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# Airline Deregulation, Computerized Reservation Systems, and Travel Agents

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# Airline Deregulation, Computerized Reservation Systems, and Travel Agents

**Abstract**
With the beginning of airline deregulations in 1978, U.S. domestic operations were in for a period of turmoil, adjustment, vibrancy, entrepreneurship, and change. A great deal has been written about the effects of deregulation on airlines and their personnel, and on the public at large. Less attention has been paid to the effects on travel agents and on the seminal role of computerized reservations systems (CRSs) in the flowering of travel agencies. This article examines both of these phenomena.

**Keywords**
J. A. F. Nicholls, Airline Deregulation, Computerized Reservation Systems, And Travel Agents, Airline computer reservation system (CRS), Civil Aeronautics Board (CAB), Air Transport Association (ATA), Airline Reporting Corporation (ARC), Department of Justice (DOJ), FIU

# Airline Deregulation, Computerized Reservation Systems, And Travel Agents

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*With the beginning of airline deregulation in 1978, U.S. domestic operations were in for a period of turmoil, adjustment, vibrancy, entrepreneurship, and change. A great deal has been written about the effects of deregulation on airlines and their personnel, and on the public at large. Less attention has been paid to the effects on travel agents and on the seminal role of computerized reservation systems (CRSs) in the flowering of travel agencies. This article examines both of these phenomena.*

The travel agent has always had a nodal role in selling the stock in trade of the air carriers, their seats. Without travel agents, air carriers would have to set up costly distribution systems of their own. With the ubiquitous presence of travel agents throughout the length and breadth of the land, airlines have been saved the considerable expense of investing in their own bricks and mortar, personnel, etc., leaving themselves free to put this money into, and to concentrate on, the direct provision of armchairs in the sky.

As it is, most major airlines still keep a presence of their own in certain select, prestigious, upscale communities located in major metropolitan areas. These are, however, exceptions. The eyes and ears of air carriers are, and have been, the travel agents. Agencies have, in the past, frequently been relatively small, undercapitalized, "mom and pop," shoestring operations.[1] Nevertheless, they still performed an essential function for the airlines. Their goodwill was assiduously courted, even by the highest flying carriers.

Since deregulation, the role of the travel agent has undergone what amounts to a metamorphosis. Historically important, the travel agent has now assumed a crucial role for air carriers in their marketing strategies. Perhaps the most obvious change that has occurred has been the vast proliferation of agency outlets since deregulation. Exhibit 1 shows this development, together with the parallel change in travel agencies' sales and commission rates.



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**Exhibit 1**
**Travel Agency Locations, Sales, and Commission Rates**
**(Sales in Billions)**

| Year | Agency Locations | Sales (a) | Commission Rate (b) |
|---|---|---|---|
| 1977 | 15,053 | $ 9.4 (c) | 8.3% |
| 1978 | 16,628 | $11.4 | 8.3% |
| 1979 | 18,121 | $14.7 | 8.0% |
| 1980 | 17,339 (d) | $18.1 | 8.5% |
| 1981 | 19,203 | $20.0 | 9.3% |
| 1982 | 20,962 | $21.8 | 9.5% |
| 1983 | 23,059 | $25.8 | 10.0% |
| 1984 | 26,037 | $29.4 | 10.1% |
| 1985 (June) | 26,297 | $33.4 | 10.2% |

(a) Includes sales of foreign flag carriers.
(b) Average of domestic and international.
(c) Includes credit card sales for the first time.
(d) About 2,000 Canadian agents no longer reported.

**Source:** Air Transport Association

As can be readily seen, the number of travel agency locations has increased from 15,053 in 1977, the year before deregulation, to 26,297 in mid-1985, or about a 75 percent increase; sales have increased more than two and a half times, from $9.4 billion to $33.4 billion; and commissions have jumped almost 23 percent, from 8.3 to 10.2 percent. In the process, travel agencies have increased their share of industry sales, domestically and internationally, from 57 percent in 1978 to 74 percent in 1983.

