

11. Travel distribution systems

Learning objectives

At the end of this chapter the reader will be able to:

- Distinguish between direct and indirect distribution systems.
- Determine the advantages to the producer and consumer of each system.
- Outline the appeals of group travel and barriers to be overcome in its promotion.
- Discuss the economics of tour wholesaling and describe the steps involved in planning, marketing, and operating a group tour.
- Describe the importance of the retail travel agent to tourism.
- Discuss how a travel agency operates and makes money.
- Define and correctly use the following terms: direct distribution system, retail travel agent, tour wholesaler, independent tour, escorted tour, return on equity, package, preformed group, guide, International Airline Travel Agent Network, Cruise Lines International Association, National Railroad Passenger Association, indirect distribution system, tour operator, speciality channeler, hosted tour, special format tour, tour specifications, shell, tour escort, Airline Reporting Corporation.

Tourism distribution systems

Introduction

The link between tourism suppliers and the customers is known as the *distribution system*. The purposes of the system of distribution are twofold: to give potential travelers the information they need to make a vacation choice, and to allow them to make the necessary reservations once they have decided on their choice.

The various types of distribution systems are diagrammed in Exhibit 86.

Direct distribution system

The distribution system may be *direct* or *indirect*. A direct system of distribution is one where the supplier (destination, airline, hotel, etc.) communicates directly with the customer. An individual, for example, may call a specific hotel or airline, or write to them requesting a reservation for a specific date. The supplier then answers over the phone or writes back confirming the reservation. The transaction is direct.

Suppliers have experimented with other, less traditional forms of communicating with the traveler. Larger companies provide toll-free 800 telephone numbers that they advertise to the public. This allows the traveler to call the supplier without charge. In a few cases, automated ticketing machines have been opened at airports. These machines connect directly with the computer reservations system of an airline and allow the traveler with a credit card the availability of receiving flight information, making a reservation and receiving both ticket and boarding pass on the spot. These machines have limited exposure at airports, for the airline runs the risk of upsetting the

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retail travel agents who are being bypassed. If successful, it is likely that automatic ticketing machines will be installed in hotels and elsewhere.

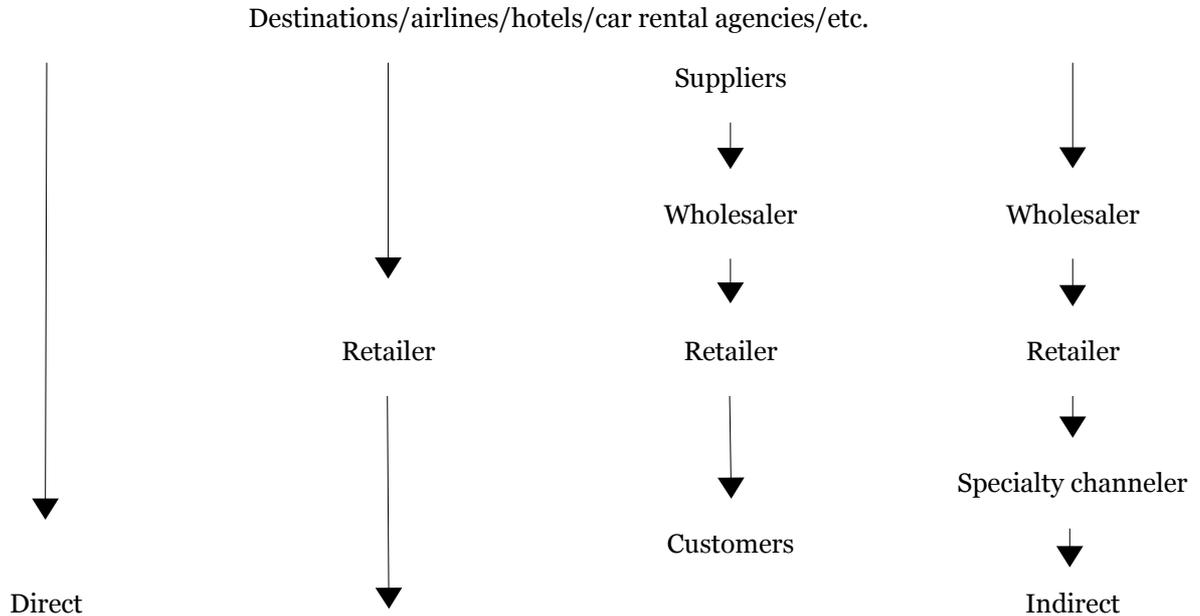


Exhibit 86: Tourism distribution systems.

Technology is available to sell travel through home computers. Mass outlets for selling travel have been utilized in Europe with travel being sold through supermarkets. For simple transactions these direct methods of selling travel can be expected to grow.

For the supplier, the system is simple, profitable and offers control over the sale. The system is simple in that buyer and seller have direct communication with each other; it is profitable in that all the revenue paid by the customer goes to the supplier; control comes from the fact that the sales representative is an employee of the supplier.

Indirect distribution system

An indirect distribution system is one where there are one or more intermediaries between the supplier and the customer. The most common intermediaries are discussed in the sections that follow.

Retail travel agents. These are people who sell tours for wholesalers and operators in addition to hotel rooms, car rentals, and transportation tickets. The retailer acts as agent for the supplier and is paid on a commission basis by the supplier for sales made.



