‘ALL TIME RECORD PAYMENTS’ FOR JTL FRANCHISEES

Image credit: Getty Images

Peter Lacaze tells what JTL’s 2010/11 results mean for the company’s member agents

By Ian McMahon

Lacaze has a ready explanation for so much more of Flight Centre’s TTV flowing through to its bottom line. He said it’s because JTL is returning the great proportion of its TTV back to member agents.

JETSET Travelworld Limited (JTL) agents received “all time record payments” from the group in the 2010/11 financial year, according to the company’s chief executive Peter Lacaze.

Lacaze depicted the “transformative” 12 months in which the merger between Stella Travel Services and Jetset Travelworld Group was bedded down as a period that delivered substantial gains to members of the Travelscene American Express, Harvey World Travel, Jetset and Travelworld chains.

The man who persuaded the Australian Competition and Consumer Commission that the Stella-JTG merger was not anti-competitive and then oversaw its implementation with a smoothness (outwardly at least) that belied the complexities involved, said there are two key things a franchised group should deliver to its agents.

The first is a flow of money to help the agents run their businesses and, said Lacaze, JTL has certainly provided this with the record amounts it paid out to its agents in 2010/11.

“They have seen a very strong benefit,” he told *travelBulletin*.

He identified improved technology as the second key benefit that franchised agents should receive from their chain and he claimed members of JTL’s agency groups have reaped big efficiency dividends from technology provided by in-house consolidator Air Tickets.

This technology, said Lacaze, has reduced agents’ error rates, cutting their losses from airline ADMs (agent debit memos).

Speaking to *travelBulletin* following publication of the JTL 2010/11 annual report and on the eve of the Travelscene American Express and JTG annual conferences, Lacaze identified the move to a single company-owned consolidator as a key cost saving initiative for the merged group.

It saw the closure of the JTG National Ticketing Centre (NTC) – operated by Consolidated Travel – and the diversion of JTG to JTL’s Air Tickets.

The move was made with the assent of Consolidated owner and major JTL shareholder, Spiros Alysandratos, who recognised it was in the interests of all JTL shareholders, albeit a loss of significant volume for Consolidated.

But for the move to succeed, it was also necessary to gain the support of JTG agents who, as Air Tickets boss Russell Carstensen readily acknowledged, were well satisfied with the service they had been getting from their exisitng ticketing centre.

For JTL some of the most crucial sessions at last year’s Jetset Travelworld conference were those conducted by Carstensen aimed at convincing the chain’s agents that they would not lose from the switch in consolidators.

Carstensen did not give the agents a sales pitch. He agreed that Consolidated had done “a great job” and called the NTC “a brilliant business”.

But he pledged Air Tickets would work hard to win their respect with calls answered quickly by experienced staff in the caller’s home state.

He promised revalidations and same day cancellations would be free of charge. He foreshadowed a self-write online product and a new SmartFares database loaded into all GDSs.

A year later, Lacaze’s praise for Air Tickets’ contribution to realising cost-saving synergies from the merger indicates that the consolidator has delivered on Carstensen’s promises to the JTG agents.

One of the features of the 2010/11 JTL results is that the merged company achieved underlying increases in TTV (total transaction value) and EBITDAI (earnings before interest, tax, depreciation, amortisation and impairment) with no increase in costs.

And it reported it is on track to achieve merger-related savings of at least $10 million by the end of the current financial year.

Asked about where these savings will be achieved, Lacaze stressed they will come from the business' back office, typified by the consolidation rationalisation.

"I promised that we would keep the separate chains and we have lived that promise," he said.

"Our (cost-saving) focus has been on all of the functions back of house. In the front-facing part of the business we have kept with the separate Travelscene American Express, Harvey World Travel and Jetset Travelworld teams and our agents have responded really positively to that."

He added that the company has kept retrenchments to a minimum.

The "underlying" increases in TTV and EBITDAI reported by JTL for 2010/11 are based on calculations of what the company would have achieved if it had traded as a merged entity for the full 12 months.

TTV is calculated as $5.8 billion, an increase of six per cent on what the two companies achieved separately in 2009/10.

And EBITDAI is calculated as $54.9 million, up 26 per cent on 2009/10.

By comparison, Flight Centre's Australian operation reported a 12 per cent increase in TTV to $7.2 billion and a 10 per cent EBIT increase to $191.3 million.

The two results are by no means directly comparable. The JTL figures include its overseas interests which include a sizeable New Zealand operation and EBITDAI is not the same as EBIT.

Nevertheless the TTV figures suggest the two rivals are neck and neck when it comes to business volumes. After all Flight Centre's $7.2 billion includes the turnover of all its wholly owned outlets while JTL's $5.8 billion does not include the results of its 2000 member agents.

Lacaze said he is unable to quantify the difference this would make to the company's Australian TTV figure.

But surely it would take JTL at least marginally past Flight Centre's Australian result – albeit Flight Centre's figure seems to be growing around twice as fast as JTL's.

> In an investor presentation to investors following the release of the JTL annual report, Lacaze suggested the spectacular growth of OTAs is now levelling off.

At the bottom line, however, JTL's EBITDAI growth is more than double that of Flight Centre's Australian EBIT.

