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Effective Internet Commerce Business Models in the Travel Agency Sector

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Abstract
Traditionally, retail travel agencies have acted as intermediaries between airline companies and wholesale travel companies and the consumer. The Internet and the World-Wide-Web provide a whole new set of challenges and opportunities for this business sector. The major threat stems from airlines and wholesale travel companies offering their products and services directly to the customer without the assistance of travel agencies. Large on-line agencies have gained significant attention in the travel industry and provide some evidence of a re-structuring of the travel industry sector.

Although there has been much speculation in terms of the impact of the Internet and the threat of disintermediation there has been little work carried out on the Internet marketing models and strategies that travel agencies have adopted. This paper reports the findings of a large survey of Australian travel agencies' Web sites and the marketing methods used.

The survey analysed the functionality of the travel agencies' Web sites, the marketing models used, and the types of information provided in the Web sites. The results found that the majority of agencies had a Yellow Pages or Cyber Brochure model for their Web site. A small percentage of Web sites allowed transactions to be performed but a significant number provided information on a range of destination and service related topics. Approximately half of the sites monitored captured information on the Internet surfer but interestingly fewer captured the surfer's e-mail address. The paper offers suggestions for travel agencies in using the Internet as a marketing tool and proposes ways for them to re-engineer their businesses via the Internet.

Keywords: Travel Agents, Internet Commerce, Web Sites

1. Introduction

Travel agencies, like many business organisations today, are operating in a rapidly changing environment. The growth of the Internet and the World-Wide-Web (WWW or Web) has created opportunities for travel agencies to market to customers in a more flexible way. However, the Web poses a number of threats to the more traditional travel operators (Tapscott, 1996; Kalakota and Whinston, 1996). Firstly, airlines and wholesale tour operators are beginning to market their products directly to the consumer through their Web sites. Secondly, virtual travel agencies are aggressively marketing their products and services via the Web. The travel industry is chosen for the focus of the study described in this paper for three main reasons. Firstly, the travel industry was one of the first industries to do business on the Web and actually make profits (Standing, Vasudavan and Borbely, 1999). Secondly, there is the potential for the industry sector and travel distribution chains to be greatly influenced...
by Internet commerce developments (Wilson, 1997). Thirdly, some studies have focused on the e-commerce on strategies adopted by small businesses (Van Akkeren and Cavaye, 1999). Whilst this approach has merit there are often difficulties in comparing the e-commerce strategies of different types of businesses.

This paper examines how travel agencies are responding to the opportunities and threats presented by the growth of the WWW. In particular, travel agencies' Web sites are examined to determine how they are responding to the challenge of the Web. The study investigates the types of business strategies being adopted by travel agents in relation to Internet commerce. A framework for analysing Web site strategies is proposed. Finally, a model and guidelines for travel agencies developing or amending Web site strategies are then presented and discussed.

2. Travel Agencies and the Internet

Travel agencies are no strangers to information technology and are highly dependent on up-to-date, accurate information. Information technology has been widely used within travel agencies for reservations, accounting and inventory management functions. Raymond and Bergeron (1997) refer to the types of systems used by travel agents as:

i) global distribution systems (GDS) such as Galileo, Sabre and Amadeus which are used for reservations, information search, client management and reporting;

ii) organisational information systems (OIS) which are used for accounting, reporting, record management and billing.

Information technology (IT) has helped in reducing costs and improving service to customers (Raymond and Bergeron, 1997).

The recent growth of the Internet has created both opportunities and threats for travel agents (Reinders and Baker, 1997). A report by Datamonitor predicts that travel will be the largest on-line product by 2002 (Nua Internet Surveys, 1998). They expect that the travel industry will account for 35% of all on-line sales by the year 2002. If this is correct there is huge potential for travel agencies to increase their business via the WWW. There are various aspects of Web based electronic commerce that can be exploited by travel agents. Some of these are listed below.

1 Using the Internet to build customer relationships - by having customers interact directly with the web site.
2 Gathering information from customers and potential customers to create customer profiles which can be used in marketing and product development.
3 Information partnerships - cooperation between organisations to provide a better service to the customer.
4 Transactions - selling of products and services.
5 Specialised information provision according to the profile of the user.
6 Information and products that can be down-loaded by the user.

