

Changes in Strategies at Small and Medium-sized Travel Agencies

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ABSTRACT

The world was startled when Thomas Cook, the biggest travel group and best-known holiday brand, collapsed after decades of running the business. The fall of Thomas Cook is proof of the downward trend happening in the travel industry in recent years. The industry has been seen as a 'sunset' business that declines dramatically and is in danger of closing down. One of the causes is the highly-competitive industry, which is driven by the rapid change in technologies. The evolution of technologies is regarded as the two sides of the same coin. On the one hand, the advancement of technologies is the opportunity of the company to improve profitability, productivity, and effectiveness. However, it can be a threat, especially when the company cannot cope with the rapid change. This issue is evident in the small and medium-sized travel agency. With low capacities and limited resources, the small and medium-sized travel agencies face challenge to adapt to the new change and employ technology. This conceptual paper present narration about the changes in strategies at small and medium-sized travel agencies which are driven by several factors. Despite their limitations, there are still chances that the small and medium-sized travel agencies are able to survive in the industry by changing their strategies in marketing as well as the improvement in their business process.

Keyword—Strategy changes, Small and Medium-sized Travel Agency, Travel Industry

1. INTRODUCTION

The downfall of Thomas Cook has been a significant topic in the travel industry these days. The company has been known as the biggest travel group and popular holiday brand in the world for 178 years [1]. With the great power and long-time reign, it was shocking that such a company can collapse and declare bankruptcy. The fall of Thomas Cook is proof of the downward trend happening in the travel industry in recent years. The industry has been seen as a 'sunset' business that declines dramatically and is in danger of closing down. During the internet age, travel agencies like Thomas Cook that focuses on high-street business become less relevant and necessary for travelers [2]. Hence, with a new setting in the industry, the travel agencies who fail to cope with it will possibly enter a declining stage in their life-cycle.

The company's life-cycle is an issue in most of business management studies. It is the stages that businesses focus on lifetime, starting from they are established, grow, develop, and reach maturity then begin to decline, which in many cases, they die [3]. The knowledge in understanding the company's position on the organizational life cycle can assist top managers in the decision-making process and choose appropriately the types of action needed. Companies often change strategies that usually done in the entire business to improve long-term success as well as to perform profitability [4]. The company's life cycle in the travel business,

particularly, has been influenced by the rapid change of technologies and market demand [5]. This condition forces travel agencies to reassess their strategy, particularly on their technology adaptation, to survive in the highly-competitive environment.

The evolution of technology is regarded as the two sides of the same coin. On the one hand, the advancement of technologies is the opportunity of the company to improve profitability, productivity, and effectiveness [6]. However, it can be a threat, especially when the company cannot keep up with these changes. In the travel industry, the development has significantly influenced the business environment of travel agencies. Many previous studies justify that the revolution of the internet has emerged online travel agencies (OTAs) that lead to the changing paradigm of the travel business [7, 8]. The entire tourism value chain is shifting and brings more independence for both consumers and tourism providers [9]. For consumers, they no longer have to rely on brick and mortar travel agencies for such expertise. With the readily available and detailed information on the internet, the consumer even becomes their own travel agents handling their trips themselves and crafting their own itinerary [8]. For tourism providers, the internet also has cut the commission caps system [10]. With consumers book their needs directly on their web and bypass the travel agencies, the tourism providers can reduce the commissions, maximize the sales, and gain more profit. The OTAs are, then, seeing this condition as an opportunity by providing a self-service and one-stop shopping site for consumers and, ultimately, change the commission system with the tourism providers. By all

means, this condition has threatened the traditional travel agencies who rely heavily on the previous system. The issue is evident at the small and medium-sized travel agencies and, therefore, become a focus in this conceptual paper. The characteristic of small and medium-sized travel agencies that have low capacities faces challenges to adapt to the new change and employ technology [11]. The problems are parallel to the limited information technology (IT) experts and sources of financial capital [12]. But inevitably, they need to redesign their strategies to survive in the industry despite their limitations. With a low bureaucratic level and openness to change [11], the small and medium-sized travel agencies have potentials that enables them to combat those challenges. The change in strategies at small and medium-sized travel presented in this paper applies in the marketing approach including new target market and repositioning as well as the improvement of their business process.

