Rosenbluth International:  
Strategic Transformation of a Successful Enterprise

Eric K. Clemons  
The Wharton School  
clemsons@wharton.upenn.edu

Il-Horn Hann  
The Wharton School  
hann36@wharton.upenn.edu

Abstract

The travel agency industry is currently experiencing profound changes such as commission caps and cuts, increased popularity of online travel agents, and the emergence of automated travel management systems. These developments forced many travel agents to exit the market or to surrender to lower profitability. This case study examines how a mega-agency responded to these threats, the obstacles that the firm faced to make the transition and a competitive assessment of its position now.

1. Introduction

Over the past two years, the environment in which travel agencies and their corporate customers interact has undergone fundamental changes, which include the airlines’ introduction of commission caps and cuts, the appearance of online travel agents, and the advent of automated travel management systems. Of these changes, the ones most immediately felt by agencies were the introduction of commission caps in February 1995 and the following commission cut in October 1997. In this paper, we investigate how an established player — Rosenbluth International — reacted to these changes by dramatically transforming its value proposition, its fee structure, and its relationship with its key accounts.

While it is not unusual for a new player to benefit from the opportunities created by a strategic discontinuity, this is extremely rare and difficult for an established player whose success was closely tied to the previous competitive environment. The biggest obstacles are often self-imposed upon the firm by behavioral limitations of its own management team, rather than a result of strategic actions by competitors.

We will explore the following issues in this case study:

- The nature of the competitive forces
- The nature of Rosenbluth’s competitive responses
- The reasons that the company was able to respond successfully
- Their prospects going forward

As Hal Rosenbluth notes, “Many of us experienced the deregulation and the computerization of the 1980s. This next decade will be much more challenging. Many industry participants, even many apparently strong agencies, may not survive. They just won’t be able to redefine their services or their customer value propositions.” Dannamichele O’Brien, Vice President and Chief Travel Scientist at Rosenbluth International, adds, “Although adjusting to this has been extremely difficult for many agencies, she feels that “The duty for Rosenbluth International was clear: create more value.”

2. Background

This section briefly reviews the structure of the travel agency and air travel industry.

Before airline deregulation in 1978, travel agents did not distinguish between business and leisure travel. In these times of price stability and slowly increasing computing power, travel agencies had no means to differentiate their service while competing with each other, and had little to offer their corporate accounts. Commonly, the travel agents’ role was seen in their advising and destination-based expertise, while the airlines’ ticket offices would procure the tickets for corporations.

This rapidly changed after deregulation and the rapidly increasing availability of information technology. Travel agents shifted
from principally supporting leisure travel with coaching on choice of destination, to increasingly supporting corporate travel with the responsibility for price control, negotiation of preferred fares, and preparation of travel activity reports on behalf of or in cooperation with their corporate customers.

During this period, Rosenbluth International pioneered the sequences of strategic change in the travel industry and benefited from it disproportionately. Rosenbluth grew from the largest — primarily leisure oriented — travel agency in the Philadelphia area with $40 million in air sales in 1979 to a predominantly corporate travel oriented agency with over $3 billion in air sales and over 4,500 employees in 26 or more countries throughout the world in 1997.

While Rosenbluth’s initial advantage was based on point of sales tools and fare search engines, seamless linked to back office reporting and inquiry systems, these initial advantages have been eroded by competition. Rosenbluth’s value proposition at present is its ability to deliver travel management services and documented savings in travel spending. This is based on a patent-pending client yield management system called DACODA (Discount Analysis Containing Optimal Decision Algorithms) which is used to shift market share from one airline to another and establish credibility in the fare negotiations with the airlines.

3. The Nature of Competitive Forces

More recently, the very success of this new corporate-focused strategy created the threats that jeopardized the health of the industry that Rosenbluth helped to create. Rosenbluth — as all other corporate travel agents — faces three threats to its profitability:

- rebate-based competition
- commission caps and cuts
- efforts from the airlines and CRSs to disintermediate corporate travel agents by moving aggressively to electronic distribution channels

Traditionally, travel agents have been paid principally through commissions, which were directly linked to the ticket sales each agency generated. Commissions were a fixed 10% of ticket price and were paid by the airlines on all tickets written by the agencies; there were no charges to customers and no discounts for booking directly with the airline. The increasing cost focus of airlines and corporations have worked like the jaws of a pair of pliers, together putting pressure on the travel agent’s commissions. The current practices and recent developments are summarized in the next paragraphs.