The changes in the global travel industry, and especially the growth of the Internet, have led some to suggest that travel agencies must radically change their business practices if they are to survive at current numbers (O'Brien, 1998). Airlines, for example, have begun to market directly to the consumers via the Web, by-passing the traditional travel agencies.

Organisations that operate primarily in an on-line environment are often termed virtual organisations. Virtual travel agencies such as Microsoft's Expedia, Yahoo Travel, and
Travelocity have the potential to pass economies of scale on to the consumer. They offer reduced fares coupled with the convenience of making reservations from home after office hours. These on-line agencies are challenging the traditional retail travel agency that is operating on a small profit margin.

3. The Importance of Business Strategy

If travel agencies are to take full advantage of the Internet revolution then they must develop appropriate Internet commerce strategies and design and implement them effectively. The development of Web based systems is first and foremost, a business decision not an IT decision (Vecchio, Hearn and Southey, 1996). In this respect the Web or Internet development should follow a top-down approach so that the resulting systems are aligned with the strategic objectives of the organisation. This applies to travel agencies; their Web sites should compliment and enhance the strategic business objectives.

*The dangers of an IT driven approach (bottom-up) to Web development*

There are dangers for organisations when new developments are driven by the information technology without due consideration of the strategic directions of the business. These types of projects can result in systems that:

1) Take too much time and money to develop because they do not have the full backing of senior people.
2) Do not provide a significant return to the organisation because they are peripheral to the core business needs.
3) Displace other, perhaps more worthwhile, projects from being developed as they consume organisational resources.
4) Are not maintained effectively and eventually become a problem for the business. The Web developments may be badly perceived by the customers and/or employees.

Some organisations have rushed too quickly into developing an Internet presence without due consideration of aligning the new initiatives with sound business strategy. In some cases Web site projects have been abandoned because they are not providing a sufficient return to the business. In other cases, Web sites have undergone radical changes. For example, Gibson musical instruments offered guitars at 10% below the list price on their Web site. There were so many complaints from their existing retail dealers that the sale of guitars was taken off the Web site within a month (Kalin, 1998).

Although strategic considerations should come first, technological innovations often create business opportunities that can drive new strategic openings. The Internet is one such technological innovation. Exploring business uses of the Internet and the development of business strategies and goals can go hand-in-hand but strategy must never be put second.

4. Using the Internet for Marketing and Promotions

Travel agencies can choose from a number of approaches and theories to help them develop Internet marketing strategies. In this section of the paper various marketing models are introduced and techniques to support the promotion of products and services.

Strategy can be developed at the functional level of the organisation to support the corporate strategy (Robbins, Millet, Cacioppe, and Water-Marsh, 1998). For the marketing function, for example, the model of the customer service life-cycle can be used to develop more detailed
strategy (McKeown and Watson, 1996). The customer service life-cycle has four major phases to describe the customer relationship.

• The requirements phase is for assisting the customers in defining their needs.
• The acquisition phase is for helping the user to acquire the product or service.
• The ownership phase is for supporting the customer.
• The retirement phase is used for helping the client to retire the product or service.

The early part of the customer service life-cycle would be relevant to travel agencies. The travel agent must help the customer define their travel requirements and then attend to the reservations. If there are problems whilst the customer is on holiday the travel agent may be required to attend to certain issues. Unfortunately, travel agencies appear to do very little after the customer has returned from holiday, although they could obtain feedback from the customer.

Another marketing and design strategy model developed by McKeown and Watson (1996) relies upon various aspects of customer attitudes and corporate image to create a framework to guide Web site strategy and design. However, the model is restricted to image and attitudes and would not be broad enough as a model for developing a full Internet commerce strategy.

