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# Disintermediation in the tourism industry: theory vs. practice

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## ABSTRACT

It has been several decades since disintermediation was first known (although under other terms), and it seems that disintermediation has become increasingly intense, particularly in the tourism industry where many large hotels and airlines have successfully utilized the Internet and website as a direct channel to sell to their customers. This paper examines disintermediation issues and situation and argues that in practice disintermediation, despite becoming increasingly intense, it will just require travel agents to acclimatize rather than to be removed from the tourism value chain. The review of both academic literature and practical survey research shows that effect of disintermediation on Thai tourism SMEs might not be as extreme as it has been on European tourism SMEs in the near future. Three in-depth case studies of Thai tourism SMEs are summarized and presented to show how travel agents act to respond to the disintermediation. The cases highlight the need for more study on customer behaviors which are likely to vary depending upon region and many other factors. Ultimately, this paper calls for future research on customer behaviors and strategic alignment for tourism SMEs.

## Keywords

Disintermediation, Reintermediation, Internet adoption, Tourism

## INTRODUCTION

The research reported here is part of a larger research programme studying the use of e-business technologies by Thai SMEs in the travel service sector. Since the tourism industry contributes significantly to the Thai economy, a thorough understanding of the industry's supply chain and the effect of e-business adoption on tourism enterprises is especially important in this Internet era. The Internet has opened up new opportunities for all players in the industry to present themselves, offer their products online, and improve many of their business activities. As several large tourism suppliers have begun utilizing the Internet as a direct selling channel, the competition between suppliers and travel agencies is thus inevitably increased. Hence, it is important to contemplate how travel agents should respond to this threatening situation. The travel agents have to be better able in offering distinctive value to their customers, based on a well-defined and robust business model. Of primary interest in this paper is disintermediation in both global and local (Thailand) contexts. This is of significance in two ways. Firstly, since large numbers of small and medium-sized travel agents are active in this industry, the disintermediation effect could be vast, and hence making this issues worth further examination. Secondly, prior research on Thai tourism industry, albeit being one of the most important industries for the country's economy, is limited.

Extensive review of literature on disintermediation and three in-depth case studies provide a basis for this paper. The paper is structured into 4 parts. The first part starts with a consideration of the stakeholders in the tourism supply chain. There are considerable tensions here as companies of very different sizes are required to both compete and collaborate. Part two reviews literature on disintermediation issues both in general e-business literature and in tourism industry literature. Part three discusses the disintermediation situation facing the three selected Thai tourism SMEs and how they attempted to survive the crisis. Due to limited space and word length as well as the fact that interpretive case based research has become a well-established part of the IS field (Walsham, 2006), detailed discussion concerning the selection of case based methodology in which adopted for this research is omitted. Finally, part four discusses and summarizes the research findings, implications, and future research.

## TOURISM STAKEHOLDERS AND SUPPLY CHAIN

Of particular interest to this paper is the combined sector of travel and accommodation, which is heavily ICT dependent (Buhalis and Licata, 2002). This sector, also known as the travel service sector, has a similar structure to conventional retail/wholesale businesses. It comprises a number of stakeholders, including suppliers, intermediaries such as tour operators,

travel agencies, and customers or travelers. Final products of this industry are usually made up of more than one product or service e.g. a hotel room, a flight ticket, and a tourism activity package, and therefore effectiveness and efficiency of each stakeholder seem to affect the others (Yilmaz and Bititci, 2006). The whole tourism value chain can be illustrated as shown in Figure 1.

