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Going into E-Fall – The Case of E-Commerce And UK Travel Agents

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ABSTRACT

The need for travel agents became apparent as demand for foreign holidays escalated during the 1950s and 1960s. To facilitate consumer demand the various components of the tourist trip e.g. flights and accommodation, were integrated into a single product and sold through a central distribution point. In the 1970s, airlines took information technology to new limits through the development of Central Reservation Systems, a database that worked with 'real time' processing allowing for better inventory control. It soon became a key distribution channel enabling travel agents to gain further credibility. However, the latest technology revolution, the Internet, may serve to do otherwise. Its impact on travel distribution can be best-described using Porter and Miller's [13] words *"…IT is changing the rules of competition in three ways. First, advances in IT are changing industry structure. Second, IT is becoming an increasingly important lever that companies can use to create competitive advantage…Finally, the information revolution is spawning completely new businesses".* However, traditional intermediaries are fighting back by developing e-commerce strategies that not only modernises traditional sales platforms, but also embrace current and future technology innovations. The Internet is an opportunity to move beyond price-based competition (as seen in the 1990s) to offer a more qualitative product. Despite the influx of new travel intermediaries keen to exploit this high growth market, 'bricks and mortar' travel agencies still have a future. Currently, not all sectors of society are confidant using the Internet and the UK Government's 'access for all' programme is yet to be achieved. Over the longer term, they will also prevail, albeit in smaller numbers, because not all types of travel arrangements are suitable for the Internet; some are far too complex and lucrative to sacrifice face-to-face contact.

Introduction

The need for travel agents first arose in the 1950s due to the rapidly expanding operations of airline/ferry businesses. Transport providers required a means of distribution for their products that was more cost effective than establishing individual networks of booking offices around the country. Their subsequent development was a direct result of the increasing consumer demand for inclusive tours from holidaymakers who were largely uneducated and unsophisticated, and therefore looked to 'experts' to facilitate the process. For many, a foreign holiday was an opportunity to emulate grand lifestyles through the services of a travel agent.

However, changes in education, economic, social and demographic trends have led to new ways of purchasing. The Internet, and in particular the opportunities relating to e-commerce for travel related products is a highly contentious issue at the moment. Its presence is far greater in the USA, but the UK is quickly catching up. As *Table 1* illustrates B2C e-commerce growth rate for 1999 was 280% compared with 195% in the USA. In addition, the market penetration rates as a percentage of retail sales for both countries are similar (USA - 0.48% and UK- 0.37%). The authors have purposely chosen to ignore the value of transactions for each country largely because these figures distort the different population sizes.

Table 1

B2C E-commerce in Selected OECD (Organisation for Economic Co-operation & Development) Countries

	Value of Transactions – 1999, $US million	Value of Transactions – Growth Rate (1999/98)	Penetration Rate, % of Retail Sales
United States	24,170	195	0.48
Japan	1,648	334	0.06
Germany	1,199	200	0.30
France	345	215	0.14
Italy	194	145	0.09
United Kingdom	1,040	280	0.37
Canada	774	166	0.26

Sources: OECD Secretariat; Boston Consulting Group;

The Internet, mainly due to its global reach, is responsible for the greater blurring of industry sectors. This has been particularly noticeable in the travel distribution sector, which lends itself very well to the concept of electronic direct selling. The Internet facilitates this process particularly well within the travel industry. Smith & Jenner [18] point out "the fact is that however travel is bought, the customer receives nothing at the time of payment other than a slip of paper, which the World Wide Web can deliver just as well". The statistics are also beginning to speak for themselves. "The European Travel Monitor estimated that more than 5 million bookings were made by European travelers via the net in 1999 – equivalent to 2% of the total market volume that year but an incredible 300% higher than in 1998" [21]. Forrester Research confirms that this is a trend that looks set to continue with predictions that by 2002 over 65 million holidays will be booked via the Internet globally, with an estimated £1 billion of that business being concluded in the UK.

