



# UNIT-2

## Tourism Products and Services

### Learning Outcomes

**By the end of this unit the learner will be able to:**

- ✓ Identify the Components of Tourism Product
- ✓ Recognize the Product Life Cycle in Tourism

## Unit 2

### Tourism Products and Services

Marketing plays a significant role in any industry and particularly in a service industry such as travel and tourism. Modern organisations cannot operate without the use of promotion or market research as a key method of communicating with customers. Many organisations allocate large budgets to marketing in order to maintain a competitive edge and meet the needs of their customers.

This unit explains the marketing mix and the components of the tourism product. It discusses the concept of the destination, the image and the price. It then describes the product life cycle and its possible application to tourism. It goes on to examine product feasibility covering marketing, operational and financial criteria. It then describes the transportation component of tourism covering air, sea and waterways, rail and roads. Various development concepts are then discussed including staging pointed areas, the cluster concept and resort complexes.

Also included are the concepts of people seeking other people and the street itself as a part of the tourism product. The various facilities and services are then summarized and the unit concludes with some project feasibility checklists; one from the government viewpoint and the other from the private sector viewpoint.

### The Marketing Mix

The marketing mix, illustrated in Figure 2.1, includes the following components:

- The product includes both the tangible and intangible components.
- The price range.
- The promotion includes all marketing, promotional and sales activities with the exception of the image. This is such a decisive factor in tourism that it is listed separately.
- The image therefore is separate from the product and promotion although influenced by them. It is the way people see the product, what it suggests and means to them.

Distribution (the sales network - where the product can be purchased) includes all channels and sales coverage. It embraces the ease of purchase, particularly concerning the overall sales and distribution network, and includes coverage in terms of tour operators and sales and retail outlets.

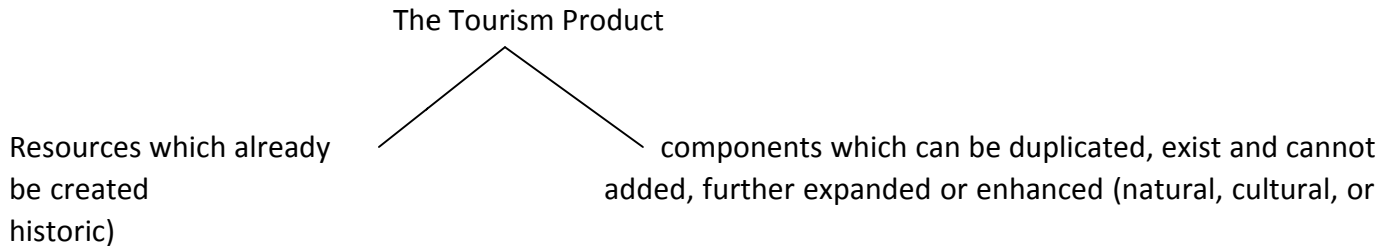
Distribution therefore covers travel trade relationships (tour operators, wholesalers, retailers). These relationships are flexible and vary according to particular markets.



Fig: 2.1 The marketing mix

## Components of the Tourism Product

The tourism product at the destination comprises all those attractions, facilities, and services used or visited during a stay. It also comprises everything that happens to visitors; everything they experience.



Natural resources, such as beautiful lakes or mountains, cannot be duplicated, and climatic conditions cannot be changed. A destination either has an agreeable climate and bountiful natural resources or it does not.

Similarly, authentic cultural and historical features cannot be duplicated; for example, in France the 'Mona Lisa' by Leonard0 Da Vinci, the Palace of Versailles, Notre Dame, and Balzac's House like many other cultural and historical attractions they already exist. They are part of the heritage which France is able to offer. They cannot be duplicated or replaced as such. Similarly, it would be impossible to duplicate monuments such as the Taj Mahal in India, Angkor Wat in Cambodia or Borobodur in Indonesia. Tourism infrastructure and superstructure, of course, can be created.

**Infrastructure** includes the road network, airports, the supply of water, electricity, drainage and sewerage systems, etc. It provides the base for the superstructure

**Superstructure** includes hotels, accommodation units, restaurants and the whole range of tourist installations and services. A destination with natural and cultural attractions and an agreeable climate then needs both infrastructure and superstructure. There has to be access to get there. New hotels need power and water. Roads have to be built and harbours expanded. Sites have to be opened up. Drainage, waste disposal systems and other services need to be provided. Various tourism facilities and services have to be developed. A beautiful lake needs access. A road has to be built to it, and its use (even for sightseeing) requires careful planning. Cultural heritage alone is not enough. A collection of paintings and sculpture needs a museum to house and display it. The Louvre without the Mona Lisa would not be the same, but arguably neither would the Mona Lisa without the Louvre.

The tourism product consists of both tangible and intangible components. The natural, cultural and historical resources, infrastructure and superstructure are tangible. They can be evaluated, measured and subjected to specific standards of provision. The intangible aspects cannot. They come together to form the atmosphere of a place and its feeling of welcome and friendliness. The intangible elements can be said to give the tourist product its life, colour and excitement.

All of the tangible aspects, however good, cannot guarantee satisfaction. The way tourists are treated and how they feel, influence decisively their overall reaction to a place. Each successive event or situation which the tourist experiences should be in harmony, it should contribute to an overall feeling of well being and enjoyment. This tourism harmony will determine how well the total product is accepted.

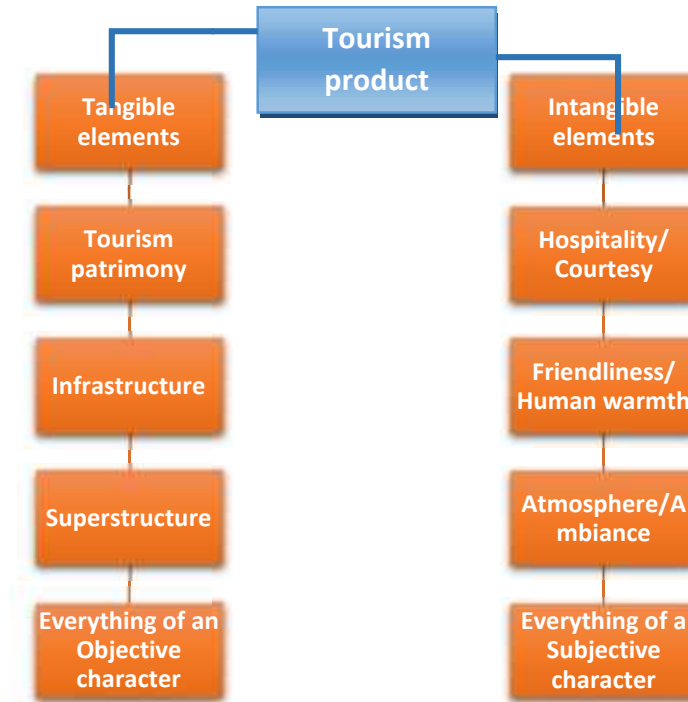


Fig: 2.2 Tourism Products

Transportation to get to a destination is sometimes defined as a part of the product. Sometimes it is not. Whatever the case, it must be treated as a major part of tourism.

