

Flying through early turbulence

By Greg Sandoval
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Jeffrey Katz, the chief executive of Web travel agency Orbitz, knows how tough it is to change people's perceptions.

Even before his company's June launch, Orbitz was thrust into the spotlight as competitors, such as Travelocity and Expedia, claimed the company was a threat to free enterprise. Critics alleged that Orbitz—backed by some of the nation's largest airlines including American Airlines and United Airlines—was part of a plot to seize control of online ticket sales.



The government continues to review whether Orbitz violates antitrust laws by having unfair access to the airlines' discount tickets.

Meanwhile, growing numbers of the traveling public book tickets at the Chicago-based company. Orbitz's launch attracted more visitors than the debut of any other e-commerce site, according to Nielsen/NetRatings, which measures Internet audiences. Traffic continued to grow until the terrorist attacks on New York and Washington nearly three weeks ago.

Since then, public perception has gone against the airline industry. Much of the public is afraid to fly, analysts say, and

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travelers question the safety of the nation's airports.

Airlines have cut the number of flights and laid off employees, and some carriers have acknowledged that they are perilously close to bankruptcy. The government has agreed to a \$15 billion bailout for the industry, but analysts have said that the sector's troubles

could worsen if the public's confidence isn't restored.

The crisis has spilled over into online travel. Katz said last Monday that Orbitz had laid off 10 percent of its work force to prepare the company for what could be an “extended” downturn. Rival travel Web sites Travelocity, Priceline.com and Expedia have seen their stocks plummet.

BizTravel.com, a niche travel site that focused on offering services to business travelers, closed its doors last week.

When will it all end? While he agreed the recovery won't happen tomorrow, Katz said in a recent interview that his company is already seeing signs that the American public is returning to the skies.

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Q: What's going to happen to the online travel industry?

A: It's the world's third-largest industry, so I don't think that gets turned off. Travel will continue to be very large, and it will come back to a growth mode over time. It's how long that will take is what I don't know or what most people can't predict. For travel Web sites and Orbitz in particular, we had a very strong summer and we built up a very strong cash position. We can live through an extended rough patch.

While I can't predict when the industry will come back, I am surprised at the volume of sales we were doing even after the tragedy. Business does appear to be coming back smoothly—I won't say quickly, but smoothly, day by day. My own personal observations: I've traveled four times in the last two weeks, and you can sort of see it happening at the airports.

What was it like at Orbitz after the attacks?

When we first heard about the first Trade Center impact, the FAA issued their complete stop of all traffic at airports. We went into the mode of actually changing the whole Web site, from providing emergency assistance to conveying information of what was happening—what procedures and policies were in place at the FAA, the airports and the airlines. Shortly thereafter, around 10 a.m. Central time, we were evacuated from our building because we are right across the street from the Sears Tower. We operated the Web site and care command center remotely from people's apartments around the city.

Weren't there a lot of calls for refunds and transfers?

Yes, there were. We were taking over 10,000 calls a day in the initial week

after the incident. Those calls are now diminishing, but certainly a lot of people were calling with questions. Many, many people were looking for changes to their tickets—or refunds.

How much will the refunds hurt your business?

It has an impact, but its impact appears to be on a week's worth of sales. Most people are moving their plans. While there are some refunds, people are changing their itinerary. They are most often booking for future dates.

Can you give percentages?

The week of the disaster, it seemed to be about half refunds and about half changes. But we're talking about that week. And even now we can see not only new bookings, but clearly that a large majority of people are choosing to change their trips rather than asking for a refund.

Weathering the storm

Have you had layoffs?

We can't forecast how long before things return to normal, but we're forecasting that it will take an extended time. And in light of that, we implemented a plan to ensure we remain in a strong position so when the market comes back, we're able to take advantage of that. So we've reduced marketing expenditures, other expenditures like capital equipment, and, unfortunately, we thought it was prudent to reduce staff. We've reduced 17 employees. That's 10 percent of the company's work force. We thought this was something we had to do given the tremendous upheaval the industry has gone through.

Have you and the rest of the airline industry come together to fight against the fear factor out there?

The first thing happening is the visible and not visible increases in security measures. The industry needs to get back to market in the appropriate way. In other words: Make

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sure the marketplace knows that we're in business, that it is reliable, and that the service levels are good. The marketplace needs to get that message from people like us, as well as from the airline and hotel industries. That way, people recover at their own personal pace. Again, we can already begin to see indications of that in our own bookings.

What about the effects on prices?

In the near term, there is a lot of inventory to sell. We are already seeing hotels in particular but also the airlines offering economically attractive prices. National Airlines is out there with prices ranging from \$1 to \$100 round-trip. Hawaiian Airlines has just come in with some very attractive offers. Long term, we have to be honest that there will be a cost associated with the increase in security. Does that hit yours and my tax rate? Is it another per-ticket surcharge? Does it go into the price of the ticket?

