

TRAVEL AGENCY STRATEGIES FOR MANAGING THE CURRENT DYNAMIC ENVIRONMENT

Ibrahim Abdul-Hamid

College of Arts and Sciences, Universiti Utara Malaysia, Kedah, Malaysia.

ABSTRACT

Over the last five years, the travel industry has experienced considerable changes. During the deregulation of the airlines industry, travel agents faced a more competitive and dynamic environment caused by the loss of control of airline ticket sales. The zero commission policy adopted by major airlines had reduced revenues for the travel agents. Creative strategies were initiated for the travel agents to survive. The national tourism promotional campaigns to attract tourists into the country only affected certain segments of the travel industry. E-ticketing had further eroded the roles of the travel agents. Operating costs increased with insurance coverage and IATA's requirements. The energy price hikes indirectly affected the livelihood of the travel agents. This paper gives particular attention to the travel agent as a primary intermediary of travel related product. Of particular interest is the agent's experience of zero commission, insurance coverage, e-ticketing and changes of travel preferences.

1.0 Introduction

Today's highly unpredictable and competitive environment is having a profound impact on the travel industry. The increase of fuel price had prompted airlines to impose a fuel surcharge in addition to airport charges. These additional charges had further increased the cost of travel. Several airlines are in difficult financial positions and a few have ceased to operate. There are also perceptions the world's economy is in turbulence and people are cautious about travelling especially to take long haul vacations. To save costs, travelers are now making their own travel arrangements; making airline and hotel reservations on the internet. Online reservations had provided much savings on travel as they eliminate the need of using travel agencies, the intermediaries of travel business. These are some of the factors that are taking place in the travel business industry. A travel manager needs to continuously conduct environmental scanning and analysis on critical factors that may influence his operations and to be aware of developing trends in his business. Several national travel organizations frequently disseminate newsletters on the internet with issues that affect the travel industry. Often, views about the issues are analyzed and discussed online. The adoption of information technology among travel agencies is still low and this raises the question of awareness of travel issues among the travel practitioners. The majority of travel agencies falls within the category of small and medium size enterprises (SMEs) and mostly is private or family run. Very few travel agencies belong to big corporations. As a whole, the SME travel agencies can be considered as weak as they are threatened by the uncertainties in its operating environment, decreasing market share and profit level. This paper attempts to extract the elements in the travel environment and to match the gap between the knowledge and current practices among the travel agencies.

2.0 Changes in the Travel Business Environments

Travel firms are being increasingly confronted with an assortment of changes. To survive, travel agency managers will need to develop innovative strategies and marketing programs which will enable them to buffer their organizations from perceived environmental threats and to exploit developing opportunities. There are various strategic options that can be employed by them.

Travel agents represent the primary intermediary of travel-related products. They account for 40% of the domestic and 60% of the international airline ticket sales; almost all the cruise and tour package sales and during the period 2006/2007, they sold 30 million room nights. There are more than 3,000 travel agencies and about 2007 of these travel agencies have registered with the Malaysia Association of Tour and Travel Agents (MATTA). According to the Malaysia Retail Industry Report 2007, Malaysians and foreign tourists spent nearly RM67.1 billion in 2007. For the travel sector, it was estimated that travel agencies generated approximately RM2 billion in travel-related sales. More than 60% of their revenue was derived from airline bookings. As the primary distributors of airlines tickets, agencies have been buffeted by airlines' policies. For example, e-marketing and e-reservation have served to decrease the commissions from bookings that agents may earn. Despite the frequent changes in complex systems of fares, schedules and ticketing procedures, travel agents are still in demand, as travelers increasingly look for their value-adding advice for vacation packages.

