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Drivers to participate in the integration platform“

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“The Internet is the world's largest library. It's just that all the books are on the floor.”

John Allen Paulos

“Without change there is no innovation, creativity, or incentive for improvement. Those who initiate change will have a better opportunity to manage the change that is inevitable.”

William Pollard

Abstrakt

Das Erfolgsmodell von Online-Tourismusunternehmen wird von zwei Faktoren bestimmt: vom Kunden und von der Technologie. Der Kunde repräsentiert die Nachfrage des Marktes und somit den Push-Faktor, die Technologie den Anbietermarkt und den Push-Faktor. Gemeinsam entscheiden sie über den Erfolg eines E-Business. Das «Dynamic Packaging» kombiniert beide Faktoren zu einem Maßnahmenbündel. Das Ziel ist ein auf Kundenbedürfnisse zugeschnittenes Produkt, das sich die neusten IT-Technologien zunutze macht.

Der erste Abschnitt dieser Arbeit liefert einen Überblick der Tourismusindustrie, die aufgrund der neu verfügbaren Informationstechnologien einen signifikanten Wandel vollzogen hat. Die Veränderungen werden im Folgenden bezogen auf die unterschiedlichen Anbieter von Reisedienstleistungen und -produkten diskutiert. Diese Vorgehensweise soll nicht nur das spezifische Umfeld veranschaulichen, in dem die Anbieter agieren, sondern auch die Herausforderungen, mit denen sie konfrontiert werden. Die Akteure, die in Betracht gezogen werden, sind Fluggesellschaften, Hoteliers, Kreuzfahrtgesellschaften und Autovermietungsgesellschaften.

Der Übergang von der Offline- zur Online-Präsenz hatte primär eine Disintermediation zur Folge. Die wachsende Nachfrage nach einer besseren Organisation und Integration der Informationsfülle führte später dann jedoch wieder zu einer Reintermediation des Produktangebots. Die Online-Reisebüros, die den erkennbaren Trend der Reintermediation adoptiert haben, stellen eine neue Zustellmethode für das Tourismusprodukt dar. Ihr Erfolg ist jedoch von der Mitwirkung aller Anbieter abhängig.

Touristische Unternehmen nutzen normalerweise eine weit gefächerte Auswahl an Distributionskanälen. Diese können jedoch nicht ad Infinitum vermehrt werden. Die Alternativen werden deshalb sorgfältig durch das Management ausgewertet mit dem Ziel, die tangiblen und intangiblen Vorteile zu maximieren und zugleich die Kosten zu minimieren. Die hier vollzogene Analyse bezieht drei Entscheidungsebenen mit ein: die operationale, die taktische und die strategische. Dabei werden drei verschiedene Distributionskanäle einander gegenüber gestellt: traditionelle Reisebüros, eigene Webseiten der Anbieter und Online-Reisebüros.

Um die Diskussion von Online-Reisebüros als Distributionskanal auch im Hinblick auf mögliche Chancen und Risiken zu vervollständigen, wird abschließend eine Kosten-Nutzen-Analyse aus der Kundenperspektive präsentiert.

Abstract

The success model of the e-tourism company could be defined as driven forward by two dominating forces: customer and technology. The customer, who works as the market pull factor and the technology as the push factor, both determine the e-business's success. Dynamic packaging reflects the combination of these two factors: delivery of a highly customized product based on advanced information technologies.

First section of the thesis gives an overview of the current tourism industry which has been significantly changed due to the emerging information technologies. The changes occurred in the last years are discussed separately for the various suppliers of the travel product. This should better illustrate the specific environment in which they operate as well as the challenges they face. The players taken into consideration include airlines, hotels, cruise lines and car rental companies. The transition from the offline to the online environment contributed in the first stage to the disintermediation process. Later, the need for the organization and integration of the information initiated a return to the reintermediation of the travel products. Online travel agencies, due to the reintermediation, present a new delivery channel for the travel product. Their success depends on a high participation level of the various tourism players. The tourism companies most usually use a portfolio of distribution channels. However the channels cannot be ad infinitum added as they emerge. The alternative choices will be carefully evaluated by the management to maximize the tangible and intangible benefits as well as to minimize the costs.

The conducted analysis takes into consideration three decisions areas: operational, tactical and strategic. Every conducted analysis includes the comparison of three different distribution channels: the traditional agency, the own suppliers' web page and the online travel agency.

Finally, the cost/benefit analysis will be presented from the customer's perspective to ensure the comprehensive presentation of Online Travel Agencies (OTA) as a distribution channel, taking into consideration the possible threads and opportunities.

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Problem statement

The tourism industry faces a great challenge in the age of the information technology development. The traditional tourism distribution channel faces a threat of the emerging IT environment. Throughout years the tourism industry was dependent on the intermediaries, who enabled the interaction between the suppliers and the customers. Nowadays, however, the suppliers can reach the customer directly via internet having the geographical distance barriers and costs associated to them, disappeared. The internet age changed the complexity of the tourism distribution, enabling the entry of the new virtual intermediaries characterized by a strong competitive advantage towards other players of the sector.

The internet allows a wide range of benefits for the companies and the customers, making the information widely available, reducing the difficulties in purchasing, marketing and distribution, allowing the sellers and the buyers to direct transact with each other. However companies still face the difficulties on how to capture the benefits in order to position themselves in the digital reality. The entry of the new tourism intermediaries, known as the online travel agencies, introduced an innovative approach to the integration platform, collecting the suppliers and integrating them into a one stop shopping place for the customers. The success of the platform depends however on the participation level of the tourism products' suppliers. This raises the question of how to attract the various tourism suppliers to join the platform.

The thesis presents a cost/benefit analysis of the joining the platform for every participant. The analysis considers the financial aspects of the decision, but also the intangibles which should influence the long-term strategy for every tourism supplier (hotels, airlines, car rentals companies, cruises). The evaluation compares different distribution channels of the suppliers, both the traditional and emerging ones. The real life examples to support arguments presented are mostly based on the current world successful cyber-mediaries: Expedia, Travelocity and Orbitz.

1. Service providers in time of the emerging technologies

1.1. Introduction: Emerging Tourism Industry

According to the World Travel & Tourism Council, in 2008 travel and tourism was equivalent to 9.9% of the total world GDP. The tourism industry is growing despite all the risks faced in the recent years: terrorism, health fears related to avian flu and high oil prices. The World Tourism Organization (WTO) reports that in 2006 international tourism arrivals reached its record of 842 million: a 4.5% growth compared with the previous year (<http://www.unwto.org>). This number even exceeded previous long-term forecasts. For the following years the WTO predicts a constant growth, reaching 1.6 billion international arrivals in 2020.

According to the WTO, in the last four years, biggest tourism arrival growth occurred in Middle East, followed by Africa and Asia and finally Europe, while a sharp decline has been observed to the Americas. Europe, however, still accounts for the biggest market share of international arrivals. It takes less than one second for new international traveler to land on the European continent.

This is also clearly reflected in financial data, which shows that in 2007 the highest gross receipts went to Europe, with a total of € 300 billion.

Tourism has thus a great influence on the world economy and it is important for the European market to maintain the leader position. This can only happen if the industry will keep up with the newest technology innovations and will be able to quickly adopt them. Internet is especially relevant for the tourism industry due to its worldwide coverage, enabling direct worldwide interaction with tourists.

