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

Andrew Baer
Chief, Services Section
Division of Industrial Prices & Price Indexes
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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
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

- Flights 28%
- Hotels 20%
- Packaged tours 18%
- Cruises 11%
- Rental cars 3%
- Other 20%
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

<table>
<thead>
<tr>
<th>Service</th>
<th>Fee per Transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air – Full Service Domestic</td>
<td>$30.00</td>
</tr>
<tr>
<td>Air – Full Service International</td>
<td>$40.00</td>
</tr>
<tr>
<td>Air – Online with Technical Assistance</td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>$20.00</td>
</tr>
<tr>
<td>International</td>
<td>$30.00</td>
</tr>
<tr>
<td>Air - Online without Technical Assistance</td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>$8.00</td>
</tr>
<tr>
<td>Air - Online without Technical Assistance</td>
<td></td>
</tr>
<tr>
<td>Intl</td>
<td>$8.00</td>
</tr>
<tr>
<td>Hotel Only Reservations - Full Service</td>
<td>$7.00</td>
</tr>
<tr>
<td>Hotel Only Reservations - Online</td>
<td>$4.00</td>
</tr>
<tr>
<td>Car Only Reservations - Full Service</td>
<td>$7.00</td>
</tr>
<tr>
<td>Car Only Reservations - Online</td>
<td>$4.00</td>
</tr>
</tbody>
</table>
Booking fees

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

Producer Price Index for Domestic Flight Bookings

Index Value

Month

Index Value

Nov 2000 - Nov 2013
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

<table>
<thead>
<tr>
<th></th>
<th>September 2014</th>
<th>October 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>% change in PPI for full service hotels (1 month lagged)</td>
<td></td>
<td>1%</td>
</tr>
<tr>
<td>Room rate</td>
<td>$200</td>
<td>$202</td>
</tr>
<tr>
<td>Commission rate</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Commission fee</td>
<td>$20.00</td>
<td>$20.02</td>
</tr>
</tbody>
</table>

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

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

**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
Contact Information

Andrew Baer
Producer Price Index Program
baer.andrew@bls.gov
(202) 691-7692
www.bls.gov/ppi