3.1. Rebates

Rebating represented the first threat encountered by most major agencies in their corporate business. Some agencies, like Rosenbluth, believed that rebating would reduce the moneys available for their own investment, and thus the quality of the service they could offer their customers; thus rebating was vigorously resisted. Ultimately, however, once Carlson and Cook were rebating percentage points off their commissions, and American Express was significantly rebating from the percentage it charged airlines and service providers who accepted its corporate card, other agencies were forced to follow.

Hal explains his policy on rebating as follows: “We resisted as long as we could. We were convinced that rebating was a terrible idea, a real downward spiral for our clients as well as for us, since it was incompatible with investing in our collective future and with delivering quality service to our customers. Ultimately, however, market pressures left us no choice.”

With the increasing efforts to reduce travel expenses — the third highest business expense after payroll and data processing for the average U.S. business — travel agents started competing for corporate clients by offering commission-sharing arrangements, also called “rebating.” This has become common practice and before the imposition of commission caps, corporations could expect approximately a 3 percent rebate of the ticket price [1]; since this represents 3 out of 10% commission, or 30% of the agents’ gross revenue, rebates represented a significant loss to agencies.

3.2. Commission Caps and Commission Cuts

Commission caps recently emerged as the second threat to established agencies, in both their corporate and leisure businesses. These slashed revenues, requiring painful changes.

Dana Michele O’Brien argues with considerable justification that it is unfair to claim
In October 1997, United Airlines went even immediately followed by all other major airlines. This move was introduced the cap of $50 on the 10% commission to continue with the current industry structure. Participants aware that airlines were less willing carriers, it made at least some industry not succeed, due to lack of cooperation from other the largest agencies. Although this attempt did halted the growth in power and market share of American’s attempt to eliminate agency-based industry’s changes shifted 80% of the corporate business to agency-based distribution. The first indication of major airlines’ dissatisfaction was American’s attempt to eliminate agency-based fare negotiation, which if successful would have halted the growth in power and market share of the largest agencies. Although this attempt did not succeed, due to lack of cooperation from other carriers, it made at least some industry participants aware that airlines were less willing to continue with the current industry structure.

In February 1995, Delta Airlines introduced the cap of $50 on the 10% commission for all domestic tickets. This move was immediately followed by all other major airlines. In October 1997, United Airlines went even further and cut the commissions to 8% or $50, whichever is less. This cut alone will save the carrier an estimated $80 to 100 million annually. Again, this move was followed in cascading fashion by three dozen airlines around the world. Many industry observers speculate that further commission caps and cuts are possible, especially for international flights, which — until a recent move by British Airways — had escaped the previous rounds unscathed.

3.3. The Disintermediation Threat

Disintermediation — the bypass of travel agencies and the reduction or elimination of their role in the distribution of travel services — represents the third threat to the profitability of agencies and to the continued existence of their business. This threat is still emerging, but could prove to be the most dangerous of the three. Direct distribution systems are being introduced, with ever-increasing ingenuity [10]. Disintermediation of corporate travel agents has been slow to catch on, but the advent of new technologies, such as interactive video, may greatly accelerate this trend; as noted in the business press, “the growth of online booking services and the development of interactive television could, at least theoretically, eliminate the role of travel agents altogether [9].

Indeed, preliminary analysis might suggest that disintermediation is a real threat. Some customers are just too easy to serve, and the airlines have decided that they are unwilling to pay agencies 10% commissions for serving them. This, in turn, suggests that corporate agencies will need to learn to deal with the threat of airlines selling directly to their corporate accounts. Moreover, it suggests that the leisure business is vulnerable in a different way, with the internet providing service to leisure travelers who want tickets but do not need advice, and with a whole host of new distribution mechanisms all competing for different segments of retail customers.