Internet became a major tool to plan the future travels. In Europe, for instance, online travel sales have reached almost €21 billion, in 2004. In 2007 this number almost reached €60 billion. However, the European online market seems to spread unequally: most European tourist to book online where British (40%), followed by French (23%) and Germans with about 20% (Marcussen 2008).

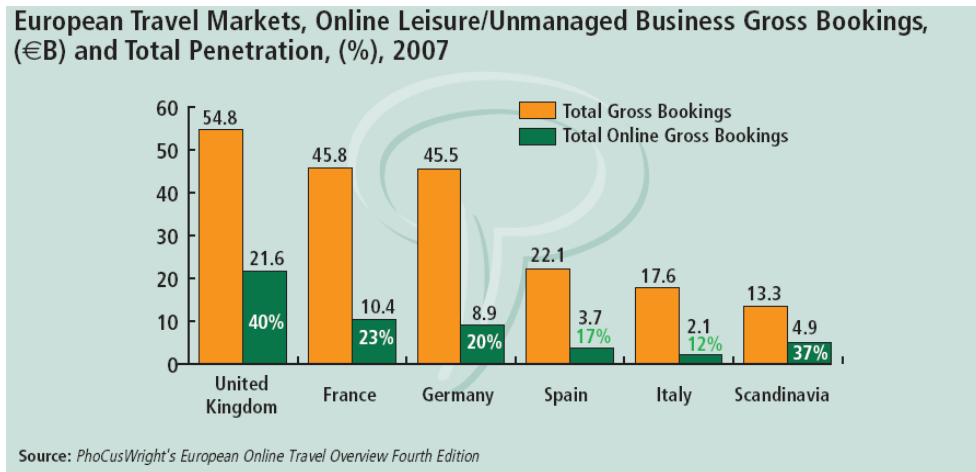


Figure 1 European Travel Markets, Online Leisure/Unmanaged Business Gross Bookings and Total Penetration in year 2007, PhoCusWright November 2008

The significant growth of the online penetration recorded in year 2007 resulted mainly from the organic penetration growth as well as from investments in marketing and technology over the previous year, from both suppliers and online travel agencies (PhoCusWright 2008).

In 2008 the European travel market despite being influenced by the economic crisis demonstrated a double digit growth in the online penetration (according to a PhoCusWright 2008 study)

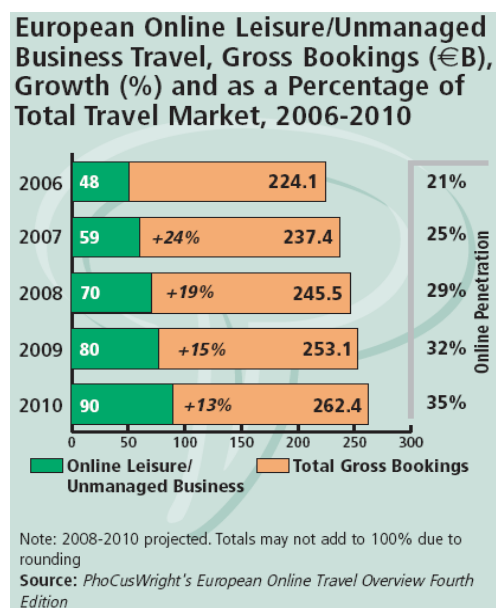


Figure 2 "Growth (%) and as a Percentage of Total Travel Market, 2006 -2010." Source: PhoCusWright 2008

The rapid development of the information technology revolutionized the fundamental mechanism of the business. It contributed to the drastic change in the way the business is conducted (Anckar, Walden 2000). The four areas in which information technologies brought meaningful changes introduces closer Clayton & Criscoulo (2002). Firstly they mention the ability to bring to the market new ideas and innovations, which can immediately be presented to the potential buyers, which reduces the buyers' search costs and also the access costs of the suppliers. Next, This contributes to speed of reaching the customer, strongly affecting the methods of purchase or delivery. Third, flat market place has changed automatically the interactions between enterprises themselves. And finally, the technology has moved significantly the balance between the supplier and the customer, in favor of the second one due to the increasing availability of the information.

1.2.CRS/GDS - first digitalization in tourism industry

The electronic markets are not a new phenomena in the tourism industry. The first step to digitalize the industry happened with the development of the national reservation systems. Already in 1960 the major US airlines developed proprietary computerized reservation systems to support the exploding volume of ticket traffic. Initially, just airline carriers were involved into the platform, but gradually more players joined the network, namely large hotel chains and car rental companies. Although the cooperation was thought for internal use only, it was gradually spread among partners and travels agencies. Indeed, the agencies became the first users of the booking systems, which with the drastic increase in international travel, demanded more and more functionality on the international level. This gave birth to the Computer Reservation and Global Distribution Systems (CRS and GDS respectively) (Ellis 1992). This enabled the travel agencies to book flights and hotel rooms directly from the platform all over the world. Besides the mentioned reservation system, the system would present the product, give the fare quote and some additional services (Anckar & Walden 2000). The system primarily was developed to cope with the increasing number of passengers, but finally turned out to be the first worldwide application of IT, uniting thousands of companies into one system (Werthner & Klein 1999).

These innovations created a global access to the tourist services for the travel agencies worldwide in form of the automated booking systems. CRS could be most simply described as a network connecting and integrating a range of different organizations, reaching the end consumer through intermediation of the travel agent (Market Watch 2002).

CRS came on the sequence of the fusions and takeovers among the tourism players, which created four worldwide biggest consortiums. They all originated from airlines and due to the complexity of the technology used, the market is highly concentrated in the hands of those four biggest players. For instance GALILEO International was created from the fusion between the brainchild of United Airlines and other various European partners. SABRE was a system developed from the parent company of American Airlines. WORLDSPAN was owned by Delta Airlines and TWA (Trans World Airlines). Later on, in 1987 Lufthansa joined with other three leading European airlines and created an even more advanced system enabling direct access to booking facilities of not only air carriers and hotels but also sea carriers and car rentals (Schmid 1994). Today the GDS offer an even broader range of products, as restaurant reservations, theatre tickets, rail, ferry, travel insurance and limousines' bookings (ITSA).

	SABRE	AMADEUS	GALILEO	WORLDSPAN
				TRAVELPORT (2007*)
World	26	33	28	13
USA	37	15	31	17
Europe	11	51	25	13

Table 1. Market Share of the four GDSs in terms of use by travel agencies in % (1998). Source: Market Watch 2002. Garret Communcation, Travel Distribution Report, 1998..

**In August 2007 GDS sector oligopoly was further strengthened by the fact that Galileo and Wordspan were acquired by Travelport which reduced the main GDS players to just three. (<http://www.travelport.com>).*

AMADEUS was mainly targeted to European clientele being for this reason broadly and mainly used in Europe. As the table above shows, about a half of the travel agencies in Europe use the AMADEUS system.

In the report of the European Commission (Market Watch 2002) the main features of the system were described as follows:

- The network is based on the proprietary systems, accessible only to professional users
- High implementation and running costs
- The participants of the system are mainly large players (as hotel chains, airlines), not including the SMEs
- The brands are not recognizable and visible to the final user

The authors of the Market Watch 2002 add to the third point, however, that the SME's have the chance to participate in the global network through the so called, switch companies, as franchisers or aggregators (Market Watch 2002).