Given current trends it is clear that fewer future bookings will be made through travel agents. In the past, technological revolutions, such as the CRS have worked to strengthen the role and position of travel agents in the overall distribution network. However, the Internet may serve to do the opposite i.e. weaken their foothold in the marketplace through disintermediation, which effectively means bypassing the traditional channels of the travel agent. Even though the absolute level of e-commerce is still nominal, for travel agents where margins are already dwindling (largely due to marketplace consolidation in the 1990s, better known as the 'March of the Multiples'), such penetration would be enough to push many out of business. Against this background, the paper will examine the increasing role of the Internet distribution channels and consider the future, if any, of the UK travel agent.

Intermediaries

A travel agent can be classed as an intermediary for its principal role *"is to bring buyers and sellers together, either to create markets where they previously did not exist or to make existing markets function more effectively"*. [3].

The need for a middleman such as a travel agent exists because the linkages between suppliers and potential customers are imperfect. The relationship between travel agents and the benefits of a service from a consumer perspective include:

- The avoidance of search and transaction costs, saving both time and money
- The minimising of uncertainty as travel agents are assumed to have specialist knowledge, although the impartiality of this advice is questionable as will be seen shortly.
- Discounts. Wholesalers, in this case, tour operators, will buy from popular destinations in bulk, the savings from which are generally passed on to consumers.

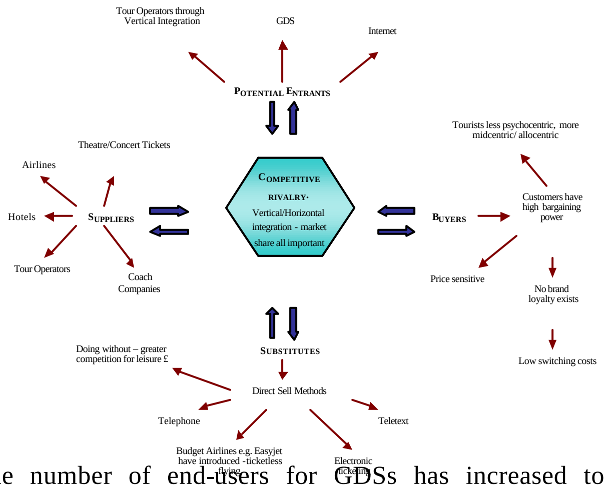
Estimated figures for 1999 show that approximately 2/3 of packages were booked through retail travel agencies i.e. 60% of the total market. Of the remaining 1/3, approximately 15% were booked directly with a tour operator, 10% electronically and the remainder (8%) through a variety of means [6]. The electronic market share has obviously increased since then, as we know that Expedia and Travelocity have increased their share of the marketplace.

In the 1980s, the March of the Multiples was a momentous challenge that threatened many of the independent travel agents (in fact the aftershocks/ramifications are still being felt even now), yet they fought back through collaboration and exploitation of their core competencies and resources to secure a future. Now the same type of thing is happening to the multiples, but because of e-commerce pressures the intensive areas of distribution and information are set to be predominant in their transformation. The following describes the case prior to the recent e-revolution. Such a revolution has bypassed the 1970s advent of CRS as well as the consolidation of GDS systems in the 1980s.

CRS were pioneered by the airline industry. In simple terms the technology enabled them to control their own seat inventory for sales, marketing and ticketing purposes. American Airline's SABRE system, in particular, was at the forefront of this revolution. GDS allowed for even easier distribution with the consolidation of CRS systems around the world. It addressed the underlying problem associated with CRS (dumb terminals found in travel agencies only contained inventory information regarding a single airline and its co-hosts).

Figure 1.

The Case of the Travel Agency Pre- Distribution Explosion. Based upon Porter's Five Forces Model [14]:



The number of end-users for GDSs has increased to incorporate company intranets and to provide direct consumer access, meaning that they are competing for users that normally utilise the services of travel agencies (as *Figure 2.* clearly illustrates). Although evidence suggests that despite 10% cost savings, GDS has failed to capture the public's attention [3]. The Internet, in particular, has been the catalyst behind these recent GDS developments, for it poses a very real threat, through disintermediation, to the hegemony that it has enjoyed for so long. In essence, GDS is at a critical stage of its product lifecycle, rejuvenation means developing an invaluable service at a reasonable price.

