

The Emergence of Electronic Market Systems in the European Tour Operator Business

Recent developments in computer reservation systems and associated new trading patterns may bring about important changes to the (West) European travel and tourism industry in general and the tour operator business in particular. The new trading forms are deriving from the establishment of electronic market systems, for example, as a result of the merging of global airline reservation systems with hotel, car rental and other booking systems. Electronic market systems may well provide new opportunities for some tour operators as well as threaten the competitive position of others, and, overall, may make it necessary for tour operators to seek new ways to 'add value' to travel and tourism products.

Tour operators provide one of the core functions for the leisure sector of the travel and tourism industry. Tour operators, in assembling holiday packages or

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inclusive tours from a wide range of available components, provide a link between the travel and tourism principals on the one hand and travel agents and consumers on the other. It appears that while the dominant European tour operator groups have been concentrating on mass markets and on achieving economies of scale, many of the smaller tour operators have been specialising in and serving niche markets. The adoption and diffusion of new information and communication technologies (ICTs) and the emergence of electronic market systems in the travel and tourism industry in general and in the tour operator business in particular, may, however, have major consequences for the tour operator business and may change this situation by enabling small tour operators to enter mass markets and, vice versa, encourage large tour operators to enter niche markets. In addition, the new trading forms may threaten the position of some tour operators as well as provide new opportunities for others.

New ICTs, particularly those that support interorganisational trading activities, are highly important to the tour operator business because of the nature and complexity of its products. The products 'inclusive tour' or 'packaged holiday' consist of multiple components delivered by a large number of operators, thus creating a need for extensive information exchanges and communication. However, it is not only the fragmentation of packaged holidays that demand this communication and information exchange. Inclusive tours are moreover highly perishable; hotel beds, airline seats and their like have a limited 'shelf life' since they cannot be stored and are instantly lost if not consumed on a particular day. Although these products can be advertised

and sold long in advance, the period immediately before their intended time of consumption is sometimes a decisive factor in the eventual financial success of a tour operator because of last minute customer demand.

Emerging Systems in the European Tour Operator Business

Several important institutional and technical changes are currently affecting the European tour operator business, which make industrial changes in favour of market-based organisations likely. Firstly, there is an increase in customer demand for more individual holiday products, away from mass market inclusive tours [3]. Secondly, deregulation and liberalisation of the international air traffic sector is likely to lead to an obscuring of the demarcation between charter and the scheduled airline sectors and to an increase in the availability of routes and in competition. Thirdly, European Union directives have led to stricter national legislations regarding bonding and insurance schemes for European tour operators as well as quality assurance schemes, thus insuring better customer protection independent of the tour operator chosen. Fourthly, governmental and competitive pressures have reduced the bias built into some computer reservation systems favouring the system owners' products, and aim to make these systems eventually unbiased. Fifthly, falling system costs combined with improved technology and greater availability of reservation systems enable more and more operators in the travel and tourism industry to connect to reservation systems [4].

These changes have led and will continue to lead to the establishment of electronic market systems. Electronic market systems are ICT systems that enable (usually a larger number of) buyers and sellers to conduct their trading activities electronically, with purchase and sale decisions being predominantly based on price. They are marketplaces, where the majority of market related information is communicated and the majority of market-related interaction between the par-

ticipants is handled electronically. The predecessors of most of today's electronic market systems in the travel and tourism industry in the world were the inventory systems which were installed by airlines at the end of the 1950s and during the 1960s. These intraorganisational booking systems were expanded to interorganisational systems in the mid-1970s, by installing terminals in travel agencies and travel departments of large firms. These computer reservation systems (CRSs) were originally single-access systems, allowing travel agents only to access the airline that operated the individual system. At the end of the 1970s, however, the airline reservation systems became co-hosted systems, displaying the availability and prices of partner airlines next to those of the owner airline. At the end of the 1980s and early 1990s, particularly through the creation of the two European reservation systems Amadeus and Galileo in 1987, the major reservation systems finally became multiple-access systems and in fact electronic market systems, allowing the booking of seats offered by a larger number of airlines by interconnecting one CRS with another.

By mid-1994, following a number of reservation system mergers, five major CRSs existed in the world: Galileo International (combining the systems Apollo and Galileo), Sabre, Worldspan, System One and Amadeus. Reservation systems have also been installed by other travel and tourism principals, in particular large and mainly international hotel chains, car rental companies, providers of travellers cheques, operators of major attractions, restaurant chains, and operators of railways, ships and ferries. Moreover, major international telecommunication services providers, like Deutsche Bundespost Telekom and France Telecom, have entered the travel and tourism market, providing information and communication services for travel and tourism companies. A number of these systems have been linked to the main airline reservation systems, thus making them global distribution systems, or global electronic market systems, for a broad range of travel and tourism products. A further example of a development with potentially far-reaching consequences for the distribution of travel and tourism products is the creation of the 'Travel Web' on the global communication network Internet by The Hotel Industry Switch Company (Thisco) in October 1994. The major international hotel group Hyatt was the Travel Web's first user, offering room availability in 16 of its hotels directly to Internet users.

