

WE POWER TRAVEL



ARC and How We Ended Our Cold War – A Journey

Michael Premo
President & CEO
Airlines Reporting Corporation (ARC)



Arnie Weissmann:

Singapore's tourism minister wants tech to provide travel security and portals to experience. 12



IN OTHER NEWS:

ARC sales data reveal lower fares, more bookings 6
United's 3rd CEO in 2 months pledges continuity 7
Boutique hoteliers assess Airbnb threat 8



Richard Turen:

These are things I thought of saying when we won a Virtuoso award. But didn't. 77

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SECTION 1 OF 2

OCTOBER 26, 2015

TRAVEL WEEKLY

THE TRAVEL INDUSTRY'S TRUSTED VOICE

SPECIAL PULLOUT SECTION

[LONGTIME POINT OF FRICTION SEES DRAMATIC REDUCTION IN THREE YEARS]

ARC working group is credited with 46% drop in debit memos

By Johanna Jancini

WASHINGTON — A decision three years ago to bring together airlines, GDSs and travel agencies to tackle the debit memo issue has helped to significantly reduce a long-festering point of friction among the three factions.

ARC reported last week that since 2013 it

after ARC launched the Debit Memo Working Group, bringing together the industry players involved in more than 90% of debit memo creations: the airlines, travel agencies and GDSs.

Debit memos, long an industry headache each year cost agencies millions of dollars and countless staff hours to deal with.

ARC COO Lauri Reishus called them "the most annoying, costly, inefficient process in our industry." The working group, she said was an effort by ARC "to try and solve an entrenched industry problem."



U.S. Industry Leadership – Air Transport Association – now Airlines for America (A4A)



ATA / ATC Action	Date	IATA Action	Date
ATA formed	1936		
ATC formed	1941		
600 agents approved	1945	IATA formed	1945
Braniff proposes an Area Bank Clearance Plan to ATC	1956		
Standard ticket and Area Settlement Plan (ASP) approved by ATC airlines	1962		
ASP implemented (Illinois)	1964		
ASP implemented nationwide (5,080 agents – 37 airlines)	1965		
ASP = 67 airlines / 7,394 agents / \$2.4 billion sales	1971	First IATA BSP formed in Japan	1971

1978 – Airline Deregulation in U.S.

- 1982 - Civil Aeronautics Board (CAB) determines ATC anti-trust immunity will cease at the end of 1984.
- Airlines Reporting Corporation (ARC) starts operations on Dec. 30, 1984

