

Reaching the Consumer - the Changing Nature of Travel Distribution

Case Study Briefing

In the travel industry, product distribution is a critical part of the marketing mix. Distribution channels for holidays are changing rapidly. Tour operators traditionally focused on selling holidays through high street travel agents. Now, with the rise of low cost airlines, digital channels and other methods of direct selling, we are seeing the decline of the traditional travel agent.



Two routes to market

In the UK, overseas and domestic holidays are sold to the public through two main **distribution channels**:

- ① **Travel agents** - retail distribution
- ② **Direct** - where the customer deals directly with the tour operator either using the telephone, internet or other channel.

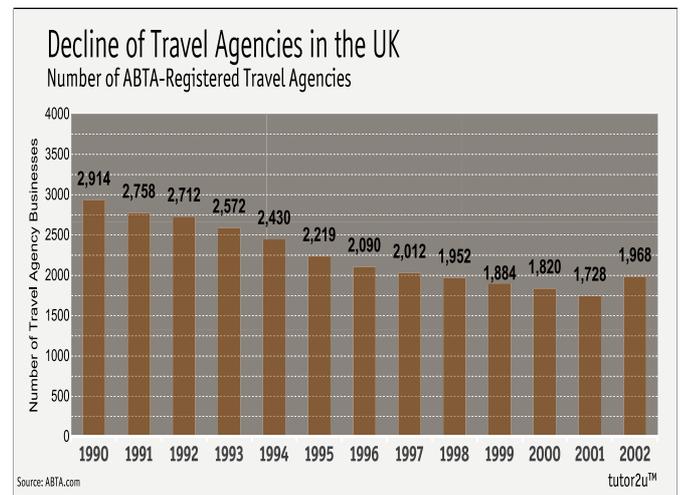
Travel agents have traditionally been the main distribution channel for package holidays.

The **role of a travel agent** is to sell the product put together by a tour operator in return for **commission**, generally a percentage (10-15%) of the holiday booking price.

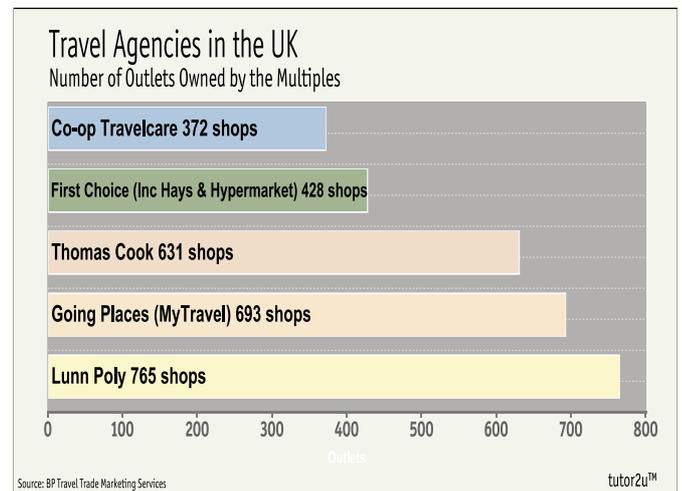
Travel agents can have two main motives for channelling a customer towards a certain product.

- ⌘ Firstly, they are eager to sell a product because they have agreed **favourable commission rates** with the tour operators.
- ⌘ Secondly, they are keen to attract **repeat business**, which they can achieve by steering the customer in the direction of an operator that offers the best value for money and satisfies the needs expressed by the customer.

According to **ABTA** (the **trade association** that regulates the activities of most travel agents), there are approximately 2,000 licensed travel agents in the UK, operating out of about 7,000 outlets. This number has declined over the last 10 years (see chart below).



Another change is that the ownership structure in the travel agency market has become increasingly **concentrated** with a fall in the overall number of ABTA members and with the biggest chains now accounting for around a third of the total number of outlets. The largest travel agency chains are wholly-owned by the main mass market tour operators (see chart below).



All change

Not much more than a decade ago, high-street travel agents had things pretty much their own way. Airfares were expensive, the public loved the convenience of mass market package holidays, and travel agents were the source of the best deals. The **buying process** was simple. Visit a travel agent, browse the brochures and then, with a few keystrokes the agent could unlock information on destinations and prices that an ordinary consumer would find impossible to discover independently. The travel agency service was valued.

Then came **Teletext**, which turned the television in the lounge into a travel agents window - ideally suited to last-minute deals. The mass market tour operators decided that they wanted a piece of the action too. So they set up **call-centres** and encouraged customers to call them direct - often at times when high-street agencies were closed.

The explosion of the Internet, and of low-cost airlines selling direct to the public, meant that agents and operators no longer had a monopoly. Now customers believe, justifiably, that they can "cut out the middleman". The travel agent is under threat.

Brochures less important

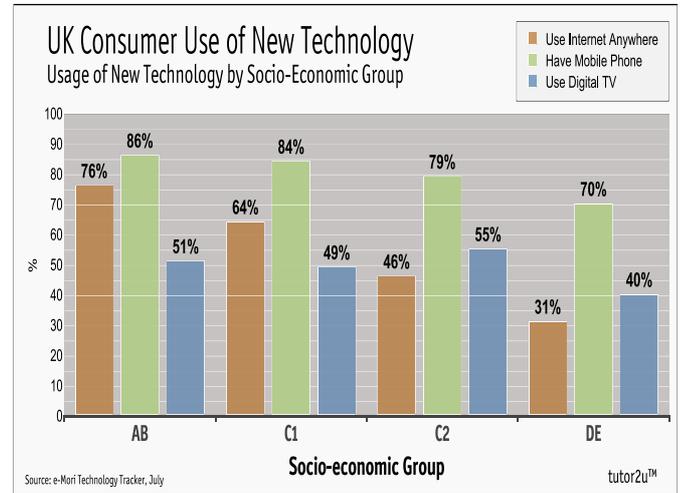
Travel agents have always been the main distribution point for the prime marketing tool of tour operators - the glossy holiday brochure. However, more consumers are now turning to new media channels to browse and learn about what holidays are available.

