TRAVEL AGENCY ACTIVITIES (ISIC/NACE 7911) SECTOR PAPER

Written by Susanne Lorenz, FSO Germany

30th Voorburg Group Meeting, Sydney, Australia
Overview

- Introduction
- Status
- Classifications – Industry and Product
- Turnover Statistics
- SPPIs
- Treatment in the National Accounts
- Summary of Main Issues
Introduction

- Travel agency sector presents several features:
  - selling of travel, tour, transportation and accommodation services
  - to the general public and commercial clients
- The paper summarizes experience of Australia, Ireland, Japan, Mexico and the US
- The paper provides the best practices based on those experiences
- The best method for each country will be influenced by market conditions, data availability, and resources in each country
### Status: Results of 26 VG-members in 2014

<table>
<thead>
<tr>
<th>Number of countries having:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a. PPI details ≥ CPC</td>
<td>2</td>
</tr>
<tr>
<td>b. PPI details ≥ CPC soon</td>
<td>0</td>
</tr>
<tr>
<td>c. Turnover details ≥ CPC</td>
<td>5</td>
</tr>
<tr>
<td>d. Turnover details ≥ CPC soon</td>
<td>0</td>
</tr>
<tr>
<td>e. Industry prices calculated</td>
<td>2</td>
</tr>
<tr>
<td>f. Industry turnover collected</td>
<td>22</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ratings of</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Detailed turnover and prices well aligned</td>
<td>1</td>
</tr>
<tr>
<td>2. Detailed turnover and prices well aligned soon</td>
<td>0</td>
</tr>
<tr>
<td>3. Industry-level turnover and prices aligned</td>
<td>1</td>
</tr>
<tr>
<td>4. Industry-level turnover and prices aligned soon</td>
<td>2</td>
</tr>
<tr>
<td>5. Other-no industry coverage for prices and/or turnover</td>
<td>22</td>
</tr>
</tbody>
</table>
## Industry classifications

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative and Support Services</td>
<td>N</td>
<td>56</td>
<td>✓</td>
<td>Living-Related + Personal S.</td>
</tr>
<tr>
<td>Travel Agency and Tour Operator Activit.</td>
<td>791</td>
<td>5615</td>
<td>722</td>
<td>✓</td>
</tr>
<tr>
<td>Travel Agency Activit.</td>
<td>7911</td>
<td>56151</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tour Operators Activit.</td>
<td>7912</td>
<td>56152</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>7220 Travel Agency and Tour Arrangement Services</td>
<td>7912</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7911</td>
</tr>
</tbody>
</table>
## Industry vs. product classifications

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NACE (Rev 2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7911 Travel agency activities</td>
<td>7911.11</td>
<td>855.11 Reservation services for airlines</td>
</tr>
<tr>
<td></td>
<td>7911.21</td>
<td>855.21 ... for accommodation</td>
</tr>
<tr>
<td></td>
<td>7911.22</td>
<td>855.23 ... for cruises</td>
</tr>
<tr>
<td></td>
<td>7911.23</td>
<td>855.24 ... for package holidays</td>
</tr>
<tr>
<td>7990 Other reservation services and related activities</td>
<td>7911.12</td>
<td>855.12 ... for railways</td>
</tr>
<tr>
<td></td>
<td>7911.13</td>
<td>855.13 ... for buses</td>
</tr>
<tr>
<td></td>
<td>7911.14</td>
<td>855.14 ... for vehicle rental</td>
</tr>
<tr>
<td></td>
<td>7911.19</td>
<td>855.19 ... for other transport.</td>
</tr>
<tr>
<td></td>
<td>7911.21</td>
<td>855.21 ... for accommodation</td>
</tr>
<tr>
<td></td>
<td>7990.31</td>
<td>855.22 Time-share exchange services</td>
</tr>
</tbody>
</table>
Turnover statistics

- **Data availability**
  - 22 countries compile turnover data,
  - 5 countries at product level

- **Collection of data**
  - **Annual surveys**
    - turnover and additional data (employment, expenses, cost of purchased goods etc.);
    - Mixture of census and sample
  - **Sub-annual surveys**
    - Limited to turnover and employment
    - Usually sample based
  - **5-year-economic census**
    - Information on products
Turnover statistics

- Data issues
  - Industry classification clearly
    - 7911: “service” of travel agents
    - 7912: “product” of tour operators
    - 7990: “other reservation services”
  - Output of travel agencies = net approach, e.g. booking fee, commission
  - changing sales channels: Travel agents (TAs) – Online travel agents (OTAs)
  - potentially misclassification of OTAs into web-portals
## Turnover statistics – Options

