



# UNIT-8

## The Travel & Tourism System

### Learning Outcomes

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

- ✓ Understand activities performed by organizers and retailers in travel & tourism
- ✓ Explore activities performed by travel management services
- ✓ Discuss how the advancement of IT has effected tourism industry.

## Unit 8

### The Travel & Tourism System

#### Organisers and Retailers

The European Commission in the 1980s realised that there was a need to regulate the travel trade. The directive on 'Package Travel, Package Tours and Package Holidays' was approved in the 1990s. Member states were obligated to initiate the process of writing and passing laws, executing the directive by the end of 1992. Appropriately, the British rulings became effective in December 1992. Provisions of these rulings are covered in this unit at a later stage. The EU Directive does not use the terms 'tour operator' and 'travel agent' as the two are prone to having several different meanings in different countries. The terms 'organizer' and 'retailer' are employed instead.

The organiser is the person/persons who usually organize the packages and make them available for sale - either directly or through a retailer. The retailer is the party that sells or makes available the packages assembled by the organiser.

It is only natural to structure regulations using specific and explicit terminology. Regardless, in the industry itself, the words 'tour operator' and 'travel agent' are used commonly. In the travel business, tasks and associations are flexible, always adapting to alterations in the market and realism and prospects. On one hand, there exists a great concentration of influence at the disposal of a few large tour operators. On the other hand, with the diversity in tourism comes an increasing number of agencies working with more specialized kinds of tourism. Vertical integration is becoming more common, with the same establishments domineering tour operators, airlines, retail agencies and hotels.

#### What Does the Travel Trade Consist of?

The travel business is made up of enterprises which fabricate (package) travel, and/or sell travel and/or arrange travel, or arrange conventions, meetings and exhibitions together with the associated travel. The main verbs describing the travel business are: packaging or producing; organising or arranging; selling; booking and ticketing. Tour operators, associated mainly with leisure tourism, put together packages. They can sell these straight to the consumers, or they sell them through wholesalers and retailers. The travel enterprise can be divided and explained as follows:

#### Tour Operators

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

## Wholesalers

- Establishments that deal in selling-on existing packages or products to travel retailers.

## Retailers

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

## Travel Management Services

- Establishments specialising in organising travel for the business sector.

## MICE Organizers

- Establishments that specialise in organising meetings, incentive travel, conventions/conferences and exhibitions - hence the term MICE.
- Transport Companies (rail, bus companies, shipping and airline companies).
- Transport companies can either act directly or through a subsidiary company, as inclusive tour operators.

## Clubs, Societies and Associations

This group deals with any remaining organization that acts in the same capacity as a tour operator. For instance, there are many sporting, religious and other special interest groups caught up in tourism in a progressive and systematic way. They arrange and sell different packages on to and for their members. Wholesalers and retailers make money mostly through commissions on sales. This makes up the major part of their revenue. Travel management services aiding the business community also earn their income through commissions. However, this depends on the number and extent of services provided and some consumers may be required to pay additional fees.

MICE organisers can be compensated through a mixture of commission and fees. Transport companies earn income by selling tickets, directly or through third parties. Many also run subsidiary establishments, acting as tour operators. Societies, associations, clubs and other organisations that behave as tour operators can be profit or non-profit in nature. The profits from travel are for the most part employed to support the organization's other activities. Tourism and travel have branched out more, and the mixture of enterprises selling travel has altered in accordance. Conventional markets are controlled by a smaller number of large tour operators, whereas, more and more of the smaller ones focus on special interest and alternative tourism.

Fast-growing information technology and internet services can generate new methods of selling holiday and travel services. The notes below explain the characteristics of each of the main types of enterprises.

## Tour Operators

Tour operators often play the leading role in most factors of the destination’s marketing mix. This is especially true in situations involving comparatively small tourism sectors with nominal marketing expertise and budgets. Tour operators can have significant effect on prices, the image of the destination, promotion and the sales network. They can additionally affect the product by making suggestions on how to improve it. Inclusive tour operators don’t just make money from the packages, but also, by selling complementary services for commission; e.g. travel insurance, local excursions and guided tours.

## Wholesalers

Wholesalers react to the requirement for the on-selling of packages to retailers. For instance, a wholesaler in the U.S may on-sell a ‘tour of the Shakespeare country’ instead of the UK inbound operator. Alternatively, the same wholesaler can also sell the ‘Overland Jakarta/Bali tour’ on behalf of Indonesian inbound operators.