Exhibit 87: "Following in the footsteps of royalty", an example of a tour of Prague, developed by Cedok, the National Tourist Office of Czechoslovakia. (Courtesy Cedok.)

Tour operators or tour wholesalers. These are people who create a package that might include a variety of tourist products such as transportation, lodging, meals, transfers, sightseeing, etc. Wholesalers buy these "products" in bulk from the supplier at a reduced price and make money by marking up the package. They can sell the package directly to the tourist (tour operator) or through retailers (tour wholesaler). In the latter case, they would pay a commission to the retail travel agent.

Retail travel agents can package their own tours and sell them to the public and/or through other retailers.

Specialty channelers. People who are intermediaries between the retailer and the customer are known as specialty channelers. They may represent either the customer or the supplier and include incentive travel firms, meeting and convention planners, association executives, and corporate travel offices. Incentive travel firms put together and sell travel as an incentive to increase sales. They sell their ability to design, promote, and manage incentive travel programs. Other specialty channelers are employees who buy travel services at efficient costs for their organizations.

Supplier choice. Why would a supplier choose to give up control of the sale while paying a commission by distributing the product indirectly?

The major reason is cost. For many companies the cost of maintaining a sales network is prohibitive. To set up national and regional sales offices is very expensive and is a fixed cost; the salaries and rents must be paid irrespective of the sales volume produced. By contrast, the cost of selling through intermediaries is variable; a commission is paid only if a sale is made.

Additionally, the intermediary assists the supplier by checking customer credit, taking various individual payments, and paying the supplier in one sum.

Customer choice. Numerous reasons exist why the customer would wish to deal with an intermediary. In theory, the middleman offers unbiased professional assistance in selecting from a variety of travel products. For customers calling United Airlines by telephone, the reservationist at United will try to sell United products. A travel

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agent, on the other hand, will have access to and will be paid a commission on selling a variety of airline flights. The customer is offered a better selection and may find a less expensive and/or more convenient flight.

Both the knowledge and the experience of the intermediary are generally available to the traveler free of charge. In unusual situations where the cost of putting together an individualized itinerary involves a fee, travel agents, for example, will spend time advising clients on where to go, how to get there, what to see and even how to pack.

The intermediary can often negotiate options for the traveler that the individual tourist cannot get. Because they deal in larger numbers of travelers, intermediaries have clout with suppliers to provide difficult-to-get theater tickets or special discounts, for example.

The role of the tour wholesaler

Size and importance

Tour wholesalers combine transportation and ground services into a package that is then sold through a sales channel to the public.

History. Tour wholesaling began in the mid-nineteenth century. In 1841, Thomas Cook, founder of the Thomas Cook travel agency, chartered a train to carry several hundred people to a temperance meeting 20 miles away. In 1856, Cook led the first Grand Tour of Europe and, several years later, was offering cruises down the Nile, rail tours to India, and trips to the United States.

It was not until the advent of jet aircraft in 1958 that the packaging of tours increased significantly. Larger aircraft capable of flying greater distances stimulated the development of the package tour as we know it today. Because of the increased capacity of the airlines, prices were lowered. This, in turn, stimulated a demand for low-cost vacations. Tourists were able to travel farther with their two to three weeks of annual vacation. Crossing the Atlantic, for example, was cut from six days by liner and twenty-four hours by propeller aircraft to seven hours by jet. As a result, tour wholesalers came into the marketplace to put together low-cost package vacations.

Role in industry. There are over 1,000 tour operators in the United States today. The tour operator or wholesaler buys in bulk from industry suppliers. Instead of making a reservation for two nights' lodging, a wholesaler may contract for a hundred rooms for the months of June, July, and August. Similar arrangements would be made with airlines, ground transportation and travel attractions. By buying in bulk the wholesaler gets a better rate than would the regular traveler.

After the wholesaler adds on the costs of doing business, profit and commission to retailers, the cost savings are passed on to the customer. Typically, a wholesaler gains by making a small profit on each package sold to a large number of customers.

Definition. Often used interchangeably, the terms *tour operator* and *tour wholesaler* are different. The operator sells packages directly to the public while the wholesaler sells the package through a retail travel agent.

Independent wholesalers make up about three-quarters of all wholesalers. This might be an individual or a corporation such as American Express. The remaining wholesalers are travel agencies that package tours, airlines that have their own wholesaling division and travel clubs, and incentive travel companies that do not sell to the general public.

Operators may specialize by segment of the market catered to, by destination or by type of transportation used. Over 90 per cent of tours sold by independent wholesalers involves air travel. However, some companies may specialize in cruises.

Tours may be independent, hosted, escorted, or special format. An independent tour offers few components; usually hotel plus one other land arrangement such as car hire. Tourists have maximum flexibility regarding departure and return dates. Additionally, they can extend their stay by paying an extra per diem charge.

A hosted tour includes the services of a host at each destination to make local arrangements. Travelers can still choose travel dates and hotel used.

An escorted tour is the most structured. A tour escort accompanies the tour throughout. Tourists begin and end the tour according to the operator's schedule and stay in hotels selected by the operator. Participants have little free time.

Special tour formats include incentive tours, pre- or post-convention tours, and special-interest tours.

Image of group tours

Group travel is perceived as an experience rather than "just" a method of travel. It is an experience shared with others; it is organized; it is passive and carefree. Those on tours give up a degree of personal control over the vacation in return for having someone plan and execute the trip for them. Because those planning the trip have experience and buying power, the package is less expensive than if the components were purchased separately by the tourist.