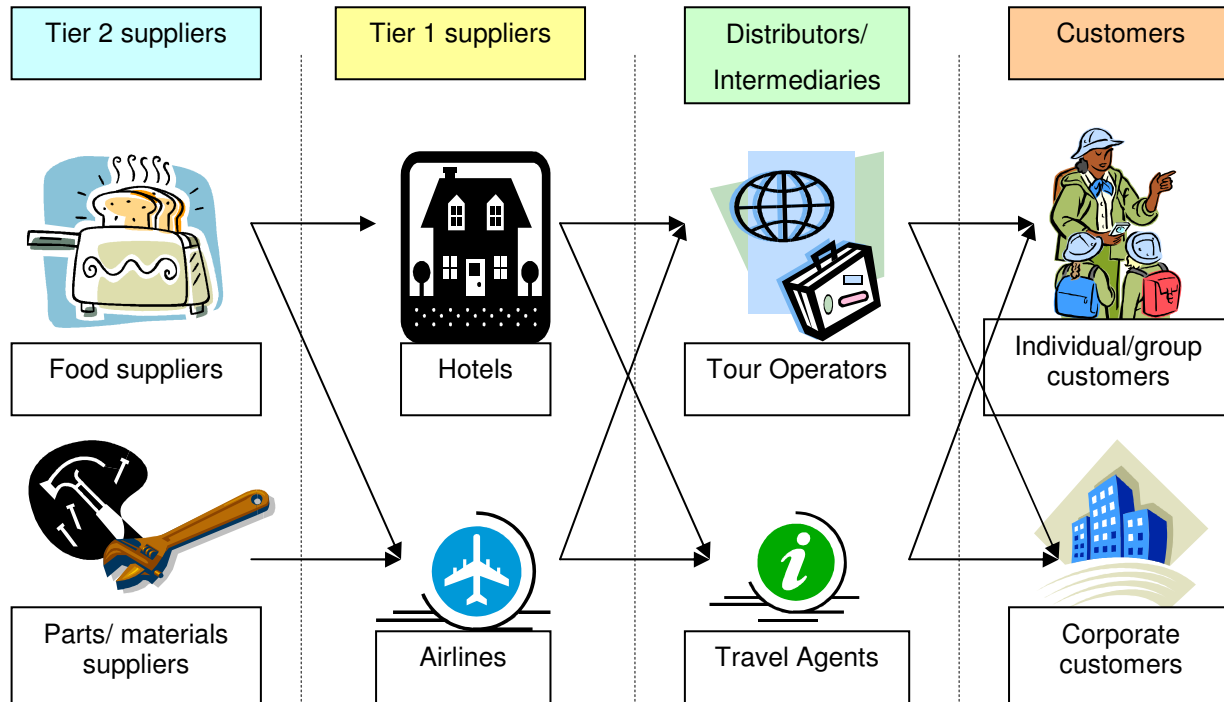


Figure 1: Tourism Value Chain

According to Lafferty and Fossen (2001), integration among players in the tourism industry, particularly in the upstream part of the value chain is critical, but this appeared problematic mainly because of substantial differences in nature of airlines and hotels businesses. The airline sector is characterized by a strong sense of international competition, while hotels and restaurants are more location-based business and have no need to compete with hotels in other areas. Major concern of hotels is yield maximization, but they, unlike airlines, can survive low occupancy in some periods. These conflicts thus made the integration difficult and unsuccessful.

Another problematic area is between suppliers and travel agents/tour operators. Whilst the former attempts to cut distribution costs, the latter wants to obtain as highest margin as possible from the distribution services they provided. Nevertheless, since tourism product is intangibility, perishability, inseparability and interdependency (Yilmaz and Bititci, 2006); suppliers like hotels and airlines will still need to diversify their risk through a number of distribution channels rather than relying only on their own website. Despite the conflicts, Yilmaz and Bititci suggested that various tourism organizations need to work together as a value chain to add value and deliver product/service to the customers.

Overall, it is not surprising that stakeholders in the industry have some conflicts of interest. Hotels and airlines rely somewhat on travel agents as distributors; however at the same time they also seek to cut the intermediary costs as much as possible. The important point is that these conflicts in the long term could erode the relationship between the suppliers and the intermediaries and could eventually in the worst case disintermediate the intermediaries. Next section reviews the issues of disintermediation both in theory and in practice.