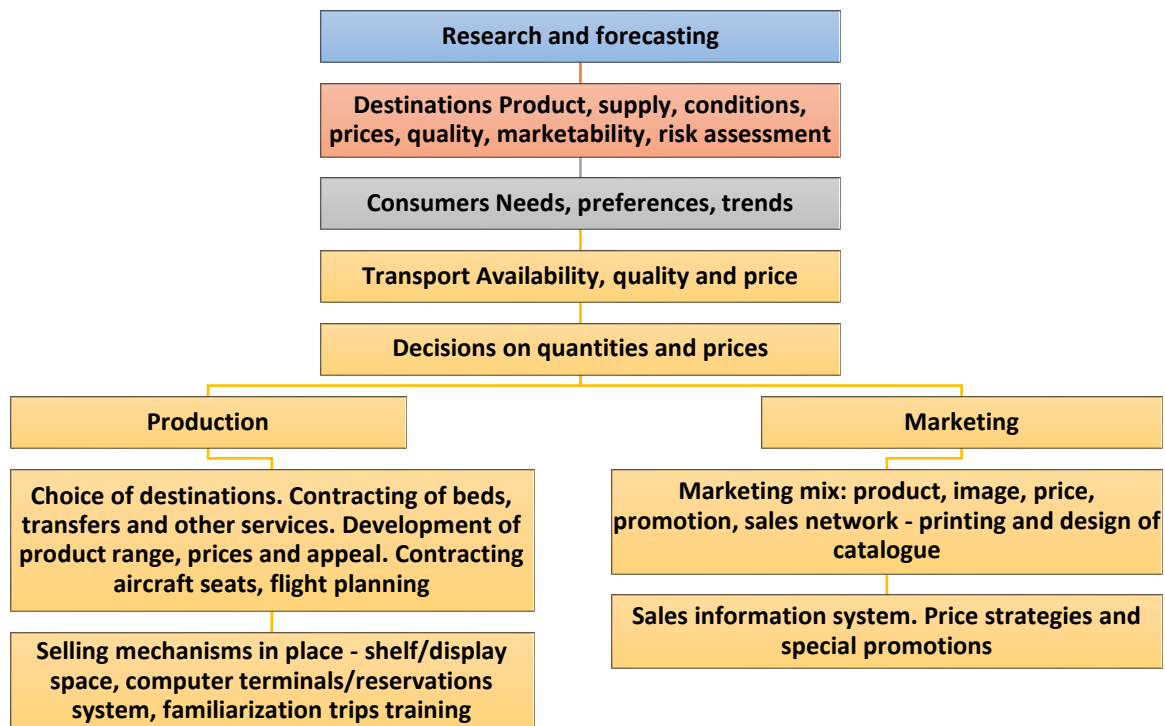


Figure 3.1 Workings of tour operators

## Retailers

The successes of travel retail businesses are determined by three main concerns:

### *The Location and Physical Facilities*

- The venue and convenience of access
- Image, visibility and shop window
- Layout and interior design
- Merchandising impact
- Availability of catalogues, display and brochures

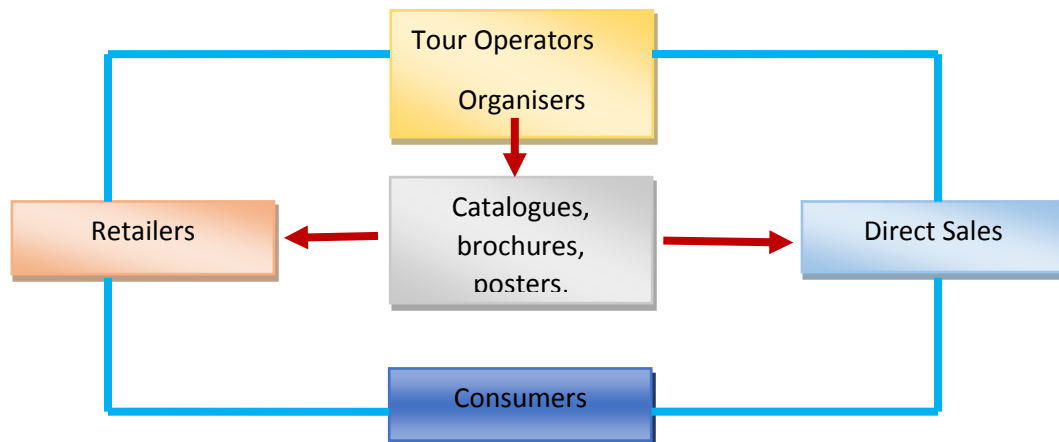
### *Information Systems and the processing of tickets and bookings*