Danamichele O’Brien disagrees with this analysis. She believes that “the disintermediation craze that was fueled by the internet will prove to be short lived and misdirected.” She goes on to explain, “It was short lived because Rosenbluth International quickly adopted this new form of ‘EDI’ to connect to its clients.” That is, she believes that disintermediation is not a threat, since reintermediation rapidly followed. She believes that the fear of disintermediation was
misdirected, because “It was not the value-adding travel management functions of the agencies that were in danger of being disintermediated so much as the more traditional, pure distribution functions of the travel agencies and many of the functions of the CRSs. This, too, was short-lived as the CRSs have learned to harness internet capability.”

Driven by the World Wide Web’s promise to provide a cheaper channel, computer reservation systems, travel technology vendors and airlines have devoted considerable resources to grow the corporate online segment. It is estimated that $15-$20 cost savings per ticket can be gained just by booking online and using e-tickets; this savings can be split by the involved parties. Consequently, airlines, CRSs and technology vendors have developed products for electronic distribution to corporate clients; these range from self-booking capabilities with the ability to enforce corporate travel policies to expense reporting and information management.

First indications show that electronic distribution is a viable channel. For example, United Connection — United Airlines’ electronic booking system — is averaging $11 million a month in sales and captured about $115 million in sales for 1997, for which neither travel agency commission nor overrides had to be paid. This more than doubled the online sales of $43 million in 1996. An equally prominent example is AXI (American Express Interactive), a corporate self-booking program, developed by Microsoft and American Express. Six months after the first roll-out, American Express had installed AXI software for 20 corporate customers, which represented $600 million in annual airline ticket sales.

A few travel managers have also started to negotiate deals with airlines directly to obtain “Internet-only fares” that are cheaper than the best available fares elsewhere for their corporations. Attempts to share these costs savings remain relatively rare. Estimates from industry sources suggest that currently only about one-third of one percent of corporations have such deals. But if low-cost electronic reservations were combined with electronic ticketing and interline capabilities, this could increase significantly in the near future.

In order to increase adoption rates by corporate clients’ employees, airlines are courting corporate travelers with soft-dollar agreements. They include such value-added perks as bonus miles or points, vacation discounts, and private versions of the popular weekend deals available on consumer sites. For example, United is offering a small incentive — 1,000 frequent flier miles per round trip.

Airlines and CRSs are positioning themselves in the online travel market and have taken steps that limit competition in and future entry into the online market. In the summer of 1997, major airlines began capping commissions to online travel agents and, in some cases, offered straight flat rates to agencies. Northwest and Continental Airlines cut commissions to 5% or $25, whichever is less. American Airlines and United Airlines went even further and now offer only a flat fee of $15 and $10 respectively for each transaction. CRSs, on the other hand, have increased fees for browsing that does not turn into a purchase. The reduction of the revenue base and the increase in operating expenses make it very unattractive to become an online travel agent and have already forced one online travel agent out of business. PC Travel, one of the earliest entrant in the online travel market, closed in the summer of 1997, after three years of service.

While commission caps and cuts apply to all tickets sold, the disintermediation efforts are targeted only to the attractive customer segment; the love ‘em customers: as they have been termed in earlier work (e.g., Clemons, Croson, and Weber [3]; Clemons and Row [6]). Using this framework, love ‘em customers are the most attractive business travelers. These are experienced travelers, who usually need only limited advising, and who frequently already have a specific flight in mind before they approach the travel agent. They are usually technology savvy and have the installed technology base to use electronic booking systems. While these customers are the easiest for the agencies to serve, they are also the most profitable ones for the airlines. Hence, airlines have had two incentives to attempt to establish and foster a direct relationship to these customers:

- To remove the agencies ability to reroute this travelers to other carriers, as part of a program to maximize the savings from negotiated fares
- To capture the commissions that were paid to agencies for serving these travelers, which frequently amounted to little more than directing them to the lowest cost fares

Frequent flier programs and upgrade policies based on customer history are successful attempts that at least partly serve this purpose and
illustrate the sophistication that airlines have achieved in their efforts to establish strong links with individual travelers; increasingly, these may play a role in their efforts to disintermediate the travel agent’s advising role.

