

## The Affect of E-commerce on Travel Agent in Taiwan

Ying- Ling Liao\* Ru-Ling Par\*\*

\*Lecturer, Department of Business Administration,

Transworld Institute of Technology

\*\* Lecturer, Department of Hospitality and Tourism Management,

Transworld Institute of Technology

### Abstract

The emergence of e-commerce has reshaped the travel industry, as it not only facilitates the direct link between consumers and suppliers while bypassing travel agents, but also nurtures many new mega e-travel agents. While it endangers the status of travel agents, e-commerce also provides a platform for traditional travel agents to compete globally. Therefore, how to respond to these challenges and opportunities is crucial for survival for travel agents in Taiwan. A lot of research has been undertaken on mega e-travel agents' successful stories in the USA and UK. Less understood is the exact process of this impact on traditional small-medium size agents, especially in Taiwan's context. By using Bloch and Segev's framework and Michael Porter's model, this research examines the impact of e-commerce on both the travel industry and a medium-size travel agent in Taiwan. Secondary data was used for industry level analysis and in-depth interviews were conducted to gain the insight of the transformation process. Quite contrary to the popular thinking, this study revealed in industry level: major suppliers--airlines, they hesitated to provide direct sale to consumers; the new e-travel agents did emerge yet with less influence as their counterparts in the West, only prevailing in ticket-only or domestic market; most of travel agents regard e-commerce only as a alternative channel to promotion and advertisement. City Tour has taken a cautious-follower's strategy in e-commercialization. The strategies suggested for City Tour include: expansion target market to the inbound market, enhancing its product innovation and customer-focus.

**Key words: E-commerce, Changing Role, Strategy, Porter's five forces**

## **Introduction**

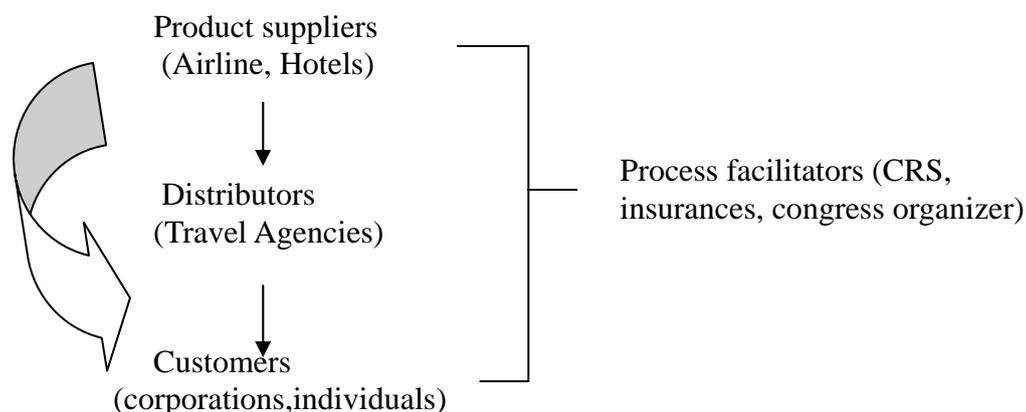
In the past, travel agents play an important role in the tourism industry as a leading intermediary between the consumer and supplier. They not only sell products but also provide expertise to advice and recommendation on trips. However, as the Internet has now become a favorite arena for one to plan, explore, and arrange for almost any packaged trips. It also offers itself as a platform for convenience and for specialized sales.

Travel agencies today encounter challenges from different directions. Not only have consumer behaviour changed but it now also faces fierce competition from new Mega-travel Agents, which has resulted in a price war. Furthermore, some competitors from Third-party on line travel stores are competing with them as well. Nevertheless, e-commerce has many positive sides. It allows for direct and automatic transactions between the supplier and its customers in a cost-effective way. The Internet is also a vital channel to enable travel agencies to sell their flight tickets at the last minute and at a discounted price thus attracting even more customers. It is therefore important to study how travel agents have to face this new situation and how they can react to it for the future.

## **The impact of e-commerce on tourism industry**

The tourism industry is an immense conglomeration of different suppliers, including Airlines, Hotels and Restaurants, Tour operators and Travel Agencies and millions of travelers. The advantage of information technology is not only helping to reduce distance and barriers but maintain the trend toward a global economy which also reshaping the whole industry. In general, the impact of e-commerce on the tourism industry includes competition from globalization, new entrants coming from other industries and changing customer behavior (increasing expectation and more knowledgeable) (Bloch and Segev, 1996). This changing relationship also can be shown from the graph below:

Figure1 The travel industry chain



Source: Bloch and Segev (1996)

### Major suppliers in the travel industry – Airline

As a result of commission caps and reductions, many travel agents began charging their customers to help make up for lost commissions from the Airlines. To make matters worse for travel agents, most large airlines began to encourage travelers to bypass travel agents and book their flights with the airlines directly (McCubbrey, 1999).