- Online bookings and information systems
- Quick availability to and substantiation of best prices
- IT-based, fast-paced service

### *Personal Service*

- The human factor
- Expertise and Awareness of destinations and tour operators
- Courtesy and attention
- Selling expertise and travel guidance

Retailers can sell an array of travel and tourism facilities such as rail, bus, shipping and theatre tickets. For the majority of the agents however, the major portion of their proceeds is acquired from the combination of airline and tour bookings and tickets. The International Air Transportation Association (IATA) gives licenses to retailers and then they can issue tickets on behalf of member airlines. Before licensing, an investigation into all aspects of the establishment has to be conducted - IATA investigates thoroughly and assures that all its requirements and conditions are fulfilled. Figure 3.2 shows the relationship between retailers and tour operators. Greater numbers of tour operators have obtained their own franchises. While they can sell a wide range of packages, they will obviously promote the packages of the tour operators who they primarily represent.



**Figure 3.2** Tour Operators and Retailers

A growing number of long-established independent retail agents, just like many high street butchers or green grocers, are becoming outdated. This is an ongoing shift.

The destination has to be aware of the number of packages of different types that have been sold through the tour operator over a given period of time. Often, the destination may not have any efficient way of producing this information itself. Thus, it relies on tour operators for that information. The tour operators on the other hand prefer not to divulge this information, as it may provide them with an opportunity for future negotiating benefits. Additionally, tour operators are not usually forthcoming with information on their network of retailers, or quick to name the retailers selling the most packages and to where. A destination has to have this knowledge. It needs to know how well its product is selling and the way in which it is selling.

### Travel Management Services

Specialised travel services develop in-house travel management systems for the business travellers of many companies. This type of a system includes the formation of travel policies and planning procedures. The preparation of such trips includes health needs, renting of cars and hotel bookings, expense report control, reimbursements and settlement of associated accounts. Such services have been provided in response to a definite need. Numerous companies have to impose relaxed rules governing travel, frequently allowing staff to make their own arrangements (most commonly through personal secretaries), without clear accountability and knowledge of acceptable budgets. Well-structured corporate travel services have made management of travel more professional, while also lowering its costs.

### MICE Organizers

Companies that focus on MICE Markets can put together packages to fulfil the needs of each customer. They are able to collect all the varying facilities in one place and at the same time are competing with other destinations. Hence, they package accommodation, use and organization of convention centre, meals, registration and administration of the convention, recreational programmes with entertainment, formal dinners and receptions (possibly a civic reception by a city or local government), sightseeing and an agenda for spouses not taking part in the convention sessions.

International competitive tenders are frequently used. The varying destinations submit bids for conventions and exhibitions inclusive of all the associated requirements mentioned. Motivation groups are vacations put together by a company, normally for its top-performing distributors or sales personnel. Like Ford Motor Company or Nikon cameras for their best-performing agencies.

### Transportation Companies

Countless transport establishments have created their own tour operating subsidiaries. This allows them to take greater control over their marketing and be less reliant on outside interests. They can continue to conduct business with outside tour operators, either independently or on occasion sharing space with their own tour operator.



Fig. 3.3

### Price Integrity



Fig. 3.4

Due to hard-hitting pricing policies, the travellers aboard the same flight may have ended up paying a wide range of prices for the same seat category on the same flight. There can be as many as ten possible varying price levels and the minimum price in club class may end up being less expensive than the highest price in economy class. Likewise, the residents in a hotel can end up paying different prices for the same lodgings. The goal of pricing policies is to acquire the highest profits possible while selling all the space available. This in turn means having to use a varied marketing mix. The product does not change, though pricing, endorsements and sales methodology might all be different. Furthermore, they can vary in accordance with the time of the year, the marketing segment and the given country etc.