On the other hand, there are numerous retail travelers who travel only infrequently. These travelers often need considerable coaching, and they are much less likely to select their own flights, or even their leisure destinations without assistance. They also often lack the familiarity with recent technological innovations needed for them to feel comfortable using an electronic booking system. This segment would represent the kill you customers if airlines tried to attempt to serve them themselves; they are expensive to serve and are also cost-conscious. Consequently, airlines will try to leave serving these customers to the travel agents.

4. Rosenbluth’s Competitive Response

Hal Rosenbluth — President and Chief Executive of Rosenbluth International — is a strong believer in open communications and has created a corporate culture with close relationships to clients, suppliers, and Rosenbluth employees. Hence, he was acutely aware of the looming changes and its potential consequences. In his own words, intimate knowledge about industry changes are important, to be able to “define the playing field that you can win on.”

Rosenbluth’s response revolved changing two core aspects of his business:

- **Leisure Travel:** The continuation of leisure travel as a core part of Rosenbluth’s business strategy needed to reconsider

- **Role of Commission Rebating in Corporate Travel:** Hal’s avoidance of rebates likewise needed to be reconsidered

However, as both of these changes involved core aspects of his business, both also entailed altering strongly held beliefs.

4.1. Divestiture of the Retail Business

The first response to the strategic forces described above was to divest the leisure business and to focus solely on the corporate market. While this decision now appears to be rational and can readily be defended, it was quite a difficult one for the company to make. Rosenbluth International has been in the leisure business since its inception in 1892, which created a legacy of commitment to the leisure sector.

Nevertheless, this move made much business sense — retail travel is the most vulnerable, since airlines and CRSs can cream the few love ‘em leisure customers among the many kill yous. Once cream skimming begins, with the new commission cap and cuts in place, a profitable leisure business may be forced to start charging its remaining customers for services simply to cover the higher operating expenses associated with this segment of the business. However, customers who do not need much service would predictably resist these fees, as they could easily bring their business elsewhere, while the most service-intensive customers would remain with their leisure agencies. As more of the easy-to-serve customers depart, leisure agencies would be forced to raise fees again, leading to more loss of the remaining relatively easily served customers. Avoiding this “death spiral” (see Clemons and Weber [7]) would require an entirely new pricing strategy for the retail business.

Of course, leisure travel need not inherently have inadequate margins. Having divested the company of the present leisure business, it would be interesting to observe whether Rosenbluth International subsequently pursues any of the following alternatives:

- Developing targeting mechanisms to sell to less labor-intensive customers, or to customers who are purchasing higher profit packages or higher profit services, perhaps as a special vacation-planning perk for its corporate clientele

- Developing lower cost alternative distribution channels for technically savvy, computer-literature consumers, perhaps in conjunction with the first point above

- Developing a fee-for-services approach to leisure travel, much as they have developed in the corporate market

4.2. Moving from Commissions to Transaction Fees

Intensive discussions with suppliers and clients made Hal Rosenbluth aware that both markets viewed travel agents as overpaid; neither
corporate customers nor airlines believed that they were receiving significant value from travel agents, or that agencies were adding sufficient value to justify the commissions that airlines were paying them. After some reflection, he conceded that he had overvalued his company and its services; “I thought that we were more valuable than we were.” More importantly, he recognized the airlines’ desire to maximize their own profits, even if that means bypassing travel agents.

As a response to the changes outlined above, Hal’s response was to cut the airlines’ incentive to attack his corporate business by rebating his full commissions back to his corporate accounts, by introducing a new fee structure, and by restructuring the services offered to corporations. Those accounts that now received a rebate of the full commissions the airlines paid to Rosenbluth replaced Hal’s lost revenue stream by moving to payment of transaction fees and travel management fees. Restructuring service offerings included the “de facto” conversion of Rosenbluth employees to virtual employees of the corporate clients. Each change is described below in more detail.

