# The New Role of Intermediaries in Travel and Tourism Distribution Channels

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**Issue:** The accepted wisdom in the Travel and Tourism (T&T) industry –with very few exceptions– has so far placed the emphasis on disintermediation or the disappearance of traditional intermediaries like travel agents, tour operators or even the Global Distribution Systems (GDSs).

**Relevance:** There is evidence on which to base an alternative scenario of development of the T&T channel which has far reaching implications for policies relating to electronic commerce.

### Introduction

The **travel and tourism** sector (T&T) is among the leading growth sectors in Europe and worldwide. Its development is closely linked to broader socio-economic and technological changes, which, through their co-evolution, are continuously re-shaping the nature of supply of, and demand for, travel and tourism services.

*The Travel and Tourism (T&T) industry is an important growth sector in the economy of Europe and elsewhere*

Different participants in the T&T sector are very differently prepared to meet the technological challenges. Global Distribution Systems (GDSs), Computer Reservation Systems (CRSs) and especially small and medium sized enterprises (SMEs) have very different organizational structures and inherited competencies. The limits in terms of their interoperability or 'the end-to-end' provision of a given service in a consistent and predictable way is still 'the' big organizational and technical problem in the sector. Furthermore, the demand side - the customer - is increasingly attracted to using information technologies, especially the Internet, in order to get direct access to information concerning their **travel and tourism** needs. As the costs of **ICTs** continue to fall and their capabilities increase, distribution and transaction management of T&T services could theoretically be within the users' control. It is a common view that the searching, evaluating, and coordinating functions, which represent the most knowledge intensive part of the transactions that people and companies must make when they exchange goods and services, will be transferred from the intermediary -the retailer- to the customer.

*Changes in telecommunications and the spread of the Internet are placing a number of traditional tasks of intermediaries under the direct control of consumers*

However, extensive empirical evidence and conceptual analysis on the **travel and tourism distribution** channel does not support this argument (see **Kanellou**, 1999). In a rapidly evolving electronic market, the spread of direct links between suppliers and customers would lead neither to a 'squeezed intermediary' nor to its disappearance. On the contrary intermediaries not only continue to operate in the **distribution channel**, but are likely to do so as ever more powerful actors, actively shaping the structure of the T&T sector. The rationale for their continuing existence is in their unique functions of integrating -'packaging'- complementary travel services and products to provide a complete and satisfying service to the customer. This is the most important function of intermediation: the ***intelligence*** function.

Intermediaries in the **travel and tourism distribution channel**

In the absence of a physical distribution system in the T&T sector, a **distribution channel** based on intermediary functions has developed. The distribution channel is an orchestrated type of network that creates value for the producer/ supplier or the consumer, and is built on the simultaneous existence of trust and power relationships (**Stern** and **El-Ansary**, 1992). The actors (intermediaries) in the distribution channel are creating value, and being paid for it on three basic levels: ***the access to information***, ***the ability to evaluate, process and manipulate the information*** for each individual case and come up with the 'right information', and ***the ability to sell directly***.

The analysis of the stages of intermediation in T&T (**Kanellou**, 1999) suggests that:

- the role of the intermediary has been an important element in all stages experienced by the tourism and travel sector so far;
- the role of the intermediary is inextricably linked to changes in technology ;
- since each major wave of new technology changes the arena and the distribution of power between the actors, the role of each intermediary also changes; however, this change does not lead to disintermediation;
- in each stage a new intermediary controls the distribution channel; the nature of intermediation (source of power, product/ service, and driving force) though is different.

*The history of intermediation in travel and tourism suggests that the accumulation of specialized knowledge or "intelligence" about suppliers and customers is crucial for successful intermediation*

The history of intermediation in **travel and tourism** also suggests that the accumulation of specialized knowledge or 'intelligence' about suppliers and customers is crucial for successful intermediation. Intelligence, in this respect is defined to be the ***actionable knowledge*** or the ability to filter and evaluate the available information about suppliers' products and services and match it to the needs of customers in a way that suppliers and/or customers are able to act upon it. The building of this capability, which is the key strategic resource of the T&T distribution channel, continues to be relevant today in the Internet-based distribution channel. How to transform the available information of global services into knowledge of the 'right' information about a trip, or a holiday that satisfies the needs and desires of any customer at any time, in any part of the world is a challenge for participants in T&T.