Airlines and hotels distribute price lists which catalogue the maximum costs. However, the market sector willing to pay this listed price is made up of only a small portion of the available facilities; the remaining has to be filled up with marked-down prices. The sales tactics will be affected by the quantity purchased

and the permanence of demand. The party purchasing half the accommodation on an aeroplane for a full year will of course get a better deal than the party purchasing only 10% of the space for three months. If the initial operator decides to purchase sixty percent instead of the fifty percent of the plane, after which ten percent is sold by the operator to a *second* operator at a higher price than can be acquired from the airline directly, this means they are acting as a wholesaler. If a hotel chooses to make use of the idea of marginal costing and demand elasticity, its pricing technique will be focused to achieve the greatest occupancy possible and to leave nothing unsold.

However, doing this will bring down the average rate of the room and the average rate reached has a direct impact on things like perceived quality and image, along with profitability. Hence, airlines, hotels, and other providers of space have to ensure preservation of the concept of price integrity. In addition, if the price is lowered too much, the product may be viewed as lower-quality. It may not deliver value for money anymore - discounting often damages image.

Consumers hate having to pay more than someone else for an identical purchase. But customers are willing to tolerate that the previously contracted group costs might be less. They additionally appear to be willing to accept low package holiday costs when booked/paid at the last minute. But they nonetheless feel bitter about the varying costs charged for the same facilities, at the same time and under similar terms and circumstances. Customers lose faith when price integrity is deceptive. It brings down the value of the service in their minds, destroys image and irritates them.

Consumers expect a degree of stability in pricing. At times, it is a better idea to keep a product's price fixed in order to safeguard the top-paying end of the market. When the marketing mix becomes too varied and attempts are made to meet all costs and tastes, the total image and cost can both fall to a much lower level.

## Secrecy



Fig. 3.5

All competing businesses are by nature secretive. However, the travel business's varied costing policies tend to make it considerably more guarded than most other kinds of commerce. The large numbers of contractual interrelationships, which develop in tourism among tour operators, hotels, airlines, car rental companies, local operators and so on, add to the environment of secrecy.

Prices are continuously adjusted as new deals are bargained and renegotiated. Around the globe, the travel business may make thousands of cost adjustments on a daily basis. The secrecy of the trade makes it harder to find out how it is functioning, who is responsible for what, where maximum influence is being exercised and what possible outcomes may occur. All of this ends up being a key portion of insider knowledge. It is born out of a broad network of relationships and sources of information which take a long time to fabricate. 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 operator may lack similar inside knowledge and understanding.

### The Risks and Responsibilities



Fig. 3.6

When tour operators agree to buy seats from an airline, they become obligated to pay for them - even if they are not sold. The exact details of the agreement will specify how much is payable and when, what kinds of cancelling rights there are, the penalties for not performing that will be implemented, and the kinds of guarantees needed. Usually, charter flights provide tour operators with lower seat prices, due to the fact that they can secure greater average loads with fewer overheads than scheduled services. An all-inclusive tour operator may purchase fifty seats on a plane as a part of a tour programme. The purchase price may be \$2,000 per seat with no clause for cancelling, i.e. no chance of returning the unsold seats to the airline - regardless of whether the operator makes use of the seats or not, they must be paid for. So, the operator will most likely price the package on the basis of seventy percent seat utilisation. This allows for a price that can be marketed with profit and minimises the risk. It also means that sale of more than seventy percent will enhance profit, while the left-over seats can be sold until the very last moment, perhaps with huge discounts if necessary.

Tour operators can make use of a range of last-minute deals to raise added income from the leftover seats. As previously mentioned, they can put to use both the idea of marginal costing and the price elasticity of demand. All this can be done while maintaining the concept of price integrity and value for cost for their mainstream market – the customers who purchase the holidays. Hotel contracts follow the same standard. The greater the risk taken on by the operator (with suitable guarantees), the lower the cost of the hotel. In return, the hotel management has to assure that the rooms rented are kept vacant

during the assigned days. A tour operator can choose to work in partnership with a local inbound operator. This local operator will then make available the services at the destination, which include ground transport and hotel space.

