Table III U.S. Travel Revenue

Total U.S. Travel Revenue (U.S. $ and Percent Change)

Year	Total Revenue ($)	vs. Year Ago (%)
2002	193.1	
2003	199.2	3.2
2004	210.2	5.5
2005	225.2	7.1
2006	234.2	4.0

Source: Online Corporate Travel 2001–2003: Market Share, Strategy, Forecasts and Commentary. (2002, January). PhoCusWright, Inc.

figures included air, car, and hotel, tour, and cruise accommodations, but they did not include travel-related expenses such as meals and entertainment. The 2002 revenue figures and the total revenue projections for 2003 through 2006 are illustrated in Table III at the end of the case. Table III also indicates the size of the total U.S. travel market.

Despite the projected growth in the travel industry, overcapacity in the airline industry prevented the industry from raising fares except for a small increase of $2 to $5 in one-way fares to cover the higher fuel costs. Since deregulation, the industry had been highly competitive and, ironically, instead of immediately increasing prices of tickets to cover fixed costs, the airline companies sold blocks of airlines tickets at a low cost to on-line Internet companies, such as Orbitz, Travelocity, Expedia, Hotels.com, Priceline, and Hotwire. These Internet companies and the airlines developed their own web-based reservation systems and the Internet provided a marketing outlet. Besides the airlines, the on-line travel companies also included rental car companies and hotel chains. In fact, most airlines leased blocks of hotel space to accommodate passengers when flights were over-booked and provided one-stop shopping, which means the customer can book the airline flight, the car rental, and the hotel space at the same time. This one-stop shopping trend is projected to continue.

Projections indicated that the use of the Internet to book airline travel was expected to grow by 25% per year. In 2002, 15% of all travel was booked on-line, and by the end of 2005, it was expected to grow to 30%. If the travel sector had a slow but steady recovery in the future, it was projected, that within in a few years, 50% of all bookings would be done on-line with airline websites and on-line travel companies equally sharing these bookings' pricing pressures. The competitive pressure from the on-line discount travel companies required airlines to develop strategies for providing greater customer service to attract customers.

Airlines continued to attempt to attract frequent fliers. For example, to compete more effectively and provide customer service, airlines accessed databases of frequent flyers to promote not only the sale of airline tickets, but also hotel accommodations, car rentals, cruises, and vacation packages, thereby reducing transaction costs. Other cost reductions were obtained by using technology, such as the use of scanners for boarding passes and kiosks for e-ticket check-in. Consumers, as buyers, often chose to fly or drive based on the price of the airline ticket.

Even with the favorable forecast for the travel industry, the airlines had not indicated whether they could make the necessary structural changes to avoid future bankruptcy or liquidation. The various opinions circulated in the media add to the confusion in the industry. Glenn Tilton, president of United Airlines, predicted that United would emerge from bankruptcy. This occurred in the second quarter of 2006. However, because United racked up a $1.4 billion second quarter loss for 2005, and