Buhalis and Licata (2002) explored further form of existence of the GDS systems. The experts representing different service providers were not like-minded in what form the GDS would survive until then. Some of them claimed, that GDS would not become an independent distribution channel, but would rather remain to position themselves ‘in the shadow’ of the value creation, supporting the whole range of the e-intermediaries (Buhalis & Licata 2002).

On the other side, others claim that GDS will make use of their potential and become an independent tourism player, connecting directly the suppliers with the customers (Buhalis & Licata 2002). The current state has shown that all the major GDS continue to hold growth and margins, accounting in the US, for nearly 60% of all air segments booked. The GDS repositioned themselves as integrated technology partners by cutting the prices and shifting to more diversified range of airline technology solutions (Sismanidou, Palacios, Tafur 2009). SABRE, for instance, reacting on the change on the market and declining role of the travel agents, decided to reposition itself by turning into an online travel agency, and offering its services directly to the end customers. This focuses more on the added value of its information database (Bloch Pigneur 1996).

According to the study conducted by the authors Sismanidou, Palacios and Tafur (2009), the GDS possess significant assets which ensure them a strong position in the tourism market. These assets include established and tight relationship with the suppliers and distributors, which contribute to significant barriers for new entrants, which have to build their reputation and commercial network from scratch. Furthermore, the traditional airline carriers are still dependent on global distribution systems (GDS) via corporate travel management companies and travel agency consortia, as in the case of Lufthansa (PhosCusWright 2008).

1.3.Airlines

The air traffic is constantly growing. The International Civil Aviation Organization (www.icao.int) reported that in 2007 the global passengers’ volume reached 4,7 billion. The Organization made predictions towards next years, estimating that in 2017 the volume of

passengers will reach 7,3 billion. The world's passenger volume grows about 4.2 % annually and this rate should, on average hold for at least the next 20 years.

The year 2008 shows much slower growth rate (of about 2.3%). This however finds its explanation in a number of external factors such as the credit crash on the American market, slowing economies and rising fuel prices which negatively impacts the consumer spending and simultaneously impacts the air travel demand (www.icao.int). The main drivers to have contributed to today's global great air traffic demand, were the rise of the world GDP affected by increase of world trade and investment, the globalization, the higher percentage of the retired persons and deregulation (Market Watch 2002). The main characteristics of the air travel companies in the time of the emerging technologies could be highlighted by a few significant trends:

- Time Factor: The companies deal with a high cost product which is highly dependent on time, meaning that the unsold air ticket will be lost whenever the plane takes off. This requires a great flexibility and quick response to the customer to assure the full booking in a plane (Market Watch 2002).
- High Fixed Costs: The air transportation is characterized by disproportionately high fixed costs in comparison to the operational costs. This forces the airline companies to operate very efficiently (Market Watch 2002).
- Fluctuant customers' demand: The passengers' demand is not equally spread across the year, although constantly growing on average, indicating a seasonal and cyclical shape (Market Watch 2002). Additionally the demand is highly dependent on exogenous issues, as for instance in 2007 the high fuel prices or in 2001 the terrorist attacks. (Market Watch 2002)
- Deregulation: The European air transport market was successfully deregulated until year 1997 and thus, has contributed to an increased competition among existing and new players on the air market. The national carriers (e.g. Lufthansa, Air France, SAS etc.) which had lost their domestic ground and were facing the increased competition, were

forced to reorganize the structures, cut the costs, improve the customer services and enhance the productivity (Market Watch 2002)

- Information Communication Technology: ICT became an emerging technology to stay competitive and drastically cut the occurring operating costs, especially those concerning distribution costs. Internet became a mean to simplify the distribution channel, directly communicating and making a transaction with the clientele (Buhalis 2004)

- Alliances: The competitive environment in the airline sector has initiated the current trend of the airlines to consolidate with each other and become even more competitive by joining forces. This was even more accelerated by the current economic downturn. The mergers and acquisitions became a part of everyday's news. For example, Iberia has announced progress in its merger negotiations with British Airways, which already owns 13% of the Spanish airline (PhoCusWright 2008). The horizontal integration among the airlines became also a way to cope with highly volatile characteristics of the sector. Global airline alliances groups proved to be beneficial both for the suppliers, due to the increased profits, as well as for the customers with better schedules and lower fares. However, one has to notice that the horizontal integration does not solve all the airlines' problems and in reality often contribute negatively on its participants due to the lower level of independence

- No-frills airlines: The lower perspective of the operating costs gave an incentive for new players to enter the market. The low fare carriers boomed both in the US and in the European airline market. They took a great advantage of the ICT tools and by heavy investments quickly implemented a great number of innovations, leading to the reengineering of the airline industry. They implemented e-ticketing, transparent and clear pricing, single fare pricing, publication of fares, financial incentives for booking online, powerful customer relationship and context-relevant advertising (Buhalis 2004). Buhalis (2004). These are the main reasons for their strong position in the market. The offered product is simplified, meaning that just one class of service is being offered, without differentiation between the business and economy class. The airlines do not offer free

catering on board and no pre-allocation of the seats is possible. Their distribution channel presents a very flat structure, relying just on their own call centers and internet sites. Additionally, the airlines encourage the travelers to book online, through financial incentives, while disincentives are applied to change the customers' habits of using the costly phone booking services.

The low cost carriers show an example of great response to the environmental changes, creating a successful and innovative strategy. Ryanair, Easyjet or AirBerlin have created advanced innovation processes, which contributed to an extreme efficiency growth. Furthermore, they managed to address other customer segments and so a new market has been developed by the first mover strategy (Kangis & O'Reilly 2003). For instance, Ryanair's long term strategy depends on the low fares that generate increased passenger traffic and simultaneously maintains the operating efficiency. The low fares which the company offers are only possible due to the very low operating costs (aircraft equipment, personal, customer services costs and airport access and handling costs). These reductions were only possible by the extensive use of the internet and by taking advantage of the new technologies, which contributed to the efficiency and customer service enhancement (USSAEC Ryanair Holding PLC 2008). The low cost carriers can easily realize their strategies avoiding any intermediaries; however this can result in losing the business travel segment as a customer and expose the company to a higher risk, while relying only on one distribution channel. While Ryanair, the leading European LCC (Low Cost Carriers or no-frills airlines), is sticking to its "direct distribution only" philosophy, other low cost carriers start pushing the segment in other directions. For instance, EasyJet recently announced plans to distribute through the GDS, with the goal of expanding into business travel and increasing load factors and average fare yield. This move is expected to attract followers, as it might help overcome the challenges posed by volatile fuel prices and the general economic downturn (PhoCusWright 2008).

1.4.Hotels

The hotel industry has shown a very strong performance in the last years, which was reflected by the increase in the total hotel gross bookings within just one year by € 5 billion, from €71.9 billion in 2006 to €76.9 billion in 2007. This trend was supported by the healthy economy at that time, growing numbers of foreign arrivals and higher average daily rates. Furthermore, the growth was being accelerated by the online hotel sector, where the total online gross bookings rose by 30%, from €7.6 billion in 2006 to €10 billion in 2007 (PhoCusWright 2008).