While this spreads risk, the returns are also lowered. A catalogue is a tour operator's main sales tool. It can include the programmes for a given region or country, or it can highlight similar types of holidays in various regions of the world. The range of products offered depends on the operator's markets and usually contains packages with varying price ranges to accommodate different tastes. If operators are endorsing a specific kind of a package, then they may come up with a separate pamphlet for it. At one point, European operators used to add surcharges, supposedly applied to counter any unforeseen price increases in package factors or excessive swings in exchange rates, so as to ensure a profit margin. This custom tended to be abused and consumer protection channels (discussed a little later in current chapter) established controls to prevent this abuse.

Regardless of this change, a significant proportion of the tour operator's profits are obtained from various add-ons: room supplements, regional supplements, cancellation charges, investment of deposits and balances, local tours, travel insurance and excursions. Since services have to be contracted in advance, normally 18 to 24 months, the risk of an unforeseen event and fluctuations in costs is greater. Tour operators must make use of specialized money management techniques to counter these risks. Payments are customarily made well in advance of the holidays, so operators can maintain strong cash flows. They can make use of the large cash balances to their advantage.

### Choosing Foreign Tour Operators



Fig. 3.7

Governments usually do not select (except in the outdated centrally planned and controlled communist economies) tour operators. It is at times erroneously assumed that governments can choose tourism markets by exerting control over which of the operators can or can't sell a destination. This would incline towards disturbing free market conditions. Selectively controlling would also force limitations on hotels and inbound operators. Usually, they wish to sell their product and destination based on their own



- Provided comprehensive descriptions of destinations along with all related details;
- Allowed customers to immediately confirm availability and bookings;
- Made provisions for automatic ticketing.

IT has fundamentally altered the skill set required by travel trade personnel. Making plans for routes and itineraries, confirming schedules, checking tariffs and writing out tickets used to be the most important skills for front-line staff. Such tasks are now increasingly computer driven. The staff member is able to instead focus on the quality of customer service, sales and guiding on travel.

## Consumer Protection

Inclusive tour history is packed with stories about holiday experiences that never fulfilled the promises made. Half completed hotels, food not fit to consume, dirty bed linen, long distances from the beach and polluted swimming venues; almost everyone has a travel horror story.

According to evidence, ever since the onset of package holidays in the last century, the majority of customers have been satisfied. There are still occasions where there is poor quality control, entrepreneurial mistakes, business failure and so on, and sometimes more serious problems that have arisen.

In tourism, a large number of customers buy a product that they may never have seen firsthand. They purchase on the basis of trusting a sales blurb, a few photographs and the salesperson's declarations. At times, even after the destination turns out according to expectations, the tour operator may go bankrupt and abandon customers at the destination. Needless to say, the nature of tour operations makes it essential that customers are protected. In 1990, the E.U. ruling on 'Package Travel, Package Holidays, and Package Tours' that was identified at the start of this chapter, was integrated into British legislation in December 1992. It establishes regulation of inclusive tours and provides a good example of such legislation. It demands that promotional material and advertising cannot contain any false or misleading information.

Such sources must hold clear, complete and correct information regarding the following:

- The destination and duration of stay;
- Mode of transport;
- The standard of accommodation and its characteristics (noting the category of accommodation in accordance with any recognised system of classifying);
- The meals included;
- The itinerary;
- Passport and visa requirements;
- Requirements regarding the minimum numbers of applicants and if there are cut off dates, when they are;
- Arrangements regarding delays;

- Guarantees for advance payment made and refunds in case of insolvency.

The directive also outlines the exact requirements regarding each of the above, in which events and to what extent they apply. So what has to be included in the contract and what information must be provided?

In addition to the above points, the following must also be included in the contract:

- The dates, times and points of exit and return;
- Any additional visits, excursions or other extras included in the cost;
- The addresses and names of the organising operator and when appropriate, the retailer;
- Any taxes or added costs not a part of the package price;
- The price, which can be adjusted before departure only in certain circumstances;
- Revisions can be related to transport costs inclusive of fuel costs, tax increases, fees for services such as landing/departure taxes and foreign exchange rates relating to package costs. No increase is allowed beyond 30 days prior to departure, and an increase of up to 2% must be tolerated by the operator;
- The method of payment and schedule;
- Any special needs requested by the consumer and agreed to when the booking was made;
- This is the time at which any customer grievance for non-performance has to be made.