The novelty is that as the new technical solutions generate increasing information overload, this in turn increases the problem of how to transform the available information into 'tailored information' or 'actionable' knowledge. This problem is exacerbated as the integration of information becomes ever more important.

During the 1990s the tourism industry has utilized Computer Reservation Systems extensively. Virtually all larger airlines offered their range of services via one or more systems and the degree of penetration of on-line terminals among travel agents generally increased during this period, so that 100% of American and 95% of European travel agencies are equipped with GDS terminals.

*The advent of Global Distribution Systems in the 80s and 90s transformed the role of intermediaries in the travel and tourism sector from retailers of "package holidays" to distributors of information*

During the 1980s-90s, the GDSs emerged as the new intermediaries by interconnecting suppliers' databases and thus became the content originators for **travel and tourism** services. The result of this transformation was a major shift in the way travel is bought and sold around the globe, and it also changed the role of the travel distribution system from one of distributing "package holidays" to one of distributing information.

By the end of the 1990s the boom of the **Internet** had become obvious. Today, each GDS chooses its own strategy depending on its technological capabilities, its organizational structure and/or its market share in the distribution of travel sales. Each GDS realized quite early on the importance of the Internet as well as the threats posed by it and tried to respond to them.

The Internet as a new "medium" has the potential to evolve into an interconnected marketplace, facilitating the exchange of a wide variety of products and services. In the last few years, a new type of intermediary —the so-called "cybermediary"— has developed, alongside the existing intermediaries (travel agents, tour operators, CRS, and GDS). Their specialist service will be to tailor a diverse set of possible services and price options to individual customers' needs. By being able to monitor a large number of service suppliers, they can build intelligence tailored to individual needs or to specialized segments of demand. This strategy leads to the ***integration of information***. From being distributors of information these new intermediaries face the challenge of becoming generators of customized **travel and tourism** information. The latest development in the sector, which took place in December 1999 when Travelocity, Preview Travel and Price.com formed a marketing alliance whereby the users of any of these services will be able to access the services of the others, indicates the huge potential and opportunities for this new type of intermediary.

*The Internet has brought a new kind of intermediary into the field able to exploit the network to offer an increasingly comprehensive range of service and price options*

The main issue today is how customers will obtain information relevant to their interests and what can be done to increase the possibility that suitable suppliers' information reaches customers. *The challenge is to empower customers through intelligence based intermediaries.* The main business issues then are the shift from information processing capacity and organization towards:

- integration of information from all suppliers;
- building customer databases;
- ability to search and filter information for products and services that match customer needs that are not always clearly defined;
- ability to guarantee the quality of service;
- customization of information;
- personalization of service/product;
- cost and time savings.

The core business of distribution in today's **travel and tourism** sector is the transfer and manipulation of information. This has not been the case throughout the history of the travel and **tourism distribution** sector, but has become obvious with the widespread use of **ICTs**. ICTs give customers the opportunity to shift from being static spectators to dynamic "retailers", or at least allows them to perform some of the retailers' functions. On the other hand, the "virtual" nature of the intermediary means that gaining customers' trust, and building reputation and credibility become of the utmost importance for it to become "dynamic".

*The "virtual" nature of these new intermediaries means that gaining customers' trust, and building reputation and credibility become of the utmost importance*

These developments change the importance and the role of intermediation very significantly and lead not to disintermediation but rather to a change in the origin of "dynamic governance costs" i.e. the costs "of not having the capabilities you need when you need them" (**Langlois**, 1992). In other words the costs originate not from the supply side as was the case in previous stages, but from the demand side.

**Dynamics and Strategies of Cybermediaries**

The presence of intermediation is very evident already in Cyberspace. Travel is one of the most popular e-commerce categories, outpaced only by books (45% and 54% respectively). The on-line leisure travel business has been pioneered in the USA by the airlines and online agencies such as Preview Travel, Sabre Holdings' Travelocity, Price.com and MSN Expedia. On-line intermediaries –so-called cybermediaries– comprise 52% of the market and supplier-branded sites (air-car-hotel-destinations-tours) make up the remaining 48%. The value of on-line leisure and business travel was estimated at $276m in 1997 and since then has increased to �3 billion in 1998 and �6 billion in 1999. Of that, �3.6 billion is from on-line travel agency sales (see **http:// www.phocuswright.com**).