Tour appeals. People go on tours for reasons that are practical and emotional. The practical benefits are convenience, expertise, safety, and price.

Tours are convenient in that the vacation can be spent concentrating on the experience rather than on making the arrangements. Having someone else do the driving is important in terms of dealing with city traffic, driving in unfamiliar areas, and spending time reading maps rather than enjoying the scenery. Tours offer the convenience of being picked up and delivered to hotels, attractions, and entertainment. Accommodations and tickets to events are guaranteed. This is particularly important for high-season events or times. Lastly, the idea of the baggage being taken care of is appreciated. This is particularly true for single women and older people.

People who take tours feel that they can see and do more than if they were traveling alone. There is the feeling that the operator has the expertise to select the best places to see. Because of this, participants can actually see more because they do not have to spend time evaluating all of the options.

There is safety in numbers. This is particularly true for older or female travelers and for urban or "off-beat" destinations.

The fixed price of a tour is an important feature. The most important part, however, is not the absolute price but the fact that the costs are known beforehand. There is little or no danger of being halfway through one's vacation and running out of money because of poor budgeting. The tour is prepaid. The only other costs are some meals, sightseeing and shopping.

People also take tours for emotional reasons: companionship, an opportunity to learn, to share activities, and for security. Tours offer the opportunity to meet new people and make new friends. Many see it as an opportunity to get an overview of a destination, to discover and learn. Adventure touring is important to younger travelers while historical touring is mentioned by older tourists.

Group travel is seen as a way of participating in activities with others who have the same interests. This can include physical-activity tours such as skiing or water sports as well as theater, garden, or historic homes tours. In all of this, there is the opportunity to be further educated in a particular area.

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The security component comes from the feeling of being an insider even in a strange place. This is an emotional appeal compared to the physical feeling of safety explored above.

Negatives. The negative images that people have about tours fall into four categories: perceptions of the bus, the tour experience, the group concept, and the types of people who take tours.

For a number of people, tours are associated rather negatively with buses. The term "motor coach" is used by the industry to designate touring buses. Particularly in Europe, most coaches are extremely comfortable with videos, hostesses who serve drinks, and reclining seats. However, despite the fact that such equipment is available in the United States (albeit on a lesser scale), the image brought to mind is too often the school or commuter bus. The bus is seen as too slow, too confining, and too uncomfortable. It is viewed as a cheap and old-fashioned way to travel. Travelers also have a negative image of bus terminals and view this as an undesirable place to start a vacation. Additionally, some people, particularly men, dislike the idea of giving up control to the coach driver. They complain about not being able to control the lights, the fans, or where and when to stop.



Exhibit 88: The cynic's view of group tours! (Courtesy Hong Kong Tourist Association.)

For people who do not take tours, the tour experience itself is perceived negatively. Touring, to many, is equated with regimentation, inflexibility, and passivity. The tour is seen as a shallow, boring, and impersonal experience. There are those who think that, rather than receiving the advantages of group power, being part of a group involves getting second-class treatment from hotels and restaurants.

Yet another barrier to be overcome in selling tours is the group aspect of the tour. There is a fear of not relating well to other members of the group. A vacation to many people involves having personal space and freedom. Being part of a group limits both.

Finally, many people have a negative perception of the kinds of people who take tours. People who travel as part of a group are seen, stereotypically, as infirm, older, inexperienced travelers. This translates into a personality profile of people who take tours as passive and lacking in self-confidence.

To overcome these negatives, those who package tours need to be more innovative in upgrading both the image and the content of tours. Perhaps even the word "tour" needs to be changed into "adventure holiday", "expedition",

“discovery trip”, or “excursion”. Different modes of transportation can be used in conjunction with each other; for example, air to get the traveler there and coach to see the destination. Hub-and-spoke concepts can be used to bring people to a destination where they can relax on their own. Shorter mini-trips can be packaged with more free time, and tours with themes grouped around recreational activities can be developed to appeal to the younger, more active crowd.

Economics

The tour wholesaling business is one that is relatively easy to get into, that places an emphasis on cash flow, has a low return on sales, and a high potential for return on equity invested.

Ease of entry. In the US, the bus industry was deregulated in 1982, effectively ending control of the tour industry by the Interstate Commerce Commission. Since that time, it has become easier for smaller operators to get into the business of wholesaling tours. To be considered a tour, a vacation must meet requirements of duration, price and number of travelers. For travel agents to receive a commission, the air transportation element of the tour must meet the standards of the Airline Reporting Conference, for domestic tours, and the International Airlines Travel Agent Network, for international tours.

Wholesalers must also take out a performance bond, similar to an insurance policy, to protect travelers, travel agents and suppliers in the event of bankruptcy by the wholesaler.

Cash flow. A wholesaler buys transportation and ground services in bulk. The wholesaler will pay a deposit on services contracted for. As the time of the tour draws closer, the percentage of the deposit that is refunded if the tour is cancelled is reduced.

By buying in bulk, the unit cost to the wholesaler is reduced. The ground portion of the tour is marked up, added to any air component and sold to the public. Commissions flow directly to the travel agent involved in selling the tour. Cash flow is generated by the wholesaler as deposits and final payments for the tour come in. Suppliers do not have to be paid until after they have provided the service being contracted for. The resulting “float” can finance the operation of the wholesaler's business.