## Destinations

The concept of the destination needs to be treated with caution. It is not necessarily the country, or even the town or area, which is the destination or object of the holiday.

The destination may be an integrated, well-appointed resort, offering a complete experience or it may be a secondary resort. A town, area, or island may also act as the destination rather than the country. People appear to visit Varadero rather than Cuba. People, without doubt, visit Bali and not Indonesia. People also think of Phuket, rather than Thailand, as their destination, or Ibiza rather than Spain.

Similarly, the theme of a holiday (its special interest), may also be more important than the place or country. Cross-country skiing as a purpose, for example, may replace the destination in importance. It may be incidental that it happens to be Norway where it is particularly good or challenging. The same may apply to diving in the Bahamas, or a safari in Kenya.

The outstanding quality and fame of a golf course may be much more important than the country or area where it is located. For tennis fans the destination may be the Wimbledon championships and not a holiday in London or Britain. In analysing the tourism product, the interrelationships of destinations and motivations should be clearly interpreted.

## Image

The image of a destination is the way in which it projects itself, and the way in which it is viewed by its markets. **As** noted above, some particular places or activities tend to forge a separate image from the countries where they are located. In other cases, however, it is the image of the country itself which is predominant.

Image is an overall idea; the associations which a place has; its identity; what people think about it. If the image is positive, people may visit; if it **is** negative they stay away. The image builds up over the years; it is a product of history, of cultural influences, and also of myth and legend. It is also influenced by political viewpoints, by current affairs and international relationships.

The image of a place changes, of course, from market to market. The image of France in Japan is different from France in Italy. It may not be less positive but it will differ. For example, Ireland appears to have a positive image in the United States on which it is easy to build. South Africa, during its apartheid period, had a very negative image. **As** a result it was boycotted by many people. The political events there have now changed its image radically.

The image of a destination is also influenced by who else goes there and what they say about it. Leading personalities may speak well of a place. If well-known transnational companies set up operations in a country, this too exercises considerable influence. If major tour operators feature it as a part of their programmes, this too contributes to a positive image.

Generally it takes a long time to build up the image. To try and change it in a major way in the short term is difficult. Image-building promotion, using advertising, is expensive and not always effective. However it is obviously easier to strengthen an already positive image than to try and correct a negative one.

Image is best built, reinforced and strengthened as a continuing process. **A** destination should be present at all major international shows and exhibitions, and the media should be encouraged to talk and write about it. Writers, film makers, commentators, journalists, and opinion-makers of all kinds should be encouraged to take an interest in the place. Promotion and publicity should emphasize a destination's most striking features and associations. For example, Western Samoa has all the romantic pull of Polynesia while it was also the last refuge of Robert Louis Stevenson.

Because of its importance in tourism, image has been listed as a separate component in the marketing mix. Price, another component, is closely interrelated. It has to reflect and support the image but not to undermine it.

The following resumes some of the key points:

- The image may change from market to market.
- It **is** built up over time, as the result of a constant flow of messages
- It always needs to be strengthened and maintained.
- It is influenced by certain major associations and ideas.

- It should be kept at the forefront - people have to keep writing and Price should be in keeping with the image.
- Once people visit a place they will form their own impressions. They will take an image away with them. What they say and the personal recommendations which they make exercise a major influence.

### Price

Price is a part of the marketing mix. This gives it, quite rightly, a marketing focus. The price should be attractive and competitive, but in keeping with the image. It is the image which suggests a particular price/value relationship.

The end price of visiting somewhere is the total cost of the trip. It will cover the cost of travel, room and board, together with the optional purchases and extras at the destination. How much people pay, or commit themselves to pay before leaving, are the major determinants. People judge this payment in their own currency according to their normal system of values. The GTA can monitor and compare local visitor costs through a visitor price index.

The foreign exchange rate has a more direct impact at the destination. It establishes how much visitors get for their spending money. This determines their local purchasing power. If they can buy and do a lot of things, this is more likely to attract them back for a return visit.

Destinations tend to fall into price categories and this makes price a part of the image. Although prices will depend on the category of accommodation chosen, the overall price range offered will differ from destination to destination. Price levels can also convey the idea of relative exclusivity.

Any tour operator's catalogue will reveal the more expensive destinations as opposed to the cheaper ones. It is easy to see how each destination is positioning itself in relation to the others. In price setting there are many cost considerations. In general, for example, the more distant a destination the higher the air transport cost as a proportion of total costs.

Published prices are the most important in marketing. People ask - how much will it cost. Does this seem right? - Does it support the idea of the place - its image? Is it worth it? Is it good value? Is it competitive? Price, above all, positions a destination in the market. Price may support the image but it can also undermine it.

### The Product Life Cycle

Over the years studies have shown that many products go through a life cycle. This work sprung from Levitt's original product life cycle concept (Levitt, 1965). The product is introduced, it grows, it matures, levels out and then declines. At the point of decline the product requires action to resuscitate it and further extend its life.

Many products rise and fall with current fashion. A product can lose its appeal. Restaurants are notoriously vulnerable to changing trends and tastes. All design is subject to changing values - in art, clothes, architecture, interiors, and furniture. One has the cyclical rhythms of nature itself, the seasons of life, the fading away and the constant renewal. This gives the cyclical effect a certain philosophical appeal. To endure, things may need a new face and a new form. The old is rejuvenated. It makes a full turn and returns to where it started.

As a consequence there are fashion revivals, the out-of-date returns to become the in-thing. Old hotels are renovated and exceed all their former glories. Forgotten authors are published again. Old makes of cars are declared classics and are rescued from the rubbish dumps. It is often held that this same life cycle concept applies to tourist destinations.