*Although on-line sales of travel and tourism products are popular and growing, customers tend to make only simple transactionse presented in a simple way from a variety of sites such as the purchase of airline tickets*

Nevertheless, it is important to keep in mind that only 3% of travel product/services are booked on-line and that airline tickets represent 73% of all on-line bookings. This is a very important indication of customer reactions to this new service. Customers are willing to buy travel services through the Net, but they make only simple transactions, which are presented in a simple way from a variety of sites -for example, purchase of airline tickets. The latest U.S *Travel Weekly* study (6-4-1999) confirms that nine out of ten leisure travellers value their Travel Agent (TA) much higher than the Internet sites, when it comes to problem solving and giving advice. In particular in the above survey consumers said they are loyal to their TA because of their agent's:

- ability to get the best price (34%)
- convenient location (31%)
- personal relationship with the customer (28%)
- general good service (24%).

It is also claimed that on a scale of one to ten, 57% of consumers scored their agencies at eight or better in complete understanding of customers' needs. Another on-line study by the NDP Online Research for the Travel Industry found that a majority of Internet travellers (56%) continue to divert the confirmation of their travel reservations to traditional intermediaries. In a more recent study (January 2000) the Gartner Group projects that the worldwide on-line travel market will increase to $30 billion by the end of 2001.

**Table 1. Primary Reasons Why Internet Users Book Travel Reservations off Line**

| Primary Reasons for not booking on-line | Total Respondents | Newbies (less than 6 months on-line) | Intermediate (6-24 months on-line) | Net Vets. (more than 2 years on-line) |
|---|---|---|---|---|
| **Lowest Price** | 31% | 28% | 28% | 33% |
| **Credit card security concerns** | 18% | 33% | 25% | 13% |
| **Human Contact** | 16% | 8% | 16% | 16% |
| **Accurate Reservations** | 14% | 9% | 13% | 14% |
| **Other** | 21% | 22% | 18% | 24% |

*Source: NDP Online Research spring 1999* **(http://www.ndp.com**)

However, the study indicates that 75% of people with Internet access, researched schedules, flights, discounts and travel packages (400% increase from the fourth quarter of 1998) before booking personal travel through traditional channel, while only 16% of them booked flights and paid for tickets on-line (an 800% increase since the fourth quarter of 1998).

The two key reasons for not purchasing flights on the Internet were cited as:

- the need to ask further questions regarding special needs;
- the need for a more flexible ticket reservation and ordering process.

The reasons for booking off-line are not related travellers' level of experience with the Internet. In fact, as table 1 suggests, Net Vets value human contact and accuracy significantly higher when choosing off-line booking than do Internet beginners.

These results confirm the main argument concerning the importance of "intelligence" functions of intermediaries who are able to provide "actionable" knowledge for the consumer.

Table 2 presents different types and combinations of strategies that T&T cybermediaries currently follow. Strategies are described in terms of their supplier service focus (content/infrastructure), cost reduction focus (context), and customer service focus (combination of content-context-infrastructure strategy) **1**.

Strategy focused on development of infrastructure provided by so-called Portals/Vortals (i.e. "vertical portals" which aim their content at a particular audience) or is oriented mainly towards SMEs that cannot afford to create commerce friendly on-line sites. For example, Leisure Planet is a provider of tourist related information (content strategy) and travels bookings and customer services to on-line consumers but it also functions as an automatic forwarding system (infrastructure).

