

THE INTERNET, THREAT OR TOOL FOR TRAVEL AGENCIES?

Dodu Silvia Patricia

Universitatea Româno-Americană, Facultatea de Economia Turismului Intern si International, B-dul Expozitiei, Nr 1B, Sector 1, Bucuresti, patricia_dodu@yahoo.com, telefon: 0722547662

The popularity of the Internet changes the way the travel business is conducted, changing the patterns of traditional distribution of tourism services and products. The Internet represents a tool for travel agencies but can also be a powerful weapon against the traditional distribution. The process of breaking the usual distribution channels is known as disintermediation. Nowadays, in the travel industry, the majority of the travel agencies and tour operators have developed into “brick-and-click” organizations – traditional operators who expanded into the e-commerce area, named cybermediaries. The competition between travel intermediaries is based on the need to reach the clients as directly and fast as possible, and the Internet comes to fulfill this issue. Suppliers attempt to use the Internet as a device to promote their products and services directly to end-users and thus try to avoid the commissions paid to intermediaries.

Keywords: tourism distribution channels, travel industry, Internet, travel agencies, disintermediation.

The tourism distribution channels revolution

The future trends affecting the travel industry, such as demographic developments, changes in consumer demand, changes in product development and distribution channels, but also the climate changes and new tourism flows, can significantly transform the business travel in the coming years. Tour operators and travel agencies must understand these changes and adapt their business way of thinking to the needs of tomorrow's travelers: how people will travel, how they will want to spend their time on trips and holidays, the future alternatives for transport, accommodation and other services available, the boost in those motivations for travel that are less important today, all these questions about tomorrow's travel must get an answer today. Identifying the business strategies to cope with all these evolutions and trends will be the best guarantee of success for the market players savvy enough to use them in their advantage.

Between all these aspects, the progress of technology brings in a number of issues for travel agents and tour operators to deal with, especially those related to the distribution of the tourism products and services. The distribution revolution that occurred a few years ago impacts the travel supplier sector, creating a new reality that companies in the field must face.

“In tourism, the position of the distribution sector is much stronger: trade intermediaries (travel agents and tour operators of course, but also charter brokers, reservation systems and other travel distribution specialists) have a far greater power to influence and direct demand than their counterparts in other industries do. Since they do, in fact, control demand, they also have increased bargaining power in their relations with suppliers of services and are in a position to influence their pricing, product policies and promotional activities”(1)

Tourism distribution channels can be either direct or indirect: direct channels normally link suppliers and consumers without the aid of intermediaries, while indirect distribution channels involve a wide range of intermediaries such as tour operators, wholesalers, consolidators, travel agents, corporate travel departments, incentive travel companies, as well as diverse organizations or associations. All of these channel operators have the potential to significantly influence the travel patterns and behaviors of specific travel markets. Generally, the closer the destination is to the consumer in physical, product awareness and experiential terms, the more direct the channel of distribution becomes. But, in the past years, Internet has significantly changed the distribution channels in the travel industry.

Traditionally, travel agencies give advice on destinations and make arrangements for transportation, hotel accommodation, car rentals, tours, and recreation, but at the same time, travel agents have to provide information on many other aspects, such as destinations, types of packages available, weather conditions, attractions, visas, and currency exchange rates. Also, they have to study a large number of sources for information on departure and arrival times, fares, hotel ratings and accommodations, but also organize fam-trips in order to check the quality of the hotels and restaurants and evaluate the standards of comfort and cleanliness of the services they recommend to their clients. Tour operators are those who assemble holiday

packages, and, in Europe, those who contribute to the development of the tourism industry by generating tourist flows and by providing access to affordably-priced vacation packages. Tour operators are creators of vacation packages focused mainly on the leisure segment, with a role of intermediary between suppliers of tourism services and end-users of such services, a role that is fulfilled by assembling the various elements of supply (accommodation, travel, food, and entertainment services) and distributing them either directly or through travel agencies. We can argue that tour operators are the key intermediaries across the entire chain and their role is decisive in moving the tourism product from suppliers to end-users. Other players like wholesalers and consolidators are more recent on the market and rely on the use of various IT platforms.

But, what has the most significant role in distribution channel nowadays is the Internet and the way it changes the pattern of traditional distribution, shocking the market by the rapid transformations which it generates across the whole industry.