Indeed, it is likely that eventually travel and tourism information and reservation systems will exist for basically all major

travel and tourism products, spanning transportation, accommodation, catering, car rentals, travel insurances, tickets for performances and even general information such as weather, traffic reports and information about local attractions [5; 6]. A number of pilot projects for such systems, most notably the domestic and incoming Tirol Information System (TIS) [1; 7], which might be enlarged to cover the whole of Austria, have been in operation for a number of years and, if successful, will lead to major changes in the travel and tourism industry and in the tour operator business in particular. One could picture two general types of electronic market systems in the tour operator distribution system in the future, as graphically illustrated in Figure 1, replacing the traditional means of distribution, first for travel and tourism products that can be relatively easily described electronically and, at a later stage, using more sophisticated multimedia technologies for basically any travel and tourism product available.

The evolution of these electronic travel and tourism market systems might even include the establishment of regulatory organisations, supervising the trading companies similar to electronic stock exchanges or electronic agricultural auctions.

Outlook: The Value Added by Tour Operators

The development of electronic market systems may have major consequences for the European tour operator business. Firstly, it may affect the relationships and competition between tour operators. For example, with more and more travel and tourism principals being accessible through 'electronic market systems for components' and hence with reduced search costs, and with increased acceptance by travel agents and consumers of 'electronic market systems for packaged holidays' and thus with reduced distribution costs, large tour operators can diversify by enlarging their product scope and compete in niche markets which were previously financially unattractive to them and only catered for by small and specialised tour operators. In contrast, small tour operators can, by adopting new information and communication technologies due to their increased availability and reduced costs, achieve economies of scale and scope as well, thus entering markets previously within the domain of large tour operators. Secondly, electronic market systems will also have consequences for tour operators and their relationships with travel and tourism principals, travel agents and consumers in the tour operator distribution chain, both in the form of threats and opportunities.

On the one hand, taking the continuous advance of electronic selling meth-

ods, especially most recently through integrated services digital networks (IS-DNs) and multimedia technologies, into consideration, these new trading methods will threaten the existence of some tour operators (and travel agents) in the travel and tourism value system through disintermediation. The model of the value system is based on the idea that each organisation in the system adds value to the products that pass through it. Assuming a competitive environment, those organisations that do not add value will eventually be by-passed or disintermediated through direct sale and purchase. The main functions of a tour operator are to assemble various components produced by the principals within the industry into a travel or holiday package, thus effectively reducing the information load for consumers, and to add supplementary services like representatives and special programmes. Electronic market systems will threaten tour operators to the extent that they will enable principals to advertise their products more widely and effectively directly to customers, and allow customers to search for products with

clubs, destination agencies and travel agencies, as practised by basically all major European tour operator groups.

On the other hand, given the wide adoption and diffusion of electronic market systems in the travel and tourism industry and given a shift in consumer preference towards more individual products, electronic market systems will also provide new opportunities for tour operators and will increase the relative importance of those who are able to adapt quickly to this new environment and who will provide individual services. Electronic market systems will enable tour operators and principals to produce an increasingly broad range of new products, thus increasing the information load available to consumers. By adding value through assembling firstly more individual and secondly a wider range of packaged holidays, such as special-interest, activity and 'itinerary-build', i.e. tailor-made [2], holidays, tour operators can use the emerging electronic market systems to their immense benefit. ■

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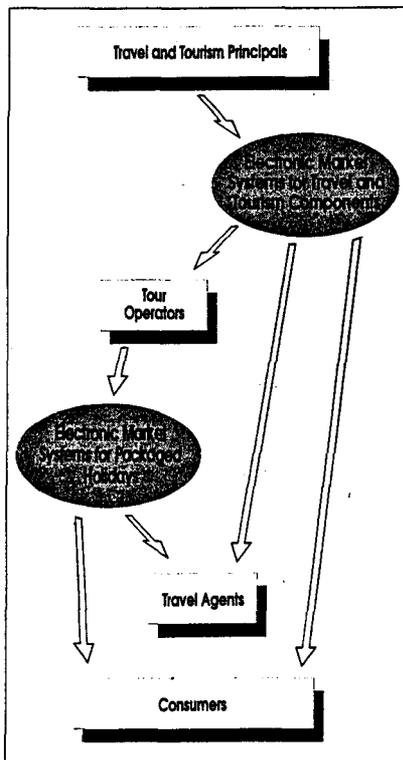


Figure 1: Emerging electronic market systems in the tour operator distribution system (note that other distribution ways are not shown)

less time and costs involved. In this respect, electronic market systems will threaten to make tour operators redundant. This threat can be reduced, though only to some extent, through vertical integration, for example, by owning or exclusively cooperating with charter airlines, cruise ship operators, hotels, holiday

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