### DISINTERMEDIATION IN LITERATURE

Disintermediation is terminology termed in the e-commerce era to mean the removal of supply chain intermediaries which was expedited by the Internet. This phenomenon has been foreseen by many e-business researchers since 1990s. According to Chaffey (2002), speculation was that disintermediation would occur as direct selling through the Internet was increasingly

easy. However, despite much effort of suppliers, the results have been less than spectacular, particularly in the cases of car manufacturers as end customers still sought for suggestions and services from sales representatives.

In the context of tourism, since the Internet has become the major distribution channel of tourism products, disintermediation appears to be clearer and more extensive than in other industries. In fact, the tourism industry is one of the first industries in which disintermediation has been attempted. This is partly because hotel rooms are a product which fits well to Internet marketing (Tse, 2003). Many airlines, particularly those in North America and Europe, attempted to cut commission fees paid to travel agents, despite the fact that travel agents has generated the highest proportion of flight ticket sales for most airlines (Alamdari, 2002). In fact, disintermediation in the service sectors like tourism was predicted to be occurred in a more rapidly manner than in the manufacturing sectors (Palvia, Jain and Vemuri, 1999).

Nevertheless, the views concerning disintermediation in the tourism industry have been mixed. Although the tourism suppliers have attempted to disintermediate the intermediaries by developing their own online channels to sell directly to the ended customers, travel agents, enabled by the Internet, can also reintermediate themselves back into the tourism supply chain mainly through the model of infomediary or aggregator. Clearly speaking, these travel agents specialize in the business of information, not of products. They search, aggregate, organize and sort information of various special travel deals offered by suppliers for online travelers (Beirne, 2005). Hence, disintermediation seemed to be overrated as many intermediaries have found their ways to fit into the supply chain and able to add values to their services (Rosenbloom, 2007).

From the supplier perspective, cutting intermediary costs is a desirable goal, but hotels usually have less expertise in distributing their products/services than travel agents or tour operators. Nevertheless, in the Internet era, small hotels can avoid the set-up costs of online booking development by adopting larger travel agents' website, whose online booking features are readily available (Brown and Kaewkitipong, 2009; Earl and Mandeville, 2009). Having their hotels listed on travel agents' sites is considered a good opportunity for them to be found by travelers worldwide. Besides, this allows hotels to cut web maintenance costs and the cost of transaction handling. On the airlines' side, effective and efficient distribution of their products is crucial because, as mentioned above, with their high operational costs they cannot cope with the low number of bookings as hotels can (Lafferty and fossen, 2001). Nevertheless, airlines have sufficient resources to develop their own channels and offer added values such as loyalty reward program for their customers and therefore can be less dependent on travel agents in terms of product/service distribution.

From the intermediary (travel agents and tour operators) perspective, while the Internet allowed suppliers to contact directly to travel consumers more easily than ever, many online travel agents also realized that they could add tremendous values to the travel consumers by providing all the information the consumers may need in one place. According to Buhalis and Law (2008), e-business technologies allow the travel agents to add further value to their services by empowering the customers to not only search and book single components, but also to assemble and book whole travel arrangements in real-time by means of web-based technologies. Agrawal, Agrawal and Singh (2006) suggested infomediary as an appropriate business model for non-physical products like flight and hotel reservation which requires marketing value added into the product distribution. Nevertheless, despite many alternatives to add values to their services, online travel agents are still facing challenges posed by suppliers' move to online. Many online travel agent sites have been used merely as price-comparison sites, and then the customers jumped to suppliers' sites for direct purchase (Euromonitor, 2008).