The popularity of the Internet led to new companies entering the market, creating an explosion of virtual operators. Therefore, the Internet must not be treated simply as a promotional aid or distribution device, but as a major force in itself that profoundly changes the way tourist business is conducted. Indeed, the Internet represents a tool for travel agencies and tour operators to develop their business, to market it, to get information and partnerships, but it can also be a powerful weapon against the traditional distribution.

The major threat for travel agencies is disintermediation

Right now, traditional travel agencies are being threatened not only by integrated tour operators, which control their own distribution channels, but also by the expansion of alternative distribution channels such as the Internet, Teletext, call centers, and even travel TV channels. This process is called “disintermediation” (2). Disintermediation means suppliers getting closer to their customers and eliminating all types of intermediaries that impede this process and add needless costs.

The competition between travel intermediaries is based on the need to reach the clients as directly and fast as possible, and the Internet comes to fulfill this issue. Suppliers have the opportunity to use the Internet as a tool to promote their products and services directly to end-users and thus try to avoid the commissions paid to intermediaries. The airline industry already took a number of important measures regarding the level of commissions paid to the travel agencies for their services (capping or reducing these commissions – these days zero commission is the norm – represented a strong blow for ticketing agencies that used to rely on the reservation fees charged to airlines). Airline companies encourage customers to call the airline directly, saving commissions and disintermediating their travel agents. Hotels also create their own websites to reach their clients and more than that, they can now employ various price policies and loyalty programs that yield a higher price transparency and more user-friendly interfaces.

Suppliers believe they no longer need an intermediary to sell their products. Direct marketing on the Internet is cutting into the traditional intermediaries’ business. Using information technology to develop and tighten supply chain relationships can reduce costs and bring higher quality travel products to the market. This technology can also contribute to minimizing transaction costs, lowering uncertainty, sharing market information, and aiding in distribution channel efficiency. Providing computer systems that integrate travel businesses with suppliers, distributors, and retailers is the crucial first step toward developing a successful e-commerce business model(3).

Now, the suppliers rely on GDS systems (Global Distribution Systems) for connecting their products to the travel agencies networks, which subsequently, distribute them to the final consumer. As the Internet developed, several alternative distribution systems have emerged (among which, giant search engines such as Kayak.com, Sidestep, Inc., and Yahoo/Farechase), offering travelers multiple possibilities to choose and book their travel, while traditional suppliers only have access to their own offering of products and services posted on their websites. At the same time, some GDS have been moving into the direct distribution of these services, using their own websites: Expedia, Travelocity (owned by Sabre; Travelocity, the European online travel leader also owns several well-known brands, such as lastminute.com, holidaysauto.com, Site59, Travelocity Business, Travelocity on Location, etc), Orbitz (part of Travelport). The strategy of these companies focuses on the continuous adaptation to the evolution in market demand, relying on several research studies that suggest that the future of the travel industry belongs on the Internet.

Nowadays, in the travel industry, the majority of the travel agencies and tour operators have developed into the “brick-and-click” organizations – traditional operators who expanded into the e-commerce area. Also, a

few years ago, new companies appeared on the market; these cybermediaries are the new Internet-based intermediaries who have arisen and are independent of travel agents and airlines (although, in some cases, the more traditional players invest in them). In fact, when an intermediary offers its services over the Web, it is called a cybermediary. With the wide adoption of e-commerce in travel and tourism industry, the Internet has become an important travel service delivery channel, and the traditional travel agency has been under a severe disintermediation threat. A good example of Internet disintermediation in this industry was represented by the companies like Expedia, Priceline, Travelocity, which put out of jobs an important number of travel agents virtually overnight.

Rapid growth of online travel

These days, the online travel market is experiencing a profound evolution. Information and communication technologies on one hand, and tourism/travel on the other are among the largest and fastest developing industries in the world. Online travel markets in the US, Europe and the Asia-Pacific region are at various stages of development. The US is the world's largest and most mature market; growth is strong, but it is slowing down. Europe, less than half the size of the US market, still has much upside potential. While the UK, France and Germany are approaching maturity, Southern and Eastern Europe have untapped potential (4).