When a wholesaler uses the float from one tour to finance a second tour, a reduction in demand can result in cash losses if there is insufficient equity in the business to carry the business downturn.

Return on sales. For independent tour wholesalers the average return on sales is about 3 per cent. This means that, on a tour selling for USD 1,000, the net profit is approximately USD 30. The key to profits is volume, number of tours sold. Out of the revenue received from the traveler, the wholesaler must pay the suppliers and the travel agent who sold the package. This accounts for 85 to 90 per cent of the revenue. With what is left, gross profit, the wholesaler must pay for the costs of operating the business. Net profit is what remains after the operating costs are paid.

Return on equity. Return on equity is the ratio of net income divided by owner's equity. Because the amount of money invested is relatively small there is an opportunity for a high return on equity.

Tour preparation

The preparation for a tour begins up to 18 months prior to departure.

Fourteen to eighteen months prior. Market research is the starting point for any tour, and this is the time to prepare. Based on an analysis of travel research, tourist trends, what the competition is doing and a survey of retailers and travelers, wholesalers get an indication of what will likely sell.

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The best destinations are those that are popular, have adequate facilities, appeal to a broad group, are far away, offer good weather and have the recommendation of an agent.²⁸ Popular destinations are easier to sell. Certain destination such as Acapulco, Puerto Rico, and Hawaii have developed a very popular and positive image over the years. The facilities important for a group are:

- convenient transportation
- hotels with a variety of function space
- a variety of hotel types and prices

Destinations that offer a wide variety of things to do and see are more attractive because while one part of the group is viewing historic sites others can be off shopping.

Distant destinations can be appealing to both the agent selling the tour and to the traveler. Much of the selling agent's income derives from commissions on the air part of the tour. The greater the distance traveled, the greater the cost of the air fare and the greater the agent's commission. Yet there are also savings for the traveler. One of the advantages of buying a package is the saving on the air fare. The money saved on a long trip is greater than that on a shorter one.

Finally, a destination should have good weather and the support of the agents selling it. Poor weather can limit the activities that people can undertake during a vacation. Of course, destinations will offer off-season rates in order to entice travel in the low season. Thus, support of the people who will ultimately sell the package is important if the tour is to make money.



Exhibit 89: Waihirere Maori Club. Tours usually include entrance to local attractions. (Courtesy New Zealand Tourist & Publicity Office.)

Detailed tour specifications can then be developed on departure dates, length of the tour, and transportation and ground services to be used.

Of special importance are considerations of distance, the amount of free time, planning for shopping and the location of accommodations. The distance that can be covered in a day will vary greatly depending on the terrain and quality of roads. The amount of touring should vary each day, with a long touring day followed by a day of

²⁸ Ralph G. Phillips and Susan Webster, *Group Travel Operating Procedures* (New York: Van Nostrand Reinhold, 1983).

shorter travel. Two and three-night stopovers help travelers catch up on laundry and rest. Packing and unpacking each day can be both tiring and unsettling.

The number of items to plan compared to the amount of free time available is a matter of cost and convenience. The fewer meals and side trips planned for and included in the basic tour price, the more expensive the add-ons will be for the travelers. This, of course, works against one of the major advantages of buying a package, knowing the price in advance. Yet most people will want to have some time and choice of meals and activities to themselves. The key is that items should not be included in the basic price if travelers have the time to do them on their own, if there are different interests among the group members, and if it is convenient and not too expensive for them to do so.

Certain activities and meals should be included. If an early morning departure is called for, breakfast should be included, preferably a buffet. The same thing is true for dinner after a long day of travel. There should be a group activity shortly into the tour, to allow travelers to get to know each other and to set an upbeat tone for the tour, and one at the end to allow for a grand finale.

Shopping is a very important part of any holiday. Hence, organizers must be aware of early closing times and local holidays.

The choice of hotel is often a balance between cost and convenience. Hotels outside the city may be less expensive, but they are often far from shopping, restaurants, and nightlife.

Twelve to fourteen months prior. Ground services are negotiated and transportation arranged during this time; contracts may also be signed.

Ten to twelve months prior. This is the period when tour programs are finalized and a selling price reached. Cost figures are tallied and a markup added that will cover overhead and profit. Costs may be either fixed or variable. A fixed cost is one that must be paid irrespective of the number of travelers. The cost of chartering a coach or hiring a tour escort is a fixed cost. The pro-rated share of such a cost is spread over the anticipated number of travelers. A variable cost is one that is charged per traveler. Charges for hotel rooms, meals or admission tickets to an attraction are examples of variable costs. Finally, the method of handling reservations is determined during this time.



Exhibit 90: Tour organizers must be aware of shopping hours. (Courtesy New Zealand Tourist & Publicity Office.)

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Tour marketing

Ten to twelve months prior. This is the period when brochure production begins. The cost of producing brochures is often shared by suppliers, especially transportation companies. Suppliers may offer shells to the wholesaler for personalizing. Shells are brochures that have color photographs with a minimum of copy. The wholesaler adds the copy specific to the tour, outlining the features and statement of conditions. This latter includes such things as what is and is not included, how to make a reservation, procedures for putting down a deposit and final payment, any travel documents required, and a refund policy.

Commission rates and incentives for selling specific numbers of packages can be negotiated with retailers.