In practice, EyeForTravel research (2007) found that European suppliers are advancing their online strategies and are changing the landscape of the online travel marketplace. The research forecasted that by the end of 2010, online travel agents will be accounted for approximately 29% of Internet bookings declining from 31% share in 2006. On the bright side however, the European market saw an increase in online bookings in package tours growing from just € 1.4 billion in 2002 to be € 5.9 billion in 2006. Also in the hotel sector online travel agents were able to increase the market share and this trend tended to continue. This was because in Europe, unlike in the US, 80% of hotels were small or medium sized and did not possess a strong brand, and hence online travel agents' views would play a significant role in influencing the customers' perception towards particular hotels. This means that despite a harsh situation of disintermediation, there are gaps for online travel agents in this fragmented market. This is also held true in the context of Thai tourism industry where small hotels accounted for approximately 87.6% (NSO, 2004).

In sum, we can see that the Internet acts as both a blessing and a challenge for many stakeholders in this industry. Although the Internet allows the travel agents to provide a more informed service to their customers, at the same time it empowers the travelers and suppliers to directly contact each other and hence can disintermediate the intermediaries like travel agents. The huge number of online travelers also encourages hotels as well as other suppliers, such as airlines, to reconsider the adoptions of the e-business technologies not as an extra cost but as a strategic investment (Buhalis and Licata, 2002). Consequently, as the searching and buying transactions are made easier, and travelers become more computer literate, it may well be that the travel agencies' power on the distribution channels will be diminished gradually unless they can offer value added advice,

such as travel advice which satisfies the customer needs (Lewis, Semeijn, and Talalayevsky, 1998; Bennett and Lai, 2005). Such a situation is also discerned in the survey of European online travel market, conducted by Eyefortravel in 2007 that revenue generated by online travel agents is eroded by the more online-aggressive suppliers.

From the traveler perspective, buying direct from hotels or buying from intermediaries are choices influenced by several factors. Different groups of online buyers have significantly different views towards and against disintermediation of hotel reservation. For example, those who are frequent buyers showed a more positive view towards online booking of hotel rooms and a less positive view about the service provided by travel agents than both occasional and moderate buyers (Law, 2009). Travel style, age, and nationality were found to be factors influencing buyers' preference to contact face to face with travel agent to obtain tourism information (Gronflaten, 2009). These different views and groups of online buyers spare rooms for intermediaries to remain in the supply chain. In Thailand the majority of transactions were made via traditional travel retailers with online sales representing less than 2% of total sales in 2006. It was also reported that inbound travelers generated the most online sales in this category, as European and American travelers, the majority of tourists who visited Thailand, tended to be more familiar with online booking methods (Euromonitor, 2008). This highlights the different booking behaviors between Thai travelers and European and American travelers and adds to the points made by Law (2009) that consumers' behaviors might differ due to physical regions. A better understanding of these behaviors, apart from specialization and focus, will be important for the survival of travel agents.

### DISINTERMEDIATION IN THE CONTEXT OF THAI TOURISM SMES

In the context of Thailand, Brown and Kaewkitipong (2009) reported that small and medium-sized hotels have begun adopting their own website as a direct selling channel and this created tension for travel agents, particularly small and medium sized. In this paper the three in-depth case studies (TA I, TA II and TA III) are presented as examples of attempts and different approaches to survive the disintermediation. This has been done in three possible ways: i) through the better integration and closed relationship with hotels; ii) through the introduction of management fees philosophy; and iii) through the value-added services such as insightful advices on complex itineraries (Alamdari, 2002). Additionally, tourism SMEs could benefit from the low operation costs due to their smaller size and therefore can continue their businesses even on the low margins. Case study method is deemed appropriate since it is the individuality, complexity and context-based issues that are of particular interest to this research (Starbuck, 1995; Yin, 2004).

TA I was an online medium-sized travel agent focusing on selling hotel rooms for travelers who would like to visit Thailand. The company had developed a web-based application to facilitate activities throughout the supply chain, including supplier management, production/operation, sales and marketing support, and customer relation. Intensive use was on dealing with bookings and queries. The incoming bookings and queries were stored in an online database which can be tracked and viewed by a reservation team. Products' information, such as room types, room rates, list of hotels, and attractions of each place, was also stored on the database, enabling various websites (of the company) to retrieve these data for displaying purpose. Importantly, the application is also used to manage the inventory on the database.