On the other hand, the crucial bottom line calculation is that Flight Centre's Australian EBIT is more than 350 per cent higher than JTL's.

Lacaze has a ready explanation for so much more of Flight Centre's TTV flowing through to its bottom line.

He said it's because JTL is returning the great proportion of its TTV back to member agents in the form of overrides, incentive payments, promotional support and so on.

"We share those profits with our franchisees – it goes to the franchisees," he said.

In the submission which won ACCC approval of the Stella-JTG merger, the companies claimed that they had 38 per cent of Australia's bricks and mortar travel agency outlets but attracted only 25 per cent of retail travel spending. (Flight Centre, by contrast, had 20 per cent of the outlets but 19 per cent of TTV).

Has the merged company been able to improve the situation over the past 12 months? Lacaze said he is unaware of the current figures.

The submission also pointed to a 20 per cent growth rate for online travel agencies (OTAs) compared to only two per cent for independent bricks and mortar travel agencies.

He does have more recent figures on this. In an investor presentation following the release of the JTL annual report, he suggested the spectacular growth of OTAs is now levelling off.

Whereas OTA international airline ticket sales, as measured by Bank Settlement Plan turnover, grew by a spectacular 60 per cent in the six years from 2005/06 to 2010/11, JTL is forecasting this will settle down to a more sedate nine per cent over the next four years to 2014/15.

The equivalent figures for OTA domestic ticket sales are 39.4 per cent in the six years from 2005/06 to 2010/11 and a forecast 7.9 per cent through to 2014/15.

While those forecasts do represent a significant slowing in OTA airline ticket sales growth, they are still more than double the 3.9 per cent forecast for total agent BSP growth in international ticket sales over the same period and nearly 25 per cent better than the 5.9 per cent forecast for total agent BSP domestic sales growth.

And Lacaze has made it publicly clear on several occasions that he wants JTL to enjoy a bigger slice of that growth.

The company recently announced the move of Gary Elliott from his Perth-based position as managing director of JTL's wholly owned OTA, Best Flights, to Sydney (*travelBulletin*, August).

In Sydney, Elliott's role will include responsibility for "developing and supervising other online initiatives across the group", according to Lacaze's announcement.

This was immediately seen as the first step towards achieving Lacaze's goal of a higher JTL profile in online travel retailing.

But he somewhat played down the significance of the move in his comments to *travelBulletin.*

He expressed satisfaction with the performance of Best Flights (which regularly appears around the middle of the Hitwise table of the top 10 internet agency market shares, published monthly in *travelBulletin* (Page 4).

At the same time he indicated that JTL's Ready Rooms hotel site could be in for a revamp but declined to go into detail such as, for example, whether this would involve re-branding.

Asked if Elliott's new Sydney role would see him taking control of the online assets of JTL's wholesale division and/or the cruise booking engine developed by JTG, Lacaze replied: "Probably not."

He indicated they would remain the responsibility of Stella Travel Solutions (which is managed by Sue Naudin who is relocating to Sydney with Elliott).

> Preferred product sales are how we make money … It's the revenue contract we make money on. If JTL fails to maximise its earnings it has less money to distribute to its agents.

According to Lacaze, a key reason for Elliott's move to Sydney is to make it easier for him to liaise with the company's other senior executives who all work out of the harbour city.

"He will be part of the head office team, working more closely with managers to identify online opportunities," Lacaze said.

Asked about the controversy that has flared yet again among independent wholesalers over big chains' preferred product policies, Lacaze said: "It (preferred product sales) is how we make money … It's the revenue contract we make money on."

If JTL fails to maximise its earnings it has less money to distribute to its agents, he said.

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■ INTERASIA has released a 12-day "Cherry Blossom Time" package – the first of a new range of Japan tours planned for 2012. Based on a minimum group size of 15, the cost from $6480 per person (plus taxes/levies of approximately $680) ex Australia includes Singapore Airlines flights to Japan, 4-5 star accommodation plus an overnight stay in a traditional ryokan, sleeping on floor mats, most meals, all transfers and internal transportation, English speaking guide and all sightseeing and entrance fees.

■ QANTAS will increase the frequency of its services between Sydney and Dallas-Fort Worth (DFW) from four per week to daily by July 2012. Capacity on the route will grow to six three class B747-400 services per week on January 15, 2012 and to seven per week on July 1, 2012. DFW is the home hub of Qantas' oneworld partner American Airlines.

■ INTREPID Travel has released its 2012 Australia and New Zealand brochure including a three-day "Dreamtime Discovery" tour ex Cairns provided by a local indigenous operator. It replaces the 14-day "Cape York Complete" package. Short break adventures now comprise nearly 50 per cent of Australian content while the New Zealand program targets backpackers and baby boomers with three "Basix" trips and three "Comforttrips".

■ COSMOS has added six new itineraries in China, India, Vietnam and Japan to its Asia program for 2012, its 50th anniversary year. The newly released brochure details a total of 17 arrangements with itineraries ranging from the Himalayas to Indochina.New deals to mark the program's release include bonus free nights in India and Japan, and special airfare packages with Singapore Airlines and Cathay Pacific.