The ARC Board Family

OUR SHAREHOLDERS



NON-SHAREHOLDERS



BRITISH AIRWAYS



INDEPENDENT
Bonnie Reitz – Chairman



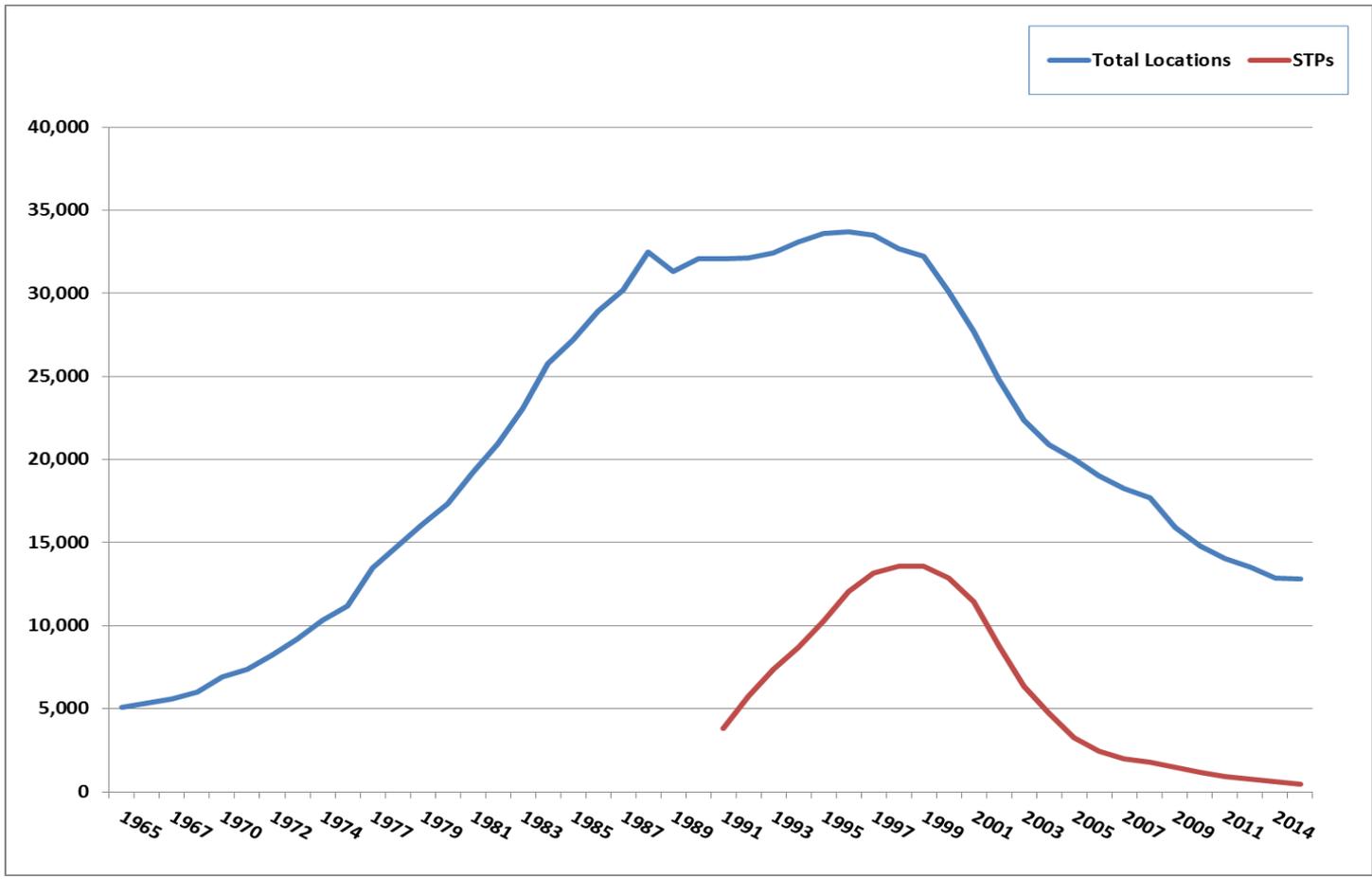
Michael Premo

Bob Bagley – Chair, Audit Committee

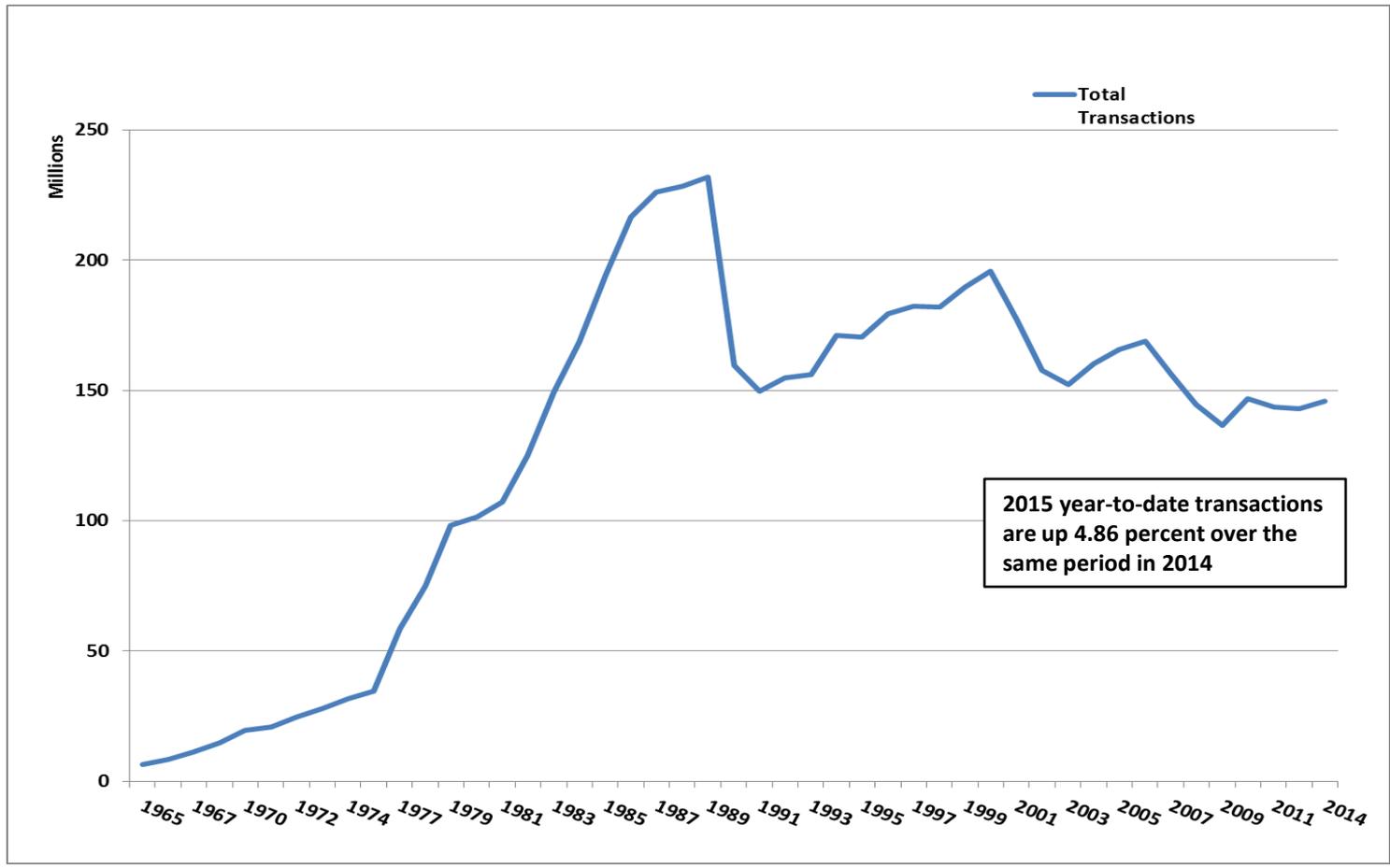
A Few More Differences vs. BSP

- We insource our technology
 - Data center in Louisville, KY
 - Major data warehouse
- We are REPORTING system, not a BILLING system
 - Legal onus is on agents to report sales
 - ARC provides tools to do so
- ARC actively manages financial guarantees for both airlines and agents
 - US\$1-3 million default losses a year on US\$80-90 billion ticketing

ARC Accredited Agency Locations 1965–2015



ARC Annual Transactions 1965–2014



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Ending ARC's Cold War – Our Journey

Culture

- ARC's mission and skills have evolved
 - Old
 - Paper world / enforcer of rules
 - Fraud reduction
 - Operational efficiency
 - New
 - Settlement – yes, but also data products
 - Add flexibility / market competitiveness / innovation
 - More product development, less operational
 - Get the most out of our 394 people!



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ASTA Seeks Legal Action Over ARC's Planned Fee Hikes

December 11, 2007
By: Travel Agent Central Contributor
Travel Agent

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With the Airlines Reporting Corp.'s board of directors voting to move forward with its agency fee increases for 2008, the American Society of Travel Agents has put its plans for legal action into motion. Bill Maloney, COO of ASTA, says the two organizations will proceed to a court-imposed arbitration panel, the third case to be heard in roughly 20 years. "We will come in and state our case and they make their case. It is a court-like process," he says.