For customer relationship marketing, the company's websites keep track repeated actions such as the top-search hotels, the top-selling hotels, and returning customers. These data were statistically analyzed so that the marketing team can then create newsletters or even offer promotions which were of particular interest to the customers. Despite these efforts, the company found the situation had become more difficult in terms of both competition among travel agents and relationship management with suppliers. This was due to the move of hotels to direct sales to travelers, making price even more sensitive. It became more difficult for TA I to sustain the equal amount of revenue to that of the previous year.

“The other day one of my friends just called me to complain about the room rate on my website that it was higher than what he found on the hotel's website. The worst thing was that it was the hotel we had a contract with and thus they were not supposed to do this.” (The Managing Director)

“The problem was not direct sales of hotels on their website. It was when they offered even cheaper price than they gave us.” (A Marketing Manager)

In response to the increasingly high competition, the management decided to develop a Travel Agent extranet system to link with hotels and an XML interface to link with a wholesale travel agent. The systems were perceived as a means to obtain more room allotments and access to a wider choice of hotels (through the wholesaler); they were part of a business strategy to improve the supply chain. The Travel Agent extranet system enabled the hotel to log on and manage its allotments and room rates whenever needed without having to call or fax to several agents when the rates and inventories were changed. This was more flexible and convenient for hotels given that their rooms are perishable products and prices are varied due to demands.

After the implementation of the Travel Agent extranet system, around 60% of hotels which had contracts with TA I moved to the extranet system as they were pleased with the flexibility offered by the system. In this way, room rates offered on TA I's site became more competitive and up-to-date. Besides, less staff was needed to input room rates and hotels' information. Results were clearly positive. Well over 50% of bookings were from allotments allocated through the Travel Agent extranet system; this helped TA I maintain a good relationship with its suppliers in a sense that the company could help the suppliers sell and distribute their products more efficiently and effectively.

TA II was a small-sized travel agent focusing primarily on selling flight tickets to corporate customers. The company was established in mid-2003, the period in which tourism industry was facing a downturn. The competition in the flight ticketing business was commonly high, and the margin which could be marked up per ticket was quite low. This was because the market was fragmented, shared by a large number of travel agencies. Consequently, the company had to obtain a large volume of tickets in order to create sufficient revenue and satisfactory profits. Strategically, the company chose to compete with its competitors by offering quality of service and building a close relationship with customers rather than by offering lower prices. For corporate customers, although low cost was important, convenience, reliable, helpful advice, and well-rounded services was more important since corporate customers usually have no or little knowledge about the destination they need to travel to. Besides, they usually had limited time to arrange their trips. Therefore, for customers' convenience, the company developed a website which provided an online request form for flight booking and basic information about flights and airlines. Another important value added that the company offered to its customers was a monthly report summarizing money that a corporate spent in a certain month and detailing costs of each trip. This service, albeit provided with an extra fee, was popular among many corporate customers.

“We provided a monthly report for our customers on an agreed format. This service was actually the value added we offered to our customer. ... Many customers liked it a lot, and they did not mention anything about the service fees, so I assumed I offered the right service which my customers really needed” (The owner-manager)

Nevertheless, despite the management report service, the company found itself needed to expand their products/services to be able to provide more values for the customers. Based on the fact that well-rounded services were important and that hotel bookings were likely to yield higher margin than flight bookings, the company thus expanded its product to include hotel bookings by mid-2006. This was primarily done through a B2B extranet system of a larger wholesale travel agent since the system required no extra implementation and installation, thus enabling both low operational cost and a wider range of products/services. Adding hotel booking service allowed TA II to please its customers; the revenue generated through hotel bookings reached almost the same amount of the revenue generated through flight bookings. Later in 2007, an online hotel booking system was developed and plugged in to the company's website in order to offer alternatives for customers who preferred self searching before asking for any help. According to the owner-manager, although an online booking system generated an extra cost and many customers still called after browsing the system, it proved to significantly save time for a customer service team since the customers had done some research and narrow down their choices. This highlighted a variety of customers' preferences and behaviors which travel agents like TA II cannot afford to ignore but need to do their best to well respond to those preferences.