From above, we clearly see that both the profit-earning structure and distribution structure of travel industry have been reshaped either directly or indirectly due to the presence of e-commerce. E-commerce is helpful in accessing global markets and in developing the ability of Travel Agent to enhance their market share. The internet also allows Agencies to develop specialized sites for their distinctive markets. While e-commerce provides many opportunities to travel agents, it also exerts considerable challenges for traditional travel agents. The first challenge of traditional travel agencies comes from the competition of several newcomers, such as Expedia, Travelocity and Lastminute.com (Buhalis, 1998, Wardell, 1998). Besides the pressure from new Mega travel agents, the traditional travel agencies will also face the challenges from other innovative organizations and the new threat from direct sales by tour operators. Another challenge comes from the presence of dynamic internet sites by airlines, hotels and other suppliers providing the consumers cheaper prices while bypassing travel agents, which cut down the core benefits once offered to travel agencies (Buhalis,2003; Zhou,2004; Turban et al,2004; Ujma,2004 ;Davidson,2002).

Although the development of information technology in the travel industry in Taiwan lags far behind US and Europe, there are no shortage of relevant studies on e-commerce and related issues. At the dawn of the e-commerce, Huang (1997) focuses on the characteristics of both the travel industry and explores the impact of the World Wide Web on the travel industry and also analyzes the motivation of traveling and the changes of consumer behavior. However, research seems to show a lack of social and economic context. The literature reviewed above, helps to understand the general trend about the evolution of travel industry, which will fit into the theoretical framework in this research. The following section will develop a suitable research framework based on the literature review and research purposes.

### **Methodology and framework**

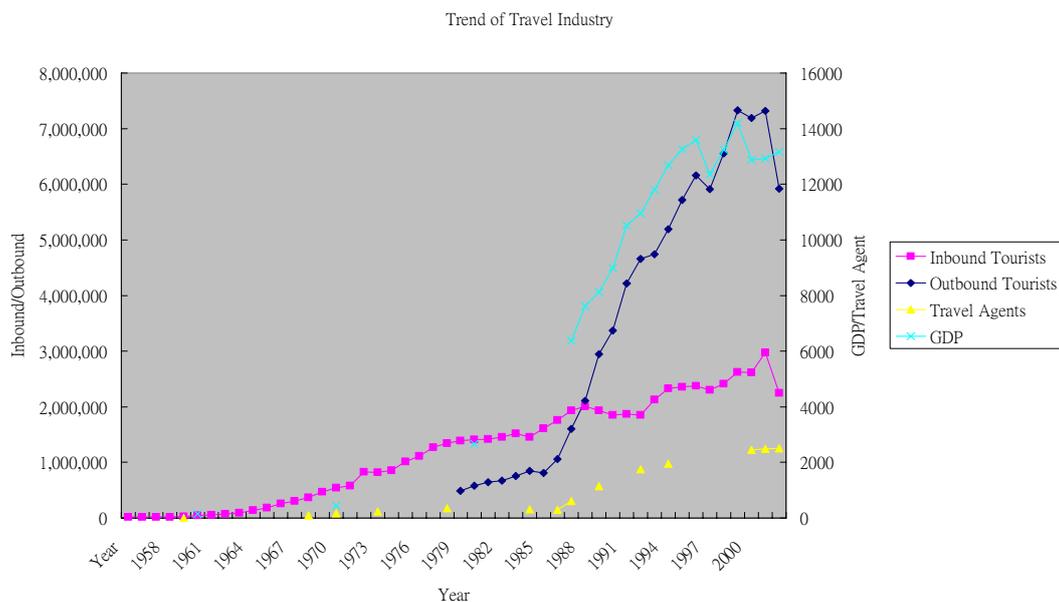
The literatures reviewed in last paragraphs provide an area of focus and a theoretical foundation for this research. Based on that understanding, possible methodologies in conducting this research topic including Bloch and Segev's research framework, Porter's model and case studies are fully examined.

### **Travel industry in Taiwan**

In order to examine the changing role of travel agents in the e-commerce environment of Taiwan, it is necessary to trace back to the history of the travel industry, and to explore the factors that affect the industry and its development.

