The Reality of E-Commerce in Corporate Travel Purchasing

Richard Eastman
President
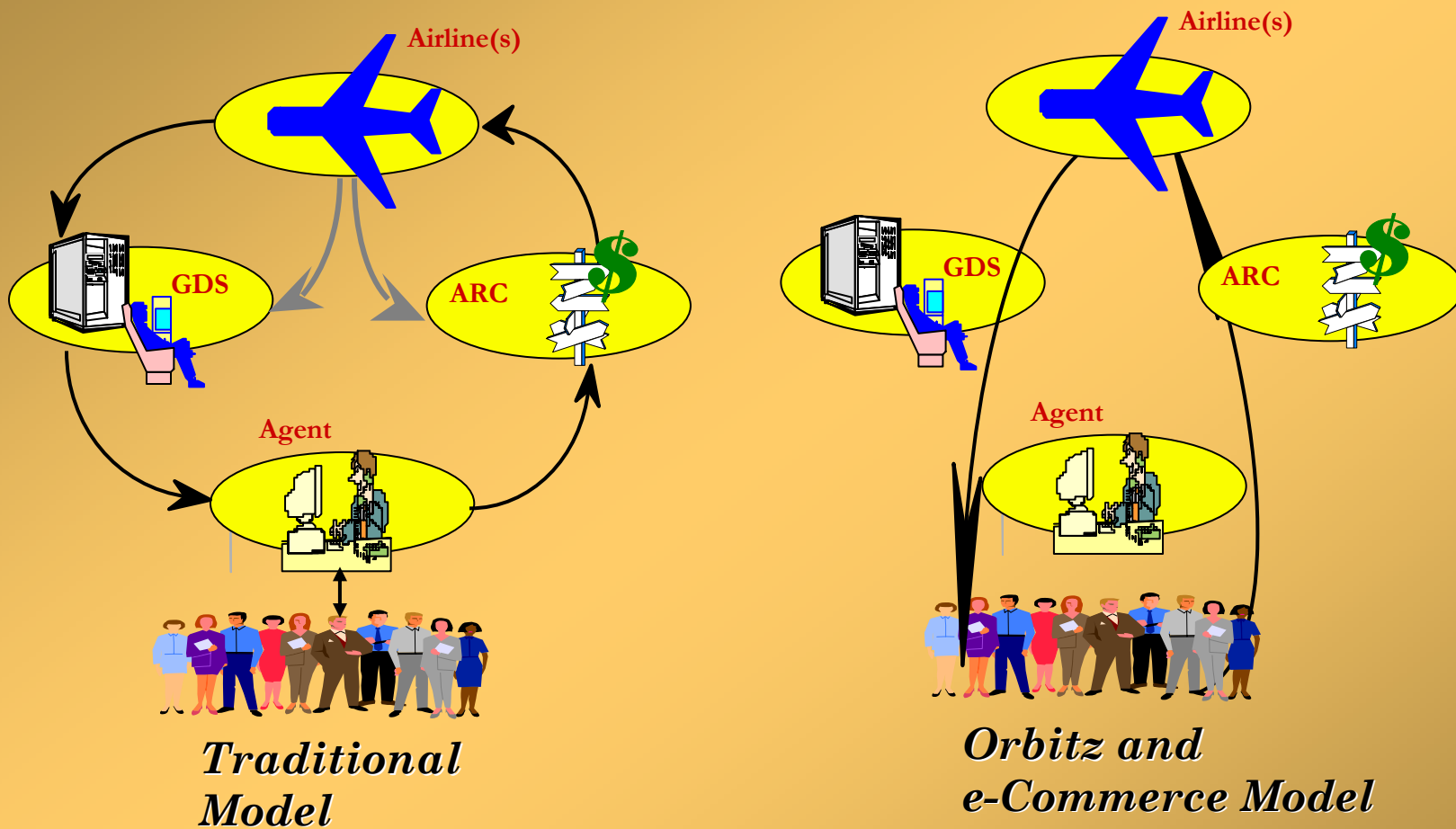*The Eastman Group, Inc.*
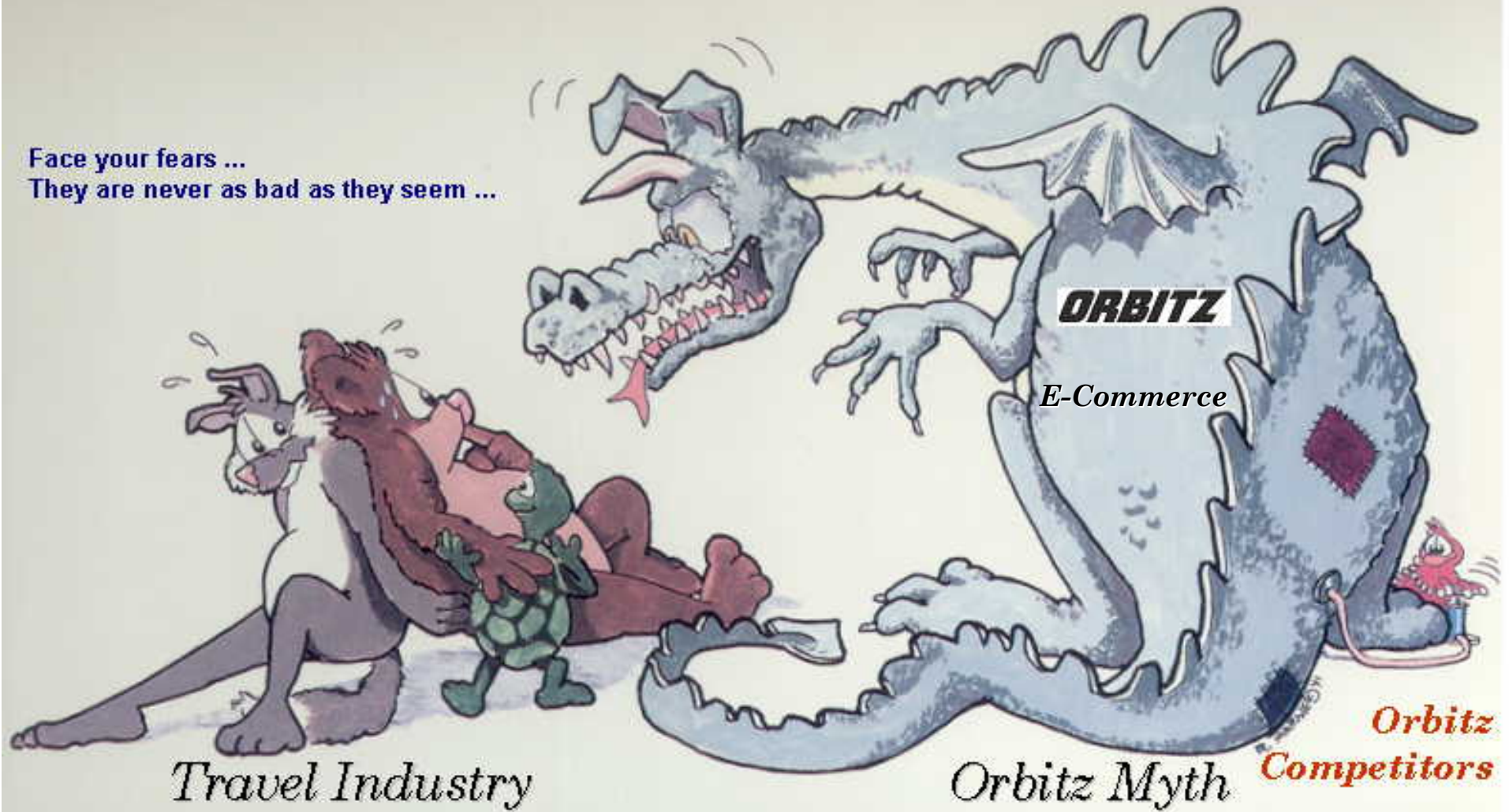
Jeff Katz
President/CEO