Six to eight months prior. Selling of the tour now begins in earnest. At this point, it would be helpful to examine the process by which people choose a tour.

The decision process for many is, in fact, a two-step process. First, the decision is made to travel with a group. Second, the particular tour and/or tour company is chosen. The first step is often to decide whether to travel with a friend or organization. This seems to be particularly important for singles, especially single women. In fact, it is usually a friend who introduces others to the idea of group travel. In fewer cases do advertisements influence the choice of a tour. Personal experience in using a particular operator and word-of-mouth endorsement from friends and relatives is especially important.

Some differences exist by market segment. Preformed groups are those people who belong to clubs or associations. For these people the destination or company used is secondary to the idea of being with their friends, having fun, and getting away. Travelers who book individually have often formed their own mini-performed group consisting of people who are compatible with each other. One sale can mean four sales. Single older women place a great emphasis on being able to travel safely and securely with others like themselves, whereas for younger single women, adventure and the ability to participate are valued. Price is a more important consideration for this group than for others.

Marketing programs will usually involve the distribution of brochures, media advertising, personal selling, and communication with other wholesalers. There are almost 30,000 retail travel agencies in the United States, and it is obviously costly to distribute brochures to all of them. However, target marketing can reduce the number. Wholesalers can work with retailers who have sold for them before or who are in the geographic areas where the tours would sell (northern cities, for example, for winter tours to the Caribbean). Wholesalers can also identify agencies located in places where the surrounding people have the income to enable them to buy the package.

Media advertising will follow the principles outlined in the previous chapter. Because of the high cost of promotion and distribution, wholesalers in one part of the country may use wholesalers from another part of the country to distribute their tours in that region for a fee.

Marketing efforts may continue up to a few days before the actual tour begins. Since the tour is going anyway, travelers can pick up last-minute bargains if they are flexible as to destination. In Britain, for example, the windows of retail travel agents are often plastered with last-minute savings on tours leaving within the next few weeks. A weekly travel show on British television also offers bargains for the upcoming week. If a plane is chartered and is leaving with ten spaces on board, the wholesaler, at the last minute, will accept reduced prices to bring in some income. If the break-even costs have been met, this extra income, once direct costs have been subtracted, is profit.

Reservations, deposits and final payments are usually required one to two months prior to departure. Reservations are usually received by telephone from retailers. They are confirmed, recorded, and filed. After the

payments have been processed the documents necessary for the tour are sent to the retailer, who will pass them on to the traveler. Suppliers will be paid after the tour.

Tour operation

Crucial factors. For the traveler, the success or otherwise, of a tour depends upon the tour escort, the extent to which the tour is personalized, the pace of the tour and the value received.

For many people the tour escort or guide is the person who can make or break a tour. Factors considered important are:

- how knowledgeable is the guide with the places and sights that are part of the tour?
- to what extent is the guide able to take care of such problems as poor hotel space, bad meals, and disruptive passengers?
- how interested is the escort or guide in the group as people as distinct from customers?
- to what extent is the guide able to create a fun atmosphere?

Group leaders, on the other hand, place a great deal of emphasis on the importance of the driver in giving assistance and even serving as a second host.

The second factor considered important by travelers to the success of the operation of a tour is the degree of personalized service received and the way in which it is delivered. To what extent does the operator, as well as the escort, attempt to get to know the traveler? Some operators extend themselves in such ways as requesting that they be informed of special personal occasions that will occur during the trip. In these instances, a birthday cake is arranged or a gift certificate presented to celebrate a wedding anniversary. Other operators have been known to ask travelers to contact relatives at the tour's destination and to invite them to join the group for one of the tour meals.

The pace of the tour and, in particular, the balance between organized activities and free time is also important. This means less travel time each day, fewer one-night stays, and more opportunities to do individual things at the destinations.

Tour operators are expected to deliver both the physical aspects of the tour (the coach, hotels, meals, and sights) as well as the experience (the fun and flavor of the trip). Thus, it is vital that travelers get what is promised in the brochure. Beyond that, however, is the inclusion of something not mentioned in the brochure, a surprise. It might be an extra outing, a special meal, something perceived to be for free. Some operators say that they advertise 90 per cent of what they will deliver. The 90 per cent is enough to sell the tour. The extra 10 per cent is the surprise or added value. It might be called "planned spontaneity". Often on a vacation it is the unexpected that people most remember. If this can be part of the tour, unknown to the travelers beforehand, it becomes something to talk about afterwards.

Tour operator needs

The success of the tour will depend upon the extent to which the operator and supplier meet the needs of each other (and, therefore, the tour group).

In general, tour operators look to suppliers to provide:

- services and facilities that are convenient to the main tour route;
- a staging area for the motor coach close to the facility entrance to load and unload passengers;
- a convenient place to service the restroom on the coach;
- a positive attitude on the part of the staff toward group members.

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Supplier needs

A supplier, at the same time, expects the following from the tour operator:

- a complete list of those on the tour;
- specific arrival and departure times;
- a complete rooming list, detailing the number of different types of rooms needed;
- credit information to set up billing procedures;
- confirmation and deposit dates;
- notification of any special needs, for handicapped passengers, for example;
- complete tour itinerary (this might enable the supplier to suggest additions such as places to eat and sights to see).

