

Future of Travel Agent from an Economist Perspective

By

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Online Travel Business : Fact

E-Tourism Industry :

- **Online Travel Business (OTB) is fastest growing segment in E-Commerce Space.**
- **OTB's Examples are Expedia.com, Priceline.com, MoreThailand.com**
- **More Travel Suppliers offers customer direct access and bid for unsold capacity. [eg UA, SQ, Hilton...]**

Source : www.knowledge.wharton.upenn.edu

Online Travel Agent : Fact

- **Online Travel Agent (OTA)** is one of the *fastest* growing segment in online travel biz.
- Due to the search process and the transaction cost involve in a full search, OTA market is still *not* a perfect market.
erogeneity in consumer travel preferences with th differentiated product for different type of veler across the cyberspace.

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1. Bank vs. Travel Agent : History

BANKS DO

- Money Changing
- Management of Deposit (from Fund Providers)
- Serve geographic location community

This is mostly *liquidity* and payment service

TRAVEL AGENTS DO

- Sale Agent or ticket counter
- **Management** of Passengers' (or Fun Users) itinerary.
- Serve (geo-location) or local community

This is mostly a *convenient* and info trip planner services.

1.1 Not So Perfect World

Both Bank and Travel Agent share the similar origin in micro-economic sense.

- **Asymmetric** and **Incomplete** Info Paradigm
- Capitalize from Private Info
- Proprietary, Accumulative, (not distributed) Info Process

In sum, both provide just a convenient and info **intermediary** service or a middle man.

1.2 Lesson 1 – Simple Info Economics

Lesson 1 : There exist many costs in gathering, searching and evaluation info into useful knowledge.

Indeed, it requires some ‘know-how’ and technology.

Some Industry Characters : for both intermediaries

- **Very *Info. Intensive Industry* with high need for timely local Knowledge and costly gathering**
- **Very *Fragmented and Complex Market***
 - both supply and demand sides
- **Large Intl intermediary: Volume Aggregators plays important roles.**

Hence, the intermediary (info) service cost may be cheaper than the (direct info) search cost.

2. Contemporary Bank vs. Travel agent

BANKS DO

- Offering access to a payment system
- Transforming assets from **Fund** Providers to **Fund** Users
- **Managing Asset Risks**
- Serve *Regional* Comm
- Processing Info and monitor borrowers

Travel Agents Do

- Offering access to a payment system.
- Intermediate from **'Fun'** providers to **'Fun'** Users
- **Giving expert advises**
- Serve *Regional* Comm
- Processing Info. And give feedbacks

2.1 Lesson 2 – Transaction Centric

Lesson 2 : In the early days, to increase customer satisfaction, both bank and travel agents had moved into transaction centric mode.

For the Banks, transaction centric innovations are

- Online money transfer
- Credit Card
- Automatic Teller Machine (ATMs)

And Later on

- Tele-banking, e-banking, call centers...

Hence, all the above are designed for customer convenience to do business with banks.

3. Agency Problem and Reputation Capital

Both Banks and Travel Agents are dealing with other 'people' money and facing principal-agent problem.

- Reputation Capital/Branding is everything
- Relationship Capital : must be cultivated.
- Social Capital : needs to be gained.
- **Profitability** : is directly proportional to the people as well as info **network** for agency cost reduction.

Lesson 3a – Network is extremely vital.

BANKS gain from

- Branching (in old days) constitute a economic form of carteling
- Private info gathering is accumulated, propagated in collaborative process.
- There exists **high** Switch cost & ‘lock in’

Travel Agents earn from

- Connecting more agents, tour operators in a form of alliance
- Destination info, demand and supply data are capitalized in collaborative process.
- ‘**Low**’ end-customers’ switch cost & lock in

Lesson 3b – But it is Evolving Network.

BANKS gain from

- In the early days, Banks branch out for franchise *value*.
- Today, banks are *closing* down *costly* branch.
- The Dawn of E-Banking Era.
- Anything can be digitally, will be digitalized.