Tourist destinations are usually in a constant process of change as they grow, develop and adjust to the market. Even when their carrying capacity is reached, they are still subject to a range of improvement, rehabilitation and redevelopment schemes. The tourism product, in this sense, is always an unfinished product. It is always responding and adjusting to planning and marketing imperatives and opportunities.'

### **Product Feasibility**

Moving from the consideration of tourism as a whole to the consideration of a hotel or restaurant project; means changing from a macro to a micro viewpoint. Despite the change in scale many of the principles remain the same. One looks at the relationship between the demand for facilities and one conceives and operates projects based on the relationships between these three dimensions - market/product/costs. For a new project this will be expressed through the following steps:

- Market feasibility study
  - Product definition (location, facilities, services, image, price)
- Marketing forecasts and sales strategies
  - Design brief - Plans drawings
  - Furniture/equipment schedules
  - Budgets.
  - Forecasts and projections
  - Operating profits
  - Cash flow
  - Debt/Service coverage
  - Returns
- Product development - Operational plan (What and How?)
- Investment appraisal - Capital budgets

For the operation of an existing business, the same relationship is expressed through:

- Marketing Plan
  - Targets and forecasts
  - Marketing mix
  - Product and image
  - Promotional and distribution strategies
  - Sales and prices
  - Organization and staffing
  - Operational budgets.
  - Operating profits
  - Capital expenditures
  - Cash flow
  - Returns
- Operational plan
- Financial plan

The rate of return on the investment should be measured using the discounted cash flow method. This means discounting over the project's assessed life, the net future cash flows to equal the original capital cost. The discount rate used to produce this result is taken as the project's financial rate of return.

Feasibility studies on new projects, or the operational analysis of an existing enterprise, follow the same steps. Feasibility studies may not always provide the correct answers. There may be differences between the actual results achieved, and those forecast. Once a project is executed results may prove to be: a big happy surprise - far exceeding the projections.

- encouraging - a little ahead of those expected
- as expected - approximate to the forecast disappointing - short of those expected
- the unhappy surprise - far short of the expected.

If the actual results are either well over or well under the conclusions of the feasibility study, one or all of the following took place:

- apparently unforeseen circumstances and conditions developed
- the study overlooked some major factors or made serious errors in a poor assessment of the risks.

This may mean that the study was badly designed and executed. Or that it was executed merely to support conclusions and recommendations already formulated.

**A** study may be carried out too quickly and superficially, Consultants are sometimes willing to use industry-wide averages and cut and paste sections from similar studies elsewhere. Each project needs its own detailed study which should: make realistic assumptions about demand, the markets to be served

and the needs to be met. Sales forecasts must be based on a complete analysis to include realistic estimates of visitor flows, occupancies, and length of stay, seasonal differences and average price. It should include an operational plan with detailed staffing and cost estimates and should detail an accurate and realistic capital budget. It should provide details of the proposed financing and loan conditions, debt/ service ratios, etc. If a project is to be supported by the government, then the economic and social benefits should be established. Feasibility checklists, from government and private sector viewpoints, are included at the end of this unit.

### Transportation



Fig: 2.3

A broader definition of the tourism product would include transportation. People travel by air, road, rail or sea - and possibly by river or other waterway. The right access to a country or region is obviously essential. The number and location of airports, seaports and the development of road and other transportation networks are critical. Tourism uses many combinations of travel such as fly cruise and fly/drive. People may also arrive and leave through different points.

Transportation opens **up** tourism opportunities and permits the linking of more places and experiences, often producing a longer length of stay. Air transportation depends on airports and aeroplanes. Airports are an essential part of infrastructure. The superstructure comprises the airlines together with the full range of supporting services and facilities. The term 'flag carrier' illustrates the importance which many governments give to nationally owned airlines. They are viewed as symbols of prestige, pride and national identity. They are also used in the conduct of foreign policy and are linked to the idea of national security and independence. Worldwide there are presently some 190 government-owned airlines.

Yachting, both bareboat and charter, has also grown. New ferry services have been introduced, particularly with the addition of hydrofoils and hovercraft, for example, the hydrofoil types of vessel are now in service between Tanzania and Zanzibar, and Singapore and Batam Island. Meanwhile in Europe the channel tunnel has provided competition for the corresponding ferry services. Cruise ships may also make more stops at out-of-the way areas and islands. These places can obtain some benefit from this tourism through offering local tours, folkloric shows and the purchase of handicrafts. Railways continue in many parts of the world as a popular form of transport. With product development, upgraded service,

and imaginative promotion, various tourism train rides have been marketed successfully. For example special trains in India, Malaysia/Thailand and Europe have all been successful. This success is likely to be copied in other countries and regions.

## Roads



Fig: 2.4

Tourism needs an adequate road network, providing sufficient access to destinations and attractions. Urban planning in developed countries has followed the USA in catering to the private car as a major form of transport. It is not surprising therefore that the car is used extensively for tourism.

The car gives people control over when to leave and where to stop, how fast to go, what route to choose and how long to take. It gives a sense of freedom and independence, there is space for luggage, and journey costs may be lower than other forms of transport. People can also use the car, once at their destination. The popularity of the personal car, plus the use of long distance buses and overland tours organized by travel companies, makes the development of the road network critical.

Road development, particularly new motorway construction, conflicts increasingly with environmental conservation objectives. There is evidence that new roads only ease congestion and speed up transit for a short time. Their development merely encourages greater use of the car and more journeys are made. No advantage is achieved, but the environmental costs are high. This conflict between motor transport and the environment is a continuing development issue.

## Development Concepts

### Staging Points / Areas

It has always been important to identify staging points in market feasibility studies for new hotels. These are the likely points or areas where people will choose to stage their journeys - stopping for one night or more. With tourism growth the concept of staging has developed. People will choose a staging point as an important part of the overall travel experience.

For example, European travellers to Australia, or Australians to Europe, may stop en route in Bali, Singapore or Bangkok for **up** to five nights or more. Or travelling the other way round they may stop in

Los Angeles or Mexico City, or Hawaii or Fiji. Staging criteria are important in any multi destination holiday. Tours stop where there are places to see and visit and things to do.

### **The Cluster Concept**

Obviously a destination with high tourism potential is certain to bring together, within a cohesive geo-spatial framework, an ample range and variety of complementary tourism assets. The precise range of facilities, services and attractions within easy access of one another, will depend on the place. There is a core product and a peripheral or optional product.