**Table 2. Strategic orientations of the main travel and tourism cybermediaries**

| **Content/Infrastructure** | **Context** | **Content/Context/Infrastructure** |
|---|---|---|
| **Portals/Vortals**<br>Leisure Planet<br>WorldRes<br>THISCO (Switch) | **Auctions**<br>Priceline.com<br>**Suppliers branded sites**<br>Airlines, Hotel chains,<br>car-hire companies, destinations | **Travel Web Sites**<br>Travelocity<br>Preview Travel<br>ITN<br>MS Expedia<br>TravelWeb |

Another group of T&T cybermediaries is developing a *context only* focused strategy, i.e. IT is used as a tool for cost reduction which does not affect the service content. For example, **Priceline.com** does not have its own proprietary content or infrastructure. Instead, it creates a context in which consumers name the price they are ready to pay for a wide range of goods and services through a Website (www.priceline.com), and then the site presents that price electronically to sellers, who decide whether or not to meet the buyers' conditions. Also, the airlines and the hotel chains that "own" the product or service that they sell directly in cyberspace, for the time being are utilizing this technology to cut their distribution costs, as well as to built a loyalty relationship with their customers.

*A closer look at top on-line intermediaries in the travel and tourism business reveals that many have close links with existing GDS players and have built on their experience*

The most innovative strategies in the T&T sector are those that are fully customer oriented and offer both content/context and infrastructure simultaneously. SABRE has been the pioneer in introducing a combined strategy of content, context and infrastructure via the Internet. This is important to bear in mind as it has been often argued that originally the top on-line intermediaries were not travel intermediaries pre-Internet. However, a closer look indicates that behind these cybermediaries there exists a very strong link with the GDSs. Travelocity, which functions as a travel agent on the Net, is the brainchild of GDS SABRE. Also, in 1985 SABRE introduced another on-line service for its business customers called Easy Sabre; thus, SABRE had had a lot of on-line experience before the emergence of the Internet. Galileo GDS, on the other hand has been always slower and more wary about adopting IT innovations, and so it chose the infrastructure based strategy, to serve 14 leading T.A companies such as Preview Travel, ITN, etc. In addition, behind EXPEDIA, the second most important travel cybermediary, are not only Microsoft's leading-edge technology and budget, but also WORLDSPAN GDS.

**Intermediaries between passive and active use of information: Management and policy implications**

The experience of on-line transactions in **travel and tourism** through the diffusion of CRSs in 1980s led to an increasing use of data processing technology. The accumulation of large databases has become a definite source of market power. As more sophisticated information was used to create market segmentation and product differentiation, the strategic profile of intermediaries became based on their data-processing capacity or their ability to store, process and transmit huge amounts of information accurately. This was coupled with exclusivity contracts, incentives to travel agents and geographical dominance (overriding commissions, more sophisticated information bias, etc.). Information-processing capacity may be used internally and/or marketed to other organizations, creating alliances, which are the source of much incremental revenue and market power. This is exactly what is happening at the moment on the Internet, and is not a specific feature only of the T&T industry.

*Whereas in the 80s intermediaries could rely on using their data-processing capacity in conjunction with exclusivity agreements or geographical dominance, today they need to use their information resources to generate "intelligence" for customers*

However, as the number of intermediaries with data-processing capacities increases, the search for content as well as the pressure to generate customized or personalized information increases. The information is used as a ***knowledge resource*** with the aim of generating intelligence or actionable information for customers. As **Kyriakou** (1996, 1998) points out, continuing technological innovation and liberalization of markets have caused a reduction in the telecommunications distributors' expected profit margins, and increasingly are improving prospects for content providers and packagers. "The content provided is becoming ever more crucial to the consumer's decision to opt for one from among several rival distributors, i.e., intermediaries providing access to the carried content." (**Kyriakou**, 1998). This suggests that there is a shift in business strategies from the passive use of information (*information as syntactics*) towards the active use of information and development of a combination of content, context and infrastructure strategy (*information as semantics*).

The economic and management problem for intermediaries has become how to combine economies of scale and scope through mass customization of services. The crucial issue is how to design products in interaction with customers and yet achieve economies of scale.

The main objective in terms of business process organization is to achieve *information integration*. The Web was designed to facilitate access to information, not the integration of that information. The ill-defined nature of demand requires intermediation to assist in the articulation of consumer needs. Information dissemination (content) cannot meet this requirement unless the intermediary already has (or develops) the specific capabilities necessary to assist customers in the form of "intelligence" or "actionable knowledge". For successful intermediation, sector-specific competencies are essential. However, this does not mean that sector-specific competencies alone are sufficient. The challenge is to integrate the new technologies with sector-specific expertise, i.e. to combine IT knowledge with T&T specific competencies.