Web sites marketing approaches have been classified according to seven models (Lawrence, et al., 1998). The Poster/Billboard model is basically just a little information about the company and an e-mail address. It means the company has an Internet presence and the effect is like a company poster. The On-line Yellow Pages model is a menu system with a hierarchy of information. The Cyber Brochure model is more sophisticated still and looks like an on-line brochure. The virtual Store-Front model has a transaction engine and is used for ordering and sales. The Subscription Model is akin to an on-line magazine. The Advertising Model is a site which is trying to raise revenue through advertising. Examples are the search engines which attract large numbers of people and have lots of adverts. The 3.5.7 Model is a multifunctional Web site which includes, for example, transaction facilities, marketing, public relations and after sales support.

5. Study Details

This paper reports the findings of a study which examined fifty Web sites of travel agencies in Australia in late 1999. The Web sites were chosen that came up first in the major search engines. The Web sites were analysed according to the marketing model they conformed to, the functionality of the Web site, the types of information provided and the types of customer service options included. The use of links to other sites was also noted. The comparative analysis of Web sites was possible due to using such broad features of functionality and classification.

The overall aims of the research are threefold.

1) To determine the types of strategies being used by travel agencies in relation to Internet commerce.

The strategies being examined are based on high-level approaches which are part of a process re-engineering framework (Talwar, 1996) which has been amended for this paper. This will help in determining if travel agents are strategically repositioning their businesses via the Web, or whether they are just supplementing or enhancing existing business processes. The former can be classed as business process re-engineering (BPR), whilst the latter is process
improvement (figure 1). A middle approach is complete process re-engineering. This involves the fundamental re-design of an entire process in order to achieve significant improvements in the organisation. A process is considered to be a set of logically related tasks performed to achieve a defined business outcome. Process re-engineering is not as radical or high risk for the business as transformational BPR and does not require the same level of cultural and attitudinal change (Talwar, 1996). Figure one shows the two forms of BPR and process improvement in the context of the cultural change required within the organisation, the level of risk involved, the type of change and the scope of the changes.

![Diagram](image_url)

**Figure 1. The Scope of Process Change (Based on a diagram by Talwar, 1996)**

2) To propose a model for classifying Internet commerce strategies through the analysis of web sites.

The Web sites were examined for a range of features to determine the business scope of the approaches. A checklist of factors on a survey sheet were used to guide the analysis of Web sites. The factors considered are listed below:

- Information Provision
  The amount and types of information provided. For example, whether the site provides destination information and service information (e.g. exchange rates and visas) in addition to flight and holiday package information.

- Transaction Function
  Transaction based Web sites are usually more complex to develop than purely information based sites. They are usually a sign of a more ambitious and transformational Internet commerce approach as they require greater investment and can have a significant impact on sales (Treese, and Stewart, 1998).

- Public Relations and customer relationships
  Web sites can be used to improve customer relationships by providing levels of interactivity and making the customer feel valued. This can play a role in building up trust and loyalty between the company and (potential) customer. For example, the customer could submit reports of their holiday which could be posted to the Web site.

- Customer Information
If the site captures the user's details the information can be used for marketing purposes such as emailing the person with flight and holiday offers.

- Links
  Links can be used to provide the user with fast access to valuable sources of information. Of course, the links require amending and updating and hence extra effort and expense to use effectively. Links can also be a sign of more formal (or informal) alliances with other organisations. For example, a travel agency could recommend another agent for specialist services in return for referrals via their Web site for specialist offerings that they cannot fulfil.

- Evaluation Information
  A Web site should be continually evolving to meet the needs of the customers (Rockwell, 1998). One way of improving the design and strategy is to listen to customers by providing a feedback and comments option on the Web site.

- Advertisements
  Advertisements on a Web site can be used to create additional income for the company.

- Marketing Model
  The Web sites are classified according to the marketing models described earlier in the paper (Lawrence, et al, 1998). These models vary in complexity and sophistication and highlight the type of strategies being used.

The more functions incorporated in the Web site the broader the business scope of the system and hence the greater the potential for business transformation (Talwar, 1996). Information was obtained from the Web site on the off-line operations of the travel agency to attempt to determine the variations in strategies between the on-line and off-line business approaches.

3) To provide a framework and guidelines for travel agencies in relation to Internet commerce strategy development.

This will incorporate the process re-engineering strategies, the characteristics and features of Web sites, and the likely outcomes of the various approaches.

