

PhoCusWright's

# TRAVEL AGENCY DISTRIBUTION LANDSCAPE: KEY TERMS AND DEFINITIONS



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By Douglas Quinby



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# PhoCusWright's Travel Agency Distribution Landscape: 2006-2009

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### Travel Agency Distribution Landscape: 2006-2009

Contents		Table Listings	
Section One <b>Introduction &amp; Executive Summary</b>	1.1	<b>Table 3.1</b>	3.2
		ARC Reported Travel Agency Retail Locations, 1995-2007	
Section Two <b>Research Methods &amp; Terminology</b>	2.1	<b>Table 3.2</b>	3.3
		U.S. Online Travel Agencies and Total U.S. Online Travel Market, Leisure and Unmanaged Business Travel, Gross Bookings, 1999-2007	
Section Three <b>Travel Agency Market Overview</b>	3.1	<b>Table 3.3</b>	3.3
		Online Travelers Who Usually Book Via Travel Agency, 2000-2005	
Section Four <b>Bricks &amp; Mortar: Travel Agencies</b>	4.1	<b>Table 3.4</b>	3.6
		Three Categories of Travel Agency Population, Gross Sales Volume, and Share of All Agency Sales, 2006	
Section Five <b>Home-Based Agents</b>	5.1	<b>Table 3.5</b>	3.6
		Home-Based Travel Agent Segments	
Section Six <b>Market Outlook: Key Trends</b>	6.1	<b>Table 3.6</b>	3.7
		Market Share and Gross Travel Sales Volume by Agency Segment, 2006	
		<b>Table 3.7</b>	3.7
		Total Travel Market and Agency Share, 2006-2009	
		<b>Table 3.8</b>	3.8
		Comparative Product Composition of the Total Travel Agency Market, 2006 and Projected 2009	
		<b>Table 3.9</b>	3.9
		Total U.S. Market and Travel Agency Share for Air, Hotel and Rental Car, 2006 and Projected 2009	
		<b>Table 3.10</b>	3.9
		Travel Agency Share of Each Product Segment, 2006	
		<b>Table 3.11</b>	3.10
		U.S. Total Market and Travel Agency Share for Packaged Travel and Cruise, 2006-2009	
		<b>Table 3.12</b>	3.11
		Travel Agent Booking Method, 2006 and Projected 2009	
		<b>Table 3.13</b>	3.12
		Travel Agent Bookings by Channel for Air, Hotel, Package and Cruise, 2006 and Projected 2009	
		<b>Table 4.1</b>	4.2
		Total Travel Agency Locations, ARC and Non-ARC, 2006	
		<b>Table 4.2</b>	4.2
		Travel Agency Sales Volume Distribution	
		<b>Table 4.3</b>	4.3
		Travel Agency Organization Participation	
		<b>Table 4.4</b>	4.5
		Business Mix as a Percentage (Mean) of Booking Volume, All Travel Agencies	
		<b>Table 4.5</b>	4.5
		Percentage (Mean) of Product Booked by Leisure and Corporate Agencies	
		<b>Table 4.6</b>	4.6
		Leisure vs. Corporate: A Different Breed Indeed	
		<b>Table 4.7</b>	4.8
		Usual Booking Channel for Air and Hotel, Leisure vs. Corporate Agencies	
		<b>Table 4.8</b>	4.9
		Travel Agent Packaged Travel Sales by Booking Channel and Packaged Travel Type, 2006	
		<b>Table 4.9</b>	4.10
		Agent Use of Booking Channels for Cruise, 2006	
		<b>Table 5.1</b>	5.1
		Home-Based Agent Share of Travel Agent Population and Sales Volume, 2006	
		<b>Table 5.2</b>	5.2
		Home-Based Agent Working Profile and Sales Volume	
		<b>Table 5.3</b>	5.2
		Share of Home-Based Agent Sales Volume by Travel Product Type	
		<b>Table 5.4</b>	5.3
		Home-Based Agents' Usual Booking Channel by Product Category	
		<b>Table 5.5</b>	5.4
		Home-Based Agent Population by Home-Based Agent Type	
		<b>Table 5.6</b>	5.5
		Share of Home-Based Agent Population and Sales Volume, by Agent Type	
		<b>Table 5.7</b>	5.6
		Home-Based Agent Working Profile by Agent Type	
		<b>Table 6.1</b>	6.2
		Gross Bookings by Online Travel Agencies and Traditional Travel Agencies, 2006 and Projected 2009	
		<b>Table 6.2</b>	6.4
		Sources of Revenue by Travel Agency Type	
		<b>Table 6.3</b>	6.5
		Profitability vs. Two Years Ago by Travel Agency Type	
		<b>Table 6.4</b>	6.6
		Age Distribution of Travel Agents vs. the U.S. Population of Adults Over 25	
		<b>Table 6.5</b>	6.7
		Age Distribution of Travel Agents by Leisure, Corporate and Home-Based Agents	
		<b>Table 6.6</b>	6.7
		Years of Experience: Office-Based Travel Agents and Home-Based Agents by Type	