Travel Agents earn from

- In the early days, connecting with *costly* supplier's network (eg Amadeus, Sabre..) for real time info access and reservation
- Today 'Selling' some via the web directly or indirectly.

Lessons 3c : Network subj. to legacy sys.

Both Banks and Travel Agents are still subjected to legacy system.

- **Non standard communication channels** add overhead cost and complexity to share info
- **Transaction centric system** prevents the industry to fully interact with customer.
- **Simple product representation** is limiting fast growing, complex, info rich products
 - Tours : Package Tour, Cruise, Attractions
 - Bank : Mutual Fund, Life Insurance, etc.

4. Bank vs. Travel Agent : Simplicity

BANKS DO

- Take Deposits
- Make Loans and Charge Interest
- Share the interest with depositors

Travel Agents Do

- Representing Tour related **Suppliers**
- Make offers of Sale the services to client
- Share the sale proceed with the suppliers

Good Old Days : Production Approach

With strong financial support and networks,
both can become **'volume aggregator'**.

- Take many small fun(d) users with less **bargaining power** in pricing demand
- Buy large **volume discount** from fun(d) providers for lower cost supply
- Due to large **economy of scale**, the productivity is high.
- The profit margin is good (in the old day).

5.1.1 Implication 1: Info Knowledge Rich Product Sell

BANKS today earn

- More in fee base income [eg Card issuance, advisory service, aval, etc]
- Off balance sheet activities : Trading, innovative exotic derivatives, etc.

TRAVEL AGENTS gain

- More off-shore customers' request for connected booking and info
- Selling complicated products like cruise, tour package, 'exotic' destination, etc.
- On line 'looking' first and 'booking' later.

3.1 Modern Agency Approach

Strategically, in an open economy, both bank and travel agents need to redefine their roles.

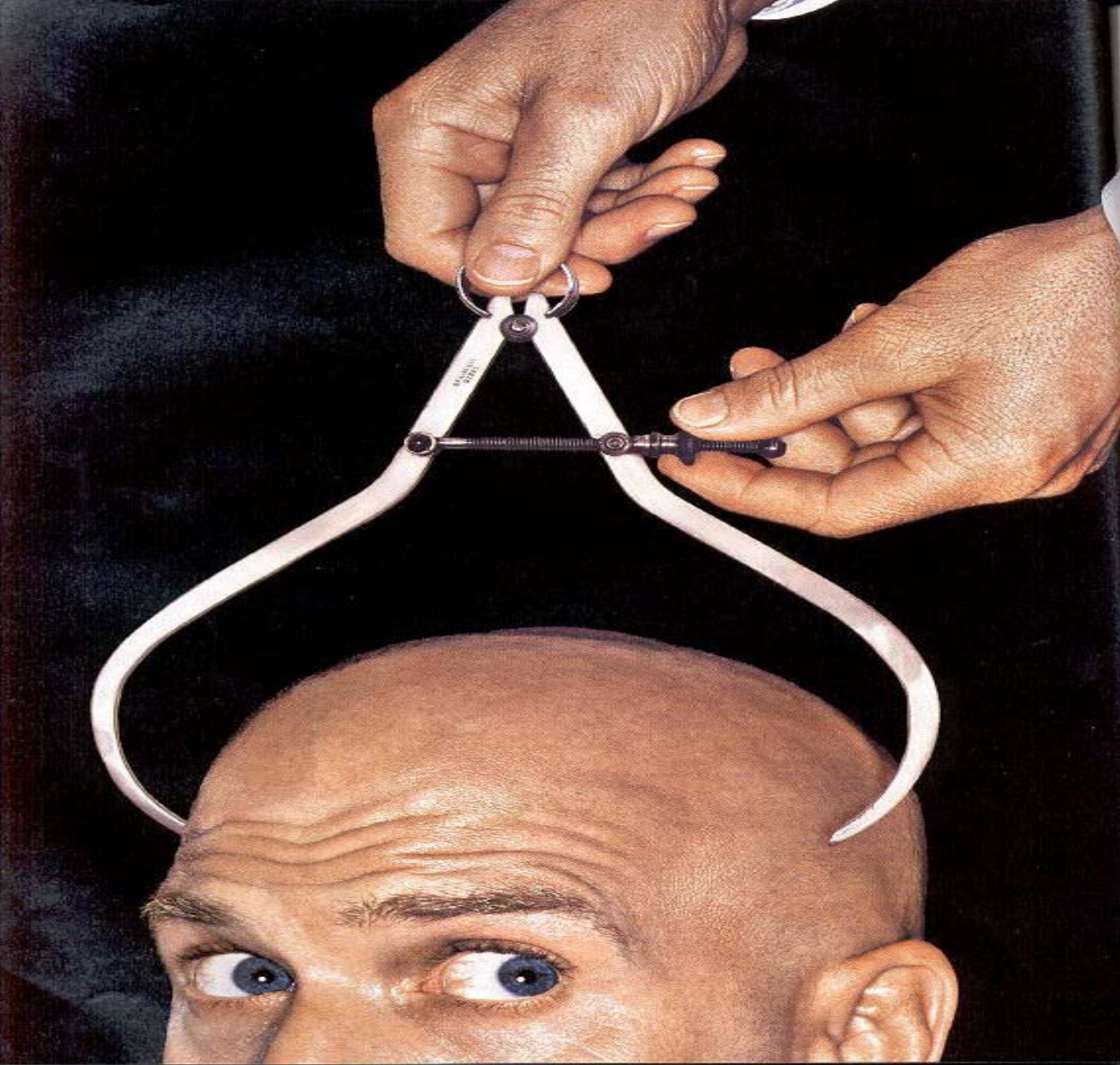
- Info is 'life blood' and cement of the industry
- Leverage on Yr local knowledge & expert
- Niche : Big in Yr Own Small Area
 - Trade-off between benefits of diversity in cost
- Must Build Up Customer Switching Cost – [e.g. bundling services, loyalty program...]
- Reducing search cost for customer [e.g. regular info update, dynamic pricing...]
- Revenue Management