3.0 Travel Industry Situation Under Deregulation

Prior to 1985, almost all travel agencies are the sole commissioned sellers of airlines tickets. With the deregulation of the sales of airlines tickets, airlines were given greater power to control over the distribution of airlines tickets and to introduce greater competition in airlines marketing. Previously, only agents accredited to airlines companies could sell tickets and earn a commission. Later, agents need to be accredited with a professional agency, such as IATA, for ticket and financial settlement responsibilities. However, an airline may also deal with any nonconference retailer that adheres to the carrier's standards. With the loss of exclusivity, agents must now consider the possibility of new competition; possibly the hotels, corporate travel offices and banks.

4.0 Too Many Players

Many midsize travel retailers are flourishing in cities and towns all over Malaysia. They cater mostly for outbound travels. In northern Malaysia, these travel retailers specialize in religious travel, mostly for Ummrah packages and since the region has a majority Malay population, there is a perception that this is a lucrative travel market segment. Unfortunately, there are too many travel retailers for this market segment. Further, the Saudi Embassy is imposing some restrictions on the numbers of Ummrah visas issued to each travel agent in terms of number of visitors per visit and number of visits per month. Only registered travel agents with the Saudi Embassy are eligible to apply for visas for their clients. Technically, an average of 9 visits is allowed for each travel agent for the Ummrah package.

The image of travel agencies takes a beating recently when a travel agency failed to deliver its services after taking booking for vacation sales, in cash, worth more than RM1 million

during a travel trade fair. As a result of this affair, clients are encouraged to take travel insurance, which further increases the travel cost. While the media talks on the needs to protect the customers, the incident shows that the travel agency business among retailers is not as sustainable as it used to be. Customers are now known to prefer to deal with reputable travel agencies and these agencies are mostly travel wholesalers.

5.0 E-Reservation

The shuttle flights between Malaysia and Singapore had been terminated recently. This was one of the lucrative markets for travel agents by selling tickets for the two airlines. Customers, then, found it was convenient to purchase tickets from the travel agents rather than waiting in line at counters. This development has served to further complicate an already unsettled environment. The introduction of low-cost carriers has led to the proliferation of routes, schedules and fares in the airlines industry. This has affected the way travel agents perceive and deal with airlines as well as the way they do business. The frequent changes in airlines scheduling have made the agent's job considerably more difficult, affecting relations between the agents and clients. In turn, this has placed increased strains on the agency-airlines relationship. Low cost carriers encourage their clients to make reservations and bookings online as an effort to reduce operating cost. Such an approach reduces the roles of travel agencies in the channels of distribution.

6.0 Travel Commission

Last year several major airlines announce a zero commission policy to the travel agents. In fact, such a policy was introduced years ago in Western countries and it was a matter of time that this development will be introduced to the local environment. Beginning this year, Malaysia Airlines no longer provides commissions to travel agents for airlines ticketing. Airlines term the situation as "market liberalization", where rather than charging fixed fees, travel agents are advised to charge service fees to their clients for services offered such as reservation, cancellation, service delivery and credit arrangement. Most travel agents are now charging an average of 5% as the service fees for airlines ticketing.

Several major airlines had offered computer reservation and ticketing to selected travel agencies in an effort to enhance the airlines' market position and to assist the travel agents to deal effectively with the increased complexities. This action had raised concerns that the airlines were attempting to establish preferred accounts among the larger travel agencies, as a step towards establishing an "airlines dealership". This concern, whether perceived or real, affected the channel relationship and vibrated throughout the travel industry at one time.

In the last two years, there were several forecasts that the travel business would continue to grow. Statistics did show a continuous growth in the tourism industry in terms of international tourist arrivals, from 14 million in 2002 to about 21 million in 2007. The "Visit Malaysia Year 2007" (VMY 2007) which begun in January 2007 was extended to the end of August 2008 to capture the spirit of Malaysia's 50th year of nationhood. Unfortunately, the momentum of VMY 2007 in 2008 did not attract much interest in promoting tourism. Several events are thought to be responsible to slow down the tourism market. Firstly, the national election in April saw a change of tourism leaderships both at the federal and state levels. Some tourism projects were shelved or postponed. Secondly,

there was a downturn in the world economy and people seemed reluctant to travel. The oil price hikes since 2006 had rolled back leisure international travel. Travel industry captains considered the drop in travel growth as a temporary situation and confidence grew that the situation would reverse, particularly after the Olympic Games in China.

