CHANGES AND CHALLENGES OF TRADITIONAL TRAVEL AGENCIES IN TRANSITION TO THE E-TOURISM WORLD, CASE OF MALAYSIAN TRAVEL AGENCIES

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To my loving family.

To My mother for its sincere support of me making my dream come true,
And To my father who has been always inspiring my life.

To my brother and sister for showing their most enthusiasm and support throughout my journey.
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ABSTRACT

Internet has profoundly transformed tourism industry and challenged the traditional value proposition of travel agencies. Traditional travel agencies are struggling to stay relevant through any possible way. They are also under the pressure by the travel providers who try to access the customers directly and bypass these traditional intermediaries (disintermediation theory). Therefore, the traditional agencies need to re-intermediate themselves as soon as possible before getting disintermediated. This study investigates the impact of Information Communication Technology (ICT) and the internet in particular, to find the changes that have been affecting the traditional distribution channels and made the travel agencies vulnerable to the growth of internet. In Malaysia, the awareness of travel managers and the coping strategies taken by traditional travel agencies have not been studied vastly before. Thus, this research has looked for the effects of internet on the conventional travel agencies by a qualitative method and has gathered information through interviews with the top travel managers involved in both the industry and the travel association. It has then analyzed the data by a thematic approach and has given some suggestions to minimize the risk of disintermediation and improve business performance through focusing on the niche market and specialization, trying a new distribution strategy, improving online marketing and implementing reputation management.
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<tr>
<td>CAB</td>
<td>Civil Aeronautics Board</td>
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<td>CRS</td>
<td>Computer Reservation System</td>
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<td>ECTAA</td>
<td>European Travel Agents’ and Tour Operators’ Association</td>
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<tr>
<td>GDS</td>
<td>Global Distribution System</td>
</tr>
<tr>
<td>IDR</td>
<td>Intermediation, Disintermediation, Reintermediation</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<td>LCC</td>
<td>Low Cost Carrier</td>
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<td>OTA</td>
<td>Online Travel Agency</td>
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<tr>
<td>SABRE</td>
<td>Semi-Automated Business Research Environment</td>
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<td>SMTE</td>
<td>Small and Medium Sized Tourism Enterprises</td>
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<td>ICT</td>
<td>Information Communication Technology</td>
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<td>YMS</td>
<td>Yield Management System</td>
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Today E-commerce is quickly changing the business models and travel industry businesses are not immune of this change. Travel suppliers are reaching millions of travelers using internet and new online distribution channels. The greatest potential challenge for offline and online travel agencies - both large and small is online direct sales by travel providers. This ability of travel providers to sell direct diminishes the perceived value of intermediaries such as travel agencies. Therefore traditional travel agencies are taking advantage of new ‘off the shelf’ software and technology solutions to provide similar features and services in response to direct sales and online agencies. The small travel agencies also refocused on selling in niche markets with higher commission leisure travel packages, closing large physical offices to move to smaller places, and charging customer service fees.
While E-commerce does not yet dominate travel sales, the online distribution channels have already reduced the perceived value of traditional offline travel agencies. It is likely that other travel providers will follow the airlines’ lead of cutting agency commissions and developing online direct sales capabilities. A premature reduction in the number of travel agencies would be undesirable as the offline travel agencies continue to distribute the majority of travel services. Understanding how E-commerce is impacting the travel agency industry will help differentiate between naturally occurring industry developments, and the developments resulting from anti-competitive or poorly conceived changes to travel distribution channels.

Traditionally, travel agencies have always been the middlemen between consumers and suppliers. With the rapid rise of the Internet, this changed: the complicated distribution and communication channels, once the domain of the travel agent, became untangled. This offered vast opportunities for direct customer-supplier contact (Licata et al., 2001; Ioannides & Daughtrey, 2006). The academic world saw this electronic brokerage effect, which they called the threatened intermediaries or disintermediation hypothesis, as the end of the middlemen (Anckar, 2003). Traditional travel agencies would most likely be removed from the market, because the need for cost adding services along the distribution value chain had disappeared (Vasudavan & Standing, 1999).

This disintermediation hypothesis was questioned by other authors (Bakos, 1998; Anckar, 2003). They argued that the market would reformulate itself and go through shakeouts, but that travel agencies would not be pushed away. Instead, they would reintroduce themselves between the consumers and the suppliers. This reintermediation would take place when travel agencies themselves embrace the new electronic environment and emerge as a new kind of travel intermediaries, called cybermediaries. These entities would operate completely online and act as a broker between the customer and the supplier. Although these cybermediaries were seen as a threat, researchers stated that traditional travel agencies are also able to
reintermediate and sustain their position due to their competitive advantages over online intermediaries. Some authors proposed that travel agencies should specialize in niche market and become experts of certain areas (Vasudavan & Standing, 1999).

As of today, several cybermediaries can be found on the Internet: Expedia, Travelocity, Orbitz and Priceline are just a few examples of online intermediaries that have grown rapidly over the past years to become the biggest online travel agencies (OTAs) in Europe and the world (PhoCusWright, 2008). Therefore OTAs have captured a large part of the leisure travel market. Furthermore, value conscious consumers prefer to book directly with low cost carriers (LCC) that are a dominant party in many countries including Malaysia.