What has also happened is that the industry has undergone several fundamental changes in the wake of these impressive increases in locations, sales, and commissions. Exhibit 1 refers only to agency locations, not the number of travel agencies per se.[2] Although locations have been proliferating, it has been largely because of the growth in cooperative agency groups — such as Association Travel Nationwide, Hickory Associates, Nova Associates, and Travel Trust International — as well as the large, single management agencies such as American Express, Ask Mr. Foster, and Thomas Cook - U.S.A., not the traditional, independently-owned, free-standing travel agencies.

### Technology Has Caused Changes

Perhaps the single most important factor in the changing nature of the domestic travel agency business has been the change in technology. Although the new technology predated deregulation, it has really come into its own in response to the deregulation phenomenon. In order to compete more effectively in a deregulated environment, the larger air carriers have installed a complex computerized system to manage their reservations, ticketing procedures, and flight scheduling. Only travel agencies that have been able to buy or lease their own terminals and keep up with all the costs associated with an expensive and rapidly-changing technology have been able to survive.[3]



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Access to the latest technology has not been the only prerequisite for travel agents successfully surviving the anfractuosity of regulation deregulation. Equally as important has been the need to develop managerial skills that can cope with the complex morass of ever-changing fares. Just staying on top of this kaleidoscope has earned successful travel agents their increased commissions. Not surprisingly, it is becoming more difficult for a travel agent to have the necessary capital and managerial skills and still operate as a businessman who is a sole proprietor — the classic atomistic competitor described by economists. Larger scale organization is now required.

Prior to the Airline Deregulation Act, travel agents had exclusive rights to sell air transportation to the public. At that time the Air Traffic Conference (ATC) controlled travel agency accreditation and the airline ticket settlement system. Airlines were not permitted to utilize any other means for selling their tickets other than a travel agent accredited through the ATC.

Clearly, in an era of deregulation, the Civil Aeronautics Board (CAB) — disbanded on December 31, 1984 — could hardly allow travel agents to continue to operate with exclusivity provisions — in effect, a trade monopoly. These exclusivity provisions had also been granted antitrust immunity since the CAB had been established back in 1938.[4]

The end result was a compromise of the sort where the travel agents had their cake and, in effect, ate it, too. A new organization was established by the Air Transport Association (ATA), the air industry's trade association, called the Airline Reporting Corporation (ARC). This absorbed the old ATC and set up somewhat more liberal arrangements in which formerly and newly-accredited travel agents became "industry agents" and other outlets, with at least one airline's business, became "other persons." Who was it who said,

*"Plus ca change, plus que la meme chose"?*

Technology was the main implement of change in the travel agency business. Deregulation provided the overall umbrella; the need to keep track of the whirlwind of route, price, carrier, and time alternatives was the immediate goal. The answer that came was a harassed agent's dream — the airline computer reservation system, or CRS for short.[5]

Aside from the previously mentioned need to obtain the requisite computer terminals and other equipment, and to train employees, there has been one major problem associated with CRSs. This problem is not of the travel agent's making. The problem is that the airlines have been competing furiously with each other since deregulation. Marketing has been their main arena. One tool of marketing is a reservations system, particularly one established by an airline itself, and most of the majors have done just that. Exhibit 2 shows the shares of the various competing computer reservations systems in all American travel agencies.



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### Exhibit 2

### Computer Reservations Systems Shares in All Travel Agencies

| CRS | Number | % | Revenues (billions) | % |
|---|---|---|---|---|
| APOLLO (United) | 3,865 | 18 | 4.041 | 27 |
| DATAS II (Delta) | 688 | 3 | .260 | 2 |
| MARS PLUS (Tymshare) | 344 | 2 | .282 | 2 |
| PARS (TWA) | 2,159 | 10 | 1.561 | 10 |
| SABRE (American) | 5,692 | 27 | 6.376 | 43 |
| SODA (Eastern) | 1,075 | 5 | .605 | 4 |
| UNAUTOMATED | 7,546 | 35 | 1.823 | 12 |
| Totals | 21,369 | 100 | 14,948 | 100 |

**Source:** ENO Foundation for Transportation, Inc.

The first two systems to come on line were United Airlines' APOLLO in 1976 and American Airlines' SABRE, followed later by TWA's PARS. As can be seen from Exhibit 2, the three airlines that were the first to establish on-line computer reservations systems are the ones with both the largest number of outlets and the largest shares of domestic revenues today. The only change is that SABRE has overtaken APOLLO as the leading computer system.