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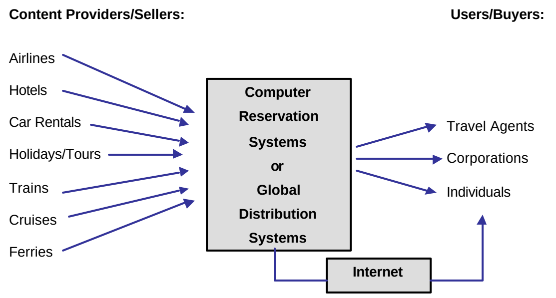
Figure 2.
Transaction Flow of Global CRS/GDS Industry



Source: French [4]

In 1996, Sabre launched Travelocity.com – this is now the World's leading online travel site, providing availability for more than 95% of all airline seats sold and more than 47,000 hotels. Sabre overview [16]. Furthermore, Amadeus's collaboration with Microsoft to form www.expedia.co.uk is also proving extremely lucrative. By the end of 1997, the service was selling at the rate of US$1 million per day. Worldspan agreed to provide the booking engines in 1995 for Microsoft's Expedia.com, and in 1998 for Priceline.com. Worldspan and Sabre were the early adopters in website development securing a strong customer base. Amadeus and Galileo will rely on their travel agency customer franchise to gain a foothold in the market

Table 2:
The Internet Activities of the 4 Major GDSs at 1997's year-end

	Galileo	Sabre	Amadeus/ System One	Worldspan / Abacus
Consumers (direct)	Airline branded prods: Swissair Skysurfer, United Connection, US Priority Travelworks, BA Executive Travelworks, CRS for Preview Travel	Travelocity		Expedia E-Travel
Corporate (direct)	Travel Solutions	Business	None	None
Travel Agents	Agency Connection Travelpoint.com	Planet Sabre Turbo Sabre	Corporate Trip Solution	Odyssey

Source: French [4].

Internet

In December 1998, the number of websites dedicated to travel (as recorded by www.internet-directory.co.uk) stood at 4,251, rising from 2,783 British tourism sites in mid-1997. This suggests that the marketplace must be in danger of saturation, and if so, it is imperative that retail travel agents, who want to be a part of future distribution, should act now. Undoubtedly, high street stores will exist, but they will either operate serving niche markets, or with fewer branches as a subsidiary to a largely consolidated chain, with a strong Internet presence, making the greatest contribution to the company's bottom line.

The tourism industry's information intensive nature means that, as a sales medium, the Internet is perfectly suited to the marketing of its products. It is an intangible product which cannot be demonstrated in a travel agency or from a brochure so the benefits of the Internet will favour disintermediation. The statistics, regarding actual and projected revenues, contained within Table 3 also indicate this.

Table 3:
Projected online travel revenues, 1996-2002[a]

Year	Revenue (US$ million)	% Annual Change
1996	276	N/a
1997	827	199.6
1998	1,900	129.7
1999	3,200	68.4
2000	4,700	46.9
2001	6,500	38.3
2002	8,900	36.9

Source: Online Travel Market: Five Year Outlook, Jupiter Communications (1997)
[a] 1996 and 1997 actual sales; 1998-2002 predicted.

The On-Line Travel Market

According to a report released by the Travel Industry Association of America [21], the number of travellers booking airline flights and hotels over the Internet increased by 146 percent in 1999. This means that 16.5 million travellers bought tickets and made reservations online. Meanwhile another 35.7 million travellers made travel plans online and then purchased tickets or booked rooms offline. This not only demonstrates the increasing autonomy among consumers, but also highlights that many people still do not feel comfortable booking via the Internet. The 35.7 million who searched online but purchased their tickets offline is probably only the tip of the iceberg. If it is considered that only 11% of all travel is sold online in the U.S., then there is plenty of room for growth. It would be interesting to know how many people either still do not have access to the Internet, or who have access but do not use it for the purpose of e-commerce transactions online.

