

# SMALL BUSINESS RESEARCH SUMMARY

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## E-Commerce's Impact on the Travel Agency Industry

by S. Katherine Hill and Donald Hill. 2001 [67 pages].  
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### Purpose

This study investigates the effects of e-commerce and other technologies on the travel agency industry. The rise of frequent flyer programs, shrinking airline ticket commission rates, industry contraction, and the availability of technologies that let customers bypass agents have altered market conditions for travel agencies and raised concerns about the industry's future.

### Scope and Methodology

This study covers the travel agency industry in terms of size, demographics, and revenues using data from government reporting agencies, universities, industry trade associations, and other secondary sources. The authors also directly contacted travel providers and industry associations to verify findings. A caveat applies to e-commerce data: since no standard measurement system exists for data on e-commerce and the Internet, sources may differ widely, even by orders of magnitude.

### Highlights

- The travel agency industry is shrinking. In 2001, travel agencies numbered 29,018, a decline from 33,500 in 1995. Most travel agencies are very small businesses.
- Several actions of the airlines—cultivating direct relationships with customers through frequent flyer programs and capping, reducing, or eliminating travel agent commissions—have reduced offline

agency commissions by \$2.8 billion over an eight-year period, from \$7.6 billion in 1992 to \$4.8 billion in 2000 (a 36.8 percent decline).

- In 2000, electronically issued tickets (e-tickets) accounted for 60.4 percent of all airline ticket volume. The number of agencies able to issue e-tickets increased from 53 percent in 1995 to 98.4 percent in 1999.
- Total online travel sales have risen from approximately \$400 million in 1997 to \$15.4 billion in 2000. Nevertheless, online travel sales represented only 7 percent of total sales in 2000, and they are expected to remain at less than 30 percent of total sales through 2005.
- In 2000, 90.4 million travelers used the Internet. Of these, 59 percent used it for travel planning, and 24.7 million travelers made travel reservations online.
- Airline ticketing generates 54 percent of travel agencies' annual sales; cruise package sales generate 19 percent; hotels and auto rentals contribute 11 and 8 percent, respectively.
- In 2001, minority and small-business travel agencies made up 40 percent of the 55 agencies listed as approved GSA travel contractors.
- The future may not bode well for travel agents, as airlines are focusing on using e-commerce to reduce two of the largest components of their distribution costs—travel agency commissions at 6.5 percent and Global Reservation Distribution System fees at 2.1 percent.

## Conclusions

This report documents changes occurring in the travel industry resulting from the use of e-commerce and Internet-related technologies. One part of the travel industry—the airlines, which consist of a few large firms—is taking advantage of its size and new technologies to alter the marketplace at the expense of travel agents—a sector largely composed of very small firms.

To stay in business, small travel agencies are refocusing on products with higher commissions (cruises and tour packages), and some are moving into home-based offices and using e-commerce technology to reduce overhead. Competition between small and large travel agencies is likely to increase, and small businesses will likely be forced into niche markets.

## Ordering Information

The complete report is available online at [www.sba.gov/advo/research](http://www.sba.gov/advo/research). Copies are also available from:

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