ORBITZ

Internet travel is not only real, it is already huge. Next year $20 B will be sold online (about half through airline web sites). There are two players today as retailers....they own 90% of the "portal eyeballs". The business is concentrating from 36,000 agents toward two ... or at least two online, and a bunch that are traditional -- but with less business. Orbitz won't change this at all. *Orbitz has nothing to do with today's travel agency model.*   Orbitz has mainly two purposes.

Purpose #1 - *prevent* the industry from concentrating from *many* to *two* ... one controlled by Microsoft (not generally viewed as the most even handed competitor) and the other controlled by SABRE (working all channels, but funded exclusively by [airline] booking fees which have gone up over 1000% since 83). With Orbitz there will at least be three players; and probably others -- but not many more. If Orbitz fails there will be no more, for sure.
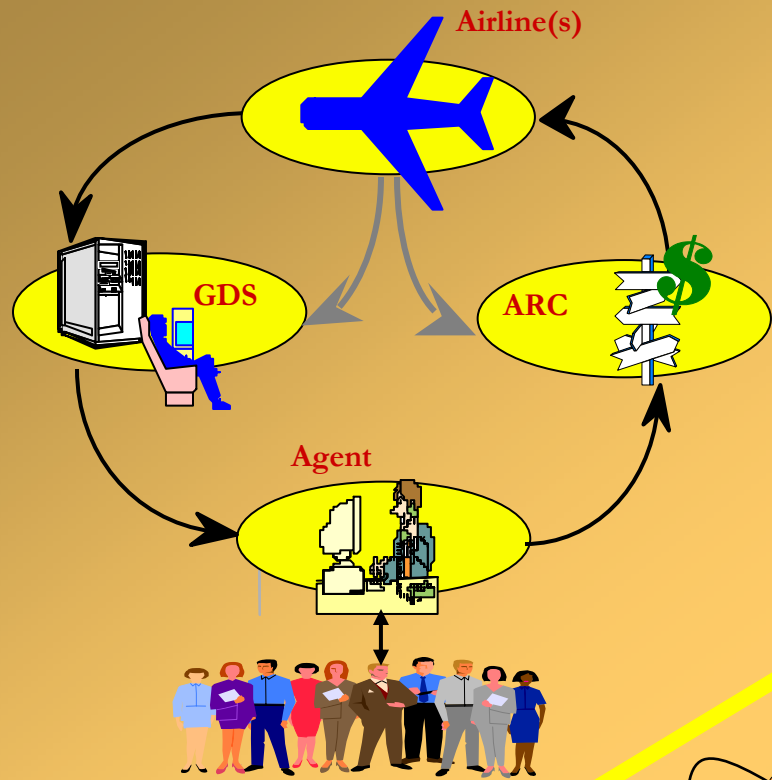
Purpose #2 - as Southwest did for air travel, Orbitz's mission is to be *a low cost channel.* This is enabled by completely new technology (the Orbitz data center fits in a hotel room, Sabre's in the Rose Bowl). And Orbitz bypass (eventually) the whole CRS mechanism and its fee process ... that means finally there is price competition in the booking fee arena. This is what the airlines really want to see. Any player that mimics this model will get the same support as Orbitz get as long as they don't charge booking fees to make up the cost difference.

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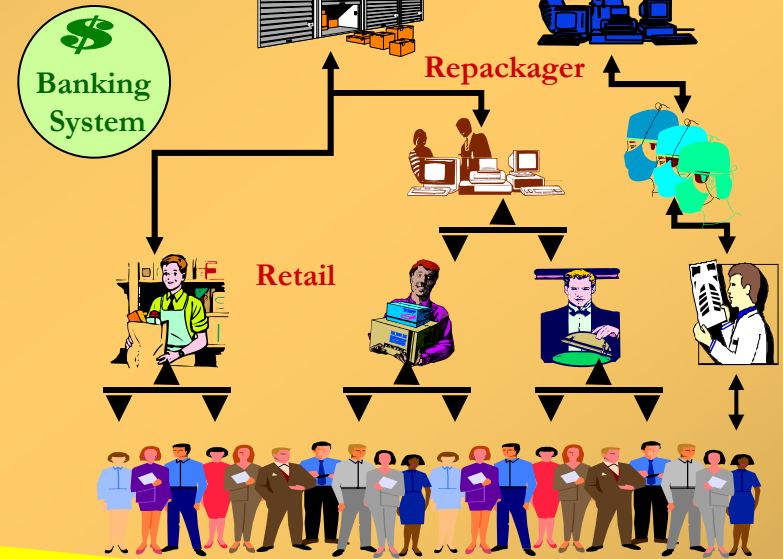**E-mail to Richard Eastman, 10 August 2000**

Is there Truth in Jeff's Two Purposes?

Airline(s)

GDS

ARC

Agent

Traditional Model

Airline(s)

GDS

ARC

Agent

Orbitz and e-Commerce Model

What is Really Happening ...

Travel Distribution in Transition ...

Airline(s)

GDS

ARC

Agent

Hierarchal

Manufacturer

Wholesaler

Repackager

Retail

Banking System

Holistic

Hyperarchy

Midwest Business Travel Association

New Product Dynamic ...

Transformation

Buyers Needs Differentiation

Experience

Services

Alters Competitive Structure ...