The airline industry is also attempting to counteract recent trends in disintermediation in order to safeguard its own future. Orbitz has been launched to counteract the Expedia and Travelocity power over customer database creation and the reduction of airline revenues due to commission charges. The Orbitz site was formed in 1999 under the code name T2 ("Terminate Travelocity") by the five largest U.S. airlines, United, American, Delta, Northwest, and Continental. The joint venture of these airlines is intended to combine their now separate Internet ticket distribution structure. Critics of Orbitz note that these five airlines supply 74% of U.S. domestic travel, and this figure would increase to about 85% if proposed mergers are approved.

As has been identified, industry suppliers are keen to sell more of their inventory online because of the cost savings involved. Lewis & Talalavesky [8] explain, that *"as the role of intermediaries declines, profit margins along the value chain will be redistributed to producers and consumers"*. In essence, tourist providers should be looking to use a proportion of their cost savings to encourage consumers to change their normal purchasing habits and buy online. A prime example would be www.easyjet.com who are reversing the trend of discounting last minute holidays/flights, by offering cost savings to those consumers who book early over the Internet.

With an early start online Southwest was the first airline to have a Web site. Due to heavy marketing and a consumer-friendly architecture, Southwest's site has been the most successful airline in selling tickets through its own Web site. In 2000 it booked more than $1 billion online. It is also distributed through more than 30,000 travel agents through Sabre. In order to retain its market share the company has to continue to offer low price and good quality. Southwest, along with many Orbitz opponents, contend that the leading airlines controlling a single site will culminate in price fixing, which will eventually be bad for the consumer. Orbitz may be a way of counteracting the Internet providers, but the five airlines cannot stop offering deals through retailers or Travelocity and Expedia.

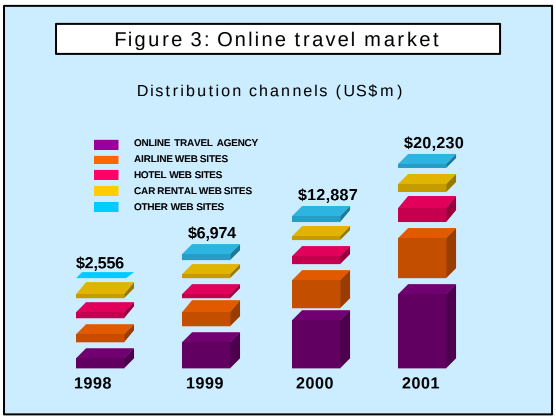
At the moment Travelocity is performing very well. Travelocity's gross bookings grew 65% over the first quarter of 2000 and 20% over the previous quarter to $833.6 million. Travelocity had improved conversion rates of bookings, increases in high-margin cruise and vacation revenues and following a recent agreement with Hotel Reservations Network, Travelocity also announced that the number of hotel nights booked were a 50% increase over a previous period. In addition merchant model revenues (that is, negotiating contracted rates with suppliers and then adding a profit margin onto that rate) made up almost 10% of Travelocity's transaction revenue and are still growing.

Expedia's preliminary results for its fiscal third quarter in 2000 showed a 67% year-over-year increase in gross bookings to $670 million. Both companies report revenues a bit differently - Expedia includes the total value of products sold (merchant revenue) - that is, the price of the airplane ticket, hotel room, rental car, etc., in its revenues; Travelocity includes only commissions, even on its net fares.

The airlines do very well selling tickets on their own sites. However, the customers tend to be frequent travellers or loyalty club members. The sites are a valuable way for the airlines to strengthen their relationships with their existing customers. However, the online agencies offer airlines the chance to attract new business or help fill distressed seats. When the economy is suffering consumers are more likely to utilise the Internet for cheaper deals. According to The PhoCusWright Travel E-commerce Survey [12], nearly half of the US nation's 48 million online consumers - those who have flown a commercial flight in the last year and visited a Web site in the last month - consider the Internet the place to go for the best deals. More importantly nearly 60% believe the online agencies offer the best price. That means the online agencies are marketplaces where consumers will shop - and, as a result, where suppliers want to be.