There will always be periods where there's excess capacity, and during those periods there will be lots of deals in the market. In the near term, there's lots of capacity to sell. Somebody has to pay the cost of the increased security. And the marketplace must carry that. I don't know what form that will be. If we have federalized security, does that mean we'll all pay a portion of our tax bill for that, or will that mean a higher surcharge that we pay for in the tickets?

Critics have charged that you're going to gobble up competition and then jack up prices. Explain why that is or isn't true. Pricing in the airline and hotel business is about supply and demand. Airlines have literally millions of seats to fill every day. And if demand is high they have more

opportunity to get prices high. And if demand is low, as it is today, they have no choice but to discount widely. There's actually more competition online and dramatic fare sales like I don't think anybody has seen. To me, that's the best proof that Orbitz isn't going to change the nature of supply and demand. We're a distributor and we are one of many, and the huge pressure that airlines feel to sell millions of seats every day is what controls whether prices are plummeting as they are today or going upward as they were two years ago.

Does Orbitz feel hunted?

(Laughing.) I think we had a storybook start-up year is how I would characterize it. We had many of the problems that start-ups have in addition to lots of regulatory scrutiny. But our focus was primarily on the launch, and internally the focus was on the people. And I think that, as I look back on the last year, everybody feels good that we had a very successful launch and, so far, that the vote from the consumer is very much with us.

Not everyone gets scrutinized like you guys—and your competitors came out strongly against you.

That's true. I think it's the inherent nature of the travel industry. You have the online travel industry. You have two companies who at that time had virtually a duopoly on a multibillion-dollar business. It's widely known that in those types of situations, people protect their vested interest in any way they can.

What did you think when they were blasting you?

That's what they felt they had to do to try and stop Orbitz from coming into the market. I think now that we're in the market they're more focused on competing in the marketplace, which is where it all should have started. But that's where it is now, and that's the right place to

be. There's more competitors now, and consumers have a lot more choice.

What's the greatest misconception about Orbitz?

That the consumer marketplace has heard of us. We're new. We've been operating for only three months. Customer awareness of us is a fraction of the awareness of Travelocity and Expedia.

So you're a David with all those airlines backing you and the other guys are Goliaths?

Yeah, we are. Let me give you a fun fact. When you do research on travel shoppers, one out of every five have heard of Orbitz. That number is typically 60 to 90 percent for Travelocity and Expedia. That's a statistical fact. So we are still a rather unknown commodity to the average person on the street.

How long before Orbitz overtakes Expedia and Travelocity without attracting antitrust scrutiny?

Our position has always been that it's a giant industry, and there's room for at least three if not more players. We don't talk about overtaking them. We talk about growing a business and profitability, and we're on track for that. That's a forecast we don't have, so I can't tell you. I don't know if that will ever happen. We don't measure ourselves that way. We measure only profitability. We said that we will be profitable in the first part of 2003, and it looks like we will do that—maybe even beat that.

Do you think marketing costs will prevent Orbitz from overtaking its competitors?

We are fortunate in a way: The online marketplace has gotten more rational—a lot more sane. At the same time, the costs of marketing online, particularly online but also offline—buying advertising—have fallen through the floor. Customer-acquisition costs right now are tracking very favorably for all competitors. So if you have a good product and good word of mouth, which we appear to have, and

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market sensibly, you can still build a brand today—especially today—because it's gotten much more affordable to market a product whether you're advertising on television or online. And we do most of our marketing on the Internet, not through traditional broadcast mechanisms.

Travelocity marketed special discount fares with American, one of your backers. Why?

Two things happened. All the Web sites had tremendous growth that day too. Secondly, it showed that American, even though it's an investor in Orbitz, is selling product to all the channels. The third thing it shows is what happens when there's a leader in an industry—in this case, Travelocity, which has exclusive deals with AOL and nearly exclusive deals with Yahoo. They essentially lock up both product and distribution systems.

So I think it's a bit of a warning signal about the way exclusive deals can hurt consumers. In this case, we're the ones without any exclusives—not in advertising or in pricing. No. 1, it shows the founders sell product to everybody; No. 2, the businesses all grew; and No. 3, that we should be careful about the exclusives that our competitors have because that is the power that not many people appreciate.

Give me an example.

Well, for example, Orbitz can't buy a banner ad on AOL, and AOL still today governs the single most eyeballs on the Internet. Think about the restricting nature on our ability to grow. Similarly, Travelocity has an exclusive on the travel portion of Yahoo, and Expedia with MSN. Think about the restricting nature on us or anybody else who wants to promote a product related to travel; they're shut down by the two largest players.