Goods

Commodities

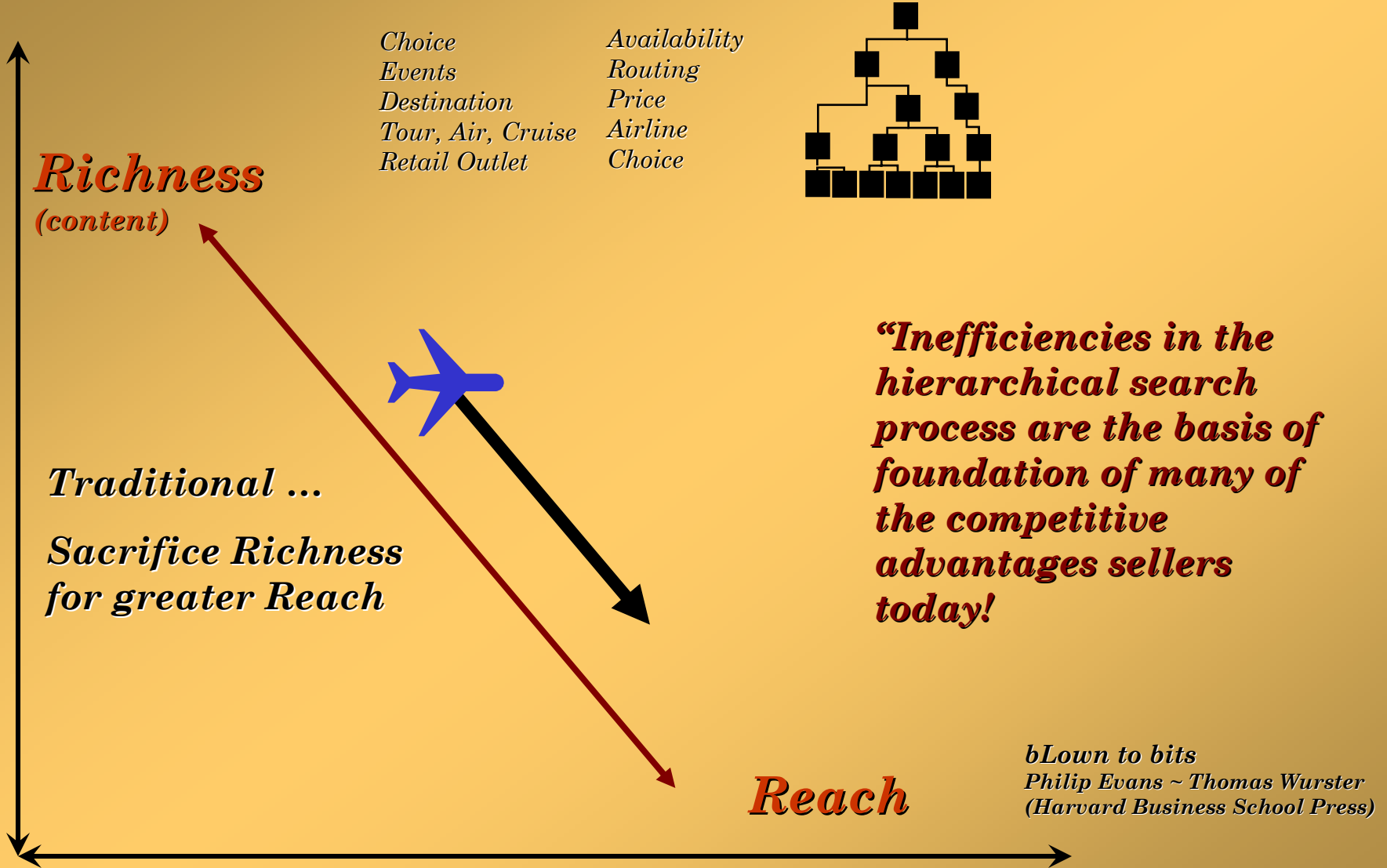*Buyer Price*
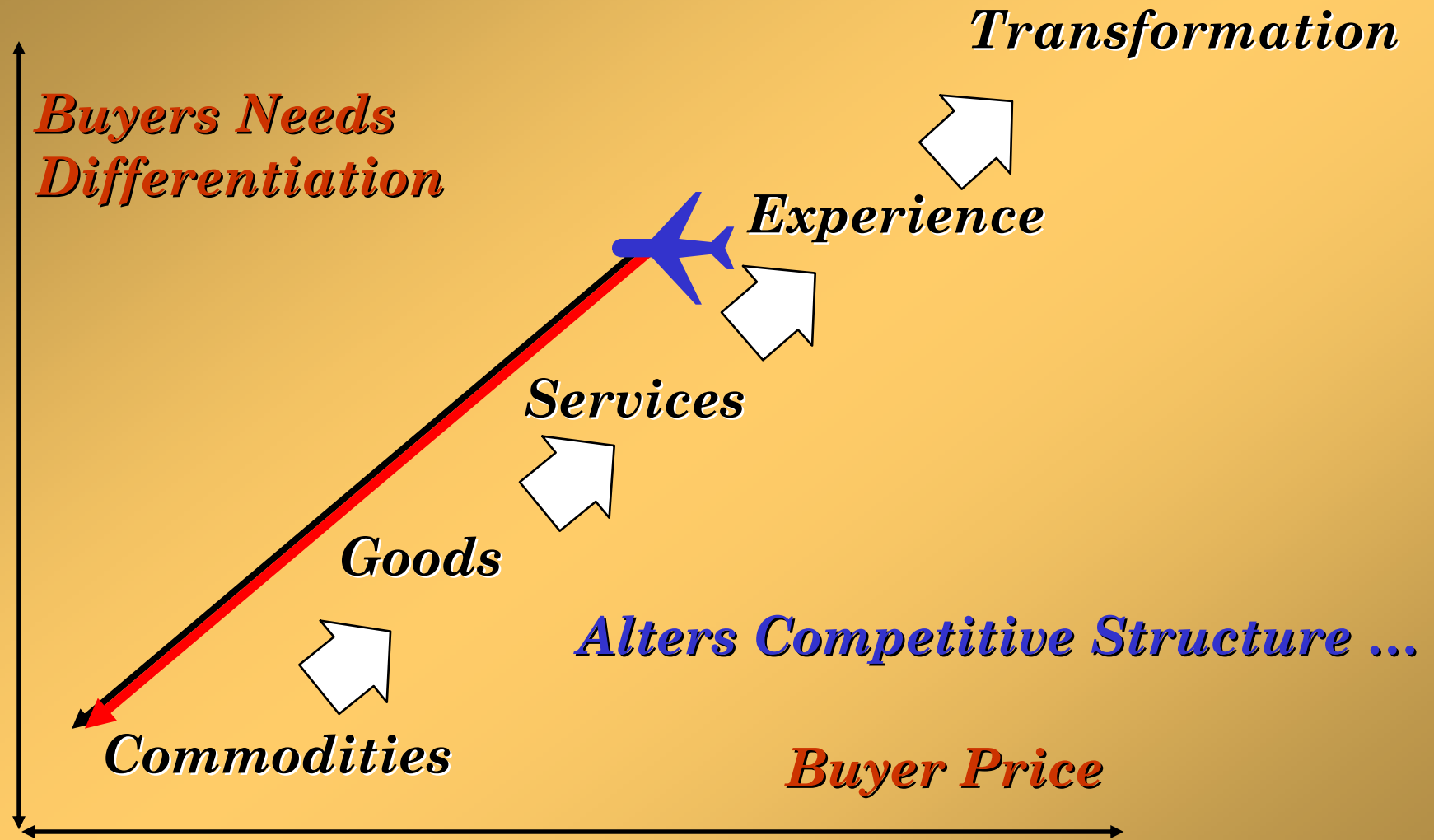
Progression of Economic Value
(The Experience Economy ~
Joseph Pine • James Gilmore ~ 1999)

Traditional Change in Distribution ...