Perhaps the greatest opportunity in the market is represented in Figure 3, which charts the progress of the online travel market since 1998. Substantial growth of the overall market is predicted. It should also be noted that online travel agencies will continue to grow and retain the largest share of the market.

Figure 3.



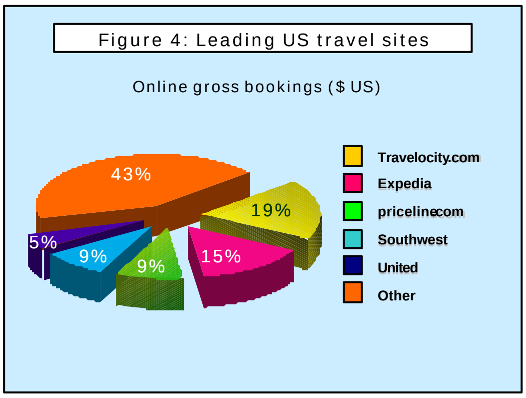
Source: PhoCusWright, Inc 2000 The 2000 PhoCusWright Travel E-Commerce Survey, Phoenix, AZ, USA [12]

Figure 4 points to a longer-term threat in the shape of the already increasing market share of websites owned by the individual airlines and hotel companies. The acquisition in 2000 of Preview Travel has given Travelocity the overall market leadership position (Figure 4). Ironically the weaknesses that may hamper growth are closely associated with Travelocity's strengths. The influence and coverage of parent company Sabre represents a natural advantage. The technology on which the system is based is, however, 25 years old. The reservation system under development for Orbitz, for example, will offer over 1,000 times more computing power [15] and will cost less to maintain. The erosion of this source of competitive advantage means that Travelocity could soon be in a weaker position to meet rapidly changing customer needs. Another legacy of Travelocity's parent company is the way GDS reservation fees are charged to the supplier. These transaction fees are fixed and form a considerable cost for the supplier – in a maturing market the opportunities for Travelocity to grow revenues through increased booking fees will diminish. At the same time suppliers like Orbitz will be able to offer a competitively priced alternative booking engine, so GDS-backed suppliers are unlikely to succeed in leveraging margins through price. Alternative sources of income will be required to fuel growth.

Perhaps the most viable strategy will be one of product development - where new products are offered in existing markets. The Travelocity website provides great coverage for value added services such as travel guides and insurance. As part of their development strategies both companies have introduced new products that take them far beyond their old reliance on airline commissions. Travelocity now has more than 30 carriers participating in net fare or opaque (a la priceline.com and Hotwire) agreements. In an attempt to build its own national vacation brand, the new Travelocity Vacations program has a Preferred Traveller club. "Travelocity Value Rates" is selected as a search option and users need not be aware that their booking is actually being made using HRN's reservation system rather than Sabre's. The promotion of this particular product is interesting to observe. On the website the product is discreetly displayed. Why is the new service not more aggressively promoted? The answer is that these rates have to be positioned against exiting GDS products – care must be taken not to undercut the existing product range for which there is established demand which promises continued (if limited) growth by itself.

Expedia has long publicized its merchant model and has also added to its vacation package and cruise product. Both have introduced business programs and new or improved existing shopping and/or pricing tools.

Figure 4.



Source: PhoCusWright, Inc 2000 The 2000 PhoCusWright Travel E-Commerce Survey, Phoenix, AZ, USA [12]

The first and simplest strategy for the Internet providers to retain their presence will be through consolidation – this involves strengthening and reinforcement in existing markets. It can be argued that there is an opportunity to drive further volume from the existing client base. This can be done through Customer Relationship Management – Travelocity already distributes a travel bulletin Email to its growing customer database – alerting prospective customers to special offers. Additionally the company launched its own credit card, offering owners the chance to earn Travelocity "rewards" providing further incentive for customer loyalty [15]. Travelocity can also explore market development strategies. Agreements have been reached to provide reservations engines for AOL and Yahoo [19]. These are potentially lucrative routes to new markets for existing products.