TA III was a micro-sized travel agent focusing on selling flight tickets to individual as well as corporate customers. The company was founded in 1997, only a few months before the 1997 Asian financial crisis. With the micro scale (two employees and an owner-manager who did not manage the company full time) and gradual investment, the company survived the harsh crisis and obtained an increasingly bigger network of customers. Facing the same situation as TA II, TA III had to keep its operational costs as low as possible and needed large volume to cover the costs and to be profitable. An owner-manager attempted to use email as a main channel to respond to customers' requests or queries instead of calling customers back; this was to cut telephone costs. Besides, the owner-manager attempted to cut delivery costs by encouraging his customers to receive e-tickets via email with an offer of slightly lower prices. Apart from the low operational cost approach, the company also attempted to create good relationship with its customers by offering advices on complex itineraries and information about visa application for specific countries with no extra charge. This appeared very helpful in retaining customers; well over 40% of the customers were repeated customers or friends of existing customers, and therefore the company did not need to do much advertising.

However, in early 2005 the company became under threat posed by an increasing popularity in low-cost domestic airlines which cut intermediaries out of their booking process.

“Since the low cost airlines had thrived, we saw a significant decrease in domestic flight sales. We had to cut operational cost even further, and we also tried to offer other services such as hotel reservation and tour package arrangement...However, I think our strength was still the expertise in planning and managing complex itineraries.” (The owner-manager)

Since domestic flight bookings accounted for approximately 30% of the company's total revenue, the move of travelers to book low-cost domestic airlines were problematic for TA III. The owner-manager thus decided to develop the company's website and also adopt the affiliated online booking system provided by one of the well-known wholesalers. With this concept, the company could offer online hotel booking on its website without any implementation but a link to the provided online hotel booking system. Results were however not as expected. Most customers still preferred to call rather than to complete a booking online, but at least the company could increase revenue through hotel booking services.

“There were also some customers who had tried the system online but eventually called the company because they did not want to pay by credit card on the Internet or did not want to pay too many days in advance to reserve the room.” (The owner-manager)

Such cases were perceived as unsatisfactory to the owner-manager; however, since there were no fixed costs incurred in linking to the booking system, the company was not affected much by the low acceptance of the system by the customers. This confirmed that there were still customers who preferred personalized services and hesitate to book online without making any personal contact with a seller either it be a travel agent or a hotel.

## CONCLUSION AND FUTURE RESEARCH

This paper responds particularly to the need to study the tourism industry as an end-to-end value chain (Yilmaz and Bititci, 2006). The end-to-end value chain view provided an appropriate lens to investigate into the issues. Through the consideration of the tourism stakeholders and the tourism value chain, this paper underlines that disintermediation is not an issue between suppliers and intermediaries only. Rather, it is essentially about customers too since they are the most powerful component of the tourism supply chain, especially in this Internet-enabled era (Bennett and Lai, 2005; Buhalis and Law, 2008). The three case studies reflect interrelation among the three main components of the tourism supply chain, while other prior studies focused more on the relationship between travel agents and suppliers and ignored the importance of customers.

Although the number of case studies was limited, the literature review confirmed that disintermediation has been overrated (Rosenbloom, 2007). This was because 1) the tourism market is fragmented (Costa and Baggio, 2009); 2) it is unlikely that the Internet will be able to replace travel agents entirely as technology-assisted services cannot match the level of personal services (Law, 2009); and 3) tourism products/services by nature can be sold worldwide, and hence it is likely that significant differences of customers' preferences and behaviors caused by particular geographical regions will continue (Gronflaten, 2009).