Choice
Events
Destination
Tour, Air, Cruise
Retail Outlet

Availability
Routing
Price
Airline
Choice

Richness
(content)

Traditional ...

*Sacrifice Richness
for greater Reach*

*"Inefficiencies in the
hierarchical search
process are the basis of
foundation of many of
the competitive
advantages sellers
today!*

Reach

bLown to bits
*Philip Evans ~ Thomas Wurster
(Harvard Business School Press)*

Trade-off between Richness ~ Reach ...

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Fundamental Change in Distribution ...

Richness

Travel Agent

Speed

*Crawling along
the R-R Trade-off*

Airline

**New
Disintermediate ...**

*Adding Richness
and Reach
simultaneously*

Airline

Reach
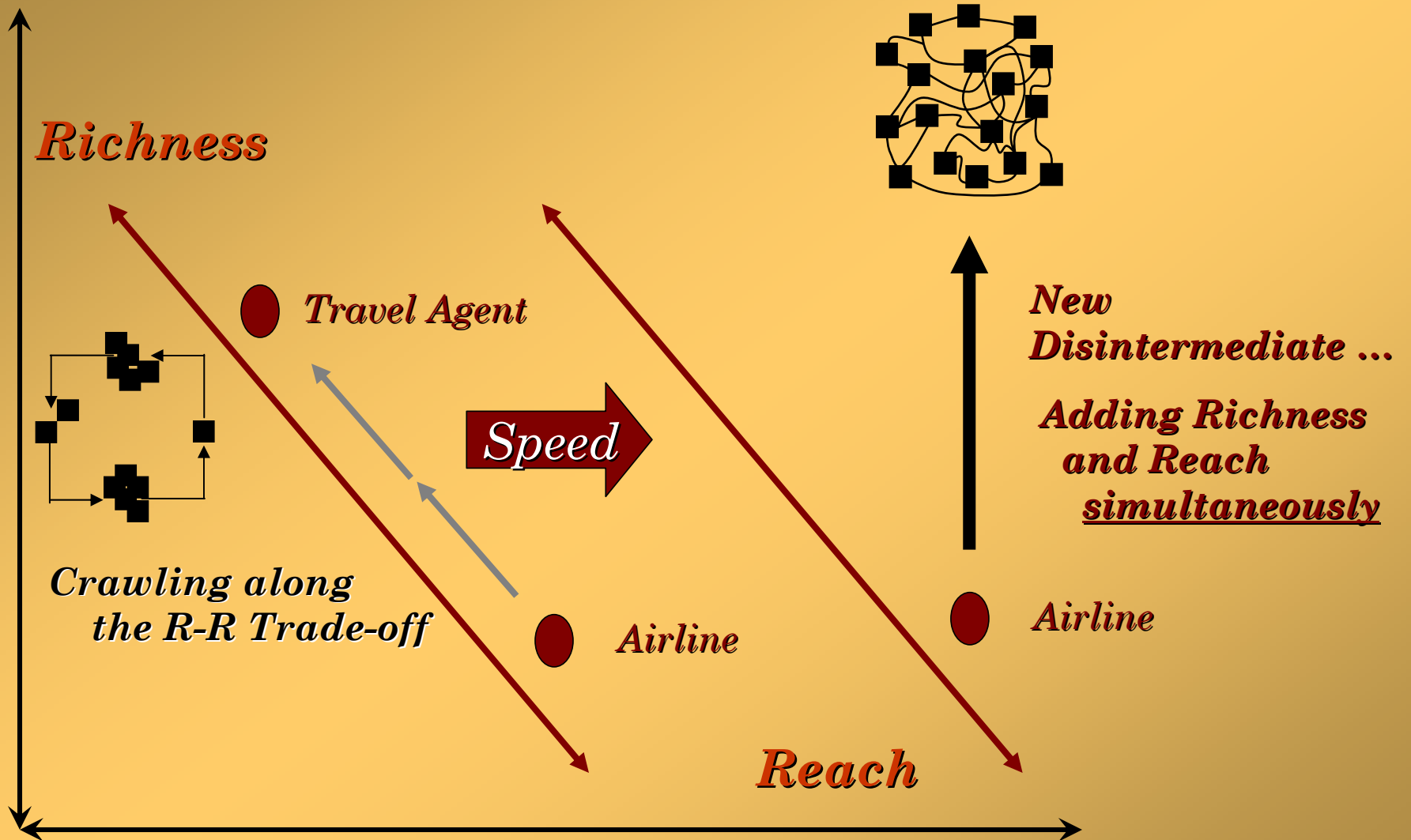
Disintermediates Intermediaries ...
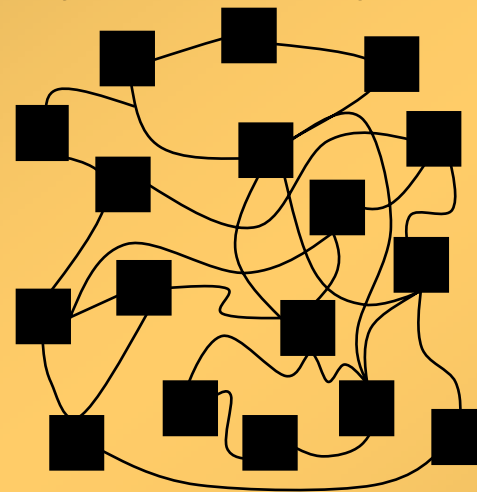
Information Transition...

