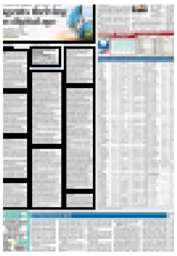

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Bricks and mortar travel agents thriving in digital age

Blended model helping firms stay competitive

By Grant Bradley

A decade ago the obituaries for bricks and mortar travel agents were starting to appear. But they've proven way off beam. The thought that travellers would do it all themselves and book through online travel agents (OTAs) hasn't played out.

In New Zealand Flight Centre has posted a record year for revenue. The company is growing and its big competitors House of Travel and helloworld are reporting strong results and looking to expand the billions of dollars of business they're doing.

Instead of circling the wagons and waiting to be attacked by the digital newcomers, OTAs, Expedia, Priceline and now Google, the big three are all embracing consumer online booking but also playing to their own strengths — having experienced people in stores or on the end of a phone.

The incumbents have big overheads, employing about 5000 people in New Zealand and paying big store rental bills compared to the OTAs with just several hundred staff here.

So the incumbents have adopted blended models, an example of "if you can't beat them, join them".

And a boom in travel, particularly in the past three years, has also helped increase the multibillion-dollar pie — up to $10 billion last year — for all to share. New airlines in a market often work closely with traditional agents to boost their presence.

Air New Zealand operates deep into the digital commerce market and set up online booking well before many big online agents. At times the airline has had an uneasy relationship with the traditional travel trade.

The carrier's chief revenue officer Cam Wallace says the death of travel agents had been predicted or that their business would rapidly decline.

"We haven't seen that. We've actually transacted more business in this last financial year with travel agents than we did in the previous year, even with all the competition around," Wallace says.

"We think it's still a very viable business model."

Air New Zealand will continue to develop its digital arsenal, with new online tools for businesses and better targeting of passengers with offers, but it will also work proactively with the travel industry.

"We think the best way forward for both customers and airlines is to have more channels working and firing at the same time. It means we can stimulate the maximum amount of demand," he says.

There's an added incentive. Airlines usually make more money out of trips booked through agents.

"Ultimately we're competing against Qantas . . . and everyone else but we're also competing for [the] consumer discretionary dollar," Wallace says. "Someone is making a conscious choice to buy a flat screen TV, go to a concert or go on a trip to Fiji. We think the travel industry plays a very material part in persuading more customers to choose travel.

"The other thing is they serve a certain part of the market that wants personal service and advice and through them we can sell up through different channels — we tend to attract good value and yield out of travel industry partners."

Chris Wilkinson, managing director of consultants First Retail Group, says one way the traditional bricks and mortar players have battled the threat from OTAs is to merge and consolidate.

"Independents have disappeared — instead we're seeing groups of company-owned and franchised stores develop under recognised international and national brands," Wilkinson says.

On Monday Flight Centre bought into two local brands — Travel Managers, which supports more than 180 brokers and also operates a 22-shop franchise network, and Executive Travel, the largest independent corporate travel management company in New Zealand.

The company's shares jumped to a 17-month high following that acquisition and it expanded further on Thursday in Canada, buying a Quebec City travel company which generates around $107 million a year in revenue.

Wilkinson says the big three agents had developed into distinctive brands and that each presented different propositions, with Flight Centre as price fighters, helloworld focused on being experienced global travellers sharing their knowledge, and House of Travel leveraging their local connections and community position.

The agents' focus has shifted toward holiday packages and long-haul trips where experience can have a measurable impact for consumers.

"With this type of spending, customers can't afford mistakes or bad decisions, which is where agents can add significant value," he says.

Travel was the first retail sector to transition successfully toward online and since then all the big travel agents had followed suit, adopting a blended model.

The resilience of bricks and mortar had initially been surprising, Wilkinson says.

"But when you understand the volume of major transactions these agents process and how their knowledge often unlocks deals people wouldn't find ordinarily online, it's clear the sector has carved a unique niche that's resilient to further impact digitally."