The hotel industry is strongly driven by the relationship between supply and demand, which creates an ongoing challenge for the management to ensure their rooms are full and the revenue is being maximized. To achieve this goal, the reservation system, followed by the evolution in IT, gave a major contribution. In the hotel business, the IT technologies led to the set up of a central reservation system able to handle and store large amounts of data. The system helped the management to forecast the demand as well as carrying out complex calculations on large data sets (Sigala 2001).

One characteristic of the hotel sector is also its grouping into alliances or hotel chains. This trend is especially visible in USA where the hotel chains account for about 65% of all hotel objects. In Europe this number is significantly lower, reaching 25% with the tendency to grow. In 2008 the biggest hotel group in the world integrating over 3800 hotels was Intecontinental Hotels Group, followed by Wyndham Hotels, Marriot International, Hilton Hotels and Accor Worldwide. This model allows an access to diverse market segments, creates better brand awareness worldwide, as well as enabling benefits from the economy of scale (Nalazek 2010).

The tourism demand is changeable: the popular tourism destinations yesterday, become unattractive and 'outdated' tomorrow. The hotels have to react quickly, acquire or develop properties either directly or through investments in joint ventures. This due to fast expansion rate is very important to assure the customer demand, despite the strong competitive environment and/or unfavorable economic situation. The seasonality aspect must also be taken into consideration. The industry is seasonal in nature, recording generally lower revenue in the first quarter of each year. Additionally the demand variation depends not only on the periods, but also on the particular property and its location (USSAEC Hilton Hotel Corp 2006).

In the Annual Report of the Securities Exchange in 2006, the Hilton Hotel Corp reveals that the economic factors can also strongly influence the lodging industry due to the downturn in economic conditions which directly impacts the hotel rooms' demand and automatically is reflected in lower room rates (USSAEC Hilton Hotel Corp 2006). Besides the current difficult situation in the industry, there are ongoing risks which threaten the hoteliers. This includes for instance foreign currency exchange, supply and demand changes which ultimately affect the pricing and operating costs negatively.

The turbulent and competitive hospitality market is characterized by many players, both the small accommodations, middle-sized hotels, as well as big hotels incorporated into the international networks. Philips (1999) suggests that such an environment forces the organizations to become proactive with the goal of maximizing the opportunities and protect themselves against the threads. The protection can be realized when differentiating itself from others, be better than the others, espousing a certain strategy (Philips 1999). The results of the hotels are primarily affected by occupancy and room rates achieved (USSAEC Hilton Hotel Corp 2006).

1.5.Cruise Lines

It is estimated that by 2010 the cruise industry will carry 14.0 Million Cruise Passengers in North America and 4.0 Million in Europe (www.amadeus.com access 15.12.2009). The industry is still in its early development stage in Europe in comparison to North America. For that reason mostly American trends will be discussed in this section.

The cruise sector has a market share of about 3% of North American travel market, accounting for about 12.732 US million \$ in 2008, showing an increase of about 1,2% in comparison to the previous year 2007 (EyeforTravelResearch, “North American Online Travel Report 2009”, 2009).

The rapid growth of the cruise line industry took place in the 1970s and the 1980s in the United States, when the growth was the fastest of all tourism sectors. In that time the growth rate of the cruise line customers reached 190% increase annually. Due to the rapid growth and development of the industry, an organization CLIA (Cruise Lines International Association) was founded with the objective to develop and promote the concept of cruising (Hobson 2000).

The cruise line industry is denominated as an oligopoly due to the finite number of cruise lines which compete to maximize their profits. Most of the cruise line capacity comes from four major cruise lines: Carnival Corporation, Royal Caribbean Cruises, P&O Princess Cruises and Star Cruises (Wie 2005). The industry is characterized by a number of mergers, acquisitions and joint ventures which leads to a globalization of the cruise sector reflected by the concentration of the business, which contributed to the reduction to just a few players (Wood 2000).

In Europe, Great Britain accounts to the second largest cruise market. Other significant European cruise markets are represented by Germany, Italy and France (Wild Dearing 2000). Europe is an attractive market which has a population larger than North America and additionally, the travelers tend to take longer vacations. The positive growth rate at which European vacationers take a cruise accounted on 15% compounded annual rate in years 1994 through 1999 (USSAEC Carnival, LTD). In the last year the number of the cruise passengers sourced from European market has been growing faster than in the US counterpart (USSAEC Carnival, LTD). The

European market is not penetrated yet and so the competitive advantage will be gained by the players which first offensively enter (have entered) the market.

The important economic features of the cruise as a tourism product include the heterogeneity, inelasticity and the complementarity. Heterogeneity indicates the mix of the different components, which the product possesses, the inelasticity refers to its perishability and the complementarity requires the other services to fulfill the true cruise experiences (Gibson 2006).

As with the previously described travel products, the cruises can be sold on the standalone basis or bundled into a package. For instance, a cruise line would take off in Istanbul after a 2 day stay in the city. After visiting some Eastern Mediterranean islands, the cruise would finish in Athens, where some hotel nights could be booked. The cruise itself gives such offers, enabling the customer to book the lodging either as a package or separately (called pre- or post-cruise packages respectively). Sometimes cruises bundle into one price the sightseeing trips onshore. Less common is for the flight to be included in that price. It is more usual that the flight is either booked by an agent or purchased directly from the cruise, which has contracted directly some space on the airline and resell that space to the customer (Hobson 2000).

1.6. Car rental Companies

Europe stands for the world's second largest car rental market after the U.S., with gross bookings of €11.1 billion. The market is controlled by the four large companies, Avis, Hertz, Europcar and Sixt, which together for 55% of the market. The companies distinguish from the rest of the other car rental companies, with their strong online presence. The small local operators lack the economies of scale and the financial power to invest in the Internet as a sales channel (PhosCusWright 2008).

In 2008 it was very difficult for the car rental companies to operate. The companies experienced a strong revenue decline due to the high fuel prices as well as lower commercial travel volumes. Thus, the support from the additional distribution channels could be seen not as an alternative,

but rather as an obligation. Car bookings distribution has been following a strong trend of moving from the offline to the online environment, as already showed by old data.

The market is highly consolidated, hindering new entrances. It has high input costs and it is difficult to achieve economies of scale. Most of the profit is thus being generated by the global players, the so called “Big Four”:Avis, Budget, Sixt and Europacar, which are continuously increasing their profitability by simultaneous increase of the fleet size. Monestime (2005) notices that the car rental companies operate on such narrow profit margin that the price competition is not a decisive factor. For that reason many of them look to creating value and providing range of the amenities. The key players are not dependent on one particular source market: their market share is rather spread equally across Europe. Sixt is the exception, having become a clear market leader in Germany (PhoCusWright 2008).

Furthermore, the car rental industry is strongly characterized by the low power of the suppliers. The reason for this is one side, the competition level and on the other side by availability of substitutes. Especially in Europe, the tourists still can substitute rental of cars by trains, buses or organized excursions. This translates into a small negotiation playground to influence terms and conditions. Furthermore, the switching costs are not present in that industry, which means that the customers are not affected by one supplier over another and most importantly, changing to different suppliers’ product is barely noticeable and does not affect consumers’ rental decision (Monestime 2005).

2. Different alternatives of tourism product distribution

2.1. The tourism Value Chain – overview

Tourism Distribution channels strongly affect the competitiveness and the profitability of the value chain members. The distribution channels in the tourism industry challenge many researchers due to its dynamic structure, which makes it difficult to generalize the common structure of the distribution channel. The dynamic can be found in the constant changes in the interrelations between the players, which do so driven by the desire of maximization of the profitability and competitiveness (Buhalis 2001).