In some situations, the directive gives consumers the right to switch their bookings to other parties. It also refers to altering conditions and the resulting cancellations by the consumer. It talks about not being provided with services promised and deals with every aspect of the organizer's liability. The regulations further make it obligatory for the organizers to show evidence that the required refund of advance payment and repatriation of vacationers is guaranteed. This can be done through bonding, which in the UK can exist as insurance or funds put in a trust. For regulatory needs, regulations of the Civil Aviation (Air Travel Organizers Licensing) are deemed to meet this need with satisfaction. In proceedings dealing with the tour operator's non-compliance, defendants can show they followed a rational procedure. Consumers may have to prove that it was unrealistic to depend on the information offered to them. In the UK, additional legislation such as the Fair Trading Act of 1973, the Restrictive Practices Act of 1961 and the Trade Descriptions Act of 1968 outline the varying corresponding protections for the consumer.

The European directive is just one illustration of the way travel has been regulated and the consumer protected. Other countries have taken up similar regulations, taking care of roughly the same concerns. Bonding, obligating tour operators to assure a way to repatriate and/or refund customers in case of business failing and so on is a standard being implemented more commonly around the world.

### Checklist - Working With the Travel Trade

The following is a basic checklist covering the key points for a GTA ( Government Tourism Administration) working with the travel business – in particular, with foreign tour operators covering

inbound traffic. The professional associations make available the necessary channels for consultations and alliances. The factors covered in the checklist are discussion points. They will be helpful in raising and considering different actions and questions, in addition to strategies and even regulation.

## Regulatory Framework

A structure that guarantees:

- The client is properly protected against unprofessional conduct and/or financial failures.
- The travel trade is helped with regulation to attain some level of minimum standards through its own trade associations and to monitor itself better.

## Strategy Checklist

(This checklist illustrates how the GTA might follow up on questions of destination marketing the with aid of tour operators. Through this, the GTA can synchronise, by working with the sector, the advancement of various guidelines). Are the tour operators putting for sale incoming inclusive tours harmonious with the marketing mix of the destination?

Especially, with regard to the following:

- How is the destination different or unique in relation to other destinations offered in the tour operator's catalogue?
- What kind of an image does the tour operator project in its printed material of the destination and does it show the required attractiveness?
- What is the relationship in terms of price value when compared to the other destinations offered, and is it sensible?
- What kind of impact does the tour operator's material have and is it appropriate in regard to layout, graphics, copy, quality etc.?
- What is the quantity of catalogues and other materials that are distributed? What is the mode of distribution and where are they distributed? What kind of coverage is given in terms of retailers and geographical areas? Which promotional programmes supplement retail sales?
- Is there only one destination or more being sold within a given region?
- Do they seem to prefer one destination more than the others?
- Do they offer more than one destination package within a single region?
- Do they provide two or three day 'add-ons' within a single region?
- What affect does this have on a destination?
- What is the number of tour operators from the country of origin selling in this specific region? Which are their favoured destinations? How do market shares compare? Due to this, which destinations are the major competitors?
- What benefits and drawbacks does each tour operator have?

- Are there better or inferior products, range and image, cost/value relationship, endorsement materials and sales and marketing coverage?
- Are there any regional operators who are not selling the destination? Why? Are the tour operators satisfied with the way they are doing business?
- Are tour operators committed to the destination with regard to contracts, guarantees, payment schedules, advance payments, honouring cancellation clauses and promises, local representation etc.?
- Do they make helpful feedback available?
- Do they carry out market research, request forecasting, trend analysis etc.?
- Do they willingly share information?
- Are programmes focused or scattered – with extensive numbers of hotels and variations in packages available?
- What kind of transportation is employed and what relationships are made according to the contract?
- What is the number of incoming seats controlled by each operator and with which airlines? What options are there for getting additional seats?
- Are carriers of high-repute being used?
- Are national carriers being utilized? If not, why not?
- What more can be done to encourage the tour operators to sell a destination more? What, if any, national tourist offices are situated in the main market and are they carrying out their jobs effectively? For example, are they providing the latest market information, keeping an eye on market performance, monitoring the activities of competitors and providing market support?

### Further Reading:

- ✓ *Richard Sharpley, (2006), Travel and Tourism*
- ✓ *J. Alf Bennett, Johan Wilhelm Strydom, (2001), Introduction to Travel and Tourism Marketing*
- ✓ *R. Heyns, M. Boekstein, J. Spencer, (2000), Introduction to Travel and Tourism*