Some General Trends

According to Smith [18], contributing factors that will exacerbate the growth of on-line travel are:

- Cheaper on-line access;
- Expansion of Internet access platforms – digital television, Wireless Application Protocols i.e. WAP Phones;
- The broadening of the potential on-line travel audience;

- A more fertile technology environment – People are becoming increasingly PC literate and feel much more comfortable using them;
- Knowledge – People who have received IT education at school are now at an age to enter the labour market.

To sum up, Friedman & Furey [5] believe that there are four main advantages associated with the Internet as a revenue channel, which travel industry suppliers, such as hoteliers and airlines, stand to benefit from, possibly to the detriment of travel agents. They are:

1. Lower sales costs.
Figure 5 diagrammatically represents that if a hotel was to sell its inventory via an online intermediary such as www.travelweb.com then the information need only be distributed via a switch to translate the data into a 'standard' language. However, selling with a travel agent involves a switch, a CRS and a travel agency, meaning that the hotel would retain substantially less revenue.

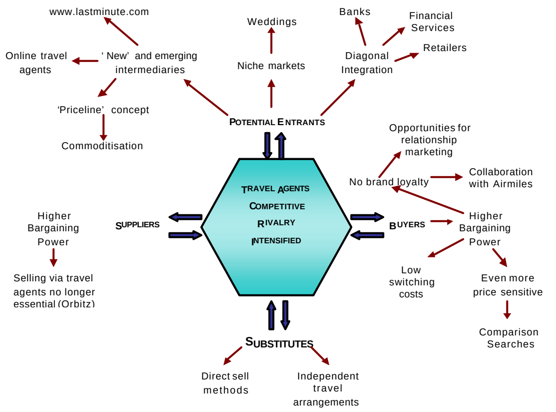
2. Expanded market reach.
The Internet does not recognise international borders, so travel providers can potentially reach untold numbers of people around the world. The site can be accessed 24 hours a day, which is also less restrictive. For example, an Australian customer would be able to complete a transaction with an English company at a time that was convenient to them because the 8 hour time difference between the two destinations is immaterial.

3. Increased customer loyalty.
This relates back to an earlier point concerning access and contact, as identified by Patrinos [9]. The decision by tourist providers to use travel agents to facilitate the sale of their products restricts the level of contact they have with the end customer, meaning that loyalty may be developed with the retailer rather than the actual product. However, the Internet enables travel industry suppliers to address this and take more constructive advantage towards the situation.

4. Leverage for other sales channels.
Cost savings from this method of distribution can be used to subsidise the more expensive channels, such as travel agents.

Travel agents should also anticipate further competition from existing businesses diversifying their portfolios to exploit a potentially lucrative market opportunity and from emerging industry player keen to capitalise on the opportunities that the Internet has to offer. These factors together have already resulted in an industry-wide 'distribution explosion'. This current scenario has attacked the very foundations of the traditional 'bricks and mortar' travel agencies, as Fig. 5 exemplifies.

Figure 5: Application of Porter's Five Forces Model: The Case of the Travel Agency Post-Distribution Explosion [14]



The Internet and its Impacts

The Internet has many implications for all areas of business and every sector of society. Its effect can be seen already in the precarious balance of travel distribution. Industry sectors either side of the switch (as shown in *Figure 6*) are becoming increasingly blurred. This is an area that was once clear-cut, however, in order to ensure that the various distributors have a fighting chance, involvement in one another's markets is becoming a necessity. Disintermediation does not appear to be lessening the travel industry's complicated distribution network, if anything it is adding to it.

Tourist providers e.g. hotels, tour operators, and airlines, will need to shift the locus of control from the traditional intermediary to the individual. To determine the likely extent of this, the role of the consumer in terms of their anticipated future buying behaviour, should also form an integral part of any evaluation process.