In conclusion as Lewis et al. (1998) noted, travel agents play three key roles. First, they act as information brokers, passing information between buyers and suppliers of travel products. Second, they process transactions by printing tickets or forwarding money. Third, they act as advisors to travelers. Information technology has profoundly affected the first two and forced travel agents to focus on the third, advisory role. Within the travel agent industry, the traditional centralized market structure is currently under attack from many providers in the market place who are trying to access their customers directly. The biggest change is that the customer can now interface directly with the information about the travel options. As such the travel industry is currently undergoing a major transition due to a shift in distribution channels which reflects the impact of information technology. The convenience and availability of information makes the traditional travel agent redundant.
1.2 Problem Statement

The role of the travel agency in the tourism distribution system has been affected by industry consolidation and advent development of new technologies (Ioannidis and Daughtrey, 2006). Ecorys (2009) reports that travel agencies need to re-evaluate their current activities and stop being a product provider, but start focusing on providing added value to the customer. To achieve success, travel agencies should focus on building up a good image and reputation in order to earn the customer’s trust (European Travel Comission, 2006; Ecorys, 2009).

Coupled with increasing concentration of ownership in the air travel industry, smaller Travel Agents face a very serious threat from the economies of scale provided by web-enabled competition. The Malaysia tourism market is certainly not immune to these changes. The commission cuts, the growth of internet use and evolving consumer demand and expectations are fundamentally altering the ways in which Malaysian Travel Agents (TAs) conduct business. The impact of these changes is not difficult to see. To minimize the risk of disintermediation and improve business performance, travel agencies need to reposition their operations and to review their core strategies.

1.3 Research questions

This research attempts to provide an insight into the role of the traditional travel agency as middlemen in a time where the tourism distribution channels in the world have transformed.
The central question in the study is: To what extent have traditional travel agencies reintermediated themselves in the Malaysia’s market and which competitive advantages can raise their viability in an increasingly dynamic online travel market?

The following research questions are formulated to narrow down the main problem statement:

- To what extent traditional travel agencies are aware of the need to move to online form of business?

- What changes have happened in the different aspects of travel agencies’ lives?

- Which value added services of travel agencies can be taken advantage from the supplier side of view?

- What strategic options are available to travel agencies to strengthen their position in the Malaysia’s market?
1.4 Objectives of the study

The specific objectives of the study are:

- To study the present e-development of Malaysian travel agencies

- To evaluate the technology infrastructure of the Malaysian travel agencies

- To examine the awareness of the travel agencies about the transformation that should be taken place to the e-business due to the speed and importance of Internet communication technologies

- To evaluate the challenges and opportunities of e-tourism for the traditional travel agencies

- To identify the coping strategies that has been adopted by travel agencies in order to survive in the Internet age
1.5 Significance of study

The impact of Information Communication Technology (ICT) and the internet in particular, is a dominant issue in the tourism industry today. The growing accessibility of travel and tourism-related information on the internet is leading to a restructuring of traditional distribution channels. Arguably, the most important change brought about by the internet is “disintermediation”, whereby principles such as airlines, hotels and rental car chains bypass intermediaries and sell directly to consumers. Travel agents (TAs) have long been identified as being vulnerable to the growth of the internet as a tool for e-business and information dissemination. All Travel Agencies, whether traditional or online face a serious threat from the ways in which new technologies enable companies to establish a presence quickly and relatively low cost.

Research into the travel agency sector by academics has largely focused on the need for travel agencies to adopt strategies that will enable them to compete in an ever changing technological environment. These developments have been studied in Canada, Australia, the United States of America and Europe. In Malaysia, there has been little academic research focusing on the travel agencies sector and it is not clear whether the trends and issues as portrayed in the international literature are totally relevant to the Malaysia’s context. Therefore investigation of the Malaysian traveling agency sector and the related impact associated with ICT introduction are the main focus of this study. It also analyzes the functionality on the relevancy of traditional travel agencies and the various strategies they have adopted to survive in the internet age. Besides that most of the studies have searched customer view and less has investigated the supplier’s opinion on reintermediation and disintermediation. The purpose of this study is to examine the mechanisms by which the internet has caused diminished the role of travelling agencies from travel agent’s point of view and all the above issues.
1.6 Research scope

The travel agency industry attracted numerous small business owners because of the relatively low barriers to entry. There are not any inventory investments or risks, accreditation costs are low, there are few special government regulations, and if airline ticketing is contracted to larger agencies, only minimal investments in equipment are required. Because of the new ICT developments many small and medium size travel agencies have closed their doors and this process is expected to continue, because profit margins on travels have decreased and the cost level of a traditional travel agency is higher than that of a web shop. The number of these small and medium sized travel agencies is large enough to be investigated and studied to find strategies of keeping them alive. This study therefore has chosen travel agents mostly with the managerial positions from the small and medium size travel agencies in different parts of Malaysia, mostly in Selangor state and Kuala Lumpur city to study the above matters on them. These agencies were specialist in both outbound and inbound tours.

1.7 Outline of dissertation

This study consists of five chapters. In this chapter, Chapter One, a relatively broad description is given, providing the reader with a background and discussion of issues related to the problem area. The next chapter, Chapter Two presents the literature review to identify the main issues and trends in the travel agency sector worldwide, particularly the impact of Information Communication Technologies on the sector. Chapter Three discusses the methodology used for this research. The study uses an exploratory approach. The study also starts analysis of the travel agency sector with case studies of Malaysian travel agents using secondary data from
both academic and business literature. It also includes in-depth interviews with travel agents/managers. The semi-structured interviews with travel industry experts are designed to identify the main issues in the Malaysian travel agency market and in particular the impact of evolving ICT from the travel experts view. In chapter 4, the findings from the interviews are presented, followed by conclusions and recommendations in chapter 5, which also discusses some limitations and possibilities for further research.
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