Understanding Travel Agency Cost Drivers and Ways to Optimise Business in Greece

November 2007
Understanding Travel Agency Cost Drivers and Ways to Optimise Business in Greece

Abstract

This White Paper reviews the results of independent research conducted in 2007 by Hermes Management Consulting (Hermes) in Greece. The research was commissioned by Amadeus in order to:

- Better understand travel agencies’ cost drivers.
- Identify opportunities to add value to travel agencies.

The purpose of this paper is to explain the methodology used and - more importantly - communicate the results of the research along with recommendations on how travel agencies can more effectively meet the needs of their customers. It is the first time that a study of this kind has been conducted in Greece and thus represents a new window of opportunity for travel agencies in the region.

Research methodology

The project included a market overview, a sample selection of travel agencies and an activity-based costing (ABC) analysis. The ABC study reviewed the financial data of the participating travel agencies and examined - in minute detail - the business processes performed by the agencies. This allowed the main cost drivers to be identified. The sample comprised of eight business travel agencies and four tour operators.

A detailed explanation of the research methodology is provided in the appendix.

Introduction

According to the United Nations World Tourism Organization (UNWTO), total world international travel has been rising at a compound annual growth rate (CAGR) of 4% from 2000 to 2006. Europe accounts for 51% of the world’s total tourism income and Greece generates 2% of this.
Travel sector in Greece – macro environment

Tourism in Greece has become a very important part of the economy; in 2006 the direct spending was 6% of the total gross domestic product (GDP), comparable with countries such as Thailand and Austria with a high dependence on tourism\(^1\). The Greek economy has enjoyed sustained growth for 13 years (2003-2007), almost doubling that of the EU as a whole. This is a key factor in the growth of Greek travel in recent years and an underlying reason why Greeks are changing their travel habits. As shown in chart 1, the total number of travellers (inbound and outbound) had a compound growth of 10%\(^2\) (reaching 25 million). Domestic travel (i.e. Greeks travelling in their own country) shows a CAGR of 11%.

\[\text{Source, World tourism organization.}\]

\[\text{The numbers expressed in the text are rounded.}\]

\[\text{\textsuperscript{1}}\] Source, World tourism organization.

\[\text{\textsuperscript{2}}\] The numbers expressed in the text are rounded.
As shown in Chart 2, outbound travel is growing at a 7% annual compound rate, showing a higher rate than the rest of the world (5%) during the same period. Within the outbound travel category, long stay trips (4+ nights) have enjoyed a 13% annual growth rate while short stays have decreased by 4%.

Tour operators and agencies are becoming more important in outbound trips. Their share in outbound trips grew from 28% in 2004 to 31% in 2006. The sale of packages has grown at an 80% annual growth since 2004 and represents 40% of the demand in outbound travel. (See chart 3)

Expenditure on outbound and domestic trips is also growing fast, with average rates of 23% (domestic) and 20% (outbound). The average expenditure per person per trip has reached €1,000 for outbound and €399 for domestic trips.

---

3 Source: General Secretariat of National Statistical service of Greece.
4 Greek citizens travelling inside of Greece.
This positive scenario is making the Greek tourism industry very attractive. Greek agencies have grown their volumes and opened new branches in the last three years, a fact confirmed by the study. Business trips grew at the same rate as the gross domestic product (GDP) and companies are giving incentive trips to their customers and sales forces - making this product one of the most dynamic in the market.
Trends that are making travel agencies re-define their role in other part of the world are starting to affect the Greek market. Commission reductions became a fact of life in 2006 and Greek travel agencies have slowly developed service fees as a substitute income source. Additionally, most of the agencies use the Internet as an information source. Online distribution channels are just developing, however, mainly due to low Internet penetration in Greece compared to other European countries. Recent research shows that agencies find the security issues - and perceived risk when performing transactions online - as the main barrier to using the internet\(^5\).

To extrapolate a possible market evolution in Greece, we can look at the market situation in the US. During the 1990s, several important airlines in the USA began reducing their base commissions, reaching zero by 2004. This forced travel agencies to examine their business mix, transaction size, and sources of income. As a result of this change, the market consolidated. While total volume booked grew 6% between 2000 and 2004, the number of agencies declined by 36%. This resulted in a 64% increase in revenues per agency location (see chart 4). As a result of both this consolidation and better technology, the number of travel agents dropped by 41%. Meanwhile, sales per agent rose by 78% over the same period.