Are you in third place or are you behind Priceline?

Well, Priceline I view as very much a niche player. They have a particular kind of marketplace. They serve the people with lots of flexibility. Price is most important to this customer. That turns out to be a small segment of the whole. So we don't really compete with them per se. We, in fact—with our alliance with Hotwire—have a product very similar to theirs that allows us to serve customers who want to do that but want to stay with Orbitz. So statistically speaking we see ourselves as the third-biggest retail travel agency. We see Priceline and Hotwire in a different category.

What do you think of opaque pricing?

There's a lot of customers who like to shop that way. And it's going to stay in the marketplace. I don't think it's going to get much bigger. But it serves a need. That need, while not a large fraction of the whole, is pretty big when you add up the dollars. And you'll see us integrate it more fully into the Orbitz offering.

Tell me about Orbitz's customer.

Pretty typical demographic. Age 25 to 55, upper-middle-class income, comfortable buying online. Our customer wants to know that they are getting all the information. Everything about the research we've done about our site says that what customers like about us isn't even the prices but the fact that they are getting 100 percent of the information—that they are getting all the information.

Are your customers the same as Expedia's and Travelocity's?

I think in large part we are. They've been out there several years. They have large customer bases. And because people still shop around, they have a lot of repeat customers who are comfortable with their

site and their service. We are just starting out. And our customer-care program is the first of its kind to proactively go out and solve problems before they happen to customers.

The rocky start

I've got to ask you about the large number of customer complaints, about long waits and Web site problems since you launched.

We started off with 10 times the volume that we expected. There's a rule of thumb that you get one telephone call for every two tickets you issue. So if you have 10 times the volume expected, you don't have enough personnel. I would say clearly in the first six weeks, when we did not shine, we had a lot of people buying but not the proper service staff on board.

How come you were surprised?

It was the biggest Internet launch ever recorded by Nielsen. Nobody builds a forecast assuming you're going to be a bigger launch than BlueLight.com or Wal-Mart's relaunch. That would be arrogant to build such a plan. We certainly didn't think we would be of that much interest to the marketplace or at least that quickly.

But I'm very happy with where we are now. We have excellent quality speed of answer, excellent quality at our call centers. Again, it's not about just picking up the phone. Yesterday, we had 30,000 Orbitz travelers traveling. We're tracking

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them all. We're able to message to them any upcoming event: could be a delay, a baggage carousel change, FAA problems, air traffic control problems, weather. Nobody else can proactively like this reach out to customers and customers' family. I think it's that combination on the Web site and quality off the Web site where we are going to have an opportunity to shine.

Have you used Orbitz?

I have—often, actually. I believe it's good.

What do you look for when you travel?

Different things for different situations. If I'm on a business trip, I'm going primarily with schedule—unless there's something ungodly attractive. Personally, I'm like everybody else; I'm going to scrimp. I'm not going to fly nonstop for \$5 or a \$1,000 price premium. I've found it a very good experience. Again, keep in mind it's relative to two options most people have. I'm going to do it myself directly with the airlines or I'm going to pick up the phone and call a travel agent. That's the benchmark. My personal observations and more statistical research indicate that we're doing a very good job in terms of support and service and proactive care. There's nobody else who does that out there.

Why don't you have Southwest?

Well, Southwest has a very unique marketing approach to the airline business. And they are the Dell of the airline business, which means they want you to buy direct. So they don't want any Web site other than their own to display or sell their flights or fares. That's the way they run their business.

Aren't you afraid that other airlines will follow suit?

I'm not afraid. I've been in the business a long time. Southwest was an innovator when they started and have stuck with their model. The other airlines are in a different place. They need travel-agent distribution. They need broad distribution. But Southwest has forever taken the

position that they want direct distribution. They've pushed it as far as it can go. I don't think it would work for others for many reasons. Clearly, this is good enough for Southwest. But the truth is, if you go out and compare Southwest, they're not the lowest-priced airline all the time anymore.

And being on a Web site like Orbitz does one thing: It forces you to be compared to every other airline, and that isn't always a favorable thing. And I think that's one of the things Southwest objects to. The other airlines know that they are going to be compared, and they want to be in all other distribution channels. And they operate their business knowing they are going to be compared.

What advice would you give someone who is entering a business where their competitors are accusing them of wrongdoing?

I would say the following: You've got to focus on where the game is. It's a little bit like that childhood rule that sticks and stones may break my bones, but as long as the customer comes through the front door, I'm happy. I would give that person the advice to focus on what your business is. Make sure the customer knows who you are, what you offer, and that you're ready to do business with them. All that other stuff is really just flak. Because I don't think it helps our competitors, and I know it didn't hinder our progress. ■