Giving back 100% of commissions served two purposes; first, any attempts by airlines to reduce the commissions now directly affect the clients and not the travel agents. Hence, further commission cuts and caps are now resisted by corporations. More importantly, further cuts no longer endanger the travel agents’ financial position. Secondly, the elimination of commission payments to agencies removes even the appearance of any interest of conflict between travel agents and clients. Under the commission structure, the client has reason to believe that travel agents would sell them more expensive tickets to increase their revenue. In the new fee structure, the agent computes a transaction cost for every reservation or other service, and charges those costs back to the client. With fees that are not tied to the cost of tickets, there is no incentive for agents to sell other than the lowest possible fares, which has proven to be a big selling point for Rosenbluth International’s fee-based compensation.

Customers had previously received service without paying charges or fees. Now they receive their rebate checks but are explicitly charged for service. Rosenbluth officers were not sure how this would be accepted. So far, customers love it. It costs them no more, but they understand what they are paying for and how it relates to what they are getting.

Ron DiLeo, Vice President of Business Development, amplifies this: “As more of our clients move to fee-based payment, the relationships improve. They can chose what they pay for and their own internal explanation of travel processes is made much easier.”

Further, Rosenbluth International used this new structure to negotiate desired service levels with their clients. The service level is often defined in terms of percentage of calls that are answered in a certain period of time and higher service levels require more staff allocated to the client’s needs. Other services can include advisory services and consultation to lower costs, development of travel policies, negotiation of preferred supplier rates, enforcement of travel policies, provision of international service capabilities, and assistance in planning group meetings. By offering clients a payment system that is tied to the services Rosenbluth provides and to the value that clients receive, Rosenbluth is able to add value in complex ways that are difficult for corporations to duplicate and impossible for airlines to offer with credibility.

Information technology had always played a major role in implementing Rosenbluth’s strategy (see Clemons and Row [5]; Clemons, Miller, and Row [4]), and thus it is not surprising that a major strategic change would be supported by new information technology initiatives. With the firm’s new strategy closely tied to its customers’ increased focus on costs, information technology was used in the following ways:

- **To reduce Rosenbluth’s own costs:** When rebating was first introduced at Rosenbluth, it was necessary for the firm to learn to operate with reduced revenues; this required cost control. When rebating was increased to include all of Rosenbluth’s commissions, and the client was then assessed fees to cover the cost of services, the client then for the first time paid directly for all services received; this, too, reduced revenue and required cost control. Information technology has long been used to reduce the costs of service businesses, so this could be considered a classic application of information technology.

- **To document Rosenbluth’s own costs:** With clients being assessed fees for services, it now became necessary to document to the client’s satisfaction the services that they had received, the service levels that had been
achieved, and the costs that Rosenbluth had allocated to them.

- **To reduce clients’ travel expenses:** Reducing clients’ travel expenses had long been part of the Rosenbluth Promise to its corporate clients, and, indeed, Hal Rosenbluth’s earliest innovation, READOUT, had been designed to assure that clients received the lowest available fares. As the travel environment became more complex, and as airlines entered into complex, multi-tier negotiated fare agreements with Rosenbluth’s clients, assuring lowest travel expenses no longer meant simply finding the lowest available fare on each individual flight. Rather, it was now necessary to solve a complex optimization problem over time, where it might be beneficial to move clients’ to higher fare travel on carriers where it was possible to meet a purchase target level and thus to qualify for larger corporate rebates. Its systems capability enabled Rosenbluth to influence travelers’ flight selections in order to implement optimal travel decisions, consistent with wide ranging policies on connections, lay-overs, and class of service. This was the purpose of a range of innovations like DACODA. Its systems also enabled Rosenbluth to advise its corporate clients and aid them in their negotiations with carriers; this entailed both providing attractive estimates of volumes to be delivered to the carriers at the start of negotiations and concrete documentation of volume levels and market share actually achieved.

- **To document the reduction in clients’ travel expenses:** The clients’ new focus on costs also required that they and their travel managers understand what they had received for their fee payments. A clear documentation of their travel patterns and cost savings was essential to preserving the credibility of the new fee-based service system.