The core product includes the right kinds of accommodation, restaurant and recreational facilities together with tourist attractions. The peripheral product builds onto this, adding the possibilities of other tourist attractions in the form of various scenic, historic, leisure, amusement, entertainment, shopping, recreational sites and installations. **An** ideal destination represents a cluster of all these components.

### **Resort Complexes**

Tourism enclaves consist of well-planned integrated resort complexes. They keep the tourists in one area, concentrate the infrastructural requirements, and enable a large number of hotels and accommodation units to be constructed quickly in a controlled and coordinated manner. They can also balance this development with the right mix of supporting and complementary facilities and services. This type of resort complex requires the availability of sufficient areas of land. Land must be acquired at reasonable prices, since these are relatively low density developments.

From a marketing standpoint such resorts often represent a superior product, offering a well spaced, properly ordered and attractively landscaped environment.

Governments may set up a development corporation to take the lead role in planning and managing this type of project. Government may already own the land, or will acquire it, at desirable sites for development. The corporation takes over the land, develops a master plan, borrows the money to create the necessary infrastructure, and stimulates local and foreign investors to undertake the secondary development.

Integrated resorts of this kind are attractive and marketable. Being contained in one area, they avoid the potential disruption caused by more dispersed forms of tourism. Examples of resort complexes of this kind are Cancun in Mexico, Playa Dorada, Puerto Plata in the Dominican Republic, Nusa Dua in Bali, and the Langkawi development in Malaysia.

### **People Seek People**

Man is a social animal. People want to mix, meet each other, look at each other, and find opportunities for social interchange. During a holiday experience people want, at certain times, peace and quiet and

the conditions for rest and relaxation. They want the tranquillity of pleasant and attractive surroundings where they are left alone undisturbed.

At other times they seek other people, the hustle and bustle, and the colour and vitality of busy streets. They want the opportunity to look at and meet other people, to socialize and to form friendships and relationships.

It is essential to provide, in tourism planning, the gathering points to meet this need. Many coastal resorts in the Mediterranean originated as fishing villages. The centre of the old village with perhaps buildings, a square, restaurants and bars and an esplanade clustered around a harbour, now form the heart of the resort. Everybody gravitates here each evening at sunset. People walk, talk, have a drink and enjoy the crowd and the ambience.

Linear coastal developments often lack this type of focal point. One has a strip of hotels often continuing over a considerable distance, maybe ten to fifteen kilometres or more. Centres of activity may spring up along the strip, but sometimes this does not happen. This means that there is no cohesion in the overall product and people tend to become restricted to the confines of one hotel. People seek people. New resorts need gathering points to fulfil this important purpose.

### **Facilities and Services**

A wide variety of facilities and services contribute to the overall product: hotels and accommodation facilities, camping, restaurants and catering services, resorts, theme parks, casinos, information services, local tours and excursions, cultural attractions, shopping, entertainment, sports and recreational facilities.

In tourism, accommodation and food and drink are part of the core product - normally any visitor has to make use of the various facilities available. The use of other components is optional and depends on a visitor's needs and preferences.

To maximize the earnings from tourism, therefore, the visitor has to be persuaded to see and do and buy as much as possible. This requires up-to-date and readily accessible information on everything available, together with well-organized merchandising and promotion.

### **From The Government Viewpoint**

The Tourism feasibility checklist from the government point of view includes the followings;

#### **Policy and Strategy**

- Clear development strategies.
- Reflection of the stated tourism policies.
- Definition of the market.
- Number of tourists the project will attract.

- Kinds of tourists.
- Seasonality of demand.

#### **Development Needs**

- New infrastructure needed - waste and sewage disposal, water, power, roads and access.
- Provision and financing of these needs.
- Integration of the project with local transportation development.

#### **Environmental Impact**

- Environmental impact of the project.
- Preparation of an environmental impact statement.
- Adherence to all physical planning regulations.
- Review of architectural, design and engineering concepts.
- Contribution of the project to overall environmental quality.

#### **Economic Impact**

- Measurement of the project's economic impact.
- Method used and results obtained.
- Benefits to the local community.
- Contribution to the economy.
- Employment created.

#### **Social Impact**

- Consultation with the local community.
- Form of consultations.
- Explanations of the project.
- Feedback and reactions.
- Degree of local support.

#### **Ownership and Management**

- Ownership of the project - local/foreign/mixed.
- Management of the project.
- Type of enterprise - transnational, nationwide, other.
- Previous experience and track record.
- Use of local labour.
- Direct jobs created.
- Established marketing links.
- Sales projections.
- Financial feasibility.

## From The Private Sector Viewpoint

The Tourism feasibility checklist from the private sector point of view;

### Market Definition

- Analysis of demand. Levels of demand. Identification of the market - marketing objectives. Market characteristics.
- Tourist **flows**.
- Seasonality and the distribution of demand.
- Preferences and needs.

### Product Definition

- Overall description of the product concept.
- Local authority support.
- Planning permission.
- Reactions of local community.
- Criteria in the development of each aspect:

### Location

- Ease of access.
- Catchment area.
- Characteristics of site and surroundings. Relationship to other services, facilities and attractions.
- Infrastructural needs and environmental criteria.
- Facilities - Range of facilities.
- Capacity.
- Design concepts - style and layout of buildings.
- Operational needs.
- Staffing and organization.

### Service

- Definition of levels of service.
- Coverage and hours of opening.
- Staffing and organization.

### Marketing Mix

- Definition of the product (as above).
- Promotional strategies.
- The image and appeal of the project.
- Market positioning and pricing strategy.
- Distribution/sales network.

### Project Justification

- Revenue assumptions.
- Visitors/customers.
- Average expenditures.
- Operating costs by sales outlet.
- Projected operating results.
- Capital budget - construction, furniture, fittings, equipment, other costs.
- Financing costs. Return on investment.

## The Travel & Tourism System

### Organizers and Retailers

In the **1980s** the European Commission recognized a need to regulate the travel trade. In **1990** it adopted a directive on 'Package Travel, Package Holidays and Package Tours'. Member states were required to introduce legislation, implementing the directive, by the end of **1992**. Accordingly the British regulations came into force in December **1992**. Their provisions are discussed later in this unit. In the EU directive, the terms tour operator and travel agent are not used since they tend to have a different meaning from country to country. Instead, the terms organizer and retailer are used. Organizer means the person who, otherwise than occasionally, organizes packages and sells or offers them for sale, whether directly or through a retailer.