## Section One

# Introduction

PhoCusWright has been tracking the online travel industry since 1998, providing rigorous market sizing and forecasting, company performance assessment and analysis of consumer shopping trends in the North American, European and Asia Pacific markets.

For more than 10 years, PhoCusWright has been a rigorous student and relentless enthusiast of the Internet and its impact on travel distribution. That impact has been nothing less than spectacular, overturning established conventions of travel distribution as online travel sales of leisure and unmanaged business travel in the U.S. surged from just \$6.5 billion in 1999<sup>1</sup> to more than \$94 billion in 2007.<sup>2</sup> The Internet is no longer an emerging channel, but a major – and in many cases primary – channel in any travel company's sales and marketing strategy, and the first place many travelers start when they are planning their next trip.<sup>3</sup>

As the online channel matures, its growth has also slowed. While more travel continues to be booked online, there remains a significant portion of travel that is purchased offline. Indeed, travelers continue to purchase a substantial portion of corporate travel as well as tours, packages, cruise and other specialty and complex leisure travel through offline channels, principally via traditional retail travel agencies.

In 2007, PhoCusWright undertook a comprehensive study of the travel agency marketplace in the U.S., conducting both a market sizing exercise and travel agency survey. The purpose was to acquire a rich and complete picture of the total market size and opportunity, as well as to identify the key trends and dynamics shaping this important distribution channel. This report, *PhoCusWright's Travel Agency Distribution Landscape 2006-2009*, presents select results from this research.

<sup>1</sup> PhoCusWright's *The Online Travel Marketplace 2001–2003*

<sup>2</sup> PhoCusWright's *Online Travel Overview Seventh Edition*

<sup>3</sup> For 2007, 79% of online travelers (adults who took a flight, stayed in a hotel and used the Internet in the past month) usually shop for travel online (*The PhoCusWright Consumer Travel Trends Survey Tenth Edition*).

## Research Objectives

PhoCusWright undertook a comprehensive study of the travel agency distribution landscape to assess the size of the total agency market, identify key developments and project future trends. The objectives of the study were as follows:

1. Profile and size the U.S. agency community
  - How many travel agencies and agents are there?
  - What is the profile of the agency community in terms of
    - Business mix (leisure vs. corporate travel focus)
    - Affiliations with agency organizations such as franchises, consortia and host agencies
2. Profile and size the home-based agent community
  - How many are there and how much travel do they sell?
3. Size the U.S. travel agency marketplace in terms of gross bookings (US\$)
  - How much travel as a percent of the total U.S. market do travel agents sell?
  - What is travel agents' share of the major travel product segments (air, hotel, car, tour, cruise and rail) and how is this trending?
4. Understand agencies' product mix
  - What are agents booking and why?
  - How does this vary by different types of travel agencies (e.g., leisure vs. corporate)?

5. Understand how travel agents research and book travel
  - What technologies and tools are they using, and what prompts channel choice when booking one product or another?
6. Assess the overall business conditions of the travel agency environment
  - What are the key opportunities and challenges facing this channel?

The study was conducted in the second half of 2007 and consisted of two concurrent phases:

1. Market Sizing: In-depth interviews or acquired data from more than 60 travel suppliers, technology companies, travel agencies, travel agency organizations and industry associations representing the full spectrum of the travel agency landscape in the U.S. PhoCusWright used this data to develop market size estimates, acquire supply-side perspective and generate trend analysis.
2. Travel Agency Survey: Nationwide survey of travel agents to acquire agent and agency profile information, sales volume and business mix, and product research and booking behavior.