6. Findings - Analysis of Web Sites

For customers to decide upon travel arrangements they require access to information. Prices, schedules, visa, currency and destination related information are all useful in the decision making process. Although customers may require additional information table 1 gives an indication of the percentage of travel agencies incorporating such data into their Web sites. At least one third did not provide price information, possibly because this data goes out of date so quickly and hence needs constantly updating.

The facility to carry out transactions via the Web indicates that the travel agency is serious about making the Internet site have a significant an impact on the business (Treese, 1998). If the Web site can attract new business and conduct transactions in a cost-effective manner then it is potentially an indicator of business transformation. However, only a small percentage of agencies were providing transaction options on their Web site (table 2). Interestingly, only 14% of sites allowed users to pay for their bookings by credit card.
Table 1. Information Provision on Travel Agents' Web Sites

<table>
<thead>
<tr>
<th>Information Provision</th>
<th>Yes %</th>
<th>No %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Related</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel schedules</td>
<td>48</td>
<td>52</td>
</tr>
<tr>
<td>Prices</td>
<td>66</td>
<td>34</td>
</tr>
<tr>
<td>Service Related</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visa</td>
<td>6</td>
<td>94</td>
</tr>
<tr>
<td>Currency</td>
<td>18</td>
<td>82</td>
</tr>
<tr>
<td>Destination Related</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Climate</td>
<td>14</td>
<td>86</td>
</tr>
<tr>
<td>Features</td>
<td>52</td>
<td>48</td>
</tr>
<tr>
<td>Attractions</td>
<td>46</td>
<td>54</td>
</tr>
</tbody>
</table>

Table 2. Types of Web Transactions

<table>
<thead>
<tr>
<th>Transactions</th>
<th>Yes %</th>
<th>No %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flight reservations</td>
<td>24</td>
<td>76</td>
</tr>
<tr>
<td>Tour package reservations</td>
<td>24</td>
<td>76</td>
</tr>
<tr>
<td>Hotel reservations</td>
<td>22</td>
<td>78</td>
</tr>
<tr>
<td>Payment options</td>
<td>14</td>
<td>86</td>
</tr>
</tbody>
</table>

The Web can be used for improving customer relationships through answering commonly asked questions, a complaints avenue or by presenting press release information. Very few travel agencies provided these features on their Web sites (table 3). Web sites can also be used for building up a marketing database of potential customers. Roughly half of the sites did this (table 4).

Table 3. Public Relations Features

<table>
<thead>
<tr>
<th>Public relations</th>
<th>Yes %</th>
<th>No %</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAQ's</td>
<td>6</td>
<td>94</td>
</tr>
<tr>
<td>Comments from satisfied customers</td>
<td>6</td>
<td>94</td>
</tr>
<tr>
<td>Complaints avenue</td>
<td>12</td>
<td>88</td>
</tr>
<tr>
<td>News or press release</td>
<td>16</td>
<td>84</td>
</tr>
</tbody>
</table>

Table 4. Capturing Customer Details

<table>
<thead>
<tr>
<th>Customer Information Capture</th>
<th>Yes %</th>
<th>No %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>56</td>
<td>46</td>
</tr>
<tr>
<td>Telephone</td>
<td>52</td>
<td>48</td>
</tr>
<tr>
<td>Address</td>
<td>44</td>
<td>56</td>
</tr>
<tr>
<td>E-mail</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>FAX</td>
<td>38</td>
<td>62</td>
</tr>
<tr>
<td>Age</td>
<td>8</td>
<td>92</td>
</tr>
<tr>
<td>Holiday/Travel Preferences</td>
<td>46</td>
<td>54</td>
</tr>
<tr>
<td>Income</td>
<td>2</td>
<td>98</td>
</tr>
</tbody>
</table>
Links to other sites can be used to provide the customer with access to a much greater volume of information. The links could be informally built into the Web site or the travel agency could make a formal approach to a company, such as a car rental company, and ask for commission for every referral from their own Web site. Whether formal or informal, links are a way of building up a more comprehensive repository of knowledge without having to update it all (although the links have to be checked frequently). Over half of the travel agencies used less than five links on their sites. This shows that they are deliberately attempting to develop a self-contained strategy or that they had just not thought of this option.