Retailer means the person who sells or offers for sale the package put together by the organizer. It is obviously sensible to frame regulations using precise and unambiguous terms. However, in the travel trade itself the terms tour operator and travel agent continue in common use. In the travel trade, roles and relationships are flexible constantly adapting to changes in the market and new realities and opportunities. On one side there is a greater concentration of power in the hands of fewer large tour operators. On another side, as tourism diversifies, there are a greater number of agencies dealing with the more specialized types of tourism. Vertical integration is also increasingly common with the same Companies controlling tour operators, retail agencies, airlines and hotels.

### What Does the Travel Trade Consist of?

The travel trade consists of those enterprises which produce (package) travel, and/or sell travel and/or arrange travel, or arrange meetings, conventions and exhibitions including the related travel. The key verbs which describe the travel trade are: producing or packaging; organizing or arranging; selling; and booking and ticketing. Tour operators, involved principally with leisure tourism, produce packages. They may sell these directly to consumers, or they sell them through wholesalers and retailers. The travel trade can be broken down and described as follows:

**Tour Operators**

- Inclusive tour operators (mainstream markets) - outbound.
- Inclusive tour operators (special interest markets) - outbound.
- Inclusive tour operators - principally inbound.
- Inclusive tour operators - principally domestic but some inbound.

**Wholesalers**

- Enterprises which engage in on-selling an existing package or product to travel retailers.

**Retailers**

- Retail enterprises selling existing packages, travel tickets and other services (eg. hotels, rental cars), to the public.

**Travel Management Services**

- Enterprises specializing in arranging travel for the business sector.

**MICE Organizers**

- Enterprises which specialize in arranging, meetings, incentive travel, conventions, conferences and exhibitions – hence the term MICE.
- Transportation Companies (railways, bus companies, shipping companies and airlines).
- Transportation companies may act, either directly or through subsidiary companies, as inclusive tour operators.

**Clubs, Societies, and Associations**

This category covers any other organization which acts in the same capacity as a tour operator, for example there are a number of sporting, religious and other special interest groups involved in tourism in a continuing and organized way. Acting for their members, they organize and sell various packages. Wholesalers and retailers make money principally from commissions based on what they sell. This comprises the main proportion of their revenue. Travel management services serving the business sector are also mainly rewarded through commissions on sales. However, depending on the range of services offered some customers may pay them fees.

MICE organizers may also be remunerated through a combination of commissions and fees. Transportation companies obviously make money by selling tickets, either directly or through third parties. Many also control subsidiary companies acting as tour operators. Clubs, societies, associations and other organizations which act as tour operators may be either profit or non-profit making. Any profits from travel are mostly used to support the organization's other activities. Tourism and travel have grown more diversified, and the mix of enterprises selling travel has changed accordingly. Mainstream markets are controlled by fewer large tour operators, while a growing number of smaller ones concentrate on special interest and alternative tourism.

The growth of information technology and internet services may lead to new ways of selling leisure and travel services. The following notes describe the characteristics of each of these principal types of enterprise.

**Tour Operators**

Tour operators can often come to play the dominant role in most elements of a destination’s marketing mix. This is particularly true in the case of comparatively small tourism sectors with limited marketing expertise and budgets. Tour operators may greatly influence prices, the image of the destination, the promotion and the sales network. They may also influence the product by suggesting ways to improve. Inclusive tour operators make money not only from their packages, but also by selling complementary services on commission, e.g. travel insurance, local excursions and tours.

**Wholesalers**

Wholesalers respond to a demand for the on selling of packages to retailers. For example, a wholesaler in the States may on-sell a ‘tour of the Shakespeare country’ on behalf of a UK inbound operator. Or this same wholesaler may also sell the ‘overland Jakarta\Bali tour’ for an Indonesian inbound operator.

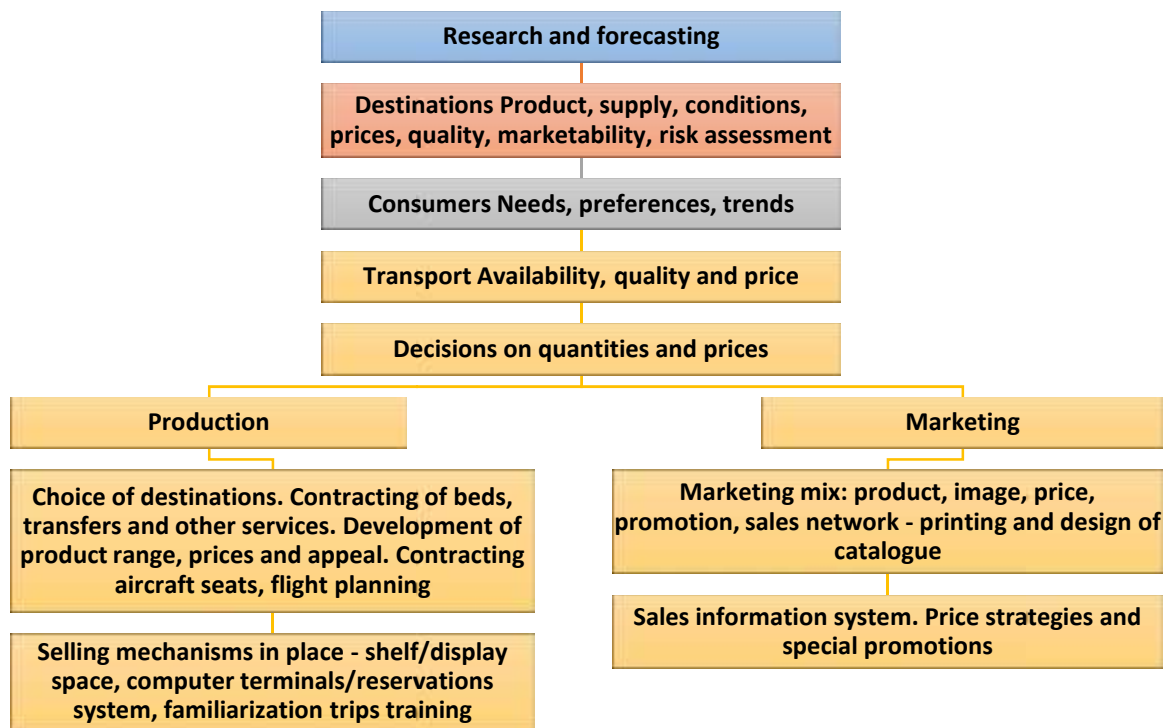


Fig: 2.5 - How tour operators work

**Retailers**

The success of a travel retail business depends on three key considerations:

### Location and physical facilities

- The location and ease of access.
- Visibility, signing and shop window.
- Interior design and layout.
- Eye appeal and merchandising impact.
- Brochure and catalogue availability and display.