2. LITERATURE REVIEW

2.1. The Role of Travel Agency

Travel agencies is generally seen as a middle-man between tourism suppliers (e.g. hotels and airlines) and customers. Unlike providers in other industries that trade in tangible goods, the core product of travel agencies is in the form of services [10]. Thus, the important asset of travel agencies is their human resources who are expert people in the industry. The skills lie in the ability to arrange and manage tour itinerary as well as provide information and advices. In their daily business process, travel agencies conduct several roles including:

- Creating individual itineraries, preparing special interest packaged tours (e.g. pilgrimage, adventure trips, gourmet tour) and personally assisting group tours (e.g. incentive, convention and business travels)
- Arranging amenities such as transportation (e.g. airline, car rentals, airport transfer), hotel, and restaurants separately or in their tailor-made package tour.
- Managing and advising on the details related to the attraction and activities in the destinations.
- Handling additional services such as document requirements (e.g. visa and health insurance) and foreign currency exchanges.

2.2. Small and Medium-sized Travel Agencies

Small business has been an important topic in business studies. Several authors claim that small businesses are key contributors to the economy of a country [13, 14]. The significant contributions of small business are seen through its ability to foster development dimensions by stimulating jobs and start-up creation, producing export revenue, and encouraging community involvement [15, 16]. However,

despite its vital role in economic growth, small businesses face challenges to survive and sustain themselves in the industry due to their limitations. In tourism, small and medium-sized travel agencies often have limited resources in terms of human and financial capital [12]. This condition makes them financially vulnerable companies that are difficult to develop the business and implement new technology [14].

On the other hand, many studies assert that small and medium-sized travel agencies still have the potentials to combat those challenges. The nature of companies which have low bureaucratic level enables them to encourage innovation by getting rid of organizational barriers [11]. Furthermore, forced by economic scarcity, they have motivation and goals to generate more income from their own endeavors [17]. Thus, the small and medium-sized travel agencies still have chances to improve their capabilities and sustain themselves as the economic backbone to the country.

2.3. Driving Factor for Changes

1. The Market of the Industry

The rise of the internet is changing the way tourists in searching for information. User-generated content (UGC) on the online platform has created the field for electronic word-of-mouth (eWOM). eWOM is defined as an online interpersonal influence generated from review and/or conversation online [18]. For the tourism sector, eWOM mainly plays an essential role in impacting consumers in their travel decision-making process [19]. It is because tourism product is seen as intangible products that are hard to evaluate [20] and a high-involvement product that requires a significant amount of time, energy and thought in the purchasing process. Furthermore, eWOM is also considered as a more trusted and reliable source of information instead of from the providers that can potentially induce tourists to change their decision [21]. In this regard, tourism providers endeavor to establish a good reputation on both their own website as well as online review platform. Hence, the role of travel agencies as a travel information provider is gradually interfered with this circumstance.

Besides information search, the increasing behavior of the consumer in purchasing products or services online also has influenced most of the business entities, and the travel industry is no exception. With the rise of the internet, many studies denote there is a growing trend in recent years that tourists book their needs online for traveling. Younger people are reported as the dominant source of tourist segment who actively uses the internet and less likely to require travel agents in fulfilling their travel needs, while older people (i.e., more than 59 years old) still need the assistance of a travel agency [22]. However, several studies also investigate the level of purchasing online in a wide market. Consumers tend not to purchase through the internet,

especially when buying the complex product rather than standard goods [23, 24]. Furthermore, online buyers also prefer to purchase low-involvement than the high-involvement product on the internet [24]. So, despite the growing number of online purchasing, the travel agencies can still capture the specific tourist segments, especially those who are seeking for the complex and high-involvement product [25]. The role of the travel agent is seen as an expert who is ready to tackle all the hassle in managing complex travel needs and itineraries for a particular segment of tourists.