Effective January 1, ARC plans to raise an agency's annual administrative fee from \$145 to \$395 per location, with branch fees increasing to \$150. It has said the hikes are necessary due to technology maintenance and the creation of various revenue-generating products for agencies. The organization also was quick to note that agencies have not seen a fee increase since 1985, adding that under the proposed plan, several training and other miscellaneous fees have been eliminated.

- U.S. Travel agent to ARC: "Why would I buy anything from you? I hate you."

Catalyst for Change

- In 2008, ARC lost an arbitration to ASTA and the U.S. agency community
 - Sought to shift the cost-sharing ratio more towards agents
 - Arbiter said ARC had an obligation to win “consent of the governed”
- A wake-up call!

Actions Since 2008

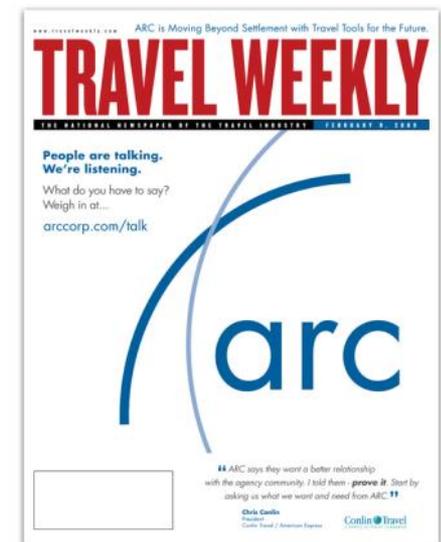
- Corporate image redesign
- Industry outreach
 - Agency guest speaker at staff meeting
 - “Let’s Talk” campaign
 - Voice of the Customer work
 - 42 agency interviews in 2010
 - Engagement with ASTA leadership
 - Establishment of Travel Executive Council
 - CEOs/EVPs/SVPs at Top 20 U.S. agents
- Reenergizing Advisory Boards and Agent Working Group (AWG)
- Internal culture work



A-R-C

Before

After





Next Steps

- Required a refresh of core agreements / contracts
 - Agent Reporting Agreement (ARA)
 - Carrier Service Agreement (CSA)
- Step One: update the ARA!

- Slowly, perceptions change...

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THE NATIONAL NEWSPAPER OF THE TRAVEL INDUSTRY

ARC has done it again.

It found a problem and solved it without punching agents in the ribs, another bit of evidence that "the new ARC" might be here to stay.

[AIRLINES SEEK TRANSPARENCY IN AGENCY OWNERSHIP]

ARC, looking to modernize, asks agents for accreditation advice

By Johanna Jainchill

As the enterprise today known as ARC pushes 50, it's looking to modernize its accreditation system for the first time since airline deregulation in the 1980s.

their tickets.

Despite a sea change in the way travel agencies are structured, he noted, the issue of agent accreditation hasn't been seriously re-examined since the early 1960s, when ARC's mission was the purview of its predecessor enterprise, the Standard Ticket and Area Settlement Plan.

"We still have the same home office and

Customer Interviews – Key Themes

Transparency

- Agency ownership, responsibility
- Up-to-date agency information
- “Rules of the Road,” supplier recognition