\(^5\) Source: Technological Education Institute of Serres
Low Cost Carriers (LCCs)

The penetration of Low Cost Carriers (LCCs) in Greece is still low (10%) compared to Europe (16%) and are below the global penetration (12%). The annual growth was 2.4 percentage points, almost the same as the average in EU in the same period.

There are no local LCCs in Greece but Easyjet acquired GB Airways\(^6\) in October 2007, expanding its coverage to Mykonos, Corfu, Iraklion and Rhodes. There is also a governmental interest in luring low cost airlines to encourage Greeks to travel abroad inexpensively and also to foster inbound tourism. A good example of this came in November 2007 when the Greek Tourism Development Minister Aris Spiliotopoulos met with Ryanair Deputy CEO Michael O’Leary for talks on ways to attract Ryanair to the Greek market.

Online

Today internet penetration in Greece reaches 34% and the number of Greek Internet users has grown at a CAGR of 21% since 2000\(^7\). Broadband penetration is also growing fast as the cost per MPS (megabit per second) declines due to state policies designed to improve the telecommunications infrastructure.

---

\(^6\) Franchise partner of British Airways Plc
\(^7\) Source: Internet World Stats
Some 65% of travel agencies now have at least a webpage, but these sites are used for information purposes – not for online booking. Meanwhile, 23% of Greek travellers are already buying on the internet.

Greek travel agencies are slowly moving towards centralised call centres in order to realise operational cost savings through economies of scale. By the end of 2006, most sales were made by telephone. The research found some agencies were considering the establishment of call centres to improve productivity and enhance customer service. In addition, most of the agencies in the study had plans to develop an online presence during 2008.

### Travel agencies in Greece

The research covered two main segments, with a sub-segment

- **Tour operators**

  All tour operators in the study handle outbound travel. They also typically work as business travel agencies. On the tour operating side of their businesses, they primarily prepare their own packages and sell them to other travel agencies as well as directly to group or individual customers.

- **Leisure agencies**

  Low entry barriers to open a travel agency result in a highly granulated leisure market with small agencies (3 FTE’s on average) selling packages provided by the tour operators.

- **Business agencies**

  When looking at the travel agencies in Greece, it is important to note that business travel agencies usually also transact leisure business, making them not exclusively business agencies, but rather “mixed” agencies. They also include products with a higher margin than air tickets such as incentive trips, which are trips that companies subsidize for their employees. This has been taken into consideration during the analysis of the results. In order to analyse and make the agencies comparable, non corporate sales were taken out.

---

8 Observatory for the Greek information society
Results of the study

Activity-based costing

Average agency revenue structure

Revenues are presented in Euro per ticket. A ticket unit includes a combination of all services provided by the travel agency and represents the average transaction per customer. For example, apart from the air ticket, a ticket can include hotel bookings, car rentals and insurance coverage among others. In the case of tour operators, the average ticket is a package.

- Tour operators’ average sales\(^9\) per ticket (€556/ticket) are nearly 20% higher than that of business travel agencies (€462/ticket) because of sales of packages, which are usually more expensive than air tickets.

<table>
<thead>
<tr>
<th></th>
<th>Business</th>
<th>Tour operators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>462.2</td>
<td>555.6</td>
</tr>
<tr>
<td>Revenue*</td>
<td>50.0</td>
<td>68.0</td>
</tr>
<tr>
<td>Gross margin*</td>
<td>10.8%</td>
<td>12.2%</td>
</tr>
</tbody>
</table>

\(^*\) Net commissions considered (total commissions – discounts)

Source: Hermes Management Consulting analysis

- Business travel agencies occasionally sell leisure or incentive packages, but they rarely sell ground services outside those packages. Tour operators are selling packages and ground services mainly, with higher profitability than air products. (See chart 7).

\(^9\) Sales: total payment received of tour and travel services. Revenue: total income minus direct expenses, Gross margin: revenue/sales
Revenue as a percentage of sales is high as a result of the participation of ground services and packages with profitability at around 15%. Business agencies sell incentive trips with low costs and high margins, resulting in an 11% revenue/income ratio, one of the highest from all the studies.