7.0 Operating Cost

Higher operating costs have placed financial constraints on small and undercapitalized firms. In response, such agencies need to secure a protected market niche or generate a larger volume, perhaps by pooling their resources through various cooperative arrangements. Mergers and cooperative arrangements should auger well for travel agencies wanting to operate from positions of strength.

Using the experience of deregulation from other industries, which has indicated the need for more aggressive, nontraditional way of doing business, it is imperative that travel agencies pay particular attention to monitor external forces that may have affected their organizations and thereafter to formulate appropriate strategies for managing the environment.

8.0 Theoretical Aspect of Environmental Management

Just like other business organizations, the travel organization also felt the changes and uncertainties in the environment. Organizational theorists had offered insights into the organization's perspectives regarding its environments as well as providing managers with a set of approaches for operating within those environments.

Under the open system, there is an exchange of information and resources between the organization and its environment. It suggested that there is no one best way of managing the organization, rather, there seem to be a need that the management of the organization should match the environment perceived as important to the organization. For example, some travel agents perceive that over and above their roles of selling the travel packages to their clients, they should also guide them for the tours, and educate them about products. This view suggests that the organization is dependent for their survival and efficiency on an exchange of goods and services with their environment.

Unfortunately, there are changes in the environment that are brought about by some of the key attributes in the environments, such as hostility, turbulence, diversity, technical complexity and restrictiveness that serve to shape the organization's structural and process elements. Some organizations prefer to operate under the closed system, where the management concentrates on the internal operation and to dismiss the environmental influences.

What can the manager do to deal with the changes and uncertainties in the environment? Two schools of thought have sought to provide the answer. The first natural school of thought argues that managers are essentially reactive and passively respond to the influences of environmental forces. In contrast, the second strategic management school of thought holds that managers are proactive, using strategic planning and other strategies to help shape the organization to the environment.

The open system conceptualizes the environment with the view that forces in the environment serve as fundamental variables. The natural school of thought deals with responses to the environment and views that the success of the organization will depend on their management adaptation to the contingencies presented by their environments. Both of these views have been criticized as managers in such organizations are often viewed as passive or reactive in their dealings with their environments. Instead, most of the organization theorists suggest that managers can become proactive and can institute various measures to shape and influence their environments, thereby managing these environments rather than waiting to be managed by them.

9.0 Strategies in Managing the Environment

Galbraith (1977) proposes three sets of proactive strategies for the management of the organization's environment: independent strategies, cooperative strategies and strategic maneuvering.

1. Independent strategies may be employed by an organization to modify its competitive environment. For example, a travel agency may use its own resources and ingenuity to differentiate its services from those offered by the competition, thereby gaining a greater measure of control over its environment.
2. Cooperative strategies involve two or more organizations that have undertaken joint action designed at reducing their mutual uncertainties and enhance their relative power over the threatening environmental elements. Trade association activities designed to monitor the behavior of airlines or trade members or to influence favorable legislation are examples.
3. Strategic maneuvering is involved in assessing the change and evaluating the risk. For example, an organization can attempt to alter the task environment rather than manage the environment. Merger and acquisition activities as well as those activities to create new or unique market niche are examples of strategic maneuvering.

Galbraith's strategies are based on trying to reduce the organization's dependency on external entities. These strategies certainly could be more beneficial to travel agencies because of their roles in the channel of distribution, which is their dependency upon the airlines and other travel suppliers for basic products and services. It is imperative that travel agents have available options for dealing with the external forces.

10.0 Independent Strategies

Independent strategies are more appropriate for an organization that experiences low to medium levels of uncertainty and dependency (Galbraith, 1977). By operating independently, the organization maintains its autonomy from other organizations while still being proactive.