<table>
<thead>
<tr>
<th>Links to other sites</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>24</td>
</tr>
<tr>
<td>1 to 4</td>
<td>34</td>
</tr>
<tr>
<td>5 to 9</td>
<td>16</td>
</tr>
<tr>
<td>10 to 20</td>
<td>14</td>
</tr>
<tr>
<td>20+</td>
<td>12</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Yes %</th>
<th>No %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hit Counter</td>
<td>15</td>
<td>35</td>
</tr>
<tr>
<td>Feedback to improve site</td>
<td>11</td>
<td>39</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Advertisements</th>
<th>Yes %</th>
<th>No %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are adverts included?</td>
<td>32</td>
<td>68</td>
</tr>
</tbody>
</table>

Few travel agencies included feedback options related to the site (table 6) and only a third included advertisements (table 7). Most of the sites were at the less sophisticated end of the marketing spectrum specialising in information provision and awareness raising (table 8).

<table>
<thead>
<tr>
<th>Marketing Model</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poster/Billboard Model</td>
<td>18</td>
</tr>
<tr>
<td>On-line Yellow pages</td>
<td>30</td>
</tr>
<tr>
<td>Cyber Brochure</td>
<td>34</td>
</tr>
<tr>
<td>Virtual Storefront</td>
<td>12</td>
</tr>
<tr>
<td>Subscription Model</td>
<td>0</td>
</tr>
<tr>
<td>Advertising Model</td>
<td>2</td>
</tr>
<tr>
<td>3.5.7 Model</td>
<td>4</td>
</tr>
</tbody>
</table>

7. Discussion

This section of paper uses the data from the Web site analyses to draw conclusions about the broad e-commerce strategies adopted by the travel agencies. This is done by evaluating the amount of information provision, the Web site models adopted and their sophistication, the level of functionality related to developing customer relationships, evidence of gathering information on customers, and the transactional capabilities of the sites. The majority of Internet commerce strategies used by travel agencies fall into the category of process
improvement. Only a few are re-engineering an entire process via the Web and a very small number are transforming (radically changing) their businesses. It is clear from the study that travel agencies are not using the Web as a transformation agent but rather a way of promoting awareness of their businesses on the Internet.

If the data from the study of travel agents' Web sites is classified according to the three high level strategies then it can be seen that around 60% to 75% of the sites take a process change approach. Less than 10% of the sites are transformational, which leaves around 15% to 25% classed as process re-engineering sites.

From previous studies we have conducted that have included interviews of travel agency owners and managers we know that few travel agencies are using the Web as a radical change agent (Standing and Vasudavan, 1999). Travels agents see the impact of the WWW as being significant on the industry but they have not utilised it as a major catalyst for change. From the results of previous research we found a large percentage are using the WWW but see it as an add-on to current business operations. This add-on mentality is further substantiated by the lack of detailed planning and enterprise wide perspective that is taken. Travel agencies also take a low budget approach with most spending under $2000 dollars on Web site development (Standing and Vasudavan, 1999).

7.1 A framework for developing Internet commerce strategies

The features used in the analysis of Web sites can be combined with the process strategies to create a model that can guide travel agencies in the selection and implementation of Internet commerce strategies (Figure 2). Through this model travel agents will see that it is unlikely that a Web site that has limited functionality, which does not support transactions or doesn't try to develop customer relationships to have a great impact on the business. Equally, they can see what it takes in terms of Web site design to be in with a chance of transforming (re-engineering) their business via the Internet.

The likely outcomes of a Web site that only supplements or amends a process will be limited in business scope. These systems tend to have a slightly positive impact on the company image and awareness but do not contribute significantly to the operations and profitability of the organisation. These types of sites are often seen as an investment in future options. By developing a Web presence and gaining knowledge about Internet commerce a company may feel it is in a better position to expand developments in the area in the future. However, it is possible that this type of approach could result in a company losing interest in Internet commerce as return on investment is likely to be low. This could happen if the organisation had unrealistic expectations in relation to their investment when planning the site.