Airlines in Greece started commission cuts back in 2006. Travel agencies used to enjoy full 9% commissions. Commissions were reduced to 6% (on average) and are expected to continue falling, with industry experts forecasting zero commissions in approximately four years.

As a consequence, the key challenge for travel agencies will be to maintain high net margins (agency revenue/total passenger spending) in spite of the reduction of their traditional revenue stream.

As shown in chart 8, commissions account for 71% of business travel agencies revenues and achieved total revenue of 11% over gross sales in business agencies.

It was not easy initially for the public to accept the shift in practice (from commissions to fees and mark-ups), but now Greek customers are starting to get used to paying service fees - and are beginning to understand that travel agencies are offering more value than just providing tickets.
Understanding Travel Agency Cost Drivers
and Ways to Optimise Business in Greece
November 2007

Override/SLA

74.6% 81.0%

71.6%

46.7%

25.1% 18.5%

12.0

14.3

4.0

21.1

8.8

7.0 14.1

49.3 53.8

72.7

25.4

0.0

Commissions still account for 71.6% of the gross margin.

The business model of travel agencies in Greece could soon be impacted by a reduction in airline commissions, following the trend seen in other markets.

REVENUE MIX FOR BUSINESS TRAVEL AGENCIES
2004/2006

Fees and mark up

Override/SLA*

Commissions

100% 100%

Market trend

100% 100%

100% 100%

100% 100%

100% 100%

Saudi Arabia Business

Latin America Business

Greece business

Malaysia Business

UK Business

Scandinavia Business

7.0% 9.0% 10.8% 7.7% 10.7% 10.7%

Revenues/income(%)

* Includes GDS incentives

Source: ABC Studies; Hermes Management Consulting analysis
Average agency cost structure

The following results were obtained by analysing the cost per ticket (see charts 9a, 9b).

- Greek business travel agencies, like their Scandinavian counterparts have the highest cost per ticket. Administrative personnel costs as a percentage of total costs are the highest in the sample, mainly due to less-advanced back office technology development.

- The average spending on systems is one of the lowest and comparable with the least developed countries.

### Chart 9a

**AVERAGE AGENCY COST STRUCTURE COMPARISON**

2005-2006, business agencies, in €/ticket

<table>
<thead>
<tr>
<th></th>
<th>Fixed</th>
<th>Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personnel</strong></td>
<td>48%</td>
<td>52%</td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td>11%</td>
<td>89%</td>
</tr>
<tr>
<td><strong>Marketing</strong></td>
<td>9%</td>
<td>91%</td>
</tr>
<tr>
<td><strong>Communications</strong></td>
<td>9%</td>
<td>91%</td>
</tr>
<tr>
<td><strong>Systems</strong></td>
<td>4%</td>
<td>96%</td>
</tr>
<tr>
<td><strong>Other costs</strong></td>
<td>11%</td>
<td>89%</td>
</tr>
</tbody>
</table>

### Administrative personnel costs/total personnel costs (%)

<table>
<thead>
<tr>
<th></th>
<th>Poland</th>
<th>Italy</th>
<th>Greece</th>
<th>Scan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>%</strong></td>
<td>31.0%</td>
<td>37.2%</td>
<td>41.4%</td>
<td>16.7%</td>
</tr>
</tbody>
</table>

*Includes bank expenses, professional services, travel expenses, office supplies, couriers and other.

**Source:** ABC Studies; Hermes Management Consulting analysis

---

*Business travel agencies have a lower cost per ticket sold (€43.9/ticket) than tour operators (€65.1/ticket).*
Tour operators have higher costs per ticket sold compared to business agencies for two reasons: because tour operators have a more complex set of products and packages and business bookings are simpler (more focused on air tickets).

Greek tour operators have higher cost per ticket than in Poland. The administrative personnel cost over total personnel costs is also high, reflecting the limited investment in the back office systems and other accounting processes.

As mentioned before, spending on systems to support business and tour operators are the lowest compared with other countries’ averages. Because of this low investment in technology and lack of integration between front and back office systems, tour operators have poor automation of processes and the procedures needed to complete a sale are mostly manual.

