



Distribution

19 August 2003

Two Issues

1. Does access to Travel Distributors constitute a barrier to entry / expansion in relevant passenger markets?
2. What is the impact of the Alliance on the Travel Distribution Market?

Issue 1:
Access to Travel Distribution

Access

- July 2003 – 630 Travel Agents
- No evidence new entrants cannot access Travel distributors if they wish (e.g. Fifth Freedom Carriers)
- Access to Travel distribution is not a barrier to entry for VBAs

Issue 2:
Alliance impact on Travel Distribution

Distribution Environment

- VBAs concentrate on selling direct
- FSAs seek to maximise revenue from a range of distribution channels while also looking for ways to improve efficiency through those channels
- By reducing costs and therefore fares, demand is stimulated, creating a larger pool of potential customers for Travel Agents
- With or without the Alliance carriers will continue to focus on costs to reduce fares to ensure competitiveness = market stimulation

Air New Zealand's philosophy

- To offer Travel at as low a cost as possible to the consumer
- Make all costs transparent, i.e. clear identification of separate costs of travel - Air Fare, Taxes & Service Fees.
- Give consumer choice of channel, i.e. Travel Agency, eAgency, Internet, Call Centre and Travelcentres
- Give Travel Agents choice of booking medium, i.e. via GDS or Internet
- Give Travel Agents & Air New Zealand Direct Channels the opportunity to charge for the services provided and value they add
 - Many Corporate Agents have been charging service fees or operating under a management fee structure for the past five years

Travel Management Companies (TMCs)

It is argued that the Alliance will adversely impact on TMCs

This is not the case:

- TMCs provide air and land bookings, complex itinerary management and travel budget management and reporting
- These services will continue to be demanded

TMCs will continue to demand a fee and remain profitable, because they provide a service which is valued

Retail and Leisure Travel Agents

It is argued that many retail Travel Agencies will be forced out of business due to expected reduced commission income

- Introduction of Domestic Express in Nov 02 saw the removal of base commissions
- Since this action, there has not been a reduction in the number of Travel Agents
- Research indicates that many consumers want face to face consultation
- Since the introduction of Service Fees, many Agents have reported increased income

If consumers value the services provided, it is difficult to see why Agents will not continue to succeed and flourish

Consolidators

It is argued that under the Alliance consolidators' ability to provide an extensive choice of multi-stop, multi-carriers itineraries would be compromised

- 5th Freedom carriers are particularly large users of consolidators and this would not change
- There is virtually no Domestic NZL consolidation
- The level of consolidation carried out by Air NZ is minimal and will be unaffected. e.g.
 - Of the Gullivers Consolidation revenue, in the six months ending June 2003, NZ's share was only 6%
 - Of House of Travel's Consolidation revenue, in the six months ending June 2003, NZ's share was only 8%.

Consolidation will not be impacted by the Alliance and in any case, it is a very small segment of its business

Wholesalers

It is argued that Air New Zealand and Qantas would not transact business with wholesalers, threatening wholesalers' viability

- Domestic wholesale activity is minimal
- Vertical integration of the New Zealand distribution channels ensures that Air NZ and Qantas will both continue to work with wholesalers

The total revenue controlled by the wholesalers will ensure that both carriers will continue to support wholesale activity

Summary

Provided the Indirect Channel continues to demonstrate value to the consumers, the Alliance will have little if any impact on them