<table>
<thead>
<tr>
<th>Data Source</th>
<th>Level of Detail collected</th>
<th>Frequency / Comments</th>
</tr>
</thead>
</table>
| Survey / Census | Industry turnover and product turnover detail | Annual (product turnover detail) and/or sub-annual  
*Due to the variety of services it must be considered carefully what is to be collected* |
| Survey / Census (in combination with administrative data) | Industry detail only | Annual and/or sub-annual  
*Industry detail may not be sufficient to identify important products* |
| Administrative data (e.g. tax data) | Industry detail only | Annual or sub-annual  
*Suitability for turnover measurement must be checked carefully* |
SPPIs

- Data availability

Experience with SPPI for travel agencies:

- Mini-presentations from
  - U.S. → calculates and publishes an SPPI
  - Australia → SPPI under construction
  - Ireland → researched the sector in detail

- Discussions from the 29th Voorburg Group meeting
SPPIs

- Source of SPPI data

  - CPIs do not meet the needs for measuring prices for the service of travel agencies

- Price collection:

  - Directly from travel agencies
  - Consolidated price information for all of company’s local operations at the headquarters
SPPIs – Reimbursement Model

Abbr.: Service Provider e.g. airlines, hotels
GDS = Global Distribution System
TA = Travel Agency
OTA = Online Travel Agency (simplified view: OTAs have to pay the subscription fee to the Internet booking engine)
SPPIs

- Target coverage

- Services offered by
  - Traditional travel agencies (TA)
  - Online travel agencies (OTA)

- Output provision of assistance with travel arrangements and bookings:
  - Service fees: e.g. for sale of flight tickets
  - Commissions: e.g. for sale of package tours
    - Agent model
    - incl. overrides
    - Merchant model
  - Other fees: e.g. for travel management services to business customers
SPPIs

- Pricing methods used
  - Service fees (Booking fees/handling fees)
    - Direct use of prices of repeated services
  - Commissions
    - Agent model
      - Model pricing (U.S.) → incl. overrides
      - Percentage fee (Ireland)
      - Margin prices (Australia)
    - Merchant model – mostly OTAs
      - Unit value (U.S.)
  - Other fees
    - Hourly rates, fee per booking, per transaction (U.S.)
    - Component pricing (Australia)
SPPIs

- Weights
  - Turnover data by products → 5-year-economic census (U.S.)
  - Weights on the basis of gross value added (GVA)

Some data from Ireland for 2012, NACE 7911 travel agencies:

- GVA 7.6 % of total turnover
- Cost of sale 88.0 % of total turnover
SPPIs

- Main issues in price measurement
- Commissioning is complex depending on the service provider
- OTA can act both as agent and as merchant
- Percentage fee/margin: How to adjust the value of the product transacted?
- Challenge to collect actual and useful data
- Quality adjustments are rarely applied
- Different pricing methods used
Developing SPPI – Options

<table>
<thead>
<tr>
<th>Pricing method</th>
<th>Data type in survey</th>
<th>Quality and Accuracy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prices of repeated services</td>
<td>real transaction prices for • service fees • fees per transaction • commissions as flat rates</td>
<td>only suit the billing method of some types of travel services</td>
</tr>
<tr>
<td>Percentage fee/margin prices</td>
<td>real transaction prices for • commissions as percentage • margins as ratio between selling and acquisitions prices</td>
<td>type of travel service being booked must be sufficiently homogeneous</td>
</tr>
<tr>
<td>Unit value</td>
<td>real transaction prices based on the type of travel service being booked</td>
<td>• type of travel service must be sufficiently homogeneous • data are often lagged by one period</td>
</tr>
<tr>
<td>Component prices</td>
<td>real transaction prices for travel management services</td>
<td>representativeness should be observed regularly</td>
</tr>
<tr>
<td>Model pricing</td>
<td>Expert estimates for commissions overrides</td>
<td>detailed specifications allow time-consistent comparisons</td>
</tr>
</tbody>
</table>
Treatment in the NA

- System of NA provides only general guidance
  - Output = fee/commission, not the full expenditure

- German practice:
  - Database = yearly structural business statistics (SBS)
  - Output / intermediate consumption reduced by “goods of resale”
    - Not much information about share for “goods of resale”
    - Expert estimation

- Deflator for sector travel agencies:
  - SPPI for travel agencies
  - or index who reflect the price changes of the intermediation
Summary of main issues

- Growing number of OTAs
- Net approach
- Mix of agent and merchant model
- Availability of the observed price
- Measurement of the related value of the product transacted
Questions?

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