10 Tour operators are compared with Poland which is the country where the study was conducted with a similar segment.
Cost distribution per activity

The key results drawn from this analysis are presented in chart 10a for the business segment and in chart 10b for tour operator segment

- “Core reservation processes” account for 41% of the total costs for business travel agencies - and 35% of the total costs for tour operators, representing the most significant expense in both. Tour operators have lower share of cost as a result of the direct sales to agencies of their packages.

- Cost distribution in the “Core reservation” process varies between business and tour operators. While business travel agencies allocate 17% to “Search proposal and negotiation” and 13% to “Booking and sales”, tour operators allocate 14% and 12% respectively. Business agencies have multiple clients with different demands, while tour operators service many clients with similar requests with a standardized offer and make group bookings.

- Invoice, collection and payment preparation accounts for a larger proportion of costs than all other countries, due to the lack of efficient back office systems and integrated front-mid-back office systems
- Technology development has the lowest proportion in cost per ticket, showing lack of automation and systems orientated management
- They also show the second largest proportion in firm infrastructure activities given their low level of automation in back office activities

Source: Hermes Management Consulting analysis
Understanding Travel Agency Cost Drivers and Ways to Optimise Business in Greece
November 2007

Invoice and collection costs in Greece are the highest in all the studies, due to duplicated tasks and manual labor.

- Marketing and sales activities differ significantly between segments: 20% in business agencies and 34% in tour operators. In the business agencies, marketing-related activities are tied to the number of account and prospect managers, while tour operators invest most of their marketing budget in advertising, promotion and trade marketing. In Greece, interpersonal relationships are key due to the importance of personal trust, rather than institutional trust.

- Business and tour operators in Greece generally do not generate client databases or profiles, so they spend more time on the “Needs assessment” activities and run the risk of losing their clients’ information when a travel agent leaves the company.

- With relation to “Invoice collection and payment preparation” activities, Greek agencies register a significantly larger cost, mainly because travel agencies spend a large proportion of their resources on manual and duplicated checking of the invoices, the information between the provider, the sales operator and the back office is not linked and differs in some occasions.

• Tour operators in Greece allocate 5% less of resources to marketing related activities, because part of the advertising of their products is made by the smaller travel agencies working as an alternative distribution channel

• Invoice, collection and payment preparation and Booking and sales account for a larger proportion of costs than in Poland, due to the lack of efficient back office systems and integrated front-mid-back office systems and pre-trip documents preparation and delivery

• Procurement has lower proportion of total costs than in Poland, meaning that negotiations focusing on price and conditions with suppliers is not still a key activity for Greek Tour Operators

Source: Hermes Management Consulting analysis
• “Execution and follow up” have similar proportion of total costs in business travel agencies and in tour operators (5% vs. 4% respectively). Business agencies allocate more resources to the execution in incentive trips. Tour operators do not dedicate their own resources to execution activities but outsource these activities to third parties in the destinations.

• Technology development is among the least important activities, representing approximately 4% of total costs in business agencies and 3% in tour operators. Compared with other countries where this study was conducted, Greek business travel agencies costs share is similar to that of Latin America (4%), Malaysia (3%) and Saudi Arabia (5%). This low figure in Greece is partly because technology is used mainly for back office and accounting applications. There is not much investment in Internet applications or in management and performance tools.
Profitability & productivity analysis

The key results drawn from this analysis are presented in Chart 11.

- Business agencies generate more tickets per Full Time Equivalent employee (FTE) (1,065 tickets/FTE) than tour operators (733 tickets/FTE). Business agencies have more automated processes and have email contact - instead of telephone – and thus spend less time per client.

- Due to a lower productivity, tour operators have lower revenues per FTE than business agencies although they show higher revenue per ticket than tour operators, 50€/ticket vs. 68 €/ticket respectively. (See chart 6)

- Average personnel cost per FTE is higher in Greece (aprox. 26.000 €/FTE/year) in comparison with Poland (aprox 11.000 €/FTE/year) but much lower than in Scandinavia (aprox. 49.000 €/FTE/year) and UK (aprox. 44.000 €/FTE/year).

