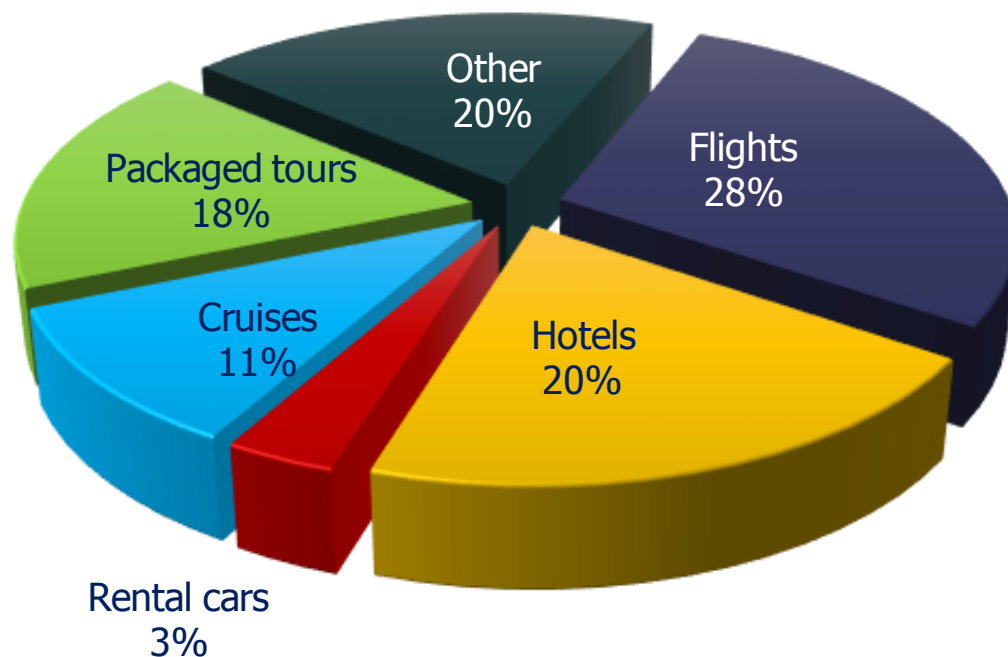
Pricing Unit of Measure

- Unit of measure is typically **per booking**
- For high-end leisure travel consultation services, a **per hour** or **per visit** fee may be charged
- Travel agencies may receive a **per booking** or **per segment** incentive fee for making reservations through a particular GDS

Market Size

- U.S. industry turnover - \$17.3 billion in 2007
- Top 4 firms account for ~75% of turnover

**Share of U.S. Travel Agent Turnover
by Type of Booking**



National Accounts Concepts

- U.S. GDP by industry and input-output data are published for NAICS 5615, including:
 - ▶ Travel Agencies
 - ▶ Tour Operators
 - ▶ Convention & Visitors Centers
 - ▶ All Other Travel Arrangement & Reservation Services
- PPI is used as deflator for Travel Agencies
- Travel agencies are also included in Travel & Tourism Satellite Account

Pricing Methods

- Booking fees
- Commissions
- Overrides
- Margin prices (OTA merchant model)
- Other fees