Hierarchical Distribution   ## *Hyperarchy Distribution*
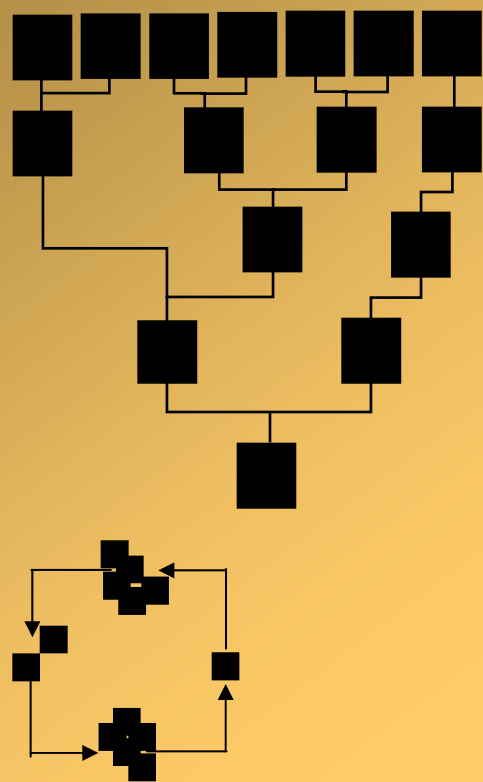
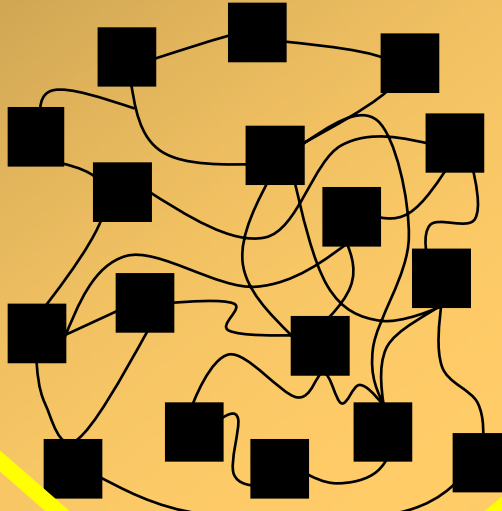Information flows from Vendor(s) through controlled distribution channels to the buyer ...

When Information flows digitally and is shared by everyone, distribution alternatives become interactive...

- **Supplier-Driven Distribution**

- **Demand-Driven Distribution**

New Dynamics of the 2000's...

Interactive Speed

Boundaries

Targeted

Integrated

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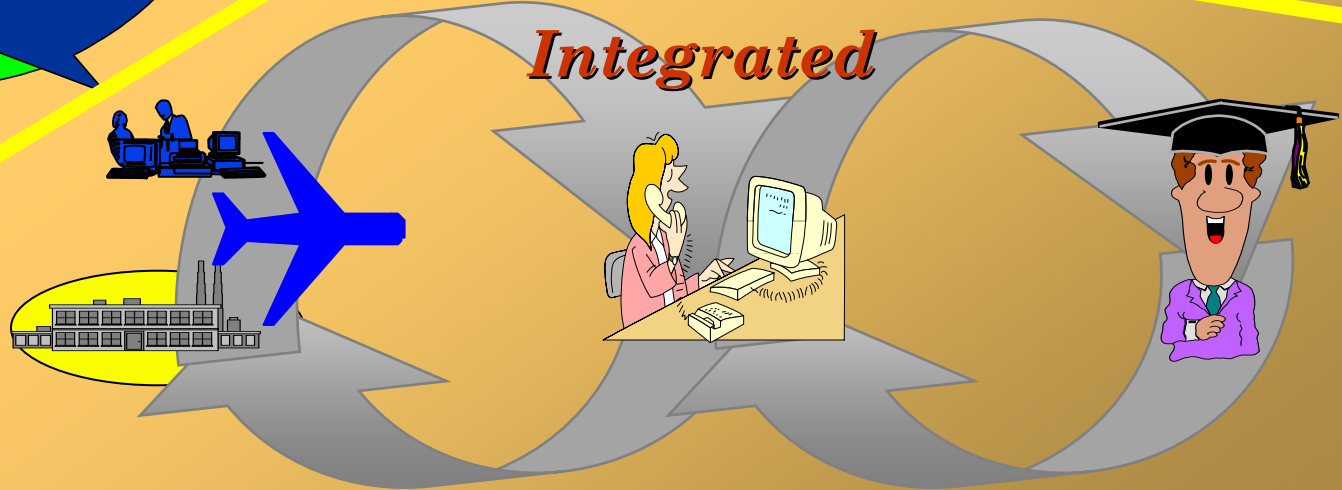
The Same, but NOT the Same
Automation speeds the process

Customer

- Target Audience
- Gain Attention
- Induce Participation
- Qualify Response
- Process the Services
- Proactive Interaction
- Audit Revenue
- Measure Progress

Feedback Learning
Re-Targeting ...
Self-Organizing ...
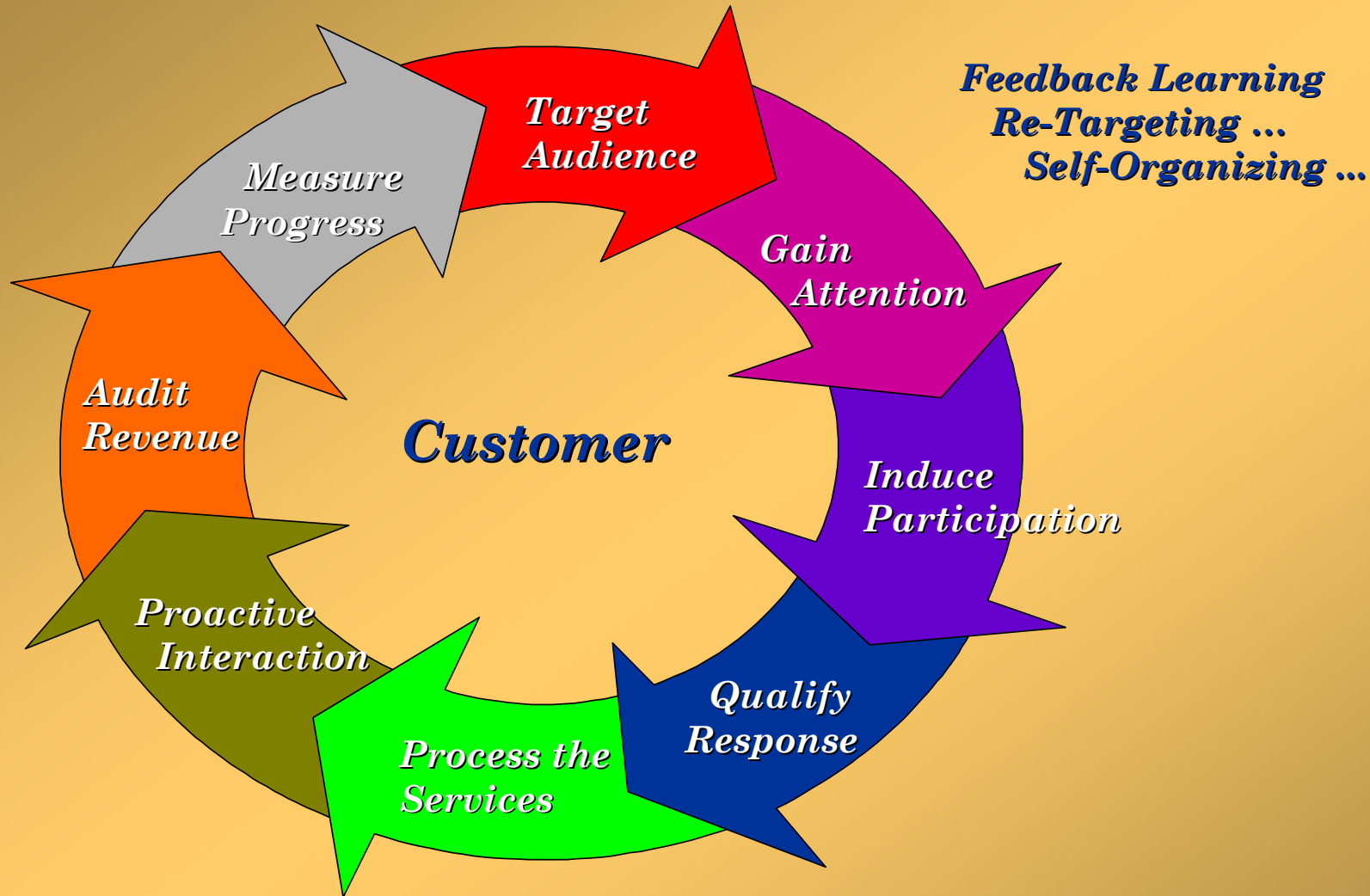
Automating Customer Relationship Management