- Travel Agents – What value could an Internet presence add if established to run alongside current operations?
- Consumers – They are the ultimate decision maker, and therefore, it is worth considering the positive and negative aspects of using the Internet (as seen by an end user) over a 'bricks and mortar' travel agent.

With these stakeholders specifically in mind *Table 4* summarises the key strengths and weaknesses associated with the Internet (as identified by the authors), which will then serve as the main basis of discussion.

Table 4: The Internet as a Sales Medium

TRAVEL AGENTS	
TRENGTHS	*WEAKNESSES*
• Ability to create a global presence • Opportunities exist for relationship marketing • Capital investment required much less. • Opportunity to maximise revenue generating potential • Opportunity to create databases for direct marketing purposes	• Opened up the competitive playing field – 'new' intermediaries are emerging • Increased rivalry among travel intermediaries, which may worsen the competitive positions of some firms • Improves direct sell opportunities among tourist providers • Wider choice may detrimentally affect brand loyalty • The cost of website design and implementation
CONSUMERS	
TRENGTHS	***Weaknesses***
• Lowers customers' search costs • Greater convenience • An opportunity to forge more effective supplier-customer relationships	• Successful surfing can be time-consuming • A certain degree of inflexibility exists – what if consumers have further questions to ask? • Can value really be won? • Security issues • Greater individual responsibility • Impersonality

Source: Authors (2001)

Conclusion

In essence, the explosion in travel distribution has resulted in a survival of the fittest scenario. The survivors are those who can provide a value added service and at a reasonable price. WAP phones and the Internet will become even more pervasive by not only revolutionising business practices/processes, but also by irreversibly altering consumer habits. The emerging technologies will continue to facilitate the growing demand for a 24 hour society, as lifestyles become increasingly cash-rich and time-poor. As the statistics have shown, Internet penetration for the travel and tourism industry currently stands at 1-2%. This, coupled with the fact that hotels have been slow to realise the value that the Internet could add to their business, means that travel agencies still have a fighting chance. The corporate sector has been quick to react to the threat posed by the Internet. It provides a service that extends far beyond the realms of simply making all company reservations; it seeks out ways to generate cost savings, the value of which is reflected by tangible improvements to the bottom line.

Like the independent travel agents when faced with intensive industry consolidation during the 1990s, multiples need to take stock and analyse where their strengths and weaknesses lie and what the external environment holds for them in terms of opportunities and threats. Through this, they can determine directions for strategic development i.e. protect and build, (market share, withdrawal/consolidation) market development, product development or diversification. For some, such as independents, the increasing popularity in the use of the Internet for travel related bookings might encourage withdrawal from mainstream markets in order to diversify or concentrate on niche segments such as weddings, cruises, and business travel.

Technology use within travel agents has also played its part in weakening their overall competitive position. The 1970s CRS distribution revolution and the 1980s GDS consolidation confirmed the 'need' for travel agents. However, subsequent technology developments have cast doubt over this advantage gained by agents. The Internet poses a threat to both GDS and travel agents through disintermediation. In addition the consumer can utilise the services of providers such as Expedia and Travelocity. GDS appears to be at greater risk because travel agents have the option of adopting a web browser interface to retail travel industry products

For the foreseeable future the role of high street travel agents is protected by the fact that not all sectors of society are confidant using the Internet. This is particularly true among 'empty nesters', a category for those customers who are dependent-free with supposedly greater disposable income and leisure time to spare. However, the danger here (as pointed out by Coppel,[1]) lies in the fact that technology for consumer use is becoming increasingly simple to use. A prime example would be digital television's 'Open' interface. Customers can buy a keyboard handset that allows them access to the Internet through their digital television set for the purpose of making online purchases. Therefore, failure to establish a web presence now may be to a travel agent's future detriment, particularly since it only takes around three years to build-up a brand name over the Internet, compared with the traditional twenty. Also, it has already been identified that www.lastminute.com is currently the 2nd most recognised e-tailer after www.amazon.com, with Thomas Cook, one of the UK's most established travel agents, having very little Internet brand recognition.

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