The problem in all of this lies with the Department of Justice (DOJ) which sees possible antitrust violations, particularly on the part of the leading providers of computerized reservations. Exhibit 3 illustrates the problem from the DOJ's perspective. In 1984, it was established that 90 percent of travel agents were using computerized reservation systems to ticket their airline passengers, accounting for more than 90 percent of total airline bookings made through travel agents. With 65 percent of domestic bookings being made through travel agents, then almost 59 percent (.90 x .65) of the domestic passenger bookings were being handled by computerized systems in 1984.[6] In particular, United and American controlled 41 percent of all bookings, 69 percent of the CRSs located in travel agencies, obtaining 80 percent of the domestic revenues from these CRS locations.

### Exhibit 3

### Airlines Systems Proportions of Total CRS Revenues

| | | | | |
|---|---|---|---|---|
| APOLLO (United) | 3,865 | 28 | 4.041 | 31 |
| DATAS II (Delta) | 688 | 5 | .260 | 2 |
| MARS PLUS (Tymshare) | 344 | 2 | .282 | 2 |
| PARS (TWA) | 2,159 | 16 | 1.561 | 12 |
| SABRE (American) | 5,692 | 41 | 6.376 | 49 |
| SODA (Eastern) | 1,075 | 8 | .605 | 5 |
| Totals | 13,822 | 100 | 13.125 | 100 |

**Source:** Exhibit 2.



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## Revenue Is Concentrated

Another way of looking at the Department of Justice's concern is to understand, from Exhibit 2, that 65 percent of travel agency locations produced 88 percent of domestic revenues.

In and of itself, such concentration may have produced no more than some momentary qualms on the part of the DOJ, later to be overcome by the thought that in classical economics, the more efficient, more effective competitor can expect to obtain a sales advantage over his less efficient opponent. This concentration in the CRS was not, however, the whole story by any means. The airlines that created the various computer reservation systems controlled, of course, the programming of these systems. Naturally, American would present its flights first on its SABRE system; United would do so on APOLLO.[7] Travel agents, being busy people, would tend to go with what appeared first, or early, on the cathode ray tube (CRT) screen, unless pressed by their customers. Exhibits 2 and 3 have already indicated how profitable all this was to American and United. Their competitors cried "Foul!" and investigations by the DOJ and the almost moribund CAB were initiated. The main charge that both investigated was of "display bias." That is, neither American nor United were dominating the market because of their inherently superior air transportation services but because of the selectivity in their presentation compared with their competitors'.

For now, the matter rests there. American's and United's competitors are trying to come up with an alternative to SABRE and APOLLO. These competitors have also initiated a formal antitrust suit against the two dominant airlines.

## References


[1]Jill Wechsler, "Bringing a Business Back from the Brink of Bankruptcy," *Working Woman*, (March 1985), pp. 39-41.

[2]For an earlier prediction on this development, see B. G. Yovivich, "Large Carriers Ponder the Future but Small Planes Flying High," *Advertising Age*, (June 15, 1981), pp. S-2 and S-6.

[3]Belinda Hulin-Salkin, "A Time of Reservations," *Advertising Age*, (April 12, 1982), p. M-28.

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[5]Melvin A. Brenner, James O. Leet, and Elibu Schott, *Airline Deregulation*, (Westport, Conn.: ENO Foundation for Transportation, 1985), pp. 65-67.

[6]*Ibid.*, pp. 65-66.

[7]"American Rediscovers Itself: How Airlines Duel With Their Computers," *Business Week*, (August 23, 1982), pp. 67-78; Howard Banks, "Storms in Those Friendly Skies," *Forbes*, (August 30, 1982), pp. 39-40.




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