They were also sharing in a growing multibillion-dollar spend by New Zealanders.

"Leisure and business travel is growing exponentially, so there is continued scope in the sector. Some of the chains are seeing experienced business people from outside the sector buying franchises," he says.

Chief executive of the Travel Agents Association, Andrew Olsen, says falling airfares — at times available for prices seen in the early 1980s — hadn't helped agents.

"Low fares and airline competition across the Asia-Pacific routes and what you get is a perfect storm for the traveller and a slightly bumpy ride for the agent," Olsen says.

During the past year some limited business class return fares to Europe have fallen below $3500 (on Cathay Pacific) and return flights between Auckland and New York (via Sydney on Qantas) sold for less than $900.

"Increased capacity and competition often means yield softens and this was noticeable over the last year in particular ridden out by agents who will live within their means in the leaner times." Olsen said competition was "enormous" between the established brands and it was making travel agents acutely aware that customers have choice.

"Loyalty can be fleeting if you are not at the top of your game."

The number of workers in the sector fell steeply after the global financial crisis. About half of those in the area are non-customer-facing, working in administration, support, technology, finance, marketing, organisation development and leadership and ownership roles.

Agents all say the corporate market — where health and safety laws ensure employers have to provide a duty of care — offers big scope for growth. The VFR market (visiting friends and relatives) was also booming. Many new residents had a culture of dealing with agents in their home countries and continued this in New Zealand. They were also ardent travellers.

There are also other ways of staying on the technology curve.

Flight Centre is developing a way potential customers can take a picture or a screen grab of a deal, send it to the agent and see if they can beat it.

Helloworld is investigating an app that could send deals to travellers near

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any landmark in the world and offer them deals in the vicinity.

"If you're walking past the London Eye you get a message on your phone saying here's a discount, charge it back to your holiday account with a travel agent. That technology is there and [we will move to it]," says Simon Mckearney, helloworld's executive general manager for New Zealand.

Bricks and mortar stores say they're on solid ground here, however, a survey done for Priceline firm Kayak.co in Britain says they are in sharp decline.

The report found that 10 years ago, 57 per cent of adults booked holidays through a high street travel agent but that had fallen to just 19 per cent.

Online travel agents make their money through commissions on bookings, which are about 20 per cent for accommodation. This has seen the market capitalisation of OTAs, which own no accommodation, soar above hotel groups.

Priceline is the third largest e-commerce company in the world behind Amazon and Alibaba with a market capitalisation of US$97b ($131b), while Marriot International is on US$39b. Airbnb, now a competitor to older accommodation booking sites, has a market cap of US$31b and Expedia is at US$23b.

One New Zealand-founded online booking travel company — Online Republic — was last year sold to Webjet for $85m.

In the United States the American Hotel and Lodging Association has devised plans for a campaign saying online travel companies use unfair practices in their search businesses.

A proposed marketing campaign aims to portray online travel companies as monopolistic. Expedia has countered, saying travel is a competitive industry and that the company plays a small part.

A spokeswoman for Priceline told Bloomberg listing on the company's sites is optional, and millions of properties do so to boost their business.

In this country Booking.com employs 15 people at its Auckland office.

Luke Ashall, New Zealand area manager, says people who need more support go to a traditional agent.

Ashall won't confirm commission rates but says that it is part of the marketing cost that hotels, motels and other accommodation providers pay to have their properties on display to a global market.

Expedia has been operating around the world for more than 20 years and has a "team" of an unspecified size in New Zealand.

The company could not provide figures about the size of its market here, although a spokeswoman says in the past year there has been strong growth in its top markets of Fiji, Melbourne and Bali. Inbound travellers to New Zealand booking through Expedia had increased almost 30 per cent year-on-year.

"Leisure and business travel is growing exponentially, so there is continued scope in the sector."

Chris Wilkinson, managing director of consultants First Retail Group