- Due to a low level of automation in administrative activities, business travel agencies and tour operators in Greece show a lower productivity in administrative personnel than agencies in Europe.

Source: Hermes Management Consulting analysis
• Business agencies have higher EBIT over revenues (Earnings before interest and taxes (13%) than tour operators (4%). This is mainly because:

  o Incentive trips help business travel agencies to get a higher margin (11%) than other European countries; Scandinavia (10%), Poland (9%).
  o Tour operators pay 10% commission to small agencies acting as distribution channel for them, selling their packages at the same price.
  o Lower personnel costs due to higher productivity in business travel agencies (1,065 tickets/FTE) compared with tour operators (733 tickets/FTE). Incentive trips are normally managed by one or two persons, with average groups between 50 and 100 passengers, while packages are sold on an individual basis.
  o Lower marketing expenses. Packages need more marketing investment than air tickets.
Main conclusions and recommendations

Chart 12 shows the different phases that travel agencies’ markets have experienced worldwide. Greece is entering Phase 2 and leaving what can be called the “traditional environment” in which the main revenue sources of travel agencies are airline commissions. In more developed countries, travel agencies have already moved to the following phases and Greek travel agencies will need to manage the transition into the Phase 2 which is described below:

![Chart 12: Industry Evolution and Expected Trends](chart12.png)

**Stage 1: Traditional Environment**
- Revenue sources: Commission, Override
- Organisational structure: Travel consultants in payroll, Associates, Implants
- Unique market characteristics: Paper tickets, Messengers, Personalised service

**Stage 2: Industry Response**
- Revenue sources: Steep fall in commissions, Service level agreements, Override, Fees (management & transaction)
- Organisational structure: Travel consultants and associates (concentration in fewer locations, moving to call centre organisation), Reduction in implant positions
- Unique market characteristics: E-tickets, E-mail delivery of pre-trip documentation, Telephone service, High personnel costs

**Stage 3: Multiple selling channels and e-travel empowerment**
- Revenue sources: SLA, Reduction in override, Activity-based transaction pricing (by type and channel)
- Organisational structure: Concurrent multiple selling channels, Business and leisure self-booking tools, Travel consultants as support for do-it-yourself transactions
- Unique market characteristics: Web platforms, Reporting, planning and monitoring tools, Activity- and transaction-based costing

In **Phase 2**, the reduction in commissions paid by airlines worldwide has forced travel agencies to streamline their businesses in order to guarantee sustained and long-term profitability. This can be achieved by shifting commission-based revenue models to management and transaction-fee models. It can also happen by reducing costs through concentration in fewer locations (using call centres), the automation of administrative processes and the development of online sales tools.
In **Phase 3**, efforts are made to accommodate changing shopping behaviour. The travel industry appears to be veering towards a “do-it-yourself” concept by introducing Web platforms and automatic self-booking tools. Airlines are especially aggressively in pursuing the development of direct channel sales online, which makes them a fierce competition for travel agencies. Travel agents are becoming consultants - as well as fulfilment agents for do-it-yourself transactions and destination specialists. They are increasingly moving towards the use of centralized call centres in order to realize operational cost savings through economies of scale. Travel management companies have also significantly reduced the number of implants in an effort to streamline their businesses. Service-based pricing schemes as opposed to transaction-based pricing are also gaining momentum among travel agencies and, in the near future, may become the norm.

These changes in business practice mean that travel agencies have to consider the impact of new technology and identify cost-efficient tools to meet their business requirements. With technology evolving rapidly, another key challenge for travel agencies is to keep pace with the technological changes. Finding the best option to integrate systems and automate processes will contribute to providing their customers with a seamless booking experience. Clearly, there is an identifiable need for technology providers to offer advice and guidance in technology procurement and the change management process.