Buhalis (2001) differentiates between the ‘old’ and ‘new’ tourism to underline the drastic transformation process of the international tourism industry. The old tourism was simply an interaction between the suppliers, intermediaries and customers (see arrows in the figure below). The distribution model in tourism strongly relies on information, thus the intermediaries in the old tourism structure played much stronger role than other trade intermediaries. Travel agents and tour operators had the power to influence. The suppliers, which heavily depended on their distribution, could also influence pricing, product policies and promotional activities.

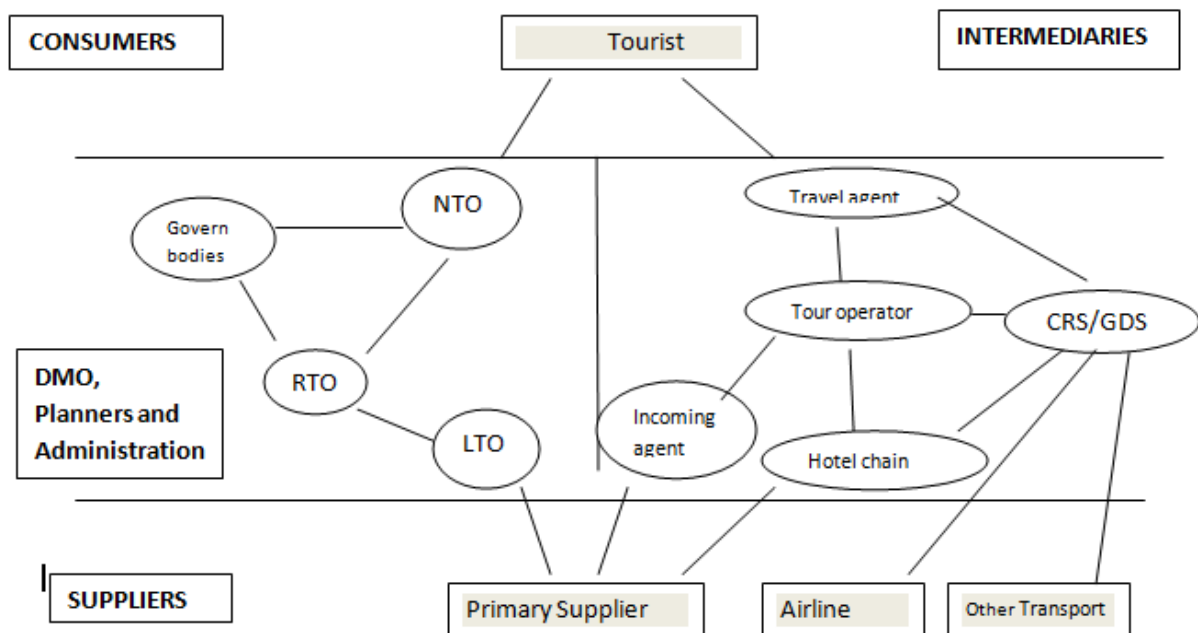


Figure 3. "Structural View of the market" (Werther & Klein 1999)

The tourism value chain consists of many intermediaries, which bring the buyers and sellers together (Buhalis, Ujma 2006). Traditionally, the tourism intermediaries could be classified into three different categories: OTA (Online Travel Agencies), Tour operators and ITA (Incoming Travel Agencies). OTAs are the travel product retailers (Gratzer, Winiwarter 2003). They are geographically closed to the customers and for this reason they assist them in the searching process for vocational destination. The agents offer the client their destination knowledge, the routined booking process, processing the payments and transactions. The travel agent can customize the holiday by suiting it to the personal preferences of the customer. The tour operators are the wholesalers, responsible for creating the travel packages aggregating the single travel services. They are often the main source of promotional information for the prospective visitors as well. Finally, the ITAs (incoming travel agencies), are in charge of providing services. They are mostly represented by the small and medium enterprises, which directly manage the interactions of individual tourist with particular tourism attractions (Corvi & Bonera 2005).

These intermediaries play an important role in ensuring quality and diversity, and constitute source of the information (Gratzer, Winiwarter 2003). Due to the geographical distance between the product and the consumer they became a norm rather than the exception. In the value chain, intermediaries brought specific benefits for the producers, consumers and the travel destinations as well. The producers took advantage of the risk transfer from them to the intermediaries, as well as the reduction of the promotion costs. Similarly the destinations could decrease the advertisement costs. Consumers profit in a sense that the search time for the product is shortened (Cooper, Lewis 2001). The specific functions have their costs paid eventually by the end-user, the tourist. Throughout the years, the intermediaries were preferred because the transaction cost was much higher while undertaking the task by the firm itself, rather than paying the intermediate to comply with it (Gratzer, Winiwarter 2003).

In the 1990s the tourism industry began to take another form. Technology became an opportunity for the suppliers and threat for the intermediaries. Internet was capable of quickly processing and transmitting information, which enabled the customers to receive the valuable information on time, helping them in the decision-making process. Inevitably, the traditional

tourism intermediaries' role has changed, leading to the disintermediation of the travel agencies (Law, Leung & Wong 2004). The tourism players, especially airlines, CRS/GDS and hotel chains began pursuing their own online strategy. They enhanced the internal information flow and allowed the customers to access directly their databases (Wethner & Klein 1999). This resulted in overriding the intermediaries by interacting directly with the end-user, (which is described in more detail the section 2.3 Disintermediation: own service providers' websites).

2.2. Traditional tourism agencies

The traditional travel agencies have certainly the clear advantage of face to face contact with the customers, enabling personal customer relationship. Buhalis and Licata (2002) conducted a study with the tourism and technology professionals, who confirmed that the lack of human contact certainly contributed to the main disadvantages of conducting the business online (Buhalis and Licata 2002).

Furthermore, the European travelers' mentality demonstrates the need for "assurance" while spending large lump sums of money. For this reason the research of destination or provider is performed online, but an actual purchase happens offline (PhoCusWright 2009).

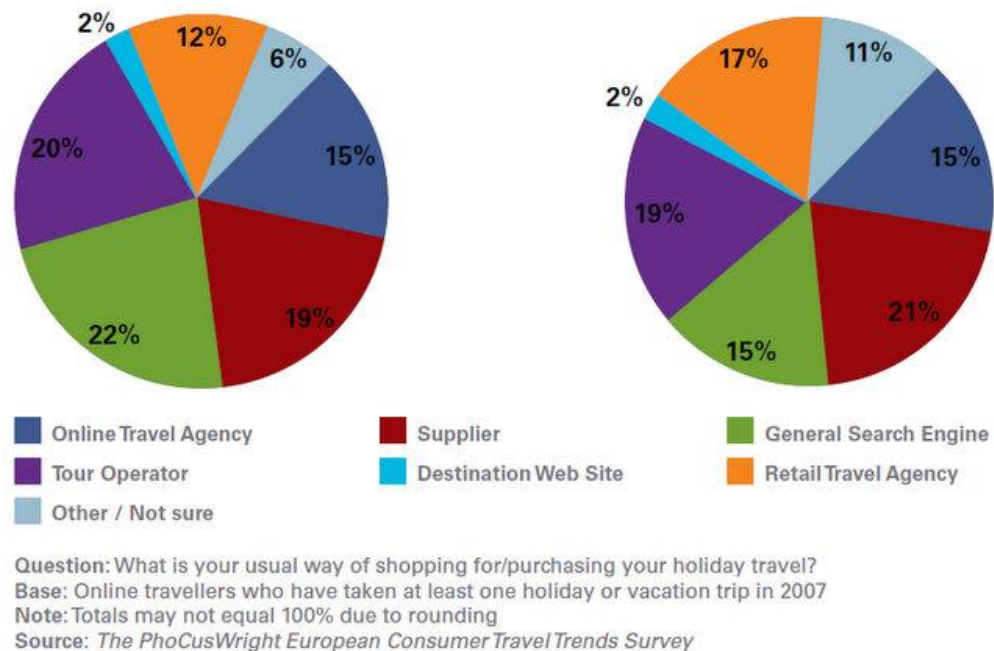


Figure 4. "Usual Shopping and Purchase Methods". Source: PhoCus Wright 2008.