From the Figure 2, it clearly shows that there is a consistent, rapid, and correlated growth between GDP and outbound tourists from 1988 to 1997. However, since 1997 both have suffered dramatic fluctuations (Tourism Bureau, 2004)

Figure 2 Trend of travel industry



Liao (2004) figures and graphs designed for this essay

These data showed that external environmental change in different periods can offer understanding of how to develop corporate strategy, increase competitive advantage, explore the opportunity and enlarge linkage in this e-commerce environment. From the above analysis, the tourism industry in Taiwan is highly vulnerable and volatile to a fast-changing internal and external environment.

Besides that, the travel retail market in Taiwan consists of numerous small independent companies. City Tour is one typical example of these small-medium size agents in Taiwan. In the following section, the City Tour's five-force analysis will be examined to see how the e-commerce change the role of travel agent thoroughly.

By using Porter five-force analysis, a positioning statement can help to find where City Tour is in Taiwan's travel market. To come up with an accurate positioning statement I have started off by evaluating the result from interviewing the major key figures.

Porter five-force analysis of City Tour in e-commerce environment is as follows:

### **Supplier**

The relation between City Tour and its suppliers is flexible and is subjected to change according to its success. The Airlines grant franchise to only a limited number of tour operators or travel agents which are not necessary powerful players in the market. However, it does serve as an influential sales area and public relations with the Airlines. According to the analysis both Eva and China Airline seem eager not to offer a price that is lower than that of the travel agent's market price. This then implies that both Eva and China Airline is still dependant on traditional distribution channels of major travel agents, even though Ez-fly.com is more pro-active to promote tickets sales from their website. City Tour still profits from airline tickets as it used to be. An element of City Tour's package tours is to co-operate with Tour operators and Travel agents to increase product diversity and price advantage. It can be said that this relationship with the supplier to co-operate also enhances competition at the same time. Also, foreign operators have now set up offices in Taiwan which increases competition. For the present online web site is not a threat. However, it can be envisaged that it will be so in the near future.

### **Buyers**

E-commerce has provided the channel for all the stakeholders to have the same opportunity to sell their products on line. Competition comes from different fields and will therefore one day soon destroy the conventional marketing distribution channel. The major effect of this change is that customer bargaining power has significantly been changed and loyalty gradually being eroded. Punters therefore will browse swiftly across websites looking for the cheapest offer. The cheap offers from websites could sometime disenchant customers due to various factors like misleading promotions or promotions with hidden added costs.

However, City Tour can still survive by using a different strategy. With dedicated and individualize products at its core it will make competition from others that much harder to compete.

### **Competitor**

Tour operators and travel agents provide services with very little distinctions between one and another in Taiwan, i.e., numerous traditional and e-travel agents compete to sell the same product. Therefore, it is impossible to identify key players of

City Tour. It is estimated that there are about 100 to 300 competitors for the same target destinations. City Tour faces a direct threat from travel agents that sells a similar product. Besides, the key players have abundant resources which can have a competitive edge not only in price but also in manpower deployment. Today the successful e-travel Agent often uses a web site advertisement to catch customer attention. There are an abundance of browsers who will look on their website, which in turn can generate a lot of sales. The strategy that e-travel agents uses are low prices and mass advertisements for which it is not suited to City Tour and hard for them to mimic.