1. ***Competitive Aggression:*** This is one of the marketing strategies where a firm can attempt to build a strong position in the market. They can do this by exploiting specific strengths, increasing operating efficiencies and conducting activities

aimed at differentiating their products and services. A travel agency can introduce incentives such as the reward system for its clients to earn points through the purchases of various travel related services. Airlines and hotels had adopted the frequent purchased program that helps to bind the customers with the organization. Travel agents may also want to keep database and profiles of their clients which can be used as marketing tools for personalized services that can be rendered.

2. **Dependence Development:** This strategy involves in modifying the existing relationship, such as making the environmental element to depend upon the organization. This method is an attempt to develop a form of countervailing power, by enhancing the importance of that entity to the success of another. Example would be the case of Angkor Wat in Cambodia. Despite the country's unstable political situation, they have been able to attract foreign visitors to the historical monument. Another would be Bali which is still in the international tourism map, even after the terrorist attack. In both situations, the governments had provided the necessary support to rebuild the tourist products. Such government supports were made possible with participation from the travel industry. Traditionally, travel agencies depend on airlines companies for business survival. A few major travel agencies had built a high market value for themselves which made some airlines companies appoint them as "general sales agent". In a sense the airlines conceded that they depended on the agencies for sales. In some cases, airlines provide agents direct access to their computerized reservation systems as a form of interdependency relationship.
3. **Smoothing:** Organizations facing irregular demands may attempt to reduce the impact of such fluctuations. Fluctuation in demand is one of the major characteristics of the hospitality and tourism industry. There are high and low peak seasons. Organizations can either embrace the fluctuation situation or to create activities to reverse the situation.
4. **De-marketing:** There are times organizations may need to discourage customers from consuming their products or services. For example, in an attempt to discourage a customer from purchasing a one-time discount fare, a travel agency can introduce a discounted service charge for booking an airline ticket costing a certain amount or the fee is waived if the customer books a certain number of tickets annually through the agency or if certain other travel related services are purchased along with the airline ticket.
5. **Political action:** Lobbying and similar activities may sometimes be conducted to influence the business climate faced by the organization. However, such a strategy has not been attempted by individual agents, who seem to prefer to rely on trade associations for performing both legal and political activities.

11.0 Cooperative Strategies

It is often productive for organizations which are dependent upon some environment to join together in some fashion to strengthen their relative position and to diminish or

minimize their dependence by developing countervailing power. These strategies may be required if independent strategies prove ineffective or too expensive.

1. **Coalition:** A coalition consists of the joining together of two or more organizations for some period of time for the purpose of joint activity relative to some issue or issues. In the travel industry, coalitions have taken the form of trade associations. Trade associations can perform a variety of functions for their members. As noted earlier, an individual may not be able to implement or lobby for legal and political issues. Members in trade associations feel that political action and lobbying are the most important functions of the associations. Another form of coalition is for travel agencies from various states in a country to form a consortium among themselves so that they will have a strong business presence in an area. Some agencies attempt to form a travel consortium among the SME travel entrepreneurs as an effort to secure linkages with the government agencies
2. **Contracting or Franchising:**
The process of contracting involves the negotiation of agreements between or among organizations for the exchange of goods, services or information. The travel industry has seen remarkable growth in the formation of agency consortia and networking. The incentive for the agencies is that consolidation permits greater bargaining power in negotiations for higher remuneration in the form of percentages, overrides, or discounts from airlines, hotels, car rental companies and others represented by the agency network. In addition, such networks or large agencies can control larger blocks of business and can better provide commercial accounts with the level of services they now demand. The idea of franchising a travel trade in the country has been introduced recently. The franchisor with a local brand name is aggressively establishing itself and is seeking acceptance in the marketplace and also within the channel of distribution. Franchising tends to find new entrepreneurs who are willing to invest in the travel trade business in some selected towns. These new entrepreneurs are provided training in travel agency management and operations.

