

Should Retail Travel Agents Charge Fees?

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Abstract

Travel agents currently do not charge their clients for the services they perform. Rather their income is derived from commissions paid by principals ranging from wholesalers to airlines and hotels. However, this might change as airlines in particular, are attempting to reduce distribution costs by reducing commissions paid to travel agents.

In recent months Air New Zealand subsidiary Freedom Air have ceased paying commissions entirely, while United Airlines recently announced a reduction of 2% in commissions paid to travel agents effective 01 July 1999 (Read 1999; Brill 1999). Jetset Tours has developed a system to track all hotel and car commissions. According to Jetset's general manager corporate travel Alan Diamond, they once relied on principals to send them the cheque. Unfortunately, this cheque did not always materialise and so they decided to develop the computer software to track this commission. (McMahon 1999)

What if hotels, wholesalers, car companies, travel insurance companies and cruise companies who currently pay a minimum of 10% commission to retail travel agents decided to reduce their commissions? How would the retail travel agents make up for this reduction in revenue? How would the retail travel agent stop the spiralling decline in commissions for payment of commissions?

The unrelenting drive by airlines in particular, to reduce cost structures appears to be targeting the commissions previously paid to Travel Agents. If this continues Travel Agents face the stark choice of seeing profits fall or introducing fees for bookings.

This paper will outline current structures of commissions, comment on current changes and examine the options for retail travel agents in the future in relation to commissions.

References

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