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Multiple Dynamics ~ Feedback Loops ...

Progression of Economic Value

Boundaries

Targeted

Culture

Speed

Airlines
Hotels
Car Hire
Rail
Tour Packagers
Cruise Operators
Agencies
Consolidators
Reverse
  Consolidators
Corporations
GDS/CRSs
Ground Handlers

**e-Commerce
e-Business
The Hyperarchy**
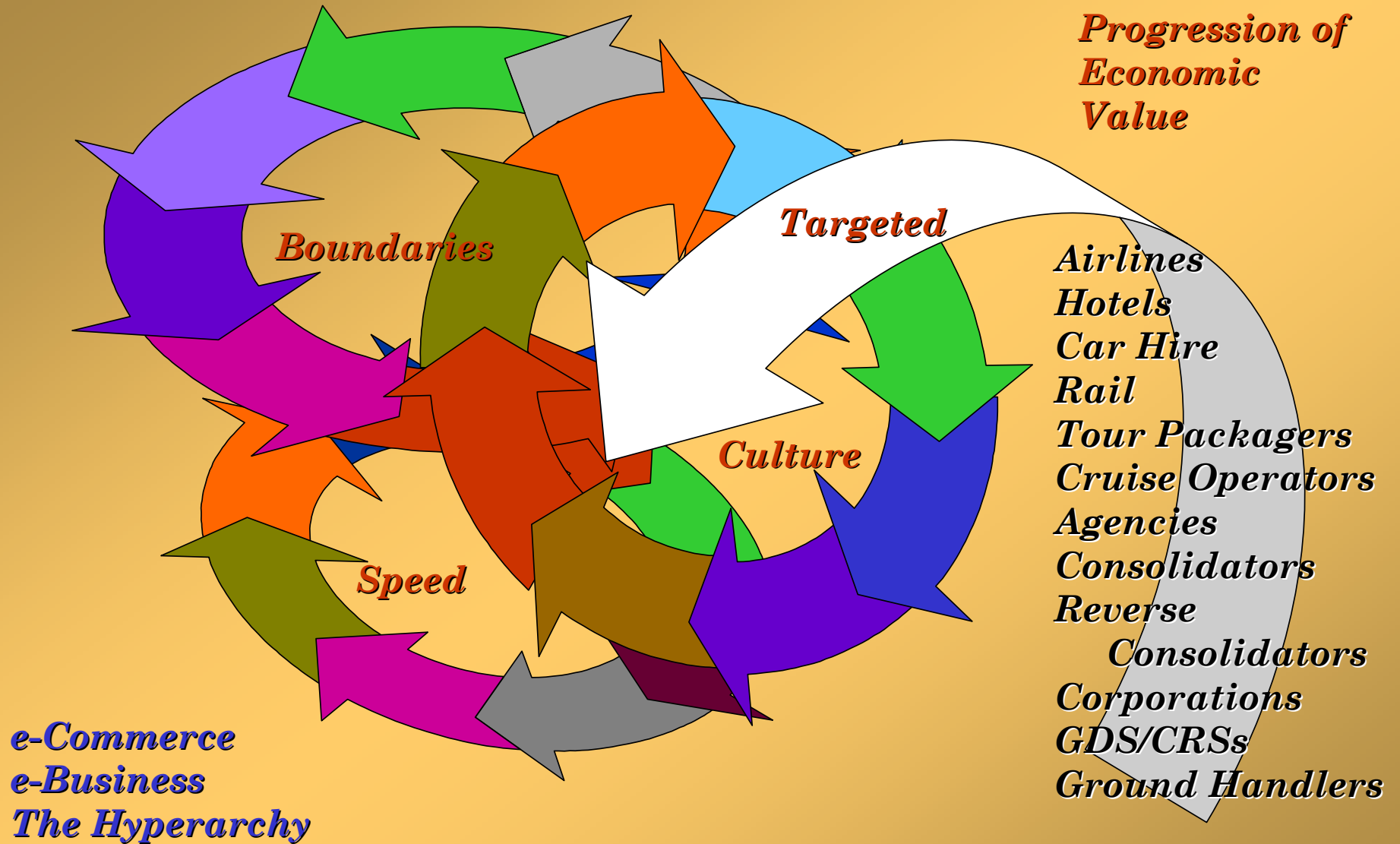
Managing the Unknowable ...

Eventual Impact of Hyperarchy on Prices ...