Attractions. It is helpful to the operator if attractions provide a brief description of their facility that might be included in the tour brochure. This helps not only the operator but also the attraction. Brochures from the attraction can be sent to the supplier for distribution to the tour members en route. This increases the anticipation of the tour members prior to the visit.



Exhibit 91: Tour escorts must know the appropriate behavior when visiting centers of worship. Wong Tai Sin Temple, Kowloon Peninsula. (Courtesy Hong Kong Tourist Association.)

Accommodations. After a day of traveling a tour group wants a friendly reception and some extra amenities. Often a group will get impersonal treatment from staff members who think that, because 40 people arrive at once, they will only expect “group treatment”. Thus, the ability to treat each member of a group as an individual is important. Some kind of hospitality reception is appreciated; a wine and cheese or cocktail party can put everyone in a happy mood.

Because group travelers usually travel in pairs, operators will select hotels that offer rooms with two beds, a double-double. Many properties offer either a welcome package or a farewell gift that ties into the destination, a small souvenir or something to eat and/or drink.

The recommendation of the escort is crucial to the continued use of a hotel by an operator. A debriefing by the management of the hotel with the escort before the group vacates the property is vital. Any problems that arise can be taken care of before the group departs. This way the tour members can leave satisfied.

Restaurants. People on a tour spend approximately one-quarter of their waking hours and more money per day in restaurants than in any other tour component. Success of the meal depends upon the quality of the food, the quality of the service, and the facilities.



Exhibit 92: Eating is a big part of any tour. (Courtesy Hong Kong Tourist Association.)

Restaurants should be able to serve the group in 60 to 90 minutes. There should be a variety of selections on the menu to accommodate both heavy and light eaters. As with hotels, the level of service given to groups should be the same as that given to other diners. The restaurant should market itself to the operator as the place to be to get a flavor of the area being visited.

Ships and airlines. Suppliers who offer special areas and procedures for the boarding of groups are appreciated by the tour operator. Preassigned seating on planes is an important feature.

Motor coaches. Operators are concerned with the dependability and safety record of the bus company and the equipment. As mentioned before, the driver is crucial to the success of the tour. Small items such as having the group's name on the outside of the motor coach adds a personalized touch in addition to making it easier to find the right coach in a parking lot full of them. On board the bus, the quality of the audio system is very important.

Sightseeing. An operator will often hire the services of a local guide or courier when in a metropolitan area. The driver, tour escort and local courier must operate as a team with a joint goal of offering a fun experience for the group members. Usually the escort will relinquish control of the tour to the local courier for the duration of the sightseeing trip.

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The local courier is expected to offer commentary that is not only factually correct but also entertaining. Some items of local current interest or historical anecdotes can enliven the tour. If free evenings are part of the stop the courier should be able to make appropriate suggestions on things to do and places to eat.

Follow-up

The end of the tour need not be the end of the vacation. Part of the entire experience are the reminiscences afterwards. It was previously noted that word-of-mouth advertising was the most effective means of selling people on group tours. For these reasons follow-up is important. Follow-up can be in the form of "welcome home" letters and/or reunions. Reunions can be tied to the tour itself, with music, food and drinks linked to the tour that was taken. Tour members can be encouraged to bring along slides and photographs as well as friends, and small prizes can be awarded for photos and slides in different categories. The reunion then becomes the staging area for the next tour.

Role of the retail travel agent

Introduction

Retail travel agents are the most important travel intermediary. They act as sales outlets for suppliers and wholesalers from whom they receive commission for any sales made. They also act as travel counselor, advising people on when, where, and how to travel; as salesperson actively selling travel, and as clerk, making reservations in response to customer requests.

Historical development

Thomas Cook. In 1841, Thomas Cook chartered a train to take people about 37 kilometers from Leicester to Loughborough to attend a temperance meeting. He is credited with being the first travel agent. Soon came trips to Europe and, in 1866, Cook organized and led a tour of the US Civil War battlefields, Niagara Falls, New York City, US and Toronto, Canada. In 1872, he escorted a group of travelers around the world. It is said that this trip inspired the Jules Verne book *Around the World in 80 Days*. In 1873, he introduced the "circular note", the forerunner of the present-day traveler's check. The notes were issued originally in denominations of GBP 5 and 10 and could be exchanged for local currency at prevailing exchange rates in any hotels that were part of the Cook system. This meant that people no longer had to travel with large amounts of cash on their person.

United States. In the United States in the early 1900s, the travel agent of the day was the hotel porter. Rail travel was the predominant form of transportation, and most of the travel was undertaken for business purposes. The porter would make reservations for the business traveler staying at the hotel. A commission was paid by the railroad to the porter who would add a delivery charge for going to the railroad station to pick up the ticket.

When the airlines, in the late 1920s, first purchased planes with seats for passengers they saw the railroads as their main competition for the business traveler. They provided ticket stock to the hotel porters and offered them a 5 per cent commission for making the sale.

As traffic expanded, the airlines opened offices in hotels where they did a large business. The new breed of travel agent was prohibited by the airlines from opening an office if it would compete with the airline's own sales office. Up until 1959, a travel agency could be opened only if it was sponsored by an airline and its opening approved by two-thirds of the carriers represented by the appropriate domestic or international travel conference.

Travel agency growth. The growth of travel agents can be attributed to two trends that occurred after World War II. These were the growth of international travel and the increase in personal or pleasure travel. Both groups of

travelers have an increased tendency to use a travel agent. They have neither the time nor the expertise to make their own travel arrangements.