As a consequence of the need to serve the client, understand their objectives, deliver appropriate levels of service, and explain fees and services to them, Rosenbluth’s associates have “gone native” — their expenses are paid by the client, but they remain on Rosenbluth’s career path. This has resulted in a higher identification with the client, which makes it easier both to implement the new Rosenbluth strategy and to explain it to the firm’s clients. Fran Farrell — General Manager for the Smith Kline Beecham account — uses “we” in her conversation when she refers to her client rather than to Rosenbluth International. Combined with the elimination of the commission structure this led to a stronger alignment with the clients’ interests.

5. **Managing Strategic Transition at Rosenbluth International**

Changes in the business environment can quickly change the competitive or strategic positioning of previously successful firms. The failures of companies to adapt — of which there are many — can be attributed to their officers’ inability to unlearn what they have previously found useful as much as to their inability to learn from their current environment. It is useful to ask how difficult it was for Rosenbluth International to recognize the need for the changes described above, and how difficult it was to implement these changes successfully. In the following section, we address why this environmental change could have potentially led to failure if it had not been addressed and why Rosenbluth was able to adapt successfully when so often successful firms are unable to respond effectively to such environmental change.

We note first that success all too often sows the seeds for future failure. This may be due to complacency and “falling in love with a strategy” — it has been noted in a recent television commercial that “companies that think that they are successful probably no longer are.” This may be due to the interaction between success and doctrine — successful firms codify a set of beliefs that seem to explain their success. This makes it easy for the firms, including new members of their management teams, to share a vision, to interpret events in accordance with this vision, to respond to these events rapidly, and to implement a policy quickly and consistently. Unfortunately, these firms also find it difficult to change these beliefs and the behaviors that these beliefs encouraged, even when the environment has changed in ways that render their doctrine inappropriate. Indeed, firms may first need to discard many cherished beliefs before they can change their behavior; we have characterized this as needing to create a forgetting organization before it is possible to create a learning organization (see Clemons [2]). This is simple to explain: once you know that something is
impossible you will not see its early indicators or weak signals of its occurrence; indeed, you may not be able to perceive the danger that it represents, and thus will not be able to perceive the need to respond. However, the fact that great current success may be a strong leading indicator of future failure is not due simply to complacency or “falling in love with a strategy;” there are generally accepted economic and non-economic principles that help to explain the pattern of failure among previously successful firms.

Rosenbluth International was an exception to this principle. Clearly, Hal Rosenbluth and Rosenbluth International were at the forefront of their industry in the period immediately following airline deregulation [6] and clearly both were rewarded in many ways; both could have considered themselves successful, and therefore both could for many reasons have been considered candidates for future failure. Moreover, the changes that Hal and Rosenbluth International were forced to make required reversing strongly held beliefs, backing away from publicly espoused positions, and reversing previously successful strategies:

- Hal had vowed never to rebate
- The company acknowledged its roots in retail vacation travel
- The company publicly reaffirmed its commitment to its employees

5.1. Reasons for Resistance to Change

We offer below a review of problems caused by success and the reasons why successful companies and the officers of these companies frequently resist making changes whose need is apparent to informed outside observers. We note that the forces acting upon the travel industry — competitive pressures among agencies, leading to rebating; competitive pressures from the airlines, leading to capped commissions; and threat of disintermediation — could have been perceived by any agency, and yet we note that few have been able to deal effectively with their new business environment. We therefore ask the following questions:

- Why is strategic business transformation so difficult for established and successful players who have dominated their industry?
- What are the specific factors that cause management team members of previously successful firms to have difficulty making

strategically necessary, economically justifiable change?

We find the following to be a useful division in explaining senior officers’ resistance to change, even when the need for that change should have been apparent to them:

- Some resistance is economically rational: This is frequently due to principal-agent problems (see Milgrom and Roberts [12], where resistance may be rational for the executive, even if it is not rational for the firm.

- Some resistance to change may be economically irrational: This is due to bounded rationality (see, for example, Cyert and March [8]) and the presence of decision traps (Russo and Schoemaker, [13]), which limit the ability of executives and key decision makers to act in the rational best interests of their firm even when it is their intention to do so.

5.2. Successfully Managing the Transition at Rosenbluth International

After the lengthy list of obstacles that block an organization’s ability to perceive the need to change and its ability to respond effectively, and after reviewing the reasons why a successful company may indeed find it even more difficult to respond by implementing competence destroying change, it is interesting to ask why Hal Rosenbluth was able to lead Rosenbluth International successfully through such profound transformation.