### **New entrants**

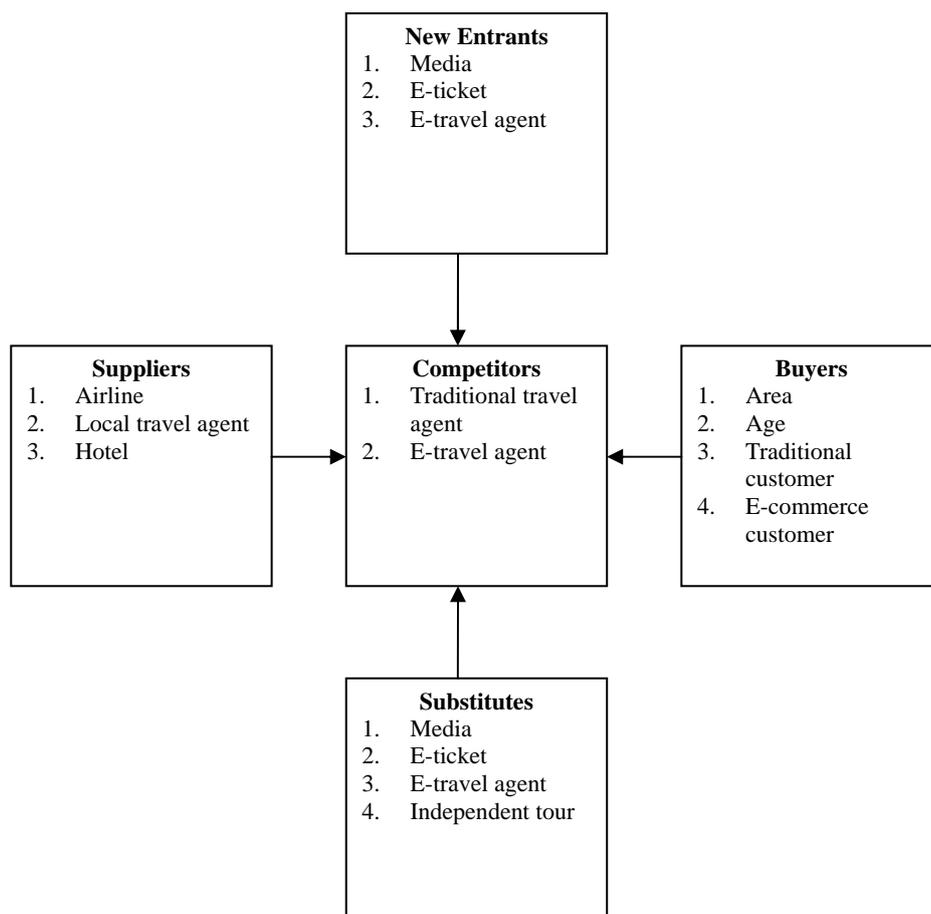
Before the introduction of IT (information technology) to the travel industry, entry to this industry was not so difficult. However, this situation has been changing slowly following the development of IT technology with GRS system and e-commercialization. The barrier for new entrant is now tougher than before. Therefore a small agent of old like City Tour can still continue to exist in this new e-commerce environment. But in the near future, any new potential entrant can only be launched by having a heavy capital investment in both marketing and good technological support. TV media provides for another new channel to promote products because it is fast, animate and vivid image. With e-ticketing reducing both the cost and processing for Airlines. With e-travel agents presenting low priced products and powerful data information and as has been said before this will be difficult for City Tour to follow.

### **Substitute**

As travel agents issue fewer airline tickets and customers are more used to using e-tickets airlines will then be in a much better position to eliminate commissions. It is easy and convenient for an e-travel agent to operate and facilitate in e-ticket trading. With the growing use of the internet and more information available through websites, travelers are becoming more independent and confident especially for today's young generation. More over Group tours are becoming less attractive than that of independent tours.

The essence of Porter's five factors analysis is to identify the firm's competitive advantage. However, from the above analysis; City Tour does not have enough bargaining power over either suppliers or customers which epitomizes that of most of the traditional travel agents in Taiwan.

Table 3 City Tour's Porter five-force analysis



Liao (2004) Table designed for this essay

Judging from the overall performance and according to the classification in the interview process, it can be said that City Tour is a cautious yet incompetent follower in e-commercialization. Nevertheless, the executive manager of City Tour has showed great flexible capabilities and with pragmatic approach was able to override this transformation process. This explains why City Tour can still survive in this present fast-changing environment. According to Lin (2003) the leader of travel agents in Taiwan, in the past they ran the business successfully using the skill of intuition. However, in the current changing environment and with competing creative technology, it is impossible to survive by only using the traditional method. From the above analysis there are some possible strategies for City Tour.

- Target and expand to include for the in-bound market - It is suggested that City Tour coordinate with government policy and gradually expand to the in-bound market.
- Product focus, Customer focus, and Employee focus – These three are interrelated.

City Tour may be a cautious and incompetent follower in e-commerce but do

have certain innovative capacities in travel product design. However, City Tour's employee turnover is high and needs to restructure in keeping only skilled employees as like all other travel agents do today.

- Alliance: When the travel industry thinks of alliances, they usually refer to alliances with other travel industries or alliances with process facilitators. By way of cooperating with destinations government may yet prove more fruitful. This is what I mean by dedicated actions.

Unlike other new provider which often uses technology-driven strategies rather than business-driven ones, City Tour should exploit their strength and focus on more product innovations. However, in this fast-changing world the tourism industry is highly vulnerable and volatile. Therefore, these strategies suggested should not be taken as a once and for all process. Instead, it is necessary to constantly monitor and review performances and its implementation, keeping an eye on what is happening in both the external and internal trading environment and ready to take any responses accordingly.

### **Conclusions and Suggestions**

From the literature review

There are many different impacts of e-commerce on different participant at three levels, for examples:

- At the industry level, it has to re-structure the traditional distribution method and facilitate direct sailing.
- At the travel agent sector, it facilitates consolidations among travel agents and nurtures the mega e-travel agents, which has fully exploited this technology and overwhelmingly reshape the industry.
- At the company level, it can enhance the business value chains, which depend on the company's ability and vision to utilized it. To traditional travel agents, it brings tremendous challenges yet also provides great opportunities. However, with their limited resource, theoretically and empirically they are in danger especially in the West.

