

A new revenue model for travel intermediaries in South Africa: The negotiated approach

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Abstract

The revenue earned from airline sales made up the major source of income for the travel agent. With the deregulation of airlines, changes in technology, particularly the Internet and parallel changes in consumer demands a new tourism distribution system has emerged. The cost-advantage to airlines of disintermediating the travel intermediary, together with the exponential growth in online travel sales throughout the world, has provided airlines with a platform from which to begin restructuring the traditional revenue-base of travel intermediaries. In contrast to countries such as the USA, Canada, the UK and Europe where airlines made unilateral decisions on cutting agent commissions, the national carrier, South African Airways, and a representative body of travel agents has taken a negotiation approach. This has resulted in consensus on possible new remuneration models for travel intermediaries based on a process of research and negotiation.

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1. Introduction

The traditional tourism distribution system was based on a linear model where products and services moved from the supplier to the consumer, either directly or indirectly through distribution channels such as travel agents. Travel agents were viewed as agents for the supplier who was paying them a commission for selling their services. The revenue earned from airline sales made up the major source of income for the agent. With the deregulation of airlines, changes in technology, particularly the Internet and parallel changes in consumer demands a new tourism distribution system has emerged. The Internet has created a plethora of new channels for both direct as well as indirect distribution and the travel agent has had to become an agent for the consumer rather than for the supplier. The cost-advantage to airlines of disintermediating the travel intermediary, together with the exponential growth in

online travel sales throughout the world, has provided airlines with a platform from which to begin restructuring the traditional revenue-base of travel intermediaries; thus, the relationship between airlines and traditional travel agents has undergone a dramatic change.

In this paper, a theoretical context of the tourism distribution system is provided. Thereafter, as a prelude to the case of South Africa, a brief background is given on the changes that have taken place in the relationship between airlines and travel intermediaries in countries such as the USA and Canada, the UK and other European countries. Following on this the case of South Africa is presented. The actual process of negotiation as engaged by South African Airways (SAA) and Association of South African Travel Agents (ASATA) is documented, with the positive and negative impacts generated by this approach being discussed. Finally, this paper also presents the results of an empirical study conducted to determine the expectations of travel agents on the changes in the distribution strategy of SAA. The target population of this study was the independently owned travel agency members of the largest travel

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franchise group in South Africa. The study was undertaken shortly before an agreement was reached by SAA and ASATA on a new remuneration model and shows the perceptions of travel agents on the relationship between the national carrier and selected travel agents.

2. Tourism distribution

The traditional tourism distribution system was based on a linear model where products and services moved from the supplier to the consumer, either directly or indirectly through travel intermediaries such as travel agents. The travel agents were viewed as an agent of the supplier who was paying them a commission for selling their services. Travel agents have three basic tasks. First, to perform the function of information broker, passing information between buyers and suppliers. Second, to process transactions, including printing tickets and forwarding money to suppliers and third, to advise travellers (Vasudavan and Standing, 1999). The travel agent acts as an intermediary that brings the supplier’s products and services to the consumer. Fig. 1 shows the traditional linear model of tourism distribution.

Over the last decade a number of fundamental changes have been taking place globally and in South Africa in the travel industry. These changes were and are driven by advances in technology, particularly the Internet; parallel changes in consumer demands, with consumers becoming more independent, discerning, “green” and harder to please; and the deregulation of airlines. As a result the travel industry has moved

towards consolidation and integration, the development of more flexible products and services and the use of the World Wide Web (WWW) as a new distribution channel for tourism suppliers (Lubbe, 2000). The Internet has the capability of providing a service to the consumer that essentially was the domain of travel agents. Sigala (2003, p. 194) states: “By connecting different buyers and sellers through a shared network and providing some searching tools, electronic networks help buyers to quickly, conveniently and inexpensively evaluate the offerings of various suppliers and seamlessly and efficiently finalise and conduct any transactions.” Personal computers, personal digital assistants, self-service kiosks and interactive television have entered the tourism distribution system. Buhalis and Licata (2002) refer to the new distribution channels driven by the Internet as the new tourism “eMediators”. Fig. 2 provides an indication of the range of new channels available to consumers.

With the changes a new tourism distribution system has emerged where the travel agent has had to become an agent for the consumer and the emergence of the Internet has created a plethora of new channels for both direct as well as indirect distribution. Traditional travel intermediaries currently feel the greatest impact of these changes in the area of revenue, with pressure being brought to bear on the restructuring of the traditional revenue model, particularly from their greatest source of income, the airlines.

3. Airline distribution

Airlines are increasingly using direct distribution, particularly online sales through the WWW. Indirect distribution is achieved through the use of distributors and intermediaries and this is the area where the airlines are striving to decrease costs. Fig. 3 shows the various

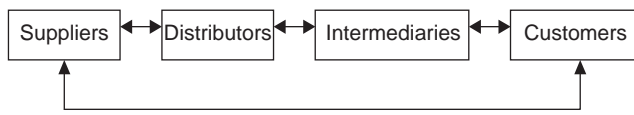


Fig. 1. The traditional tourism distribution system.

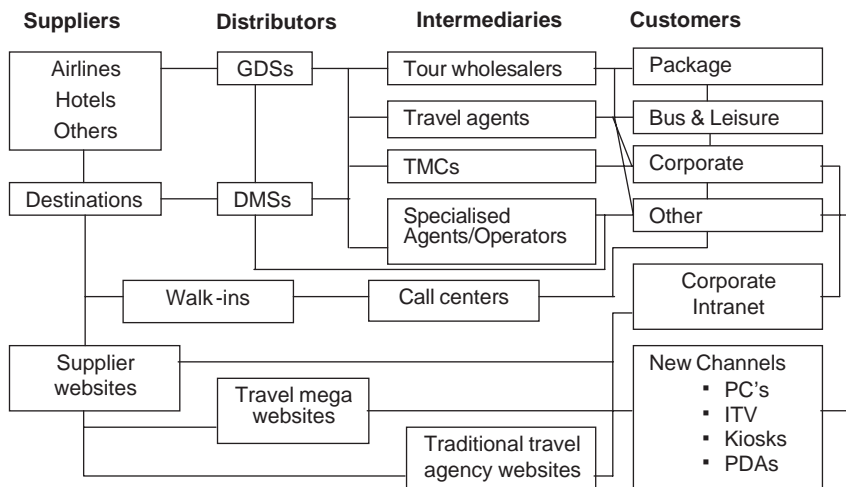


Fig. 2. The new tourism distribution model.

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