2. The Landscape of the Industry

The advancement of technology, particularly the internet, has recast a complicated distribution and communication channels in the industry that once dominated by the traditional travel agency. Many studies postulate that the dynamic and competitive environment in the internet era will shut down the conventional travel agencies who primarily position themselves as intermediaries and sources of information. On the other hand, this 'disintermediation' trend is essentially favorable for both consumers and suppliers to avoid travel agents and the additional cost generated from the value chain [26]. McFarlane [27] confirms that online travel sales currently ranks the highest of the retail e-commerce category. Tourism providers such as hotels, airlines, and car companies are more encouraging consumers to book directly on their website, which ultimately puts pressure on traditional travel agencies. On the consumer side, the disintermediation epoch also benefits them in easier information search, faster response, and often lower price for their travel needs, compared to the traditional travel agencies [28]. By all means, the traditional travel agencies would consequently disappear from the market as they were defeated by the existing system.

However, other authors argue that the disintermediation era will not completely get rid of the travel agencies if only they reposition themselves between the suppliers and consumers, which is often described as 'reintermediation' phase [29, 30]. Online travel agencies (OTAs) capture this condition as a huge opportunity to change the landscape of the business environment and ultimately monopolize the industry. They emerge themselves as a new category of travel intermediaries by operating entirely online stepping in as a broker between the suppliers and consumers that, consequently, change the commission system itself. Indeed, this radical transformation impedes the traditional travel agencies who rely heavily on the previous system. But, some authors convince that traditional travel agencies have a unique competitive advantage over online intermediaries that enables them to sustain themselves in the industry. One of the potentials is traditional travel agencies are the expert in specific areas whose expertise fits into the niche markets [31]. Despite the different views, many authors agree that the players in the industry should improve their capabilities by embracing to the new technology and implementing it in their daily business activities to survive amid the major transformation of the industry.

3. DISCUSSION

3.1 Changes in Marketing Strategies

The change in consumer behavior and market demand in the industry forces small and medium-sized travel agencies to redesign their marketing strategies. Several qualitative and quantitative studies emphasize the need for travel agencies to increase knowledge about customers, including their attitudes, motivations, behavior, and quality [32-34]. Understanding the consumer is imperative as it allows the travel agencies to acquire a real and existing trend of tourists' demand and to forecast future behavior [35]. Furthermore, it is essential for creating new tourism products and services, as it presents a more comprehensive view of what tourists are searching for, and the manager can consider them in the development process [36].

One important aspect of marketing strategies is the segmenting process. Kotler and Keller [35] define a market segment as "a group of customers who share a similar set of needs and wants" (pp. 214). Among many segmentation criteria, demographic and psychological bases are the most commonly used variable in grouping the consumers. In travel research, several studies investigate the different socio-demographic and psychological aspect of the market segment that needs to be considered by travel agencies. Young person, educated, and a frequent traveler show a less likelihood of booking or purchasing via a travel agency. Meanwhile, people over 65 years old, with a lower academic level and intend to take a more complex trip, needs the assistance of travel agency in arranging their travel needs [22, 37, 38].

Furthermore, others investigate the purpose of visit and benefit sought in using travel agencies between different groups. Aguiar-Quintana, Moreno-Gil [39], in their study between corporate and holiday segment, find that corporate clients with their risk-averse characteristic seek professional service and assistance in the travel agency, while holiday clients consider the price and location as an important value in purchasing travel needs via agencies. The segmentation results can be a basis for targeting the most promising market segment that also suits best to the current situation in the industry. Thus, the possible target market for small and medium-sized travel agencies is senior people for the holiday market. Alternatively, if the travel agencies want to target the younger generation, the corporate market segment is likely to be the promising one.