12.0 Strategic Maneuvering

The third Galbraith's strategy is strategic maneuvering in which the organization takes more extensive steps to reduce or eliminate such dependency. Strategic maneuvering can be conducted in several ways, such as:

1. **Merger and Acquisition:** Galbraith's contention is that merger activities often occur as a means of eliminating an organization's dependence on an external element. As with the formation of networks, there has been a similar rapid growth in the development of mega-agencies through mergers and acquisitions. In most of these situations, the acquirers expect to make more from the assets of the target firm than the target firm can make by itself. The assets might be a physical one, like the distribution network or a managerial capacity that the acquiring firm hopes to share with the target firm. For some firms, market power is the main incentive for merger since the central element in a merger strategy is the elimination of one of the competitors in the industry. The pursuit of market power

can be a powerful incentive for mergers, but there are rigorous restrictions on mergers activities imposed by the authorities.

2. **Strategic Alliance:** This is another form where a firm uses to broaden its capability by combining its resources outside the market place in order to accomplish a particular task. In the last couple of years, it seems that the prime force for creating demand for travel is globalization of the market. Travel agencies involved in inbound and outbound travel need to have foreign partners to create and manage travel packages. The practices of forming strategic alliances between local and foreign travel retailers are still far from satisfactory. Managers need to build confidence and trust which can only be cemented over several years of relationship.
3. **Diversification:** Dependence on a given set of environmental elements can be partly reduced or eliminated by moving into other areas. Diversification involves moving into new lines of business, which can either be to a related travel business or to an unrelated travel business. Generally, travel agents have responded to deregulation, in part, by expanding their revenue base to include a greater emphasis on hotel and cruise reservations. A more ambitious travel agency had ventured into the hotel business, as the management felt they have the capability to improve their financial efficiency. Many travel entrepreneurs have also been found to dissolve their travel agencies to venture into other kinds of business.
4. **Domain Selection:** This strategy involves maneuvering the organization into new markets with fewer competitors or restrictions and with ample customers, thus providing sufficient opportunities and few dependencies. There are a number of examples of travel agents moving to select specific domains as their own. The Malay-based travel agency tends to concentrate on religious travel, mainly for Haj and Ummrah travel. However, within this domain, many newcomers are entering the market, which may become saturated in a short time. There are those who specialize in inbound or outbound travel. Many agencies seem to venture into travel markets that are already in existence. Travel agents seem to have difficulties in defining new travel markets. There are many travel markets such as heath travel, overland travel, jungle trekking, and water rafting that still need to be explored and established.

13.0 Implication to Travel Business Education

Discussions on managing the environment and the strategies needed to lead the business through the various elements in the environment may not be easily understood among the SME travel operators. This may be explained by the fact that the majority of travel agency operators seldom take advanced management or professional training related to their business. Many have only attended courses that are prerequisites for operating a travel agency such as to conform to IATA requirements. Many relied on their past experiences to manage the travel business such as experiences as travel guides, or had worked with travel agencies and decided to have their own travel business. Many of them are lacking in technical knowledge needed to assess the economic environments and the influences on their business operation. Browsing around the travel premises among the SME travel

agencies will provide many signs that there exists much room for improvement for the travel operators.

Travel operators usually attend courses or training programs that are related to product development, sales and marketing of tourism services and customer services. These are popular training programs that are aimed at improving sales and services levels operations. Unfortunately, programs that required some analytical knowledge or the applications of quantitative techniques do not seem to be favored among the travel operators. This gap, however, has to be addressed in order to assist the travel operators in understanding the impacts of economic environment and to improve their decision making process.

14.0 Conclusion

Deregulation and liberalization of markets have created an increasingly turbulent and uncertain environment for the travel agent. A number of the major changes and some of their implications were noted. Three categories of strategies for proactive environment management were enumerated and discussed with specific reference to travel agents. Illustrations were provided of each type of strategy to suggest the options available to the travel agents for managing this changing environment. The major issue is how many travel agents, particularly the SME travel operators, which form the larger segment of the travel business understand the environmental issues that affect them.

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