The graphs above show that the shopping (looking for information) in 32% belongs to the offline channels (tour operators and retail travel agency) and this market share increases (36%) when it comes to purchase. The difference is not very significant but clearly displays the customers' preferences to conduct the transaction offline (PhoCusWright 2009).

This trend tends to change in favor of the online channels which create a certain financial benefit for the customers. E-ticketing historically accounts for one of the biggest shock in that sector, hitting directly the travel agents. One of the past agents' principle roles was putting the airline ticket into the traveler's hands. Now the reservation made online, using the credit card payment, eliminated the need for the paper ticket (McCubbrey 1999).

The second hit which considerably affected the agencies were commission cuts, making the travel agents less competitive. Further commission reduction, resulting in the long run in the total elimination, can be expected from other service providers, as for example car rentals or cruises. This financial loss will have to be transferred to the end customers, resulting in charging fees, directly influencing the competitiveness of the travel agents and tour operators. Thus, the

agencies face a challenge of implementing some additional value to the offered product to keep the client, instead of making him switch into cheaper direct booking supplier website(McCubbrey 1999).

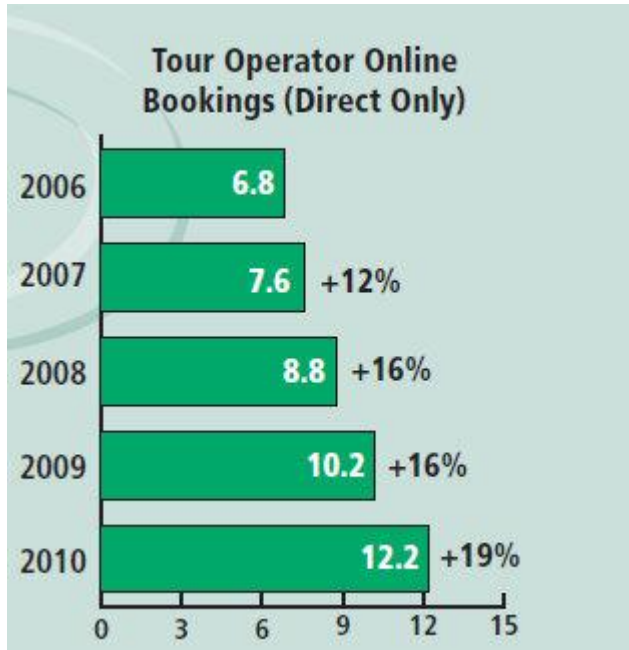


Figure 5 "Growth European Tour Operators Online Gross Bookings and Growth %, 2006- 2010"

Source: PhoCusWright European Online Travel Overview Fourth Edition 2008.

As a remedy, the offline channels try to adopt now an OTA-like strategy, taking an advantage from their well-established consumer brand to drive the traffic and conduct the transaction for the end-customer online. The online presence assures the agencies and the tour operators more bookings, demonstrated by a year by year increase. However, their online bookings still remain relatively low due to the delayed investment in the Internet as a sales channel (PhoCusWright 2008). As shown in the figure below, the Tour Operator websites growth rate demonstrate the lowest rate among all the suppliers.

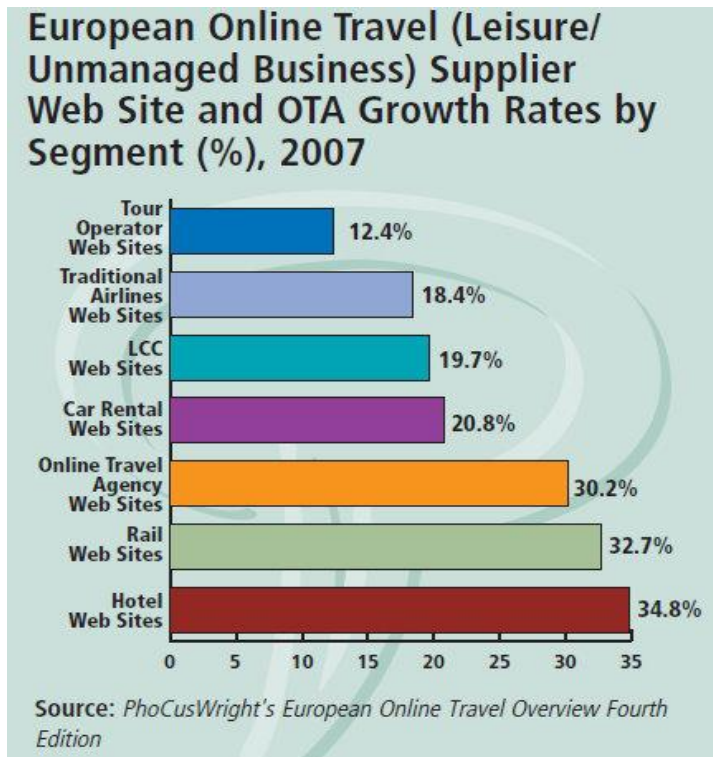


Figure 6 "Growth European online travel (leisure/ unmanaged business) Supplier Web Site and OTA Growth Rates by Segment (%)" (measured in number of the websites per segment)

Source: PhoCusWright 2008

As another response to the unfavorable environment for the traditional agencies, the market is consolidating itself. The biggest tour operators, TUI and Thomas Cook merged with First Choice and MyTravel respectively. This way, the two travel giants want to refocus their strategies to give special attention to the online channel, strongly influenced by the increasing competition from OTAs (PhoCusWright 2008).

To sum up, the travel agents face a serious competition both from the side of the suppliers wanting to process the bookings themselves as well as from the side of the cybermediaries, which offer the customers highly customized and competitive reservation alternatives (McCubbrey 1999). Furthermore, in countries like Spain and Italy, the tour operators while trying to implement the sales online, faced challenges inherent to changing technology, operations and culture. They were prohibited from selling directly to consumers, and OTAs there are more than happy to capture that share (PhoCusWright 2008).