Besides segmenting and targeting, the small and medium-sized travel agencies also need to rethink their positioning strategies in the industry. The company's position in the market refers to the established image or identity of the company so that consumers perceive it in a certain way [35]. A travel agency using a positioning strategy attempts to differentiate itself in the consumer's mind as a company providing unique products that cannot be found elsewhere in the other agencies [40]. Essentially, it is vital as travel agencies also need to target a niche market that has specific

needs and wants and expects more value in the product offering. Moreover, in the highly-competitive environment, setting a distinctive position can be a strategic way to win the competition among other travel agencies in the industry [41]. Some of the examples of this positioning strategy include the specific tour package for a niche market such as *halal*/Muslim-friendly tour for the Muslim market, gourmet tour for *foodies*, or unique corporate outing for the business market. The challenge is maintaining the product specialization so that, in the long term, it can establish the company's position as an expert in a particular field.

3.2 Changes in Business Process

The transformation in the landscape of the industry has also influenced small and medium-sized travel agencies to change their business processes and adapt to the new setting. With the rise of the internet, the business process in travel agencies needs to be conducted electronically. E-business is defined as a procedure in conducting business through the internet and technological equipment. It assists in how the data are managed, retrieved, and commercially used for companies' purposes [42]. It also cuts administrative costs and increases the accuracy and quality of information for decision making by upgrading company activities with (a) a faster information search and cheaper business transaction and (b) integrated business practice [11]. Furthermore, it also becomes one of the main communication channels to find new customers and to approach and maintain relationships with them [43]. Ultimately, e-business can help to achieve the company's business goals [44].

In implementing e-business, three essential aspects need to be considered by the travel agencies [11]. (1) Technological – includes readiness in technical infrastructure and proficient human resources in information technology. (2) Organizational – related to the bureaucratic level that may hinder the adaptation of the e-business process. (3) Environmental – internet penetration in the market served and competitor in the industry that has conducted the e-business process. The readiness in those three aspects influences the success in adapting and conducting e-business in the company's daily activities.

The e-business process is fundamentally the practice of managing and implementing a process through technological tools and the internet. Maharjanti [45] explains that there are several practices in daily business activities that can be conducted with e-business. These practices include: (1) Business information systems – consists of production operations, marketing, accounting, human resource management and finance, (2) Supply chain management – a management concept for integrating all of the supplier system of resources needed in the production process, (3) Customer relationship management – a cross-functional systems by incorporating and automating customer service processes in marketing, sales, and services, (4) Enterprise collaboration – consist employee attendance systems, scheduling meeting activities, making routine reports, and sending information in the company's internal, (5) Enterprise resource planning – organizational resources planning and

management to produce added value for all interested parties in the company, (6) Transaction processing system – routine business transactions, such as reservations, banking transactions, and ticket sales. If small and medium-sized travel agencies want to increase profitability as well as improve productivity and effectiveness, these daily business practices need to be upgraded through the application of technology and integrating each practice with one another.

4. CONCLUSION

The travel industry has evolved through the advancement of information and communication technology. This involvement changes the market in the industry in terms of the behavioral shift in searching for information and purchasing travel needs. Moreover, it also transforms the landscape of the industry into a more effective distribution and communication channel. The development raises both opportunities and threats for the players in the industry. OTAs see this condition as an opportunity to develop their business and ultimately have the power to monopolize the industry. For small and medium-sized travel agencies with minimum capabilities, these changes put them in a vulnerable state instead. If they do not change the strategy, undoubtedly they will not survive in this highly-competitive industry.

Changes in strategies at small and medium-sized travel agencies apply in the marketing approach, including targeting a specific market, particular positioning as well as transformation in the business process. In the marketing strategy, the small and medium-sized travel agencies should not cater to all consumer segments. Instead, they need to target a niche market that still demands assistance and services from travel agencies, for instance, senior travelers or corporate segments. For positioning strategy, they need to establish a unique identity in the industry as an expert in a particular travel product and sustain it in the long run. Not only in marketing, but they also have to improve the business process, from managing suppliers to serving consumers by embracing the new technology. The implementation of technology in their business process also needs to be supported by the readiness in technological, organizational, and environmental aspects in the company. In sum, changing strategies at a small and medium-sized travel agency is one way to help them survive in this industry.

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