CASE STUDY

Challenges of Online Travel Agents

Global competition has forced local travel industry to adopt new global business standards to compete in its traditional markets. In return, the local travel and tour operation companies are finding much diversification of business in the new overseas and domestic tourism markets. Travel agencies are becoming increasingly aware and prepared to face the burgeoning growth of online travel agents as a result of Internet. Tour operators have found the dependence on online business to decrease the transactional costs, including the costs for users of tourism services.

For the sale of airlines tickets, airlines do take the help of online travel portals and hotels also take the help of online travel agents for the sale of hotel rooms. The online travel companies are aware of the consequences of online transactions and are taking the advantage of the information and communication technology for the larger market share.

Giving varied discounting is a major trend of online travel agents to increase the sales. The effect of B2B and B2C model has significantly reduced the cost and that results in the reducing the prices of airline tickets, hotel rooms, etc. For example, consolidator like Groupon has entered into the market offering discounts of 50 per cent or more when more customers sign up for a vendor’s offer. The range of products and services being sold continues to find better market areas.

In addition, hotel chains increasingly bank on the social media sites like Facebook and Twitter to build a network of potential customers. Hotels offer limited-time special offers to sell off the unused room inventory during the off season. A second key trend is personalization of tourism services. Everyone wants the tailored-made programmes to their needs.

Traditional travel agencies still face the big challenges in their shift online. The first challenge is to develop the multi-channel strategy that is not an easy task to accomplish as far as the constraints of travel business is concerned. Travel agencies trace the background of customers and reach them over the Internet, mobile and social media channels.

The most important challenge that traditional travel agencies are facing is to find the right mix in their online product and services offers. In order to make their online channel more profitable and alluring, they include additional products such as hotels, (dynamic) holiday packages and flight related ancillary services like airport VIP lounges and fast tracks or priority boarding.

Low internet penetration was the major challenge for the online travel companies. Another challenge is the habit of Indian travellers. The habit of buying an air ticket through a travel agent and booking a hotel room through calling the hotel directly takes long time to change. It is essential to change the habit that online travel agents are doing all possible efforts to covert the traditional customers to tech-savvy users of online services.

Online travel is the driving force in the e-commerce segment and has brought about revolution in the travel market in India. It has global contribution of 70 per cent of all e-commerce activities. However, the internet availability, broadband penetration and the prevalence of online banking and credit/debit card is very low India. The volatility in the aviation industry not only impacts the inventory and pricing, but also the consumer sentiment while buying a travel product. It is reported that that the online travel portals are facing numerous new challenges such as rapidly rising costs, meeting customer expectations and enormous economic pressures. At the same time, the challenges of the India Online travel agents are given below.

- Problems in deciding the distribution of products through multiple online and offline sales channels while managing inventory.
- Pressure to up sell and proper management of the seats sold out.
- Difficulty in deciding the charges as a flat fee or a commission.
- Changing economic conditions
- New financial regulations

In view of the above challenges, the online travel agents are still bleeding with losses or many of them are toying hard to reach the breakeven point. In one hand, the users of online purchase of travel services and solutions are becoming more and the dependence is also becoming more. Can these challenges be overcome? How long it will take?

Questions
1. What are the critical features of an online travel agent?
2. Why there is an increase in number of market share of online travel agents?
3. Why the online travel agents are bleeding with losses?
4. What are the challenges before the online travel agents?
5. Can the challenges be overcome? Suggest your ideas to handle the challenges

**CASE STUDY**

**Zero Commission and Diversification of Revenue generation**

Traditionally, travel agents used to depend largely on the ticket sales for the bulk of share of total revenue. With airlines selling tickets directly to travellers through multiple e-ticketing platforms, travel agents do not have any choice and they are out from their dominant business haven. This direct sales method is a global trend resulting from the need for airlines to maximize revenues or minimize loss while keeping costs down. As such majority of airlines are facing the challenge of breakeven and other issues leading to the closure of the companies. For example, Kingfisher airlines shut down the services abruptly in 2011 due to the heavy losses. International and domestic airlines used to offer 8 and 5 per cent commission on a ticket sold to travel agents respectively. However, it was gradually reduced to one percent and it is now zero percent due to overheads cost. It is observed that several airline sites even offer reduced costs and extra incentives for customers ordering tickets online.

Zero percent commission and ticket booking through website is one of the 47 recommendations of Prof. Dholakia Committee Report on the cost cutting in Air India. The Ministry of Civil Aviation has accepted all these recommendations. The Zero Commission policy on ticket sales adopted by almost all airlines has forced the travel agencies to switch over to the new streams of revenue along with new services.

To reduce their reliance on airline commission payments, travel agencies are resorting to the following strategic options to sustain and survive in the business.

- Streamlining operations and controlling staff costs whilst ensuring the customer feels as little impact as possible
- Expanding or moving into the leisure business where commissions on non-air products remain high (cruise & hotel)
- Specializing in geographic areas or becoming niche players for specific leisure products (e.g. destination weddings, student travel, group travel & cruises only)
- Establishing a service fee driven business model

Diversification is a form of growth strategy. Growth strategies involve a significant increase in performance objectives (usually sales or market share) beyond past levels of performance. Diversification strategies are used to expand firms’ operations by adding markets, products, services or stages of production to the existing business. Many organizations pursue one or more types of growth strategies.

- Coffee shops
- SMS marketing
- MICE
- Foreign exchange:
- Courier service
- Film Ticket booking.

Travel agencies are now adopting the E-business revenue models, Digital Content Revenue Model, Advertising-Supported Revenue Model and Fee-for-Transaction Revenue Model.

**Questions**

1. What triggered the airlines to stop paying usual commissions when travel agents still play dominant role in the airline markets?
2. What are the diversified sources of revenue for travel agents now?
3. What are the business strategies of travel agents to overcome this zero commission challenge?