2.3. Disintermediation: own service providers' websites

Disintermediation is defined by Gratzner and Winiwarter as “products and services that are directly given to the consumers, thus having less cost. The internet is a possible instrument to support disintermediation by connecting customers directly to producers.” (Gratzner & Winiwarter 2003)

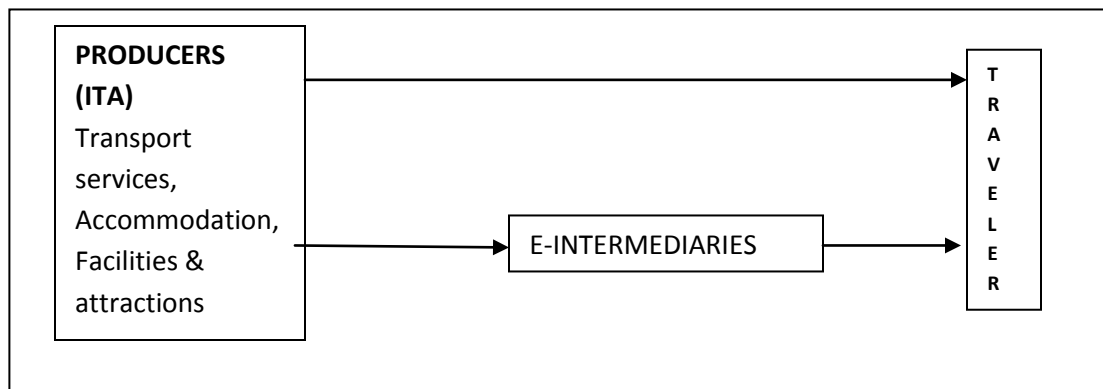
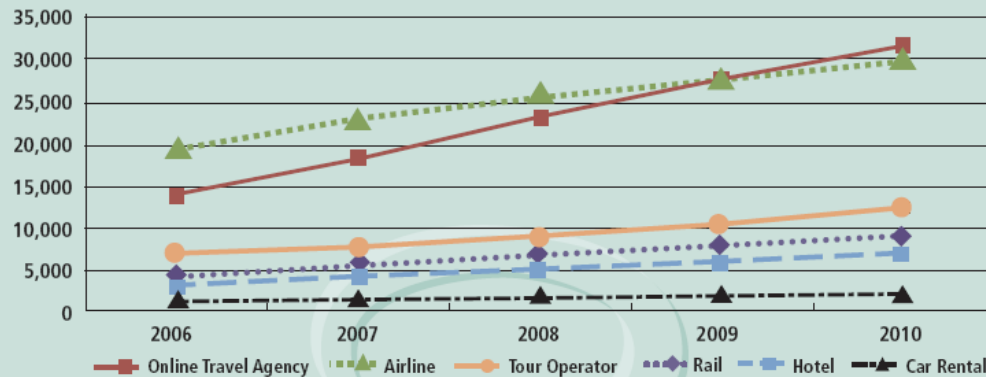


Figure 7 “Alternative chains of distribution in the travel and tourism industry”

Source: Anckar & Walden 2000.

The tourism suppliers took advantage of the new market opportunities and decided to distribute their products on their own. This was only possible by taking advantage of the internet and developing and implementing the e-Commerce applications, which enabled the customers to access directly their reservation systems. Examples of such market strategies nowadays can be found with almost all the airline carriers, hotel chains or car rentals companies (Buhalis & Licata 2002).

European Online Travel Market (Leisure/Unmanaged Business) Direct Gross Bookings by Segment (€M), 2006-2010



	2006	2007	2008	2009	2010
Online Travel Agency (OTA)	13,761	17,920	22,907	27,349	31,273
Airline Web Site	19,044	22,675	25,155	27,251	29,433
Hotel Web Site	3,032	4,086	4,939	5,847	6,843
Rail Web Site	4,018	5,334	6,576	7,698	8,865
Car Rental Web Site	1,107	1,337	1,508	1,766	2,001
Tour Operator Web Site	6,789	7,633	8,843	10,233	12,194
Total	47,751	58,985	69,928	80,145	90,609

Note: 2008-2010 projected

Source: PhoCusWright's European Online Travel Overview Fourth Edition

Figure 8. "European Online Travel Market, Direct Gross Bookings by Segment (€M), 2006-2010"

Source: PhoCusWright 2008

The respective suppliers strengthen their position in the market, by gaining a considerable market share in the online travel market, which is demonstrated in the figure above by the constant growth achieved by all players. They drive more customer traffic to their websites by continuous improvement of the quality of the websites supported by the implementation of the sophisticated tools. Currently, the airline segment (traditional carriers and low-cost carriers, or LCCs) generates the most online revenue in the European market. However, in the future the online travel agencies will surpass it. Rail increases its online booking capabilities due to the rising cost of flying as well as increasing overall travelling inconvenience (e.g. security checks and the environmental issues). In the hotel sector the strong growth is also visible as the hotels can achieve significant savings while driving the customers to their own websites (PhoCusWright 2008).

Omitting the intermediaries brought both the producers and the consumers, an incentive. The producers could save the distribution costs generated by the intermediaries, which contributed to higher profits. On the other side the customers could profit from the lower prices.

The financial aspect of the disintermediation is being supported by the higher market transparency, enabling a direct contact of the producers to their customers (European Commission 2006; Giaglis, Klein & O'Keefe 1999). The mentioned transparency assures a better control over the distribution channel (Giaglis, Klein & O'Keefe 1999).

The customer obviously profits financially due to the direct purchase from the producer. However, the intangible costs as search, configuration, negotiation and settlement costs should be taken into consideration. Additionally, the customer can be exposed to higher risk if the supplier has no established brand name (Giaglis, Klein & O'Keefe 1999). The European Commission emphasizes in its report that e-tourism activities strongly depend on the B2C (business to customers) relations, which is not the case in other economic sectors. The disintermediation turned out to be already highly successful especially in case of the airlines industry (European Commission 2006). (More in section 3.1 Airlines' product distribution)

2.4.Reintermediation: online travel agencies

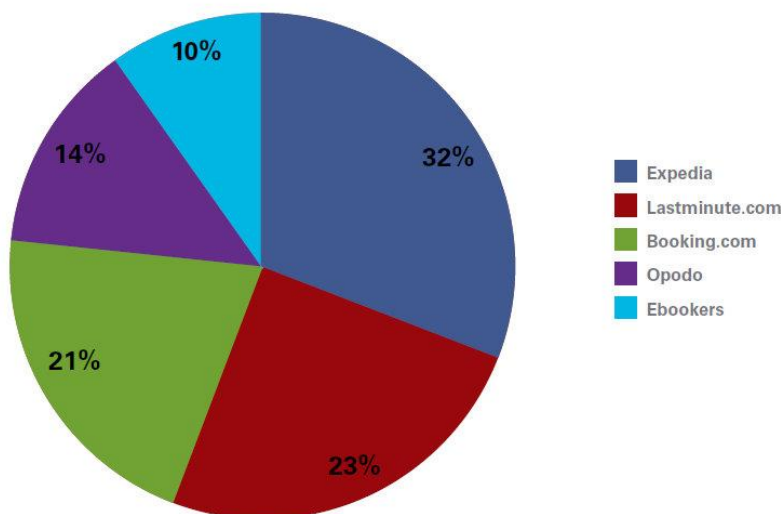
At first, the trend did reflect the predictions: the future would bring the total elimination of the intermediaries. However, the more the issue was discussed, the more scholars agree upon the fact that this is not likely to happen (Bloch & Segev 1996; Giaglis, Klein, O'Keefe 1999; Corvi & Bonera 2005).