## Travel Agents Today: Key Terms and Definitions

Providing a complete picture of the entire travel agency landscape in the U.S. is a daunting task complicated by substantial overlap across agency segments. The growth of host agencies and non-ARC accredited agencies, for example, has only complicated an already diverse, highly fragmented marketplace that is constantly in flux.

Listed below are some key areas where travel agencies and other business models in the travel industry are blurring:

- Groups and event planner, or agency focusing on group travel? A lot of group and event planners purchase travel as a travel agency, while many travel agencies specialize in the groups market.
- Travel agency, wholesaler, tour operator? Some leisure agencies behave like wholesalers or tour operators, acquiring inventory through group blocks or net rates, creating their own packages and tours and frequently traveling with their group of clients.
- Online travel agency, or agency that sells online? A number of traditional travel agencies offer online booking to their clients; a smaller number generate a significant portion of their sales online.
- Leisure or corporate? In many cases the distinction is quite clear: An agency is overwhelmingly focused on the leisure or managed corporate market. There are, however, a significant number that fall in between.

- Consortia, franchise, host agency, or all of the above? These travel agency organizing entities may provide varying degrees of services such as access to higher supplier commission rates, technology and fulfillment services, marketing and branding, and accreditation. There is also a significant amount of overlap in services. To make matters even more interesting, it is not uncommon for host agencies to belong to consortia, or for travel agencies to belong to multiple organizations.

When conducting research to organize, describe and analyze a marketplace, such complexities create challenges – and sometimes controversy. This report, however, must and does draw lines in the sand and offers definitions for some of these complex terms and issues after thorough study and in consultation with our partners on this research. PhoCusWright acknowledges that there may be varying degrees of overlap across these terms and categories.

### 1. Travel Agency Types

- Travel agency: A retail storefront or office-based travel agency business. PhoCusWright uses this term to the exclusion of online travel agencies. Where market sizing and other data are presented in this report, this excludes the online travel agency segment, unless specifically indicated otherwise.

There are also several sub-categories of travel agencies:

- Leisure agencies: PhoCusWright defines a leisure agency as agencies that predominantly sell leisure travel (At least 70% of sales volume is leisure.)

A further sub-segment of leisure agencies is cruise-only – agencies that focus exclusively (or nearly so) on cruise sales.

- **Corporate agencies:** Agencies that predominantly service corporations for their business travel needs (At least 60% of sales volume is managed corporate travel.)
- **General purpose agency:** Agencies that sell a more balanced mix of leisure and business travel (leisure volume <70%, corporate volume <60%, unmanaged business travel 0-100%).
- **Home-based agency:** See Home-Based Agent Types, on this page.
- **Host agency:** Agencies that provide host services (e.g., technology, fulfillment) to other travel agencies or home-based agents. See Travel Agency Organizations, on page 2.6.
- **Travel management company (TMC):** Travel agencies that provide management and consulting services for corporate travel programs, which may include contract management and procurement, expense reporting, program development and oversight, as well as more conventional travel agency services such as booking and fulfillment of travel. All TMCs are considered corporate agencies, but not all corporate agencies are necessarily TMCs.
- **Online travel agency:** This is an entity whose branding is oriented online and that principally conducts business online. PhoCusWright tracks this segment in its annual *Online Travel*

*Overview.* The four largest online travel agency entities – Expedia, Inc., Orbitz, Priceline and Travelocity – and their respective portfolio of travel sites represented some 96% of all online travel agency sales in 2007.<sup>5</sup>

## 2. Home-Based Agent Types

Home-based travel agent: A travel agent who works from home full- or part-time, and whose income from his or her occupation provides at least meaningful secondary or extra income to the household. There are three types of home-based agents:

- Agency-affiliated home-based agent: A home-based agent who works primarily through a host agency or travel agency as an independent contractor. Home-based agency employees (though these are rare) also belong to this category.
  - “Outside Sales Agent” and “Independent Contractor” are two commonly used terms to describe travel agents who work through another travel agency. It is also not uncommon for independent contractors to work either full- or part-time in an agency office and give the appearance of being an employee, although they report their income for tax purposes as a 1099 rather than as a W-2.
- Home-based independent: A home-based agent who describes him- or herself as running his or her own independent business with no agency or host agency affiliations.<sup>6</sup>

<sup>5</sup> PhoCusWright's Online Travel Overview Seventh Edition

<sup>6</sup> A minority percentage of self-described home-based independents may use host agency services.