*The Web gives access to almost unlimited information but does not integrate that information. This creates a niche in which intermediaries can provide consumers with a valuable service*

The novelty of contemporary intermediation is thus twofold. First, through its very close links with the customer the intermediary has the opportunity to learn much more about customer needs, requirements and behaviour. By doing so, the intermediary is able to control demand to a much greater extent than has been the case in the past. On the other hand, the "virtual" nature of intermediation means that gaining customer trust, and building reputation and credibility have become issues of the utmost importance for would-be market leaders. As with intermediaries in the past, cybermediaries today are not solely in the business of distributing products and services, nor are they even in the business of distributing information, but are mainly in the business of serving customer needs. Those players who are able to recognize this trend and successfully adjust to it are likely to become market leaders in Internet-based T&T distribution.

The achievement of information integration in the T&T sector is an issue of importance not only for intermediaries in general but also for regions, national governments and the EU. The main problems in relation to the European T&T sector can be summarized as follows:

- The information and communications infrastructure is not developed equally across the European regions.
- Regions/destinations generate content for T&T products and for the services of intermediaries/ cybermediaries. As content providers they become a crucial part of the **distribution channel** of T&T services. However, the relationships between destinations and intermediaries are not sufficiently developed to exploit the new opportunities that could emerge through such close relationships.
- Destinations are trying, most often in isolation, to build their own systems for direct selling. Due to information overload and limited marketing capacities there is a danger that their systems will become "lost in (cyber-)space".
- In addition, destinations face significant problems organizing themselves. They are dominated by family owned and run SMEs with informal organizational structures, which lack specialized personnel and receive inadequate training (**Buhalis** 1995). The limits in terms of their interoperability or the "end-to-end" provision of a given service in a consistent and predictable way is still "the" big organizational and technical problem in the sector. As a result their marketing and management performance is extremely poor. They are product focused, rather than customer focused, and as a consequence depend heavily on intermediaries, like Tour Operators (**Buhalis** 1999,1995).

While the focus of this article is not on the policy aspects, certain policy implications do emerge clearly from the analysis.

First, policy should focus on regions/destinations in order to help them understand the need to redesign their business processes and to focus on information integration and customer-tailored services. Second, the shift towards IT-intensive services requires large-scale support for updating IT skills in regions through diffusion oriented programmes.

*Exploiting the opportunities that are emerging from ICT developments, and Internet based distribution in particular, could be assisted through structural policies at regional, government and EU level*

The EU has taken several actions to support SMEs as well as providing the Regional infrastructure for further T&T developments (EU 1993, 1998). However, the scale of coordination failures that must be overcome requires much larger *cooperative* action than has been the case so far. The opportunities that are emerging from ICT developments, and Internet based distribution in particular, need to be accompanied by structural policies at regional, government and EU level. These actions should include:

- Information and communications infrastructure development;
- Training for marketing and management of T&T information systems for SMEs. For example, these policies could involve special training for regional travel agencies for the provision of tailor-made services by interactive communication with other agencies or suppliers in different regions. In addition, support could be given in the form of the information systems of SMEs, hotels, restaurants, etc. which would connect them to portals/vortals etc., or to other intermediaries in cyberspace through intelligent websites;
- Coordination activities at European level so as to disseminate best practice in the development of regional or national distribution systems that offer end-to end provision (interoperability) of T&T products and services;
- Development of a EU umbrella strategy focused **on content, context and infrastructure.** Instead of support being given to numerous regional systems it should be provided only to systems that can communicate with and support the systems and activities of other T&T providers which will help in the **coordination** of activities **and the cooperation between** different actors across the EU regions. It would also provide:
- Valued information for the consumer and links with all relevant sites in countries and regions;
- Specific information for the travel industry and the regions.

**Keywords**

**travel and tourism**, **distribution channel**, **e-commerce strategies**

**Note**

1. The content, context, and Infrastructure strategies are explained well in Jeffrey F Rayport and John J Sviokla (1994): "Managing in the Marketspace", *Harvard Business Review*, November-December, pp 141-150.

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