For example, Teletext in the UK historically accounted for a substantial number of package holiday sales (around 1.5 million passengers) despite the fact that it is able to provide only very limited amounts of information regarding the holidays for sale.

As new technology has been introduced, the quantity and quality of information available for consumers at home has increased dramatically, opening up new channels of distribution, including the internet and digital television.

While the number of Internet and digital TV bookings remains relatively small, the ability to actually book a holiday over the internet or digital television has only been available for a relatively short period. However, prompted by discounted prices, consumers have demonstrated their willingness to book their holiday

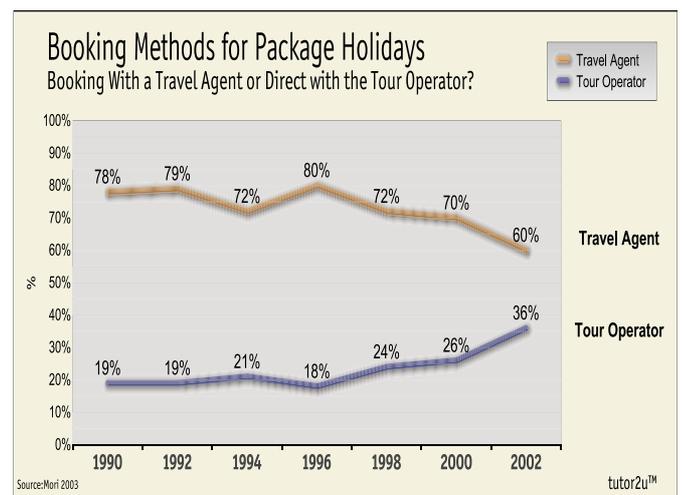
over the telephone rather than physically going into a high street travel agent.



The development of **digital TV channels** such as Travel Deals Direct and TV Travel Shop (which grew to become the 6th largest travel agent in the UK without having any retail outlets), in part reflects this trend.

In turn it has prompted each of the major retail travel agency chains to continue to develop substantial telesales operations in addition to their high street presence.

The following chart illustrates how the number of holidays being sold through the direct channel has grown substantially in recent years so that this channel is estimated to represent over 40% of all air-inclusive package holidays sold in the UK:



Growth of directional selling

Ownership of a travel agency provides an opportunity to encourage customers to buy certain types of holiday.

Not surprisingly, the main tour operators have taken advantage of their retail presence to push sales of their own products. The major tour operators now all engage in what is known as ‘**directional selling**’ whereby their own travel agency networks are encouraged to promote the in-house tour operator products over and above those of the competition. As a result, the majority of package holidays now sold by the vertically integrated groups’ retail networks are sourced from their own in-house tour operations.

Travel agents and specialist tour operators

Many, perhaps most small specialist tour operators do not use travel agents as part of their distribution. So why do the specialist tour operators prefer to use **direct distribution channels**?

In the specialist market, the development of **direct sell techniques, call centre** and **web sites** has meant that, for a number of operators, distribution via travel agents is becoming less important than in the past. Other factors have also played a part in encouraging specialist operators to focus on the direct channel to distribute their products:

- ⌘ **Customer ownership** is of prime importance to the specialist operator and so they would always prefer to make a sale direct rather than through an agent
- ⌘ **Direct contact** presents an opportunity to bespoke the specialist holiday product and sell additional services such as insurance, car hire and excursions in-resort
- ⌘ Additional **complexity of the product** requires a

greater degree of **expert knowledge** in order to close the sale to a customer

- ⌘ Programmes tend to be relatively small – there is less pressure to achieve high volumes of bookings (which retail agents are better placed to deliver)

Another One Bites the Dust

A well-known travel agency has become the latest victim of the difficult competitive environment faced by UK retail travel agents. Alan Bartram Travel has gone into voluntary liquidation blaming competition from the low-cost carriers operating from nearby Luton Airport.

The Luton-based agency, which also had four other local branches failed after its bank withdrew its overdraft facility. The agency had a turnover of £3 million and employed 12 staff. There were 200 forward bookings at the time of the collapse - which are covered by the agency’s ABTA bond.

Managing director Alan Bartram said: “With the events of September 11 2001 and the growth of the Internet, it has been harder and harder for agents. In the end, the bank said it was not going to go any further. It is a sad day for me, the industry and the local community. The ‘mum, dad and two point four children’ family doesn’t exist any longer. They are still going on holiday, but if you live in Luton there are so many low-cost carriers competing for your business.”

“We did sell them, but few of them and at a fee. But why pay me when holidays can be booked at home?”

Jargon Buster

Direct distribution
Where a supplier completes a transaction directly with the end customer rather than via an intermediary such as a retailer, agent or wholesaler

Commission
Payments made to agents for services rendered. Normally paid by the “principal”. Commission levels are falling as agency channels are becoming less important

Call centres
Dedicated telephone sales centres designed to organise transactions directly with customers

Questions of Strategy

- Identify and compare five different ways in which a consumer can now research and book a mass market package holiday
- Assess the ways in which a traditional high street travel agent could add value to its service

Web Watcher

ABTA
<http://www.abta.com/>