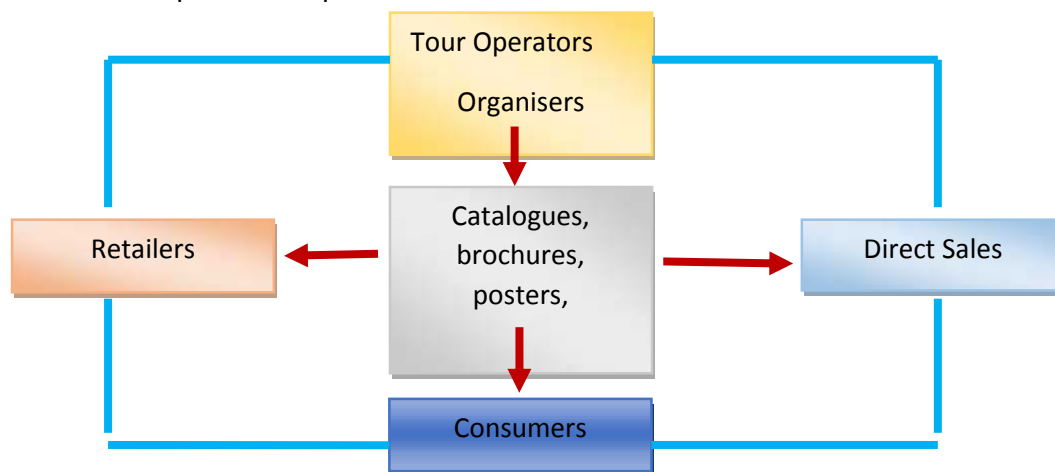
### Information systems and the processing of tickets and bookings

- On-line reservations and information systems.
- Rapid access to, and confirmation of, best prices.
- Technology-assisted speed of service.

### Personal service

- Human element.
- Knowledge and understanding of destinations and tour operators.
- Courtesy and attentiveness.
- Travel counselling and selling skills.

Retailers may sell a variety of travel and tourism services including bus, rail, shipping and theatre tickets. For most agents, however, the major part of revenues comes from airline and inclusive tour bookings and tickets. The International Air Transportation Association (IATA) licenses retailers to issue tickets on behalf of its member airlines. This entails an investigation of all aspects of the business, and IATA checks thoroughly that its various conditions and requirements can be met. Figure 3.2 illustrates the relationship between retailers and tour operators. Tour operators have increasingly acquired their own chains of retail agencies. Although these may sell a range of packages, they naturally favour and push the packages of the tour operator in question.



**Fig: 2.6** - Tour operators and retailers

Many of the traditional independently operated retail agents may, just as many high street butchers and greengrocers, find themselves obsolete. This is a continuing trend.

A destination should know how many packages of various types have been sold by a tour operator over a certain period of time. Often the destination may have no effective way of finding this out for itself. It therefore depends on the tour operator for the information. Tour operators, however, like to keep information to themselves. They realize that this may give them a future negotiating advantage. Tour operators may also be reluctant to share information on their network of retailers, or to say which retailers sell most packages and where, a destination should know this. It should know how its product is being sold and how well it is selling.

## Travel Management Services

Specialized travel services for business travellers often include the development, for many companies, of an in-house travel administration system. Such a system covers the formulation of travel policies and travel planning procedures, and the arrangements for all trips including health requirements, hotel and car rental bookings, the control of expense reports, reimbursements, and the reconciliation of related accounts. These travel services have responded to a clear need. Many companies suffer from loose rules governing travel, often permitting staff to make their own arrangements (usually through their personal secretaries), with confusion over accountability and the correct budget. Well-organized corporate travel services have made the administration of travel more efficient and less costly.

### MICE Organizers

Companies specializing in the MICE market can create a package to meet the particular needs of each customer. They bring all the diverse facilities and services together, and they do this in competition with other destinations. This means that they package hotel accommodation, meals, the use and organization of the convention centre, the convention registration and administration, an entertainment and recreational programme, a formal programme of dinners and receptions, possibly a civic reception given by the city or local government, sightseeing, and a programme for spouses or those not attending the convention sessions. International competitive bidding is often employed. Different destinations bid for conventions and exhibitions including all the related needs specified.

Incentive groups are holidays organized by a company, usually for its highest performing distributors or sales people, for example, Ford Motor Company or Nikon cameras for their top agencies.

## Transportation Companies



Fig: 2.7

Many transportation companies have formed tour operating subsidiaries. This enables them to take control of more of their marketing and to be less dependent on outside interests. They may still do business with other tour operators, either alone or sometimes sharing space with their own tour operator.

## Price Integrity



Fig: 2.8

Because of aggressive pricing policies, the passengers on a single scheduled airline flight may have paid a wide range of prices for the same flight in the same class. There may be as many as ten different price levels, and the lowest price in club class may be less than the highest price in economy class. Similarly, the guests in a hotel may have paid different prices for the same accommodation. The objective of pricing policies is to obtain the maximum revenue possible while selling all available space. This usually means using a varied marketing **mix**. The product is the same but pricing, promotion and sales approaches may differ. And they may differ according to the time of year, the market segment, the particular country and so on.

Hotels and airlines have published tariffs which list the highest prices. But the market willing to pay the highest prices may only use up a proportion of available space, the rest is filled up by discounted

business. The sales strategies will be influenced by the volume purchased and the continuity of the demand. Somebody buying half an aeroplane for a whole year will get a better price than the operator who wants only 10 per cent of the plane for three months. However, the first operator may decide to buy 60 instead of 50 per cent of the plane, and then on sell the additional 10 per cent to the second operator at a better price than directly obtainable from the airline. In doing this, he or she acts as wholesaler. If a hotel, for example, exploits the concept of marginal costing and elasticity of demand, it prices to achieve the highest possible occupancy, to leave nothing unsold. However, in doing this it will drive down its average room rate and the average room rate achieved has a direct effect on quality and image levels as well as profitability. For this reason hotel, airlines and other providers of space are concerned to preserve the idea of price integrity. Also if the price is too low the product is cheapened. It may no longer appear to give value for money. Discounted prices can damage the image.