Tabel no. 1

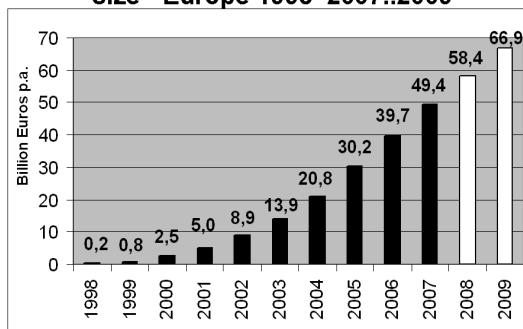
<i>US Online Leisure / Unmanaged Business Travel Sales</i>		
<i>(2003 – 2010)</i>		
<i>Year</i>	<i>Billions USD</i>	<i>Increase vs. prior year (%)</i>
2003	\$ 41.0	100.0 %
2004	\$ 52.3	27.6 %
2005	\$ 64.9	24.1 %
2006	\$ 78.8	21.4 %
2007	\$ 93.8	19.1 %
2008	\$ 109.7	16.9 %
2009	\$ 126.9	15.7 %
2010	\$ 145.8	14.9 %

Source: eMarketer, March 2007, <http://www.emarketer.com/>

According to eMarketer, US online sales of leisure and unmanaged business travel (consisting of airline, hotel, rental car, cruise and vacation package reservations) will reach \$108 billion in 2008 and is estimated to reach \$126.9 billion by 2009. Sales will remain strong out to 2010, although growth rates will steadily decline. Tourism in U.S is mainly domestic and 90 percent of sales are made online.

In the meantime, in the European market, online travel sales reached EUR 49.4 billion in 2007. A further increase of about 18% during 2008 to about EUR 58.4 billion may be expected (22.5% of the market). The European online travel market could increase by another 8.5 bn. EUR or 15% in 2009 to reach EUR 67 bn (5).

Trends in overall online travel market size - Europe 1998–2007..2009



Source: Carl H. Marcussen, Centre for Regional and Tourism Research, www.crt.dk/trends, 28 Jan. 2008.

David Roche from Expedia submits that the online European travel market is still immature, with millions of e-buyers entering the market annually, with very little web experience, perhaps placing a brake on the level of innovation that firms can undertake.”(6) But, in Europe, the Internet is now nearly twice as important generally compared to travel agents as an information source, although the travel trade is still very important in terms of travel distribution. And, given the rise in dynamic packaging offered directly by tour operators to clients booking online, the travel trade is not about to lose its importance as a distribution channel (7). The European online travel market is not following exactly the same pattern as the US, Europe remains a package holiday market (nearly 60% of Europeans opt for a package, or create their own as shown in IPK reports) with consumers buying traditional packaged holidays as well as dynamical packaged breaks via the Internet.

Tabel no. 2

Breakdown of European pre-bookings (Jan. – Aug. 2007)	
Packages	59 %
Accommodation only	16 %
Transport only	24 %
Others	1 %

Source: IPK International's European Travel Monitor, November 2007.

The figures show that concerning online travel sales by channel, the largest share is held by supplier web sites (56%), and only 12% by tour operators.

Tabel no. 3

Online Travel Sales in Europe, by Channel, 2006 (% of total)	Percentage (100 %)
Supplier Web sites	56%
Online travel agencies	32%
Tour operators	12%

Source: PhoCusWright, "Europe Online Travel Overview" preliminary results, April 2007

In 2007, the breakdown of the market by type of service was as follows: Airtravel 57%; Hotels (and other accommodations) 17%; Package tours 14½%; Rail 7½%; Rental cars (and car ferries) 4%. The European online travel market (including the 12 newest EU member countries) may reach EUR 67 bn. by 2009, which is about 25.2% of the total market for selected travel and tourism services.

The future of travel agencies

Numerous marketing research studies forecast for 2008 some interesting changes in the customer behavior. “The online travel industry has reached a point where 80% of travelers are online and growth for online

bookings, which currently stands at \$112 billion, has virtually stalled – with only single-digit gains. Satisfaction with online bookings is decreasing as only 49% of online bookers feel it's enjoyable to book a trip online, down from 53% last year. 24% of people feel it's more convenient to research travel offline, versus 20% last year"(9). But despite the fact that travel and tourism products can easily be distributed and sold on the Internet, and despite the impressive growth rates of the online travel market shown above, the market share of online travel sales in the total travel market still remains relatively small, being estimated by Marcussen at 19.4% in 2007 and 22.5% in 2008.

