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Webfare Warfare

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Airlines certainly have some fear of new technology. But it seems that Travelocity and Computer Reservation Systems (CRS) fear it even more. Specifically, they would love to see upstart online travel site Orbitz fall off of consumers' approved list of electronic devices.

The Department of Transportation (DOT) has proposed eliminating a rule called the "Mandatory Participation Rule" in its revision of existing CRS rules. However, CRS is lobbying to see the rule applied instead to Internet travel websites, which would effectively eliminate one of consumers' best options for obtaining discounted airline travel.

Computer Reservation Systems are to travel agents what Internet travel websites are to consumers. The key difference, though, is that while Internet travel sites offer consumers the opportunity to shop for better fares, CRS' long history of monopolistic behavior did just the opposite.

There are only four CRSs that operate worldwide: Sabre (which owns internet travel website Travelocity), Amadeus, Galileo, and Worldspan. Each of the CRSs locked up a block of travel agents to access airline information and place bookings nearly exclusively on their respective systems. Because of the restrictive contractual terms imposed by CRSs, travel agents were largely unable to compare schedules or prices on other systems, and they could not purchase tickets on other systems. Most travel agents could only sell through one Computer Reservation System -- which granted effective monopoly power to the CRSs over the airlines. As a result, CRSs engaged in a host of anti-competitive practices, including overcharging airlines, forcing travel agents to consent to exclusive, long-term contracts, and displaying biased schedule or price information. The Department of Transportation CRS rules were intended to regulate this monopoly power and curb the monopolistic abuses by the Computer Reservation Systems.

In the unlikely event of a water landing, the cabin crew will instruct you to use the floatation devices located under your seat cushions...

That's exactly what these rules were supposed to be used for -- to keep consumers afloat until real competition arrived in the travel reservation industry. The rules were first written in 1984 and amended in 1992 -- long before the commercial adoption of the Internet. The 1992 amendments even included provisions to eliminate the original rules within five years. Nevertheless, those rules have been extended one year at a time since the five-year timeframe expired, outlasting even the Internet boom without any substantive changes. Now, instead of protecting consumer pricing, some of those regulations -- namely the Mandatory Participation Rule -- actually pose obstacles to the spread of competition and modernization in the distribution of airline transportation.

The Mandatory Participation Rule was created in 1992 requiring every airline that owned an interest in any Computer Reservation System (which back then was pretty much all major airlines) to participate in every

public opinion

Will [importing prescription drugs](#) from Canada help American consumers?

- Yes
 No
 Not Sure

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other CRS to the same extent they participated in their own. At face value, this certainly sounded fair enough. However, remember that the CRS rules were created to protect airlines -- and consumers -- from the Computer Reservation System monopoly, not from an airline monopoly. Though the original rules were a response to the reality that airlines were unable to bargain with CRSs, the Mandatory Participation Rule required the airlines to sell through each CRS, which in actuality reinforces the monopoly power of the Computer Reservation Systems. This rule is especially anachronistic when considering that nearly all the major airlines divested their interests in computer reservations systems years ago.

We're currently experiencing some air turbulence, so please return to your seats immediately until the captain turns off the fasten-seatbelt sign...

The Internet caused some turbulence for the travel reservations industry alright -- because it came along and changed everything. Thanks to online travel sites, consumers are no longer at the mercy of travel agents and Computer Reservation Systems. We have the option of viewing multiple online websites to select the best airfare schedule and price for ourselves. The bottom line: the Internet made travel pricing more competitive.

Consumers have no contracts with their computer reservation systems (online travel sites) like travel agents do. The resulting environment challenges the booking fees that CRSs charge airlines -- which in turn are passed on to consumers as higher prices for our airline tickets. And make no mistake about it; CRSs are making boatloads -- well, actually, planeloads of money from these booking fees, despite one of the worst periods ever for the airline industry. In fact, according to a July 2002 research study on the economics of travel distribution conducted by Global Aviation Associates:

"While reservations and sales expenses, as a percent of revenue, have declined steadily, GDS [Global Distribution System / Computer Reservation System] booking fees have not. As a consequence, these fees constitute a significant and growing portion of total airline product distribution costs. We estimate that in 2002, these fees will constitute an estimated \$4.36 per booked segment, resulting in a total expense to the airlines of approximately \$2.2 billion. This cost is passed on to the consumer in the form of higher ticket prices. In 2002, for example, booking fees will be approximately 3.4 percent of the average system roundtrip fare."