**Opportunities for the Greek market**

Specifically for the Greek market, many opportunities were discovered for travel agencies to add value to their business through the timely deployment of new technology. They include:

<table>
<thead>
<tr>
<th>Greek travel agencies incur high administrative costs, especially in back-office activities (invoicing, collection and payment preparation), which account for 18.1% of total costs for business agencies, and 13.7% for tour operators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>•</strong> Through the integration of mid and back office systems, agencies could automate these administrative activities and thereby significantly reduce associated expenses. State-of-the-art back office systems offer these productivity gains and cost efficiency savings through full integration of front-office sales, with mid- and back-office accounting functions.</td>
</tr>
<tr>
<td><strong>Travel agencies often suffer from insufficient planning and monitoring of company performance (budgeting process, balanced scorecard, profitability goals per service, etc.).</strong></td>
</tr>
<tr>
<td><strong>•</strong> Travel agencies need to focus on sales origination, business processes, and organisational Structure and Management Information Systems (MIS) among others.</td>
</tr>
</tbody>
</table>
The marketplace is getting more and more competitive and travel agencies need to develop customer loyalty.

- In the business segment, travel agencies should consider the development of automated web-based/extranet reporting solutions to generate reports for each customer. This, together with online access to figures and statistics could increase customer satisfaction and loyalty.

Costs associated with core reservation processes (which account for 41% of total costs for business agencies, and 35% of total costs for tour operators) are among the lowest registered in the Activity Base Costing studies.

- Travel agencies in Greece could further reduce costs by trialling and introducing mid office systems, and by training travel consultants to better use the system. Additionally, by offering a single source of content and increasing the usage of technology to search and book all travel components (air/car/hotel/cruise, etc.) through a single front-office solution, the core reservation processes costs could be further reduced. Keeping core reservation processes costs optimised will be key for the travel agencies’ objective to grow their current business and sell ground services outside packages.

For the most part customer relationship management (CRM) systems are not utilised by Greek travel agencies to systematically track customer satisfaction and new customer wins. Loyalty programmes and an integrated marketing approach are in general not prevalent in this market.

- Through the introduction of CRM systems and the use of integrated profile management applications, travel agencies could add significant value to their business, growing in the number of new and repeated customers and increasing customer satisfaction. Also, agencies will be able to track clients’ travel records in order to proactively offer new travel services.

- The implementation of call centre solutions can help large Greek travel agencies to enhance the productivity of the travel consultants by concentrating sales staff and integrating the call centre system with all point of sales activities. It also assists in identifying clients’ waiting time and answering time and analysing the answered calls hit ratio.
• The implementation of innovative loyalty programmes - designed exclusively with a given traveller profile in mind - will give travel agencies the competitive edge over their competitors and other booking channels.

• Through integrated marketing, travel agencies can further strengthen the strong bonds built during one-on-one marketing through effective PR, events and advertising. In the future, online marketing will become more important and agencies should try to gain a first mover status in this regard.

The Internet represents an opportunity for Greek travel agencies as Internet penetration grows rapidly.

• The growing of the Internet penetration in Greece, currently at 33.5%, could show a slow, but progressive penetration of online booking tools with reporting capabilities and profile features which, in a price-sensitive environment, represent a unique opportunity for agencies to introduce online booking tools.

• With Internet invoicing, costs can be reduced by using electronic invoices. The cost of couriers and the time spent generating paper invoices could be reduced significantly as Internet invoicing becomes more broadly adopted.

Tour operators don’t have distribution tools for their packages, so Web applications should be developed and used to reduce costs.

• Most tour operators use email - or have telephone contacts - to distribute their packages. Travel agencies can’t book directly and always contact the tour operator for information. This represents a great opportunity to reduce time and costs through Internet distribution.

Travel agencies in Greece can benefit from key learnings from elsewhere in the world, thanks to independent studies like this, carried out in other countries.

• Especially for business agencies which still rely heavily on commissions, the reduction in commissions paid by the airlines and the increase in competition will force travel agencies to develop complicated mark-up schemes and administrative processes to ensure revenue. This shift in revenue structure is key to guarantee sustained, long-term profitability. This can also be accomplished by reducing costs through concentration in fewer locations (more call centres) and the automation of sales and administrative processes.
Appendix

Methodology

Hermes (a) carried out an overall market study, (b) selected travel agencies to participate in the project together with Amadeus Hellas (Greece), and (c) conducted an activity-based costing (ABC) analysis.

How was this done?

Initial, exhaustive analysis of activities in nine representative travel agencies in Greece was carried out. The analysed agencies were mainly operating in Athens. The sample was selected with a balanced mix of agencies in terms of size, location, automation level, and main-GDS provider in order to produce market-wide significant results. These agencies were classified according to their main business focus: business travel agencies and incoming tour operators.