Customers resent paying more than the next person for the same thing. However, people appear willing to accept that previously contracted group prices may be lower. They also seem willing to accept the low package holiday prices paid at the last minute. However, they tend to resent different prices charged for the same services at the same time, under what seem to be the same conditions and circumstances. People lose confidence when price integrity is betrayed. It devalues the service in their minds, damages its image, and causes annoyance.

Users expect a certain consistency in pricing levels. Sometimes, it is wiser to maintain the product's price so as to protect the higher paying end of the market. When the marketing mix is too variable and tries to meet all tastes and all prices, the overall image and price may eventually find the lowest level.

## Secrecy



Fig: 2.9

All competitive business tends to be secretive. However, the travel trade's variable pricing tends to make it rather more secretive than many other types of business. The wide variety of contractual interrelationships which grow up in tourism, between tour operators, airlines, hotels, local operators, car rental companies and so on, contribute to this secretive environment.

Prices may be constantly modified as new deals are negotiated or renegotiated. The travel trade around the world may make thousands of price changes every day. The covertness of the travel trade makes it difficult to find out how it is operating, who is doing what, where most influence is being exerted, and

what likely outcomes may result. This is all a part of insider knowledge. It comes from a wide network of relationships and sources of information, which may take years to build up. This can also place GTAs at a disadvantage. They may lack the staffing and organizational continuity to acquire such knowledge. Similarly, an inexperienced private sector may also lack similar inside knowledge and understanding.

## Risks and Responsibilities



Fig: 2.9

If tour operators contract seats from an airline, they may take on an obligation to pay for the seats whether they are sold or not. The precise terms of the contract will determine how much they pay and when, what cancellation rights they have, what penalties for non-performance will apply, and what guarantees will be necessary. Generally charter flights enable tour operators to achieve lower seat costs, mainly because they can achieve higher load factors and lower overheads than with scheduled services. An inclusive tour operator may buy 50 seats on an aeroplane as a component of an inclusive tour programme. He buys them for \$200.00 a seat and there is no cancellation clause, i.e. no possibility of returning the seats to the airline unsold; whether the operator uses the seats or not, they have to be paid for. The operator, therefore, may price the package based on 70 per cent seat utilization. This still enables a marketable price and a profit while minimizing the risk. It also means that anything sold over the 70 per cent will produce a higher return, and the remaining seats can be sold, up to the last minute, at heavily discounted prices.

Tour operators may use a variety of last minute deals to generate additional revenue from the remaining seats. As already noted, they can exploit both the concept of marginal costing and the price elasticity of demand. At the same time, they may be careful to maintain the idea of price integrity and value for money for their mainstream market - the people who have already bought holidays. Contracts with hotels follow the same principles. The more risk a tour operator assumes backed by appropriate guarantees, the lower the hotel price. In turn, the hotel must make sure that the contracted rooms are kept available. A tour operator may decide to act in partnership with a local inbound operator. The local operator will then provide all the services at the destination, including both the hotel space and the ground transportation. This spreads the risk and the returns will be lower. The tour operator's principal sales tool is the catalogue. This may include only the programmes for a specific region or country, or it may feature similar style holidays in different parts of the world. The product range responds to the operator's markets and normally tries to include packages at various prices for differing tastes. If

operators are promoting a particular package of some kind, then they may produce a separate brochure for it. During a certain time European operators tended to use surcharges, supposedly applied because of unforeseen cost increases in package components or wild swings in exchange rates, to produce the profit margin. This practice was open to abuse and the consumer protection measures, discussed later in this chapter, established controls.

Despite this change a substantial proportion of tour operating profits still come from the various extras: regional supplements, room supplements, cancellation charges, investment of deposits and balances, travel insurance and local tours and excursions. The need to contract services and set prices far in advance, usually 18 to 24 months, introduces risk in the event of unforeseen fluctuations in costs. Operators have to use the devices of skilled money management to counteract such risks. Payments are often made by consumers well in advance of holidays. Operators can usually enjoy healthy cash flows, and are able to use large cash balances advantageously.

### Choosing Foreign Tour Operators



Fig: 2.10

It is generally not for a government (except under the old centrally planned and controlled communist economies), to choose tour operators. It is sometimes mistakenly assumed, however, that governments can select tourism markets by exercising control over which tour operators can or cannot sell the destination. This would tend to upset free market conditions. Selective controls would also impose impossible restrictions on the hotels and inbound operators. Normally they would like to be free to sell their product and the destination according to their own judgement. However, should people be free to sell a country's tourism product through whatever channel and at whatever price they choose?

The people producing Mercedes automobiles or Rolex wrist watches would not let just anybody sell them. They would develop quite stringent criteria and appoint dealers accordingly. In many ways a tourist destination is like any other product. Whoever sells it should not undermine the marketing mix. Some control has to be exercised over the quality of all aspects of the product, including the quality of the companies which take on the responsibility for selling it, also the quality of the ways in which they choose to sell it.

Tourism is not like marketing commodities such as oil, coffee, tea, copper, tin, tobacco or even vanilla pods. These are raw products yet to be processed and marketed as a finished product under a recognizable brand name. The package of cigarettes, the jar of instant coffee, the petrol for the car, may not even identify a country of origin. But a tourist destination is already a product before it is packaged and marketed in a foreign market place. The way in which it is sold can undermine how it is viewed, and seriously damage its sales. A GTA (government tourism administration), working in close collaboration with the hotel and travel trade, normally tries to establish some working guidelines to ensure that the destination's marketing mix is maintained within agreed limits.

## Information Technology and The Travel Trade



Fig: 2.11

The development of information technology has had a profound effect on the travel trade. It has:

- Put up-to-the-minute information on travel and tourism on the TV screen at home, or through other home-accessed information systems.
- Given criteria about the enquirer's needs and preferences, it may enable a quick comparison of a wide range of alternatives.
- allowed access to a complete description of the destination together with all relevant details.
- enabled the instant confirmation of availability and booking.
- provided automated ticketing.

Information technology has changed the skills needed by travel trade personnel. Planning routes and itineraries, verifying schedules, looking up tariffs and writing out tickets were among the important skills of front line staff. These tasks are now becoming computer driven. Staff can concentrate on the quality of customer service and sales and travel counselling.

## Consumer Protection

The history of the inclusive tour abounds with stories about holiday experiences which fell far short of the promises made. Half-finished hotels, uneatable food, filthy bed linen, five kilometre treks to the beach, and polluted swimming conditions; everybody has a travel horror story.