Less has been studied in the field that includes: the responses and the transformation of the traditional travel agents, especially in the less technology-matured yet booming countries.

Literature from Taiwan shows that there are limited perceptions on e-commerce. However, the mechanism behind that is less charted, let alone the actual transformation process.

#### From methodology review

With the comprehensive inter-mingling and dynamic relationships between travel industries, agents, consumers and technologies, no single theory can explain the complex and inter-relational effects. A Combination of methodologies to form a suitable research framework is currently a popular trend.

#### From this study (1) – travel industry

The out-bound tourist market and the travel agent sector in Taiwan have been strongly influenced by the booming economy and Government tourism policies and regulations. Since 1997, due to slack economic performances and greater exposure to global influence, the out-bound tourist market has become volatile and intensively competitive. Major suppliers like the Airlines in Taiwan, even though having dominant powers over travel agents; they have hesitated launching into direct sailing. The travel agent sector in Taiwan has certain definite characteristics features which are as follows: SMEs form the main structure of travel agents, a lack of hierarchy, a strong tendency towards inter-personal relationships and homogenous products. A few e-travel agents do survive but with less influences than that of their counterparts in the West. The e-travel agents are only relatively successful in market areas such as: independent young travelers, out-bound flight only or the domestic market. Traditional travel agents which have a web presence use it only as a channel for promotions.

#### From this study (2) – Case study-City Tour

City Tour emerged and grew concomitantly with Taiwan's booming economy and burgeoning out-bound market. City Tour is relatively strong in product innovation and quick in seeking opportunities, but is a cautious and incompetent follower in e-commercialization. Although with high reflexivity, pragmatism and flexibility of its executing ability in e-commercialization, City Tour is restrained by a blurred understanding of e-commerce, a lack of expertise and financial resource. Possible strategies City Tour implement for the future are: an expansion to the in-bound market

by co-operating with government policies on travel by having more customer focused products, broaden its alliances and a good employee structure.

### **General conclusions:**

Contrary to the prevailing thoughts that e-commerce has effectively reshaped the travel industry and endangered traditional travel agents in the West, it has so far not been obvious in Taiwan. Travel habit, market maturity and even technical constraints should all have been taken into account by now. The synthesized research framework and methodologies used in this has allowed researchers to bear both holistic understanding and detail examining.

### **The Importance of this research**

A particular feature of this essay is that, in order to fully explore and understand the changing role of travel agents in Taiwan, it combines a macro-level analysis, which has proved to be able to provide a holistic and comprehensive picture in a wider social, economical ...and industrial context under the e-commerce environment, and a detailed-case study with a firm in-depth interview, which allows to examine the detail, yet significant events during the transforming process in travel agent's e-commercialization. This is the most important contribution. Besides the theoretical contribution in research framework construction, the research results from this study reveal very important phenomena and mechanism, although further research may be suggested. Undoubtedly, they are worth of not only academics but also practitioners' attention, which is second contribution.

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## e 化對台灣的旅行社之影響

廖英伶\* 白如玲\*\*

\*環球技術學院企管系講師

\*\*環球技術學院觀光與餐飲旅館系兼任講師

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### 摘要

電子商務的出現從新改造了旅行業的產業結構，因為它不僅直接促使消費者與供應商之間直接交易並且繞過中間代理人旅行社的角色，除此之外也孕育出許多新的大型 E 化旅行社。當電子商務危及旅行設的傳統市場地位的同時，它也為旅行社提供全球性競爭的一個平臺。所以，對臺灣的旅行社而如言，何面對這些挑戰和機會將面臨考驗。很多研究都是針對美國和英國的大型 e 化旅行社的成功案例，卻比較少針對傳統中小型旅行社面對此一現象所遭受的影響做研究，尤其是關於台灣。藉著使用 Bloch and Segev 的理論架構以及 Michael Porter 的模型，本研究將檢視 e 化對台灣旅遊產業及中小型旅行社兩者的影響。研究方法採個案研究和深度訪談對於產業狀況分析將採用二手資料研究，以便深刻了解轉化過程。然而研究結果顯示與一般人的看法相反，本研究顯示旅遊產業的供應者航空公司，他們對於直接銷售仍抱持保留態度。新的大型 e 化旅行社的出現對臺灣的影響不像西方國家那麼嚴重，比較明顯影響只有在機票及國內市場部分，大部分的旅行社業者僅把它當作是一個廣告及促銷的平台。

**關鍵字：**E 化、角色轉變、策略、Porter 五力分析