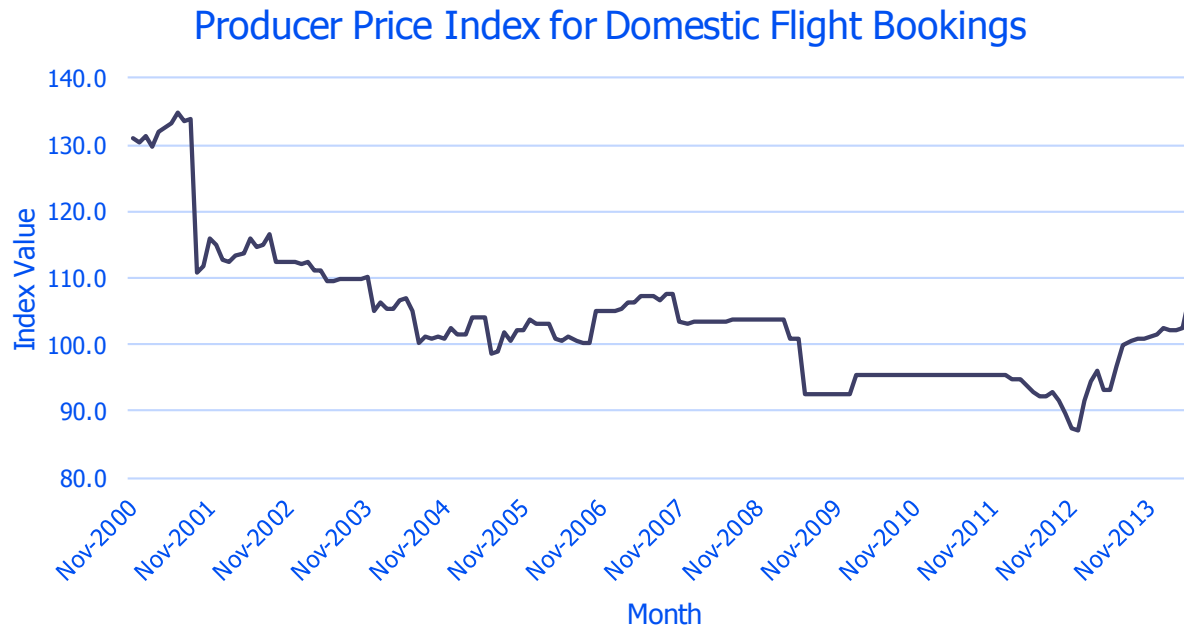
Booking fees

- Preferred price - unit value
 - ▶ Specified type of travel
 - ▶ Specified type of booking
- Fallback – direct prices for repeated services

Service	Fee per Transaction
Air – Full Service Domestic	\$30.00
Air – Full Service International	\$40.00
Air – Online with Technical Assistance Domestic	\$20.00
Air – Online with Technical Assistance International	\$30.00
Air - Online without Technical Assistance Domestic	\$8.00
Air - Online without Technical Assistance Intl	\$8.00
Hotel Only Reservations - Full Service	\$7.00
Hotel Only Reservations - Online	\$4.00
Car Only Reservations - Full Service	\$7.00
Car Only Reservations - Online	\$4.00

Booking fees

- In 2001, airlines moved from offering travel agents commissions to booking fees
- Travel agents similarly moved to charging booking fees for these transaction



Commissions

- Model price used for all commissions
 - ▶ Typical booking for particular travel service is selected in initiation period
 - ▶ Commission-earning base price and commission rate are recorded
 - ▶ In subsequent periods, respondent estimates the commission rate that would be charged for similar booking
 - ▶ The commission-earning base price is escalated using the PPI for the appropriate travel service

Commissions

- Why escalate the commission-earning base prices?
 - ▶ Directly reported prices for booked travel highly variable as agencies provide different bookings each month
 - ▶ Uses a statistically selected broad representation of each of the different types of travel providers
 - ▶ Based on principle that travel agency services vary based on differences in the type of travel booked
 - For example, higher level service associated with booking luxury hotel vs. limited service hotel

Commissions

Booking for Saturday night stay at Full Service Hotel X in City Y

	September 2014	October 2014
% change in PPI for full service hotels (1 month lagged)		1%
Room rate	\$200	\$202
Commission rate	10%	<u>10%</u>
Commission fee	\$20.00	\$20.02

Respondent updates the commission rate only

Overrides

- Commissions paid to travel agents by travel suppliers, not travelers
- Typically paid based on generating a specified value of gross bookings for a supplier in a specified period
- Priced with model price approach and escalations, similar to other commissions

Overrides

Monthly override for bookings on Airline X

	September 2014	October 2014
% change in PPI for airlines (1 month lagged)		2%
Value of gross bookings	\$800,000	\$816,000
Required minimum for override	\$500,000	<u>\$525,000</u>
Override-eligible value of bookings	\$300,000	\$291,000
Override commission rate	5%	<u>5%</u>
Total override fee	\$15,000	\$14,550

**Respondent updates the required
minimum and commission rate only**

Margin prices

- Charged by OTAs on merchant model transactions
 - ▶ Typically, but not only, used for “name your price” and other opaque brand bookings
- Preferred price – unit value
- Total turnover earned from margins for specified type of booking divided by total number of these bookings made

Margin prices

- Unit values for specified type of booking
 - ▶ Hotels
 - Star rating
 - Geographic area
 - ▶ Air transportation
 - Origin & destination
 - Class of travel
 - ▶ Car rentals
 - Location of pickup and drop-off
 - Type of car
 - Duration of rental

Other fees

- Hourly fees for consultation services
- Flat fees for travel management reports generated for corporate travel clients
- Incentive fees paid by GDS to travel agents, typically per travel segment or per booking
- Direct prices of repeated services used for all of these transactions

Quality Adjustment

- Quality adjustments are rarely applied for travel agency services
- Would be applied if nature of booking service changes
 - ▶ For example, corporate travel agency reservation desk availability changes from 24 hours a day, 7 days a week to weekdays 8AM – 5PM
- Since commissions are escalated by PPIs for travel services, quality adjustments for those indexes impact travel agencies as well

Evaluation of Comparability With Turnover/Output Measures

- Every five years, the U.S. Census Bureau calculates and publishes turnover data for the travel agencies industry in the Economic Census
- The Census Bureau also publishes quarterly turnover data for the travel agencies industry
- The concept of output for the travel agencies sector is harmonious between the U.S. PPI, Census Bureau, and Bureau of Economic Analysis

Summary

- OTAs have become very significant players in travel agency space, introducing new merchant model transactions with margin prices
- Booking fees have become common for air transportation bookings
- Commission prices in the U.S. reflect both commission rates and the value of booked travel, which is escalated by PPIs for travel services

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