So it's easy to understand why there's a cry to impose restrictions on brand new Internet technology. It's because these antiquated CRSs and the "old" Internet travel websites fear competition. That's right, even in the new world of Internet travel reservations, there's a very real danger of monopoly power rearing its head. When Orbitz was cleared by the Department of Transportation to launch in April 2001-- following an extensive ten-month review to ensure fair markets -- the new travel website was lauded for bringing much-needed competition to the industry, where existing online competitors already controlled approximately 70 percent of online leisure travel. By comparison, only about 2 percent of all air tickets sold (based on ticket value) is currently sold through Orbitz.

Given CRSs' strong support for applying the Mandatory Participation Rule to the Internet, it's not surprising that this rule has the potential to limit only the new guy, low-cost online travel site, Orbitz. The rule, designed originally for the old travel agent computer reservation system industry, doesn't affect Sabre's Travelocity site or Expedia, the two industry gorillas, but it constrains Orbitz's pricing freedom because some of the major airlines own Orbitz. It would require Orbitz to charge higher booking fees to the airlines, which of course will have to pass that cost along to consumers. CRSs would be delighted to see that happen because it would raise Orbitz's currently low prices closer to that of its rivals.

I know what you're thinking -- Orbitz can offer lower pricing right now because it's owned by the airlines, and they give Orbitz special pricing.

Nope. Orbitz is able to provide lower costs to consumers because they offer a unique travel reservation business model that's actually common practice in almost every other business: volume discounts. In exchange for a voluntary agreement that allows Orbitz to sell both an airline's regular fares and web fares, Orbitz offers any airline -- whether an Orbitz-backer or not -- the opportunity to reduce its booking fees by about 33 percent. Pretty simple concept, really: provide us with more product, and we'll provide you with a discount. In adopting this wise business tactic, Orbitz introduced price competition to the travel distribution industry and was the first travel website to offer web fares to consumers.

Competitors, of course, are certainly free to adopt this business model. In fact, there's some evidence that in response to Orbitz's price challenge, Sabre, Galileo, Travelocity and Expedia too have now begun offering lower booking costs in exchange for access to webfares. Obviously, the entire point of the DOT's regulations in the first place was to bring about real price competition like Orbitz has done. Imposing the outdated Mandatory Participation Rule on Orbitz only reverts the industry back to the CRS price-fixing days of old.

But the CRSs are using their interpretation of the Mandatory Participation Rule to do exactly that. They're trying to eliminate this price competition that's advantageous to consumers, because they don't want to offer the same volume discounts to the airlines as Orbitz does. They'd rather abuse their overwhelming market share advantage in the industry and pocket the price difference. Their preference to continue gouging consumers is certainly consistent with their historic price increases that have averaged 7 percent annually since 1990. So it's no wonder that the CRSs are trying to muddle the DOT's amendment proposal by throwing out the faulty argument that without the Mandatory Pricing Rule, airlines wouldn't provide their inventory fairly to all reservation systems.

We remind you that it is a federal offense to tamper with, disable, or destroy any lavatory smoke detectors...



It's also a federal offense for COMPANIES, including Orbitz, to engage in unfair business activities, anti-competitive behavior and/or deceptive practices. Eliminating the Mandatory Participation Rule neither exempts Orbitz from federal rules prohibiting those actions nor does it hurt the Department of Transportation's or Department of Justice's ability to enforce those anti-trust rules. Orbitz will continue to be covered under remaining travel distribution industry rules, such as those prohibiting biased information displays. In fact, the Department of Transportation has detailed policies on how fares must be shown, how taxes, fees, and other charges must be disclosed, that seats must be reasonably available for fares shown, that other terms and conditions must be disclosed, and so on. All those policies are enforced without regard to whether the medium in question is the Internet or a CRS, and Orbitz, like other reservation systems, complies fully with these rules.

Orbitz goes even further than that to ensure total propriety. Unlike its competitors, Orbitz is the only online travel site that is contractually prohibited from signing "featured airline" or "preferred" airline contracts that give individual airlines a preference over their competitors. Orbitz also polices itself by prohibiting advertising on the search results page, where it could influence consumers' decision-making even with a DOT-approved, unbiased display. So Orbitz not only adheres to all federal rules ensuring fair business practices, it even imposes additional ones of its own.

Computer Reservation Systems know all that, too. They just like to use terms like "unfair" in reference to Orbitz so that no one notices that it's the CRSs, themselves, that haven't been playing fair all these years.

On behalf of our U.S.-based crew, I'd like to thank you for choosing the cheapest airline for your travel plans today. We know you have a choice of airlines because of Orbitz and the Internet. And if the DOT supports consumers over established interests, you'll continue to have that choice. Have a pleasant stay here or wherever your final destination may be...

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