The recent growth of retail travel agencies can be seen by comparing industry figures from 1978 to 1987. In 1978, 14,804 agencies accounted for USD 19.4 million in industry sales, an average of USD 1.31 million per agency. In 1987, 29,584 agencies were responsible for USD 64,237,000 in revenue, an average of USD 2,171,000.

Industry profile

Every two years Travel Weekly publishes a Louis Harris survey of the retail travel industry. Some of the highlights from their 1988 survey indicate that:

- Since airline deregulation in late 1987 the number of travel agency locations in the United States has practically doubled; of all locations, almost one-third are in the east, almost one-half in suburban areas.
- While annual dollar volume of business has grown steadily since 1978, the percentage change from study to study was the lowest in 1987.
- While almost two-thirds of agency locations have average annual revenues of less than USD 2,000,000 there is an increase in those whose annual revenues total USD 5,000,000 or more. Seven per cent of agency locations fell into this category.
- The share of domestic travel as a percentage of total dollar volume has risen from 63 per cent in 1978 to 70 per cent in 1987; the share of international travel has declined from 37 per cent to 30 per cent in these same years.
- Business-related travel and personal and pleasure travel each account for 50 per cent of the industry's volume. The share of the business market has declined and that of pleasure/personal has increased by three percentage points over the past two years.
- Travel agents continue to be influential in affecting decisions made by both pleasure and business travelers. Almost half of all pleasure travelers sought advice on the choice of a particular destination while even larger percentages look for advice on the choice of airline, hotel, package tour, car rental and side-trip selection. At least four in ten business travelers seek advice on the choice of airline, hotel and car rental.
- Ninety-five per cent of all agencies now have automated reservations systems. Apollo and Sabre are the most popular systems. Thirty-eight per cent have an automated accounting system.
- Two-thirds of all agencies are single-location offices not affiliated with groups or consortiums, and they employ, on average, six full-time employees per location.

Regulations governing travel agencies

Although regulations imposed on retail travel agents are not as stringent compared to the days before airline deregulation and the consequent competitive marketing decision, agencies still confront a variety of regulations to get into and stay in business.

Certification. The effect of deregulation can be seen from the fact that approximately one-half of agencies in business today were started after 1980. To be certified for business as a travel agency the business must be appointed or approved by industry conferences. The four major conferences in the United States are:

- Airline Reporting Corporation (ARC), for the selling of domestic air tickets.
- International Airlines Travel Agent Network, for the selling of international air tickets.
- Cruise Lines International Association (CLIA), for selling cruises.

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- National Railroad Passenger Corporation (Amtrak), for selling domestic rail tickets.

Each conference is made up of companies that sell transportation. The ARC consists of domestic airlines. Normally, an agency will apply for an ARC appointment first. To receive an ARC appointment an agency must:

- be open for business and actively selling air tickets. Prior to receiving approval, tickets are obtained from the airlines on payment of cash, then sold to customers. After approval has been granted, commissions are received retroactively.
- the agency must be managed by someone with a minimum of two years' experience in selling tickets and one year's experience in issuing tickets.
- the agency must be visible from the street, clearly identified as a travel agency and easily accessible to the general public.
- the agency must have a minimum bond of USD 10,000 and a cash reserve of at least USD 25,000.

Accreditation can take up to two years. The cash reserve is necessary to sustain the business during this time.

- the agency must be actively involved in promoting travel.

Once the ARC appointment has been secured the other appointments are usually issued as a matter of course.

When operating as a business, agencies are regulated as to the amount of ticket stock they can have on hand and the procedures for handling it. Ticket stock is like a blank check and requires stiff security. Agencies are not allowed to change ownership without meeting conference regulations.

Licensing. In addition to industry appointments, a number of states require travel agents to be licensed and to pass examination by state licensing boards.

Customer protection. Agents are also held responsible for their actions in running their business. Agents pride themselves as being travel counselors rather than booking agents. Thus, they can be held responsible for the quality of their advice. They must take the age and health of the client and the situation at the destination into account in recommending an appropriate trip.

Situations have arisen where a customer buys a tour package through a travel agent and prior to the vacation the tour wholesaler goes bankrupt. Courts have held that, when the customer was unaware of the existence on any other intermediaries in the purchase of the tour, the retailer was liable for the customer's loss. Agencies can protect themselves by dealing with reputable wholesalers, buying insurance, and explaining and having travelers sign a disclaimer.

Industry education. Through such industry groups as the Institute of Certified Travel Agents (ICTA), The American Society of Travel Agents (ASTA) and The Association of Retail Travel Agents (ARTA), professional standards, while not regulated, are encouraged. Both ASTA and ICTA offer home study courses. The ICTA courses lead to the designation Certified Travel Counselor (CTC).

Running a travel agency

Retail travel agents receive income in the form of commissions paid by suppliers and wholesalers. A commission is a percentage of the total sale. The traveler does not pay for the services of a travel agent when a booking is made by the agent.