- Home-based hobbyist: Potentially the largest segment in terms of population, this refers to home-based agents and members of host agency organizations who do not produce significant volume. They may approach their agency membership more as a hobby than as a trade or even part-time job, and may be motivated by travel discounts and other benefits, rather than being professionally engaged in marketing and selling travel.

### 3. Agency Organizations

- Consortia: Marketing organization for travel agencies that provides preferred supplier commission rates, access to discounted business services, marketing support and, in some cases, technology and booking tools.

Examples: ABC Corporate Services, Ensemble, Hickory, Radius, Travelsavers, Vacation.com, Virtuoso

- Franchise: A travel agency business service that provides branding affiliation, marketing support, preferred supplier commission rates, technology, business services and infrastructure.

Examples: American Express, Carlson Wagonlit Travel Associates, Cruise One, Cruise Planners, Results!, Uniglobe

- Host Agency – A travel agency that provides infrastructure services that usually include technology, ticketing and fulfillment, and may provide preferred supplier commission rates and marketing support.

Examples: America's Vacation Center, Corporate Travel Planners, Cruise

Brothers, CruiseShipCenters, Global Travel International, Nexion, Joystar

### 4. Travel Type

- Leisure: Pleasure (vacation) and personal travel (e.g., visiting friends and family).
- Corporate (also referred to as managed travel): Refers to all air, car and hotel expenses made by corporations where purchases are governed by a formal travel policy. A travel policy can refer to a preferred travel management company, supplier, online booking tool, negotiated rates and/or booking channel. Managed travel also includes rogue (i.e., out-of-policy) purchases that are captured as part of a company's corporate travel budget.
- Unmanaged business travel: All air, car and hotel expenses associated with business travel in firms that do not have a travel policy dictating the channel, type of travel, supplier or fare/rate used.

### 5. Packaged Travel

- Package, packaged travel, and tour: The terms "package," "packaged travel" and "tour" in a general context refer to the totality of the tour operator industry, where tour companies bundle multiple travel components (e.g., air, lodging, transfers, car rental, activities, travel insurance, day tours) into packages or tours and sell as a single product.
- Package vs. escorted tour: In this more specific context, a "package" refers to

a conventional tour operator vacation package, which may include some or all of the following: flight, accommodation, rental car or transfer, day tours or activities and travel insurance. Providers include AA Vacations, Apple Vacations, Funjet Vacations, GoGo Worldwide Vacations, MLT Vacations, Pleasant Hawaiian and Southwest Vacations. By comparison, an “escorted tour” generally refers to a fully escorted tour (i.e., by a tour guide) as well as specialty programs that usually include more components and complexity than “packages” and often have fixed departure dates. Providers include Abercrombie & Kent, Globus & Cosmos, Grand Circle Travel, the U.S. brands of TUI Travel, brands of The Travel Corporation (AAT Kings, Contiki Holidays, Insight Vacations and Trafalgar) and others.

- **FIT:** An acronym that stands for “foreign independent travel,” “flexible itinerary travel” or alternative variants of those words. FIT refers to travelers (or travel agents) assembling their own complex, multi-component travel itineraries on their own from multiple providers. Many tour operators have supported the growing demand for this type of product by introducing “independent” or FIT product lines.

## 6. Travel Agency Terminology

- **Commission:** Percentage of a sale that a supplier pays to a travel agency. With few exceptions, airlines have eliminated commissions in the U.S. market. Some hotels and car rental companies have reduced or capped commissions. Cruise lines and tour operators continue to pay

commission, generally starting at 10% and increasing through preferred supplier relationships and agency production (sales) levels.

- **Noncommissionable fares:** Components of a cruise (more commonly) or package that are priced for the traveler but on which the supplier does not pay commission, such as taxes, fees, as well as some add-on components. Recently, several cruise lines have ceased paying commission on air when agents book air through a cruise line.
- **Override:** Bonus commission that may be retroactively applied to a travel agency or agency organization if the agency achieves a volume level by the end of the year (or other time frame).
- **Preferred supplier:** A relationship between an agency or agency organization (consortia, franchise, host) and supplier where the supplier agrees to pay an above-market commission rate in return for the agency selling more of that supplier’s product (and typically less of a competitor’s).



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