Due to the fragmented nature of the tourism industry, no one distribution channel is likely to dominate in the near future, and this means that hotels and airlines still need to rely on a number of travel agents to reach the marketplace (Middleton and Clarke, 2001). Therefore the challenge for the tourism suppliers is to manage the tensions associated with dual distribution channels (their own and that of travel agents) that are potentially competitive with each other (Brown and Kaewkitipong, 2009). Law (2009) also agreed with this point by stating that ongoing cooperation with partners is critical for hotels to be benefited from a stable business return. For travel agents both traditional and online, they need to be highly effective and efficient in distributing tourism products and services (Rosenbloom, 2007).

The issues of technology-assisted service versus personal services also need further consideration. Through the three case studies, this paper has highlighted that customers are varied in profiles and preferences. Therefore the three travel agents were able to generate profit through different approaches and strategies. For example, in TA I where the majority of the customers were foreigners, online bookings were completed with minimal personalized service, whilst in TA II and TA III where the majority of the customers were Thai, it can be seen that many customers had little idea about connecting flights and thus preferred personalized suggestions about routes and airlines to general information on the Internet. This adds particularly to the points raised by Gronflaten (2009) that distinction needs to be made between information sources and information channels. Simply speaking, the differences in the customers of TA I, TA II, and TA III were actually at the level of choices of information channels (Online vs. Offline) rather than information sources (TAs vs. Suppliers). This means that in practice it was preferences for information channels not information sources that concerned those customers. Therefore, despite attempts of suppliers (hotels and airlines) to cut intermediaries by selling directly to customers through their own website, completed disintermediation is unlikely to occur. Hence, a thorough understanding of tourist information search behavior is vital especially for intermediaries that need to improve their services for tourism consumers (Gronflaten, 2009). Also, strong relationship with suppliers is equally important for travel agents as a middleman. This can be achieved through attempts to create trust, commitment, quality communication and information exchange with suppliers (Medina-Munoz and Garcia-Falcon, 2000, 2002; Yilmaz and Bititci, 2006; Costa and Baggio, 2009).

As tourism intermediaries need to be more effective and efficient, this paper calls for more research on business and IT strategic alignment particularly for small and medium sized tourism enterprises. IT will be pivotal, because it reconstructs a new interactive interface among tourism providers, tourism intermediaries and tourists, and it has pervasive effects on the creation, production and consumption of the tourism products/services (Hjalager, 2010). More importantly IS strategy in alignment with business strategy will help not only large but also small and medium-sized firms to achieve the strategic value enabled by the technologies (Schlenker and Crocker, 2003). There was also evidence that the higher performance or value of IT will be achieved through strategic fit between business and IT/IS needs (Ross, Beath, and Goodhue, 1996; Henderson and Venkatraman, 1999; Byrd, Thrasher, Lang, and Davidson, 2006). Therefore, managing a strong IT-business relationship is critical for the delivery of a successful outcome and ultimately an increase in company's revenue (Clarke and Doherty, 2004). Nevertheless, research in this area which focuses specifically on the tourism SMEs perspective was still limited. More research is thus considered worthwhile.

Ultimately, it should be noted that the findings and implications are indicative based on the three firm cases from a larger research programme and generalisability is limited. Overall, however, this research contributes particularly to the debates of disintermediation in tourism industry. Significance of the developing country context is not obvious from these three case studies except in terms of customers' preferences. Therefore, another interesting area for future research could be on consumers' behaviors in different region (Law, 2009) as it is important that the intermediaries understand and can identify their customers' behaviors in order to best fulfill their needs (Tse, 2003). Also, it is interesting to conduct further studies on some other developing countries which have similar Internet penetration rate to that of Thailand in order to understand underlying factors resulting in different behaviors of customers.

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