4. Nowadays Intermediary Approach

In globalization and advance in IT, both bank and travel agents have to compete competitively and internationally.

COST REDUCATION (in Shrinking Margin)

- Info and order process need to be efficient
- Less Head Count, More IT Automation
- Cutting down low profit margin market or product



**What can we
coupe with
this changing
and
unstoppable
trend ?**

**•More
PR, Ad...**

Sept 1, 02

Source : Business 2.0_November 2001_p58

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5.1 Industry Analysis : Big Difference

BANKS are subject to unfortunately :

- Heavy Regulation
- Periodically NPL (Sad) Problem.
- Depending mainly on home economic market conditions

TRAVEL AGENTS are subjected

- A lot less regulation
- Seasonally Over-Carry Capacity (Happy) Problem
- Depending mainly on *foreign* prosperity
- Thailand is a major tourist attraction.

5.1.1 Implication 1: Info/Knowledge Rich Product Sell

BANKS today earn

- More in fee base income [eg Card issuance, advisory service, aval, etc]
- Off balance sheet activities : innovative exotic derivatives, trading.
- Concentrating more on the core business competence [e.g. loan origination, IT, local knowledge, packaging services, etc.]

TRAVEL AGENTS gain

- More off-shore customers' request for connected booking and info
- **Selling complicated products** like cruise, tour package, 'exotic' destination, etc.
- **Balance (carrying capacity) supply and (seasonal) demand...RM**

5.2 Product Analysis : Bank vs. Travel Agent

BANK offers

- More 'homogeneous' goods – Money
- Experience Goods
- Risk Sharing and Portfolio Mgt
- Arm length Contract
- Collateral Backing
- Government implicit guarantee

TRAVEL AGENT gives

- More 'heterogeneous' Services
- Experience Goods
- Little Quality Production Control
- Relationship Contract
- Little Collateral Back..
- Private Association Credential – PATA,..