Hermes then prepared an activity-based costing report also including the characteristics of each sector, revenue structure and profitability. This comprehensive analysis of the cost per activity within each travel agency provided important information on their efficiency in relation to their market segment.

The project included three steps:

1) Information request
   A detailed and thorough questionnaire was sent to each agency, requesting information related to revenue, breakdown of expenses, the company’s organisational chart and points-of-sale, as well as IT, software and communication equipment.

2) Process analysis
   This step consisted of an in-depth assessment of travel agencies’ business processes. Interviews with agency employees were carried out in order to help understand the main activities performed within each agency and to identify resources used in each activity. One of the findings of this study was that business travel agencies and tour operators had somewhat similar business systems in terms of their general activities (with small variations among agencies and segments). Tour operators and business agencies differed somewhat in their business systems because of the nature of their businesses and because of the differences between the markets that they serve.
The processes were documented and analysed at two levels for each type of agency:

Level 1 provided a description of the main processes used by the travel agencies while, at level 2, these main processes were divided into sub processes (Chart 16). For example, “Product and package development” (level 1 activity) included “Market analysis and monitoring to identify opportunities”, “Product and target customer definition”, “Feasibility analysis” and “Package final definition” (all level 2 activities); and each level 2 activity has a level 3 description with all the sub-sub-activities involved (not illustrated in Chart 12); in the case of “Market analysis and monitoring to identify opportunities” these would be “Analysis of existing offers from competitors”, “Identification of attractive destinations”, and “Identification of customer segments with unsatisfied needs”.

3) Cost allocation

An activity-based costing methodology was used to determine the cost of each activity during the process, to identify cost reduction opportunities and, finally, to establish the differences between the most efficient and least efficient agencies.

Two cost allocation exercises were performed:

- A traditional costing, in which accounts were divided generically (Operating and Marketing Personnel, Administrative Personnel, Communication, Systems, Infrastructure, Marketing and Other)
An activity-based costing in which traditional accounts were allocated to each activity (Chart 13), taking into account the amount of resources (cost driver) used for each and then allocated to tickets generated (issued). Data (revenue, costs, time dedicated to each activity, space occupied by each department, and system costs – IT, phones, etc.) was gathered using different sources of information (accounting reports, interviews with managers and agents, etc.)

In the ABC study, costs were presented in € per ticket. A ticket unit includes a combination of all services provided by the travel agencies and represents the average transaction per customer (including an airline ticket and attached products). By using this method, the study provides simple, standardised results and allows comparison to be drawn between travel agencies.

Business travel agencies generally sell both standalone air tickets and air tickets within packages; they rarely sell a hotel or car attached to air tickets. On average, business travel agencies sold 47 ground services for each 100 air tickets.

Tour operators sell packages more often to their clients (61 packages for every 100 air tickets). A package generally includes an air ticket, accommodation and some additional services.
About Hermes Management Consulting

Hermes Management Consulting (Hermes) is a Latin American consulting firm specialising in strategy, organisation, operations and valuation studies. Hermes was founded in late 1994 by Osvaldo Gallo and Hernán Goyanes. Both founders are former senior members of McKinsey & Company, and have worked extensively for leading companies in Europe and Latin America.

Hermes has been very active in sector analyses, company valuations, mergers, corporate strategy and business plan development, as well as the identification and implementation of operational improvements. These projects have focused on the payment systems, supermarket, retail, consumer goods, health care, energy, logistics, apparel, telecommunications, tourism, entertainment and real estate sectors. Not only does Hermes have extensive experience in these sectors, it has also helped assess a variety of acquisition opportunities in numerous other industries.

Hermes has carried out strategy, organisation, operational improvements and valuation projects, in Argentina, Brazil, Colombia, Costa Rica, Chile, Dominican Republic, Ecuador, France, Guatemala, Italy, Malaysia, Mexico, Paraguay, Peru, Poland, Saudi Arabia, Spain, United States of America, Uruguay, United Kingdom and Venezuela.

To learn more about Hermes Management Consulting please visit their website at http://www.hermesmc.com.ar