Commissions

In the past, the ATC regulated the percentage of commission paid by the airlines. Deregulation, however, has meant that airlines can pay different percentages of commissions to the agents they deal with. Suppliers can also pay overrides or bonuses for volume sales. A wholesaler may offer a graduated rate schedule to stimulate the retailer to sell more. As the number of bookings increase beyond certain points, the commission percentage increases. Often these overrides are retroactive, the higher percentage commission applies to earlier bookings within a given time frame. It may be, for example, that the basic commission for selling a package is 10 per cent. An override or incentive commission may be offered of 1 per cent for bookings over USD 15,000; 2 per cent for bookings over USD 20,000; 3 per cent over USD 25,000, etc. An agent selling USD 26,000 worth of bookings would receive a commission of 13 per cent on all bookings under a retroactive override system.



Exhibit 93: Travel agents are expected to know the location of the best beaches. (Courtesy New Zealand Tourist & Publicity Office.)

Rebates

In order to attract customers, some agencies offer rebates for volume business to them. In this case an agency would split the commission received with the customer, which is usually a company doing a large volume business with the agency. While this is legal for domestic air travel, it is against the law to rebate international air travel. It is not uncommon for such rebating to go on, however.

Sources of income

Almost 60 per cent of the average agency's income comes from commissions from selling some form of air travel. American agencies are responsible for selling 70 per cent of domestic and 80 per cent of international air travel. The average commission received is 10 per cent, slightly less than this for domestic air, slightly more for international. The average revenue per air ticket in 1986 was USD 20.99, indicating an average fare of just under USD 200.

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Income from the cruise lines comprises, on average, 16 per cent of travel agency income, and travel agents book 95 per cent of all cruises sold in the United States.

Commissions from hotels account for 11 per cent of agency income. Agents are responsible for 25 per cent of domestic and 85 per cent of international sales to hotels.

Car rental business accounts for 8 per cent of US travel agency business, and approximately half of all car rental sales are made through travel agents.

Rail travel accounts for only 3 per cent of agency business nationwide. Just over one-third of rail ticket sales are made by retailers.

Commissions from package tours can run from 11 to 22 per cent. Retail travel agents account for 90 per cent of all package tour sales.

Other income sources. Two additional sources of income for agencies are service charges and sales of travel-related products and services.

Over the past few years there has been some discussion among agents about levying a charge for services rendered to travelers. The argument is made that a “travel counselor”, in giving professional advice, should charge for that advice. Such a move, some feel, would help professionalize the industry. This argument has received some backing because low air fares have reduced the dollar amount of commission received. However, the public is not yet ready to pay for an agent making a reservation, but some agencies do charge for drawing up complicated itineraries and making trip cancellations.



Exhibit 94: Tudor Towers, Roturua, New Zealand. Travel agents make commissions from hotels and other suppliers. (Courtesy New Zealand Tourist & Publicity Office.)

There are travel-related services that some full-service agencies provide to increase their income. These include such things as personal, baggage and trip cancellation insurance, providing travelers checks and foreign currency, and taking passport photos.

Maximizing profit

According to Travel Agent magazine the value of an agency is increased if:

- it does not depend on one account for more than 10 per cent of its gross;
- the employee turnover rate is less than 20 per cent a year;
- the agency is more than three years old;
- at least 75 per cent of sales are on credit card;
- at least 20 per cent of airline sales are international;
- the agency's primary automation vendor has paid overrides for each of the last six quarters;
- the agency does not consider any mega-agency as a major competitor;
- the percentage of refunds to tickets issued is less than 15 per cent;
- the percentage of non-owner salaries to total expenses is less than 55 per cent;
- the percentage of premises rent to total expenses is less than 8 per cent;
- the average ticket price is more than USD 230;
- the agency's ticket prices have risen over the past ten months.²⁹

Summary

Tourist products and services can either be distributed directly to the traveler or through a variety of intermediaries. The high cost of marketing is a major reason for suppliers to use middlemen in the distribution channel.

Tour wholesalers and operators are major players in distributing travel and tourism. Whether selling through retail travel agents or directly to the public, they offer a variety of group tours for vacationers to enjoy. The advantages of group travel, cost and convenience, will ensure the future growth of this segment of the business.

Retail travel agents are the most important travel intermediary. They receive income from suppliers and wholesalers in the form of commissions and overrides on sales made. Some receive additional income from the traveler when they charge for services rendered in putting together a complicated itinerary or through selling related travel services.

Retail agents will probably continue to be the primary travel distributor because suppliers are so heavily dependent on them for the selling of travel products.

Study questions

- What are the functions of a tourism distribution system?
- Why would a supplier utilize an indirect form of distribution?
- Why would a consumer utilize a travel intermediary?
- What led to the increase in package tours?
- Why do people go on group tours?
- What are the negative images that people have regarding group tours?
- What are the economic characteristics of tour wholesaling?
- What characteristics should a destination possess to have tour appeal?

²⁹ Dawn M. Barclay, "Want to Sell Your Agency? There's No Time Like the Present." *Travel Agent* magazine, September 12, 1988, p. 40.

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- What factors do travelers consider important in the operation of a tour?
- What requirements must a retail travel agency satisfy before receiving an appointment from the Airline Reporting Corporation (ARC)?

Discussion questions

- Compare and contrast a direct tourism distribution system with the various indirect distribution systems.
- Which would a tourist and a supplier prefer: a direct or an indirect distribution system? Why?
- Why do people take group tours? What barriers have to be overcome to encourage more people to take them?
- What is involved in the preparation, marketing and operation of a group tour?
- Discuss the development and present-day importance of the retail travel agent to tourism.
- How do travel agents make money and maximize their earnings?