5.2.1 Experience vs. Search Goods

Tangible (Search) Goods

- Quality can be learned without actual using
- Visual Inspect or ad may justify using them
- Price can be a signal of quality

Experience Goods

- Quality is unknown until *after* using
- There exists *a risk* for customer to try first.
- Sellers provided info may not be trusted.
- Price can not convey some but not all the info on the quality

5.2.2 Marketing for Tourism - Experience Goods

Objective : To inform, and convince, buyer about the product quality are as follows :

1. **Only informative Ad**, by building reputation, or offering credible guarantees.
2. Third Parties **Endorsement** – Private and Public with minimum standard assurance
3. Trusted Third Parties **BRANDING**
4. Intermediary Role as **EXPERT**.
5. Opening up *‘a resale market’*

5.2.3 Marketing for Tourism via the Net

Internet as an Effective Info Channels :

1. Sellers provide product info portal site.
2. Email Target Marketing: Narrow Casting
3. News Group : 'Newsletter', 'Community based', 'Advocacy Group', 'For sale' ...
4. Comparison Shopping at a click
5. Repeated customer via subscription or reputation building
6. Interacts to all stakeholders- buyer, seller..

5.3 Demand and Supply Analysis

BANK offers

- Demand for Fund or borrower is always *greater* than Supply.
- Fund Provider or Depositor need a place to keep their wealth
- Money can always be kept in many forms.
- Time **Value** for Money

TRAVEL AGENT offers

- Customer fm Devt country is the King.
- Fun Provider [e.g airlines, hotels, etc.] Supply is truly the Queen
- Supply Side Goods is inventory-less or **replenishable**
- Time Sensitivity **Cost**

5.3.1 Implications for the business

BANKS today manage

- Their balance sheet
 - Limit Risk Appetite
 - Sale of NPAs
 - Securitization
- Their P & L
 - Reduce Costs : HR, Communication,..
 - Innovate new prod.
 - Improve productivity

TRAVEL AGENTS manage

- Their balance sheet
 - Balance supply and demand
- Their P & L
 - Customerized prod.
 - Resale channel
 - Increase Marketing efficiency

6. The Big Questions

As travel agents, what's next ?

1. Importance of info and knowledge base
2. Value of externality networking
3. Value of Branding or Reputation Capital
4. Cost of Agency problem : Diff. Types.
5. Value of Product differentiation
6. Distribution evolution is a natural process.

Our Win-Win E-Business value proposition (s)

E-Business solution:	Value proposition	Cost
<ul style="list-style-type: none"> •Web presence 	<ul style="list-style-type: none"> •Infinite reach in cyberspace •Corp. Brochure 	Free*
<ul style="list-style-type: none"> •Online community 	<ul style="list-style-type: none"> •To share yr local knowledge, •true exp. 	Free*
<ul style="list-style-type: none"> •eMarketing •Branding •eMail market •Target niche MKT. •Bundle service offer 	<ul style="list-style-type: none"> •Disseminated timely & trustworthy content •Cost Eff. Push marketing campaign •Destination marketing 	Free*
<ul style="list-style-type: none"> •Online distribution channel •Sale •Reservation •Payment 	<ul style="list-style-type: none"> •Revenue Mgt. <ul style="list-style-type: none"> – Dynamic Pricing • Time, Volume ,Season •Improve profitability 	Revenue sharing
<ul style="list-style-type: none"> •Customer relation •Virtual travel agency •Loyalty program •CRM 	<ul style="list-style-type: none"> • Repeated business • High retention customer 	Revenue sharing

Conclusion

- Both banks and travel agents are intermediary services facing different types of challenges.
- Unstoppable globalization and IT advance has drastically affect both industries.
- Travel agents can 'bank' on their local info and knowledge through positive e-networking.
- Keep talking to all stakeholders is imperative
- Becoming **'Virtual Travel Agents'** and E-partner with www.A2ZeBusiness.com is one way!

All in family



www.A2ZeBusiness.com family members
of online travel booking and content sites



END

see you next time

[I love emails.

Please, send me comments or advises to
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