The process re-engineering category can have varying returns and outcomes. It is likely there will be a reasonable increase in consumer awareness of the company, with some cost reductions related to the on-line processes and added value for the customer. In the medium to long term the business should notice a significant improvement in customer perception or revenue related to the on-line process.

The transformational (radical) type of change brought about a multi-functional Web site should result in noticeable improvements in market share, number of enquiries, increased income and cost reductions for processing transactions. Of course, considerable investment in time, money and organisational change must be made to develop such systems. Typically in
this model, the more traditional methods used in running the business give way to the newer on-line methods.

![Diagram of Internet Commerce Strategy]

**Figure 2. A Framework for developing and analysing Internet commerce strategies**

### 7.2 Strategic options for travel agencies

There has been some attention given to the threat of disintermediation in the travel agency sector (O'Brien, 1998; Tapscott, 1996; Kalakota and Whinston, 1996). Increasingly competition is coming from the airlines and cyber travel agencies marketing directly to the consumer. As a result of the changing competition in the travel sector, travel agencies maybe wondering whether to develop an on-line presence and if so what form should it take. Our analysis of Web sites has shown that many have taken a low risk approach that is restricted in business scope. However, given the competition travel agencies are facing this may not be enough to combat the increasing competition in the travel industry.

Strategies that could be adopted by travel agencies in relation to on-line developments are specialisation, information specialisation and innovation. Travel and tourism is becoming increasingly specialised. The Web design strategy should therefore appeal to certain sections of the tourist market and as far as possible be customised. Some travel agencies may specialise in the seniors market, backpackers, or specialise in certain tourist destinations or activities. For example, if an agency is trying to attract windsurfers then information about the sport as well as links to other windsurfing sites would be useful. Windsurfing chat, comments from top windsurfers, video down-loads could also be used to good effect. The aim is to build a site that caters for a community, such as in this example windsurfers. Most Web sites examined in the study were trying to appeal to a broad general market and hence face great competition from other travel agencies and virtual travel agencies.
Travel agencies could shift the emphasis of their businesses to providing an information service. This could be done by providing a wealth of information via a Web site with relevant links to other sites. It would be the information that draws potential customers to the site. There is also the question whether travel agents can in the future charge customers for that information or for packaging travel itineraries where a great deal of research is involved.

A useful on-line model that travel agencies could examine when investigating Web strategies is provided by Travel.com.au. This Travel Agency is effectively operating by using the Web to provide information, allow transactions and send e-mails. This company is aggressively promoting its travel products on the Web. Also it sends e-mails every week to a large number of potential customers. In May, 1999 the company entered the Australian Stock Market and was oversubscribed ten times. The ideas used within the e-mails headers, the way the e-mail is written to catch peoples' attention all revolve around the regular flow of new ideas to market and promote.

Travel agencies could also examine the possibilities for developing strategic alliances with other businesses and promoting one another's businesses on their Web sites. Small independent travel agencies could join together in consortium structures to combat the threats they face.

Any Web site has competition on the Internet (Rockwell, 1998). Effort should therefore be made to be creative and innovative in the hope of being memorable. This can be created by appropriate design, layout, and use of audio and video clips. It is a poor design strategy that takes a hard copy brochure and translates that to the Web. The experience of visiting the Web site can be enhanced by appropriate use of multimedia (Siegal, 1997). Finally, all Web sites should be registered with leading search engines.

8. Conclusions

The survey of travel agents' Web sites found that most were using a simple Web site strategy and restricted functionality. Most opted for limited information in the form of simple hypertext menu systems and the majority of sites did not incorporate transaction facilities. These unsophisticated systems reflect that travel agencies in Australia are not embracing e-commerce in order to transform their businesses by taking full advantage of the opportunities provided by the Web. For Internet commerce to be successful it needs to be driven by appropriate business strategies. From this study it appears that travel agencies are weak in the development of effective strategies that leverage e-commerce. This is probably typical of many small businesses where day to day operations take precedence over strategy development. The key issue for traditional travel agencies is whether they will get a second chance to re-engineer via the Internet as competition from other sources increases.

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