Profits

Losses

Hyperarchy

Traditional
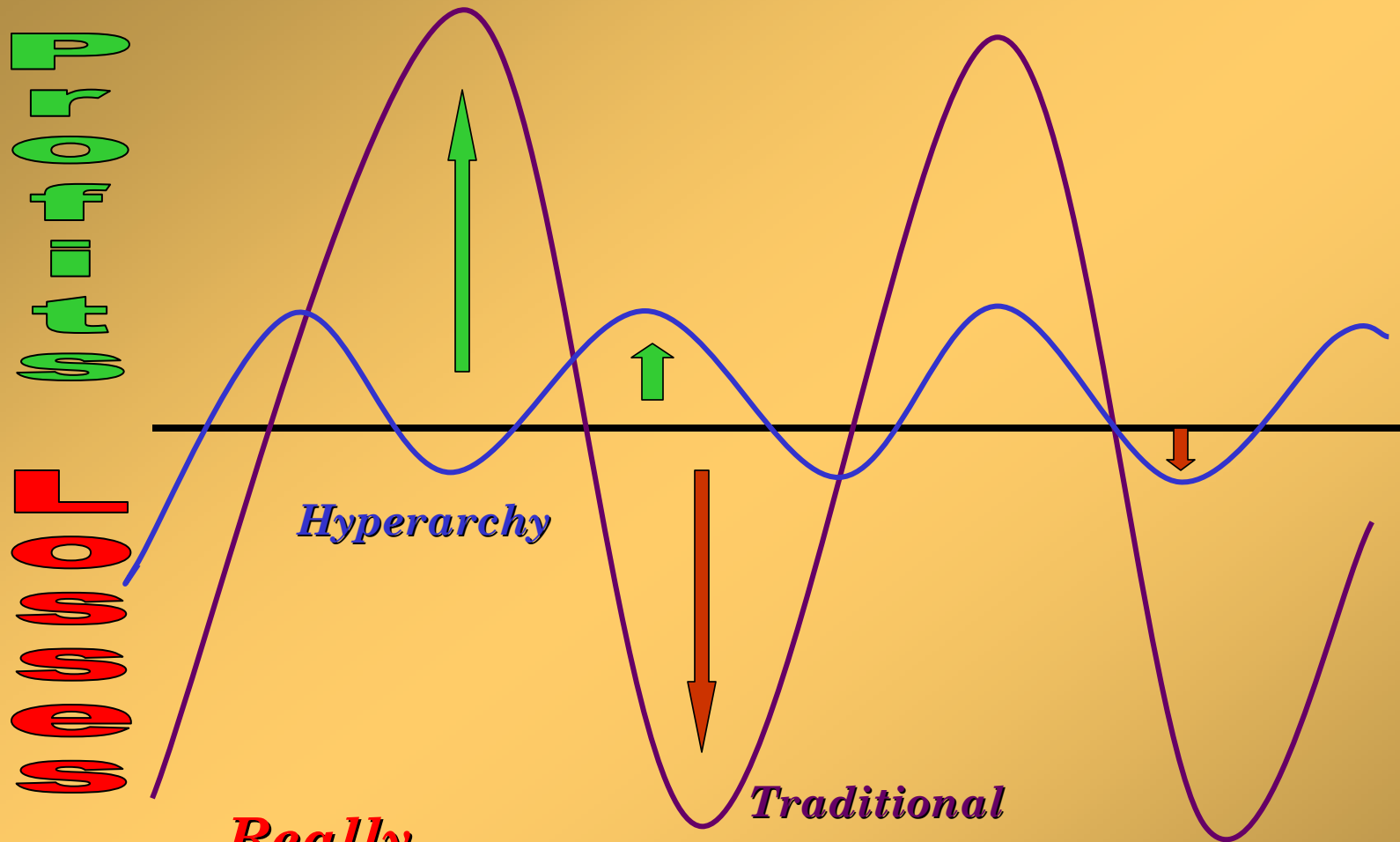
Really ...
Impact of Interactive Alternative Choice !

Integrated Travel Distribution ...
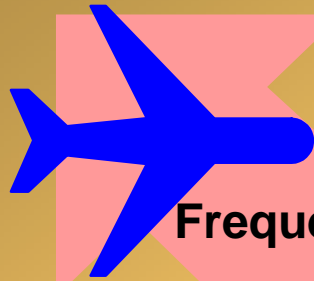
Frequent Fliers

Reverse Consolidators

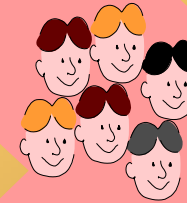## *Risk Distribution • Commodity Re-packaging*
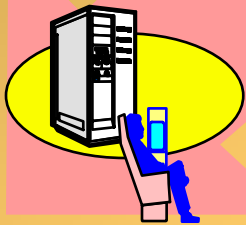
Interactive Packagers

Repackagers

Online Live Packaging

… targeted to specific buyer needs!

… targeted to specific buyer needs!

In an era of virtually unlimited access to information about alternative supplies -- enhanced by the supplier's ability to respon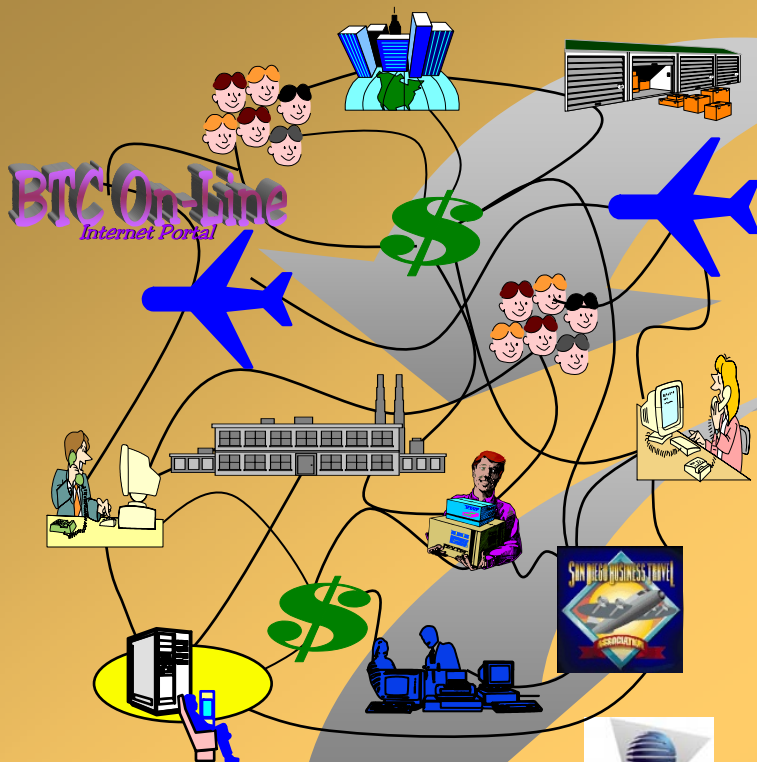d to buyer needs interactively -- *buyers are in control.* Buyers can interactively select among multiple alternatives, balancing needs and desires to fit the current specifics of a purchase. In such an environment, *commerce becomes demand-driven -- not supply-driven.*

The last 100 years of commerce have been *supply-driven*, where price of product was primarily a factor of supply relative to demand. Oversupply drove prices down – under-supply drove prices up. Suppliers, through manufacturing levels and distribution channels, controlled supply and thus, prices. The original airline CRS systems were created because of the need to control *supply-driven* inventory of seat distribution … the very same systems stilled used today.

The *key to management in the hyperarchy* will be linked one's ability to manage information -- to access widely disparate information sources *and turn that information into knowledge specific to the needs of the user or the buyer.* The function of transaction processing will become transparent, to be replaced by the function of knowledge management -- navigating the widely expanded information paradigm.