The evidence suggests that since the introduction of package holidays back in the last century, most consumers have been more than satisfied. But sometimes because of poor quality control and entrepreneurial error and business failure, serious problems have occurred.

In tourism many people buy a product which they have never seen firsthand. They buy it on trust based on a sales blurb, some photographs and a salesperson's reassurances. Even when it turns out as expected, perhaps the operator goes bankrupt and leaves them stranded at the destination. Obviously the nature of tour operation requires that consumers are protected. The 1990 EU directive on 'Package Travel, Package Holidays and Package Tours' was mentioned at the beginning of this chapter (it was incorporated into British legislation in December, 1992). It sets out the regulation of inclusive tours and serves as a good example of this type of legislation. The directive stipulates that brochures and advertising must not have any misleading information.

They must contain clear, complete and correct information about:

- the destination and periods of stay involved
- the transport used
- the class of accommodation and its characteristics (listing the category of accommodation according to any official system of classification)
- the meals provided
- the itinerary
- the passport and visa requirements
- any requirement as to the minimum number of participants and if and when there is a cut-off date
- arrangements in case of delays
- guarantees for advanced payments made and for repatriation in the event of insolvency

The directive also describes the precise requirements about each of the above. In what circumstances and how they apply, what must be made part of the contract, and when information must be provided?

The contract must contain not only the points listed above, but also:

- the dates, times and points of departure and return
- any visits or excursions, or other features, included in the price
- the names and addresses of the organizer and, where applicable, the retailer.
- the any taxes or additional charges not included in the package price.

- The price may be revised before departure but only under certain conditions.
- Any revisions will relate to transport costs including fuel costs, increases in taxes, dues or fees for services such as landing and departure taxes, and the foreign exchange rates governing package costs. No increase at all is permitted after 30 days before departure, and an increase of up to two percent must be absorbed by the operator .
- The payment schedule and method of payment.
- any special needs requested by the consumer, and agreed when the booking was made.
- the period within which any consumer complaint for non-performance must be made.

The directive gives people the right, under certain circumstances, to transfer their bookings to another person. It also deals with alterations to the conditions, and any resulting cancellation by the consumer. It covers other situations when a significant proportion of the services are not provided. And it goes on to deal with all aspects of liability on the part of the organizer. The regulations also require organizers to provide evidence that any needed refund of advanced payments and repatriation of holiday makers are assured. Such arrangements may be made through bonding (as in the UK), insurance, or funds in trust. In the UK, for the purposes of the regulations, the Civil Aviation (Air Travel Organizers Licensing) regulations are judged to meet this requirement satisfactorily. In any proceedings connected with an organizer's non-compliance, defendants may show that they took all reasonable steps. Consumers may have to show that it was unreasonable to rely on the information provided to them. In the UK other legislation, such as the Fair Trading Act 1973, the Restrictive Practices Act 1961, and the Trade Descriptions Act 1968, provides for various complementary consumer protections.

The European directive is one example of the regulation of travel and related consumer protection. Other countries have adopted similar regulations covering broadly the same issues. Bonding, requiring that tour operators create the means to repatriate or refund clients in the event of business failure; is a measure increasingly adopted on a worldwide scale.

### **Checklist - Working With the Travel Trade**

The following brief checklist covers the main points for a GTA (government tourism administration) when dealing with the travel trade - especially with foreign tour operators handling inbound traffic. The trade and professional associations provide the essential channel for close consultation and collaboration. The issues included in this checklist are discussion points. They can help to raise and consider various actions and questions strategy and possibly regulation.

### **Regulatory Framework**

A framework which ensures that:

- the consumer is adequately protected against travel trade malpractice and/or financial failures.
- The travel trade is assisted through regulation to achieve certain minimum operational standards and, through its trade associations, to police itself more effectively.

## Strategy Checklist

(This checklist shows how a GTA might monitor questions of destination marketing through tour operators. As result a GTA may coordinate, working with the sector, the development of a number of guidelines). Is the marketing mix of the tour operators, selling incoming inclusive tours, and compatible with the marketing mix of the destination? In particular:

- What is the difference (distinctiveness) and positioning of the destination, in relation to the other destinations offered in the operator's catalogue?
- What image of the destination does the operator project in the catalogue and other printed material? Does this reflect the desired appeal?
- What is the positioning of the price value relationship in comparison to the other destinations offered? Does it appear to make sense?
- What is the promotional impact of the tour operator's material? Is it suitable in terms of layout, copy, graphics, quality etc?
- How much material and how many catalogues are distributed? How and where? What is the coverage in terms of retailers and geographical areas? What promotional programmes support retail sales?
- Are operators selling one or more destinations within the region?
- Do they favour one destination more than others?
- Do they sell any multi destination packages within the region?
- Do they offer two and three day 'add-ons' within the region?
- How does all this affect the destination?
- How many other tour operators from the country of origin are selling this particular region? Which destinations do they favour the most? What are the relative shares of the market? Because of this which destinations represent the main competitors?
- What are the comparative advantages or disadvantages of each tour operator?
- A better or worse product, product range and image, price/ value relationship, promotional material and appeal, and sales and marketing coverage?
- Are there any tour operators active in the region that do not sell the destination? Why? Are all the tour operators satisfactory in the way they do business?
- Terms of contracts, payment schedules, guarantees, advance payments, honouring cancellation clauses and commitments, local representation? Do tour operators appear committed to the destination?
- Do they provide helpful feedback?
- Do they do market research, demand forecasting, trends analysis etc?
- Are they willing to share information?

- Are programmes sufficiently focused or are they messy - with too many hotels, and too many variations in the packages offered?
- What transportation is used and what are the contractual relationships made?
- With which airlines - how many incoming seats are controlled by each operator? What are the options for obtaining additional seats?
- Are reliable carriers being used?
- Are national carriers used or not? If not why not?
- What more can you do as a destination to encourage the tour operators to sell more? Are any national tourist offices located in the major markets performing their role effectively, e.g. providing up-to-date market information, monitoring market performance and the promotional activities of competing destinations, and providing marketing support?

### Further Reading:

- ✓ *J. Alf Bennett, Johan Wilhelm Strydom, (2001), Introduction to Travel and Tourism Marketing*
- ✓ *Leonard J Lickorish, Carson L Jenkins, (1997), Introduction to Tourism*
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