Risk Mitigation

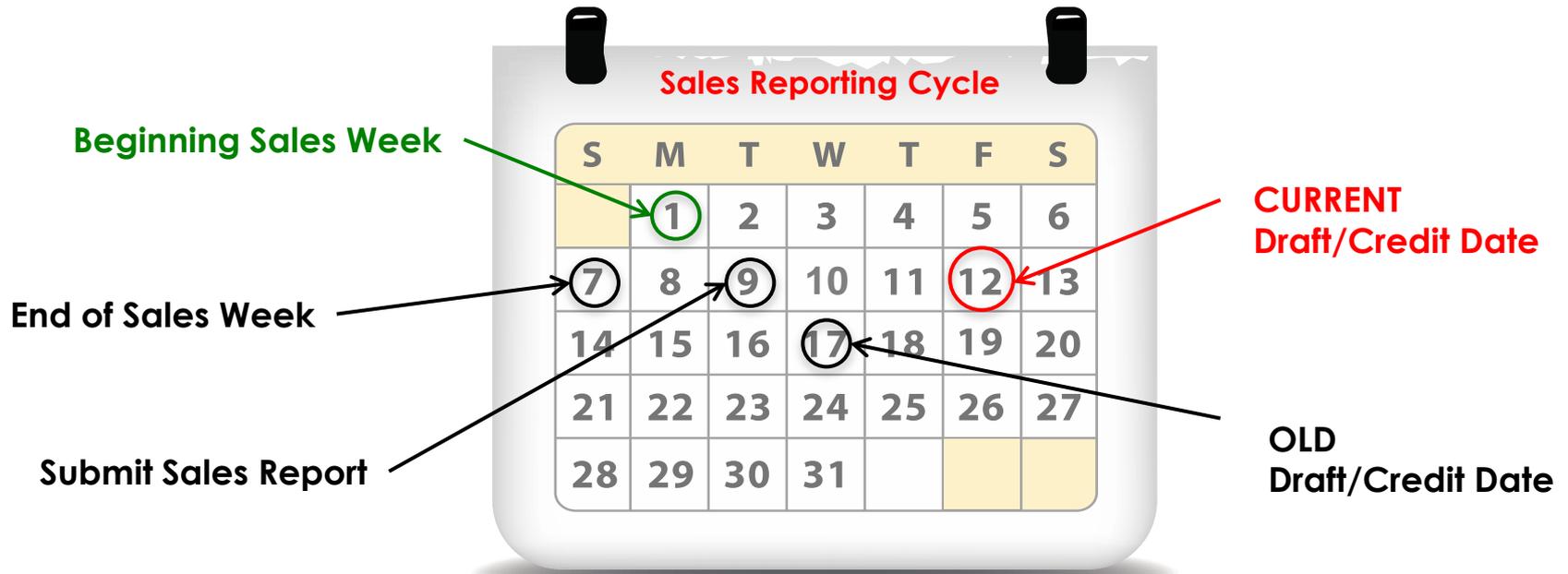
- Minimize losses via the ARC channel
- Validate current financial instrument program (I.e., is ARC's collateral requirement adequate?)

Flexibility

- Ability to move ARC numbers state to state
- Reduce travel agency overhead and expense

Change to Draft Date

- To further reduce default risks, ARC moved the current draft date forward by one week.



Simplification of Contract

- Reduced length from 56 pages to 24
- Put contract language into “plain English”
- Put many reference materials into the Travel Agent Handbook
 - Easier change process

ARA Update – Summary

Airlines got:

- Better transparency into agency ownership
- More risk mitigation on payments
 - *Faster remittance for cash*
 - *Faster identification of defaults*

Agencies got:

- Understanding of the “Rules of the Road”
 - *Elimination of ambiguity in ownership rules*
- An agreement that is simpler and easier to use
- Greater operational flexibility

A package deal!

“...A group of determined reformers representing airlines and travel agents managed to rewrite some of that [confrontational] history in 2012 with the first major revision to the underlying contract that has governed agents' dealings with ARC since 1985.

It appears to have been a genuine case of ‘give-and-take.’

The prospect of a "kinder, gentler ARC" was something of a gag line when it first surfaced a few years ago, but by all accounts the 2012 rewrite was focused on practicalities.”

Lessons Learned:

- Old dogs can learn new tricks
 - You don't have to be what everyone says you are
- You have to talk to people
 - They like it
 - They can be persuaded especially if you have data to back it up
- You have to take action to respond to customer input
 - No good to listen, then do what you want anyways

Next Steps – Not Curing Cancer, but Big Stuff!

- Debit Memo Working Group – launched Jan. 2013
 - \$40 million industry cost to collect \$100 million
 - Gathered airlines, agents, GDSes, ATPCO and others

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THANK YOU.