Contemporary managers, travel or otherwise, *have virtually no experience with a demand-driven economy,* and are entering a period of attempting to *"manage the unknown."*

Richard Eastman, "Who's in Charge Here",
Business Travel Executive, August 2000

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Corporate Travel Manager "Navigators"

1. The Hyperarchy implies choice …

2. Choice beyond a certain point implies bewilderment.

3. Thus, the rise of the Corporate travel "Knowledge Navigator"
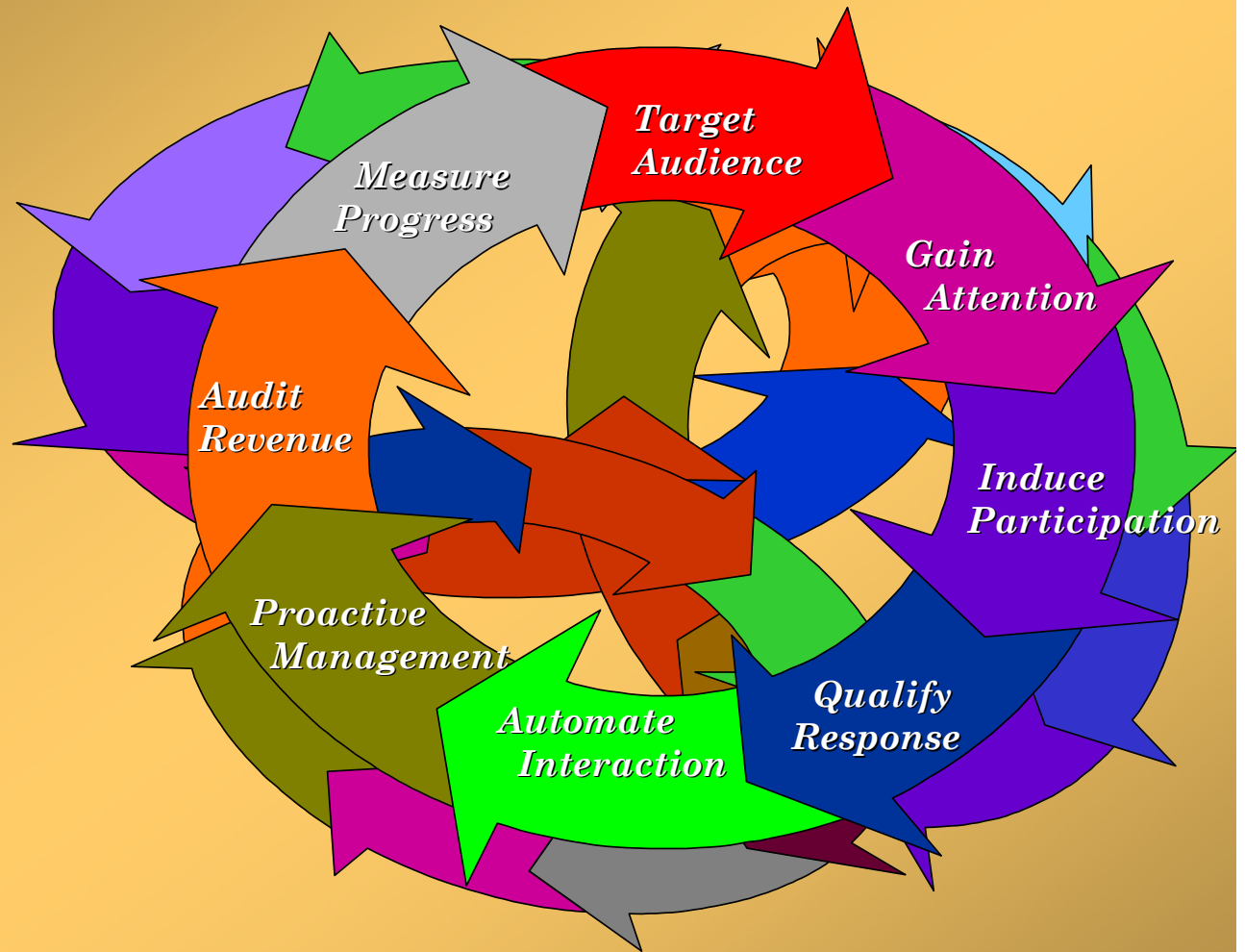
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The Evolving Travel Manager World...

1: e-Commerce is about separating the economics of information from the economics of things ... separating physical from distribution.

2: Inefficiencies of the hierarchal search process between "reach" and "richness" are the base of most competitive advantages today.

3: As e-Commerce roles "richness" into "reach", new "navigators" will derive advantage by affiliating with the interests of the buyer.

4: The smaller your "reach" (economic, markets, volume), the greater the need for "richness" as it relates to the "needs" of the buyer!

Self-Organizing System
Increasing Speed
Niche Targeting

Multiple Automated Feedback Loops

Measure Progress

Target Audience

Gain Attention

Audit Revenue

Induce Participation

Proactive Management

Automate Interaction

Qualify Response

The Corporate Travel Manager of "tomorrow"...
... only automation can ensure the necessary speed
... but only people can manage other people's needs

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PopQuiz -- score yourself in context of what we've discussed …

1. How current are your market pair corporate traveler reports?
2. How is Travel Buying Reconciled with actual Traveler Expense Reports?
3. How is your Travel Agency compensated for its services?
4. What level of Strategic Travel Knowledge do you access or monitor?
5. Does your company currently use electronic settlement programs?

What issues must you consider?

- **What are your personal skills?**

- **Is your company ready to manage travel …**
  how does the company measure travel contribution?

- **Is travel an "expense" or "opportunity" cost?**

- **Is your company big enough to buy direct …**
  or does it need to buy in a cooperative?

- **Are your vendors prepared to deal with you/your company?**

- **What should you "outsource" … What _must_ you "control"?**

- **What "tools" are available to you …**
  What might be outsourced?

The Orbitz e-Commerce "Myth", revisited …

"Orbitz and e-commerce have nothing to do with today's travel agency model."

Real issue is an alternative distribution model that is more cost effective for buyer … and seller. At risk are "traditional" intermediaries

Face your fears …
They are never as bad as they seem …

ORBITZ

E-Commerce

Travel Industry

Orbitz Myth

Orbitz Competitors

Graphic 's by Robert Marble,© 1986
Editorial Comment by Richard Eastman, @ 2000

- European 7
- Asian 5
- BeYoo
- AeroXChange (11)
- Sabre MarketPlace
- GetThere MarketPlace
- Virtuoso
- E-Business Forum
- Business Travel Exchange
- Travelinput.com
- Open Travel Alliance
- … etc., etc., etc.

Bigger Challenge…
"Managing the Unknown" in a new Demand-Driven World of Corporate Travel Management

THE EASTMAN GROUP, INC.

Thank You!

Travel Software Solutions
Technology Consultants
2280 University Drive, Suite 104
Newport Beach, CA 92660-3328
USA
949/574-1505 : Fax/574-8369