Responding to the question of how Hal saw that a dramatic reversal of long held beliefs was necessary, he remarked: “Of course there is a reason to change, life is change. Also, I was unwilling to fail — I couldn’t let my employees and my fellow officers down.” After talking to his clients and suppliers and gaining understanding of their thought process, Hal experienced an epiphany that changed the way he viewed the business. Hal then understood that there is a place for Rosenbluth International which made sense. He realized that:

- The airlines were paying agencies more than the airlines benefited from their work
• Airlines do not owe TA a living, even though many agents appeared to believe they do

• Airlines will bypass travel agents when they believe that it is in their economic interests to do so, if they believe that they can

In brief, Hal came to recognize that airline executives believed that it was their responsibility to their shareholders to maximize yield and revenue, and that they would squeeze travel agents if it proved necessary to do so. It would be the travel agents’ responsibility to find ways to add value for customers, so that the airlines would be unable to squeeze agencies further; customers would not allow it to happen.

In this new environment, he saw the need to alter completely his policy on rebating and his attitude towards his retail business. He also accepted that it is Rosenbluth’s responsibility to be the employer of choice, but that Rosenbluth can no longer guarantee lifetime employment.

This change in vision was no doubt difficult to achieve, given that it involved changing doctrine (“We will never rebate”) and abandoning successful and reinforced strategies (“The customer and the airlines value our services and will pay for them”). Moreover, it required acting in the presence of incomplete information regarding the future business environment, and thus overcoming overconfidence, risk aversion, and ambiguity aversion, as described above.

Overcoming these obstacles was not easy to achieve, nor would it have been achieved without the pain caused by increasing competitive pressure. Indeed, the company’s success can be partially explained by the fact that in recent years competitive pressures had forced Rosenbluth International to accept partial rebating to keep major corporate accounts from defecting to competitors. This experience provided Rosenbluth International a valuable opportunity to learn how to compete in this environment of reduced commissions. It sharpened the awareness of the cost structure of its processes and by reducing revenue helped teach the company how to minimize cost while maintaining a high service level. Perhaps most significantly, it offered a transition period, in which the company could learn about rebating and about the value that it needed to offer its customers, and an opportunity to revise doctrine, reduce overconfidence, and reduce ambiguity.

Finally, Hal’s decision to divest the retail business caused less distress since he found a way to reduce ambiguity.

6. Competitive Assessment

Hal Rosenbluth firmly believes that there is a legitimate role for the travel agent as an intermediary between supplier and consumer of corporate travel. His experience tells him that, while demand for corporate travel is relatively insensitive to slight changes in price, lowering price will cause corporate clients shift from one airline to another. The airlines will respond to any agency that can move volume and is able to document it. In order to do this effectively, Hal had to position Rosenbluth International unambiguously on the side of the client, something that was achieved by giving all commissions to the clients and being paid only for services that the clients requested.

It is difficult to determine if Hal Rosenbluth’s current strategy is as profitable as the strategy that he pioneered and that his company successfully implemented in the 1980s. It is also irrelevant. What is relevant, even critical, is also easy to answer: Hal’s current strategy, which he has successfully implemented, is far more successful now than the continuation of his previous strategy would now be, under current market conditions and in the current competitive environment. That is, Hal has successfully avoided the “trap of the vanishing status quo,” in which corporate executives reject strategic change because its returns are lower than those of their current strategy, in their current environment. Hal recognized that the environment he faced, as attractive as it was, could not last, and he successfully managed his firm’s transition into a new and more hostile competitive environment.

7. Conclusions

Rosenbluth International has successfully adapted to a fundamental change in the competitive environment. The ongoing threat of commission cuts and caps from the airline side and the need to rebate to the corporate client side has been turned to a clear value-proposition. Rosenbluth continues to be the service provider at
the service level that the client has chosen and for which the client is willing to pay. In addition, the client’s ties to Rosenbluth are stronger than ever; Rosenbluth associates now identify themselves much more with their clients.

8. References