Despite the rise of online travel sales, the travel agency distribution channel represents a large and dynamic opportunity. Travel agencies must focus on consulting and niche markets. Those who are experienced in the trade are now freed up from completing basic tasks and can concentrate on planning complex itineraries and using their expertise to sell. The role of agents has changed from taking reservations to offering advice and consulting services for customers. Travel agencies now look out for a consumer's best interest by using IT resources to help them find the best products. In the future, travel agents will increasingly become agents of the travelers rather than agents of the suppliers, focused on customizing travel packages and services.

As the Internet increasingly becomes the standard tool for travel planning, travel agencies can use the Internet opportunities not only for promotion, but also for new purposes, such as collecting and researching information and gaining access to new business partners, suppliers, and services. At the same time, the Internet is primarily used as a source of information and product & price comparison instrument, especially in Europe. Not all individuals visiting travel websites also book online, while others, from the very beginning, prefer the personal contact either face to face, or via phone or e-mail.

Due to the increase of Internet technologies, more traditional travel intermediaries are adopting IT to provide added value to travel consumers. "IT has thus become a vital competitive advantage for travel agencies, as they use ecommerce development strategies to retain performance advantages. Therefore, e-commerce creates opportunities for the re-intermediation of the on-line travel agency"(10)

The level of experience, knowledge and expertise of travel agencies already convinced some customers willing to pay for the extra value incorporated into the tourism services and products they are looking for. In their role as information consultants, many agents now have access to a far wider audience than they have had traditionally. Currently, travel agents tend to market to local consumers, but the Internet gives travel agents the opportunity to market to non-local consumers who wish to travel to those agents' own vicinity. The incoming agents will be able, more than anyone else, to handle the travel plans of non-local customers.

It's obvious that now it's much harder, but not impossible, for travel agencies to sell and compete. Tour operators and other players at the wholesale level in markets that traditionally rely heavily on retail sales through independent travel agents will start launching websites offering the possibility of direct bookings, thus bypassing the travel agents. For example, airlines are increasing their percentage of direct sales that bypass the travel agents. Thus, the survival of threatened intermediaries depends on their ability to differentiate themselves in areas other than those in which economies of scale are the sole distinguishing feature. Research indicates, for example, that much of what travel agents do for airlines is routine and transactional, providing little added value, and thus easy to disintermediate.

"As the use of the Internet becomes second nature for travelers, they will expect capabilities well beyond simple rate search and reservations. These include features such as electronic folio access, virtual concierge and integrated trip planning". (11)

What travel agencies can do is enter the online travel segment and add value to the products they recommend to their customers, and also adopt survival and adaptation strategies based on new technologies that will allow them not only to stay in business, but also to thrive in the new competitive environment.

Bibliography

1. WTO, Distribution channels, World Tourism Organization, Madrid 1975
2. PROINVEST, Profile of the tourism sector in the EU and opportunities in relation to the Caribbean Region, Deloitte Touche Tohmatsu Emerging Markets (UK) Ltd, 2004
3. Vesna Loborec- E-Business Opportunities Amongst Slovenian vs. Croatia Travel Agencies: A Five Year Comparison, High School for Hospitality and Tourism in Ljubljana, Slovenia, <http://www.phdworkshop.org/papers/Loborec-Vesna.pdf>
4. Jeffrey Grau, Online Travel Worldwide: A Mosaic of Separate Markets, August 2006, eMarketer
5. Carl H. Marcussen, Trends in European Internet Distribution - of Travel and Tourism Services, Centre for Regional and Tourism Research, Denmark, Updated 28 January 2008
6. David Roche, Vice President, EMEA, Expedia, as quoted in EyeforTravel, June 2006
7. IPK International, A World Travel Trends Report, Message from the PisaForum, 2007November.
8. Carl H. Marcussen, *ibidem*.
9. Henry Harteveltdt, vice president & principal analyst of Forrester Research, keynoted the conference with a presentation titled "Successfully Navigating Uncharted Waters."
10. Vesna Loborec: *ibidem*.
11. Paul Chiu, Managing Partner, Accenture, April 2006, quoted in Online Travel in the US:Pursuing Customer Loyalt, eMarketer, July 2006.