

Impact of e-business on air travel markets: Distribution of airline tickets in Korea

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Abstract

Early e-business activity in the airline industry was limited to the provision of flight schedule information to customers on websites. Recently, however, many airlines have expanded the capability of their web sites for selling tickets to make use of this cheap distribution channel. Here, we explore the impacts of airline e-business on the performance of air ticket distribution channels. Through a conjoint analysis, we suggest a model to estimate the change of market sales for each distribution channel. The impact of e-business on air travel markets and some implications on e-business strategy for both airlines and travel agents are also identified through an empirical survey. © 2006 Elsevier Ltd. All rights reserved.

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1. Introduction

The proliferation of the Internet since the mid-1990s has generated a wide range of strategic IT-based business processes. The importance of the Internet in conducting business, particularly as a communication and distribution channel for services and products between customers and suppliers, has been emphasized. It has enabled some businesses to improve their competitiveness and performance. As with many other industries, the Internet has impacted on the air travel industries. It can provide a direct connection between airlines and customers without the need to use travel agents or Computer Reservation Systems (CRS), thereby leading to cost savings in the distribution of air tickets (Law and Leung, 2000). In some cases it can result in travelers bypassing travel agents altogether (Buhalis and Licata, 2002), although Palmer and McCole (1999) argue that a key strength of agents is their ability to provide personal information and advice to travelers.

Commercial implementation of the Internet has been extensive in the travel industries and its impact has been particularly significant on the distribution channel for air

travels (Jarach, 2002) and the use of the Internet for searching and purchasing airline tickets has become common in travel markets. Airlines have recognized the Internet and information technologies, as sources for information dissemination and as a means of revenue-generating, and have devoted efforts toward developing e-business platforms (Smith et al., 2001; Alamdari and Mason, 2006). Here, we focus at the impacts of airline e-business on the air travel market, especially with regard to air ticket distribution channels.

2. Changing distribution channels for air tickets

The airline industry has changed radically during the 30 years due to deregulation and the advent of information technology (Buhalis, 2004). With strong competition in air travel markets, many airlines have sought to reduce costs and to establish direct contact with their customers. Information technologies, including the Internet, have provided a distribution channel linking airlines more closely to their potential customers.

Airlines have used many channels for selling their tickets. Conventionally, they have sold their tickets by direct channels including their sales offices and call centers, and

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indirect channels such as travel agents, tour operators, and consolidators. Travel agents contributed to airline ticket sales from the 1960s, and in particular most group tickets have been sold by travel agents. Travel agents relied heavily on the commissions they received from ticket sales to stay in business (Zhou, 2004). The commission rate for distributing air tickets accounted to 8–10% of airline costs (Alamdari, 2002).

The Internet has changed the paradigm of air ticket distribution and offers new alternatives. Airlines can sell directly via sales offices, call centers, and their own websites. Indirect channels are traditional travel agents, on line travel agents such as Travelocity and Expedia, and on line travel portals. New channels through the Internet affect purchasing behavior for air tickets and change the role of existing distribution channels.

A website for online travel reservation in the air travel industry was launched in 1995 by Internet Travel Network (ITN). The following year, SABRE, a major CRS, introduced Travelocity. Some non-travel firms such as Expedia and Priceline including traditional global distribution service providers and portal websites established capabilities to perform fare searches and sell tickets based upon a customer's booking request and entered the online travel agent (OTA) market. With the extension of OTAs, there was an explosion of 'look-to-book' visits to their websites, and increased demand by consumers to book online (Law and Leung, 2000).

Many major airlines are aggressively investigating e-business through the use of a variety of marketing strategies to lure customers to book and shop at their websites. In the US, five of the largest airlines including Northwest, Delta, American, Continental, and US Air launched an independent Internet travel web site, called Orbitz, for online sales air tickets in June 2001. In Europe, nine major European airlines agreed to establish an online travel portal site, Opodo, and officially opened for business in June 2002. In Asia, 16 airlines and OTAs launched a website (Zuji) to sell airline tickets and travel services on the Internet.

Even though Internet-based e-businesses are commonly used in airline ticket distributions, not all air ticket sales occur through this medium; rather the role of the traditional travel agent has been shrunk by the impact of the Internet and consolidations and liquidations have resulted as airlines have reduced commission fees. In January 2000, up to 80% and 19% of airline tickets were sold, respectively, through conventional travel agents and airline call centers, and Internet-based sale remained very low (Alamdari, 2002). More recently Jarach (2002) has suggested that this figure has grown considerably especially in the US.

3. Conjoint model for analyzing e-business impacts

Travel patterns are changing in many countries and often this means a move from packaged tours provided by

Table 1

Questions and answers for travel agents (Zhou, 2004)

Why travelers leave travel agents	<ul style="list-style-type: none"> • Convenience factor (not accessible 24/7) • Illusion of cheaper fares • Glamour of shopping online • Curiosity of technology • Customer service (dissatisfaction with travel agents' service) • Marketing of service (travel agents neglect marketing their services) • Image problem: agents and low-tech
Motivation factors for the use of the Internet	<ul style="list-style-type: none"> • 24/7 accessibility • Information: rich and update • Seeing/comparing options • Global reach • Control over decision • Dollar driven • Instant gratification

travel agents to individual tours planned by travelers themselves.¹ Since this trend may affect the distribution channel for air tickets, the future of travel agents becomes uncertain. Table 1 shows some reasons why travelers may leave traditional travel agents and opt for the Internet (Zhou, 2004). Here we develop a model to analyze the effect of airline e-business activities on distribution channels for air tickets, the market share of each distribution channel varying according to customers' behavior regarding the selection of a channel. A conjoint analysis model is used to reflect this.

The conjoint analysis measures trade-offs in responses concerning consumer preferences and intention to buy. It can evaluate the relative importance of multi-dimensional attributes of products by decomposing a consumer's overall preferences (Green et al., 2001; Wiley and Low, 1983). Here a choice-based conjoint analysis model is used to estimate the impact of airline e-business activities on distribution channels for tickets. Using the choice-based conjoint analysis it is possible to predict customers' choices, because respondents make an actual choice—a decision to purchase—rather than merely state a preference in the survey.

There have been numerous studies of customer behavior regarding products or services selection. Keen et al. (2002) showed that customers' behavior can be explained by the theory of planned behavior (TPB), that is designed to predict an individual's behavior across many social and psychological settings (Ajzen, 1991). They suggested the major attributes affecting the customer's choice behavior can be classified according to distribution format, price, control, ease of use, subjective norm, and attitude.

¹Package tours were never a major element in the US air transportation market.

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