The technology thus lead first to disintermediation and further on, back to reintermediation uniting new types of intermediaries, so called cyber-mediaries (Gratzer & Winiwarter 2003). Bakos and Brynjolfsson have shown that the aggregation of the independent services by those cyber-mediaries result in higher profits for sellers as well as higher social approval. For instance, a consumer planning his or her vacation starts to research a destination. Then the arrangement of the accommodation and travel has to be made. The customer will purchase some maps and books to collect the sufficient information. The closer the time for vacation is the weather and the actual news have to be checked. Making all the transactions and searching process at one spot will lower the transaction, distribution and binding costs due to the bundling

products by the intermediaries like expedia.com or Travelocity.com. The searching cost plays also a crucial role while speaking about reintermediation advantages. The electronic marketplace lowers the customers' cost to obtain information, allows a price comparison, and seller offering analysis (for example a specialized engine like pricewatch.com) (Bakos 1998).

Thus, the reintermediation began to play a significant role in the tourism value chain. The success stories of the tourism reintermediation portals reflect the great opportunities in the e-tourism market. As the figure in the previous section presents, according to the PhoCusWright forecast, by 2010 the direct gross bookings of the OTAs in the European online travel market will surpass all of the individual suppliers' revenue (see figure 8).

Top Five Pan-European Online Travel Agencies, Market Shares, 2007



Source: PhoCusWright's European Online Travel Overview Fourth Edition

Figure 9 "Growth Top Five Pan-European Online Travel Agencies, Market Share 2007 "

Source: PhoCusWright, European Online Travel Agencies, 2009

By 2007, in terms of European market share, Expedia.com was ranked as 1th largest online travel agency with 32% of the market share, followed by Lastminute.com (23%) and Booking.com (21%) (PhoCusWright 2009).

OTAs are currently not focusing on airline segment in terms of the resources allocation, as they intend to acquire new hotel content and to develop connectivity to complement hotel offerings.

This shift has been accelerated by the fact that hotel products, not airlines, currently offer much better margins.

However, the airlines are OTAs' biggest competitors in terms of the European travel market share. They not only aggressively drive traffic to their websites through marketing, special offers, enhanced loyalty benefits and improved functionality but also implement the cross-selling functionality in their websites, delivering comparable convenience of one-stop shopping as OTAs do. To stay competitive, OTAs should develop innovative products that go far beyond dynamic packaging solutions which are offered increasingly by airlines themselves (PhosCusWright 2008).

Dynamic Holiday Packaging

As online travel agents broaden their product range, there is an increased effort by the larger sites to create their own tour packages in order to generate alternative sources of revenue. While most of the established online agencies already sell packages supplied by traditional tour operators (in return for a fixed commission), there is an increasing emphasis by online agencies on creating and selling their own packages from the selection of air, hotel and car hire products that are already available at negotiated rates. This 'dynamic' form of holiday packaging provides an opportunity for the online agencies to increase average spending as a result of cross selling and generating higher profit margins, particularly when sold under a 'merchant pricing model' (see under heading "Merchant Pricing Model").

The established online agencies such as Ebookers, Travelocity, Lastminute and Expedia have already developed the technology to dynamically package, allowing customers to create their own tailored package holiday, in what to date has been the domain of the traditional tour operator. However, as these 'flight and hotel' packages are mainly limited to key city destinations (on major flight routes) and some charter routes, this is likely to represent a bigger threat to the mass-market operator as compared with the specialist tour operator serving niche destinations.

Nonetheless, the strategic intent of the online intermediaries to expand in this market is clear and as evidence of this, Expedia has recently applied for its ATOL license as an online tour operator

without even owning a single seat, bed or shop. A recent survey, that has surprised most industry observers and holiday makers, showed that 80% of the time it was cheaper (at an average discount of 26% to the brochure price) to disaggregate the components of the package and book direct through individual supplier websites (70% of the time) or via an online travel agency (10% of the time), rather than buy the same (or similar) package offered by a tour operator. Clearly, with the Internet providing greater transparency of pricing, the traditional model of the tour operator will be at risk where a customer is able to book the constituent parts of a holiday cheaper through alternative sources (PhosCusWright 2009).

The business model of the online travel agency is not a uniform category, differentiated by the pricing model and falling into three categories: retail, merchant and opaque pricing model.

Retail Pricing Model

Number of the agencies operate based on the traditional agency model where an online intermediary distributes a supplier's product in return for a fixed commission. For this type of online agency the main source of revenue comes from the commissions received from the suppliers. The model is similar to the traditional agency considering the relationship agency-supplier as well the value of commissions, which for example for the hotel equals on average 10%. Distribution of the airlines similarly generates revenue from the commissions paid by the suppliers as well as manipulation fees paid by the customers (Nalazek 2010).

Merchant Pricing Model

An increasing number of online agencies are adopting a flexible revenue model whereby they negotiate the bulk purchase of available inventory from hotels, airlines and other travel suppliers at negotiated discounted rates and then resell this inventory at a margin to travel consumers (merchant model). Unlike the traditional agency model where an online intermediary distributes a supplier's product in return for a fixed commission (as a percentage of the sale proceeds), under the merchant model, a 'gross spread' above the discounted negotiated rate can be achieved

on a sale. Depending on the negotiating strength of the online intermediary with each individual supplier, this spread can often be in the region of 20-40%.

A shift towards the merchant model among online intermediaries emerged following the reduced commissions payable as travel suppliers directly increasing sales to their own websites and from their own 'consortium sites' (discussed below). The merchant model effectively represents a 'win-win-win' outcome for all stakeholders: suppliers can get rid of excess capacity at low marginal cost at the minimum acceptable rate in a way that does not damage the integrity of published fares; online intermediaries achieve higher margins than under the traditional agency model, while the consumer pays a lower price than that often available from booking through the supplier directly. A further benefit for the online agency is that in most cases the agency only buys the right to acquire the inventory by a pre-agreed date, thus if it fails to sell the product it does not suffer any loss. Examples of companies successfully adopting this pricing approach include Hotels.com and Expedia (both owned by USA Interactive) (PhoCusWright 2008).

Opaque Pricing Model

Those models of the online agencies are based on the contracts with suppliers, which generate even higher discounts in comparison to the merchant model. The travel products are being sold only in the selected periods (when the suppliers' supply surpasses the demand). The inventory is called "opaque" because the specific supplier (i.e. hotel, airline, etc) remain hidden until after the purchase has been completed. This model is advantageous for the supplier, as the sales of unsold inventory prevent from cannibalizing full-price retail sales. The primary consumer of opaque inventory is very price conscious and is less concerned with the specifics of his/hers travel plans. Buying opaque travel inventory is best for price-conscious travelers whose primary aim is the cheapest travel possible. Hotel discounts of 30-60% are typical, and bargains are stronger at a higher star hotel. While one has control over the dates and times of a travel itinerary, the downside is these purchases are absolutely non-refundable and non-changeable, and as noted above, the specific hotel or airline is not revealed until after purchase.

The main sources of opaque inventory are Hotwire.com and Priceline.com, mainly popular in USA and Great Britain. Priceline functions with a bidding model, while Hotwire has a fixed

pricing model, meaning it sells at a fixed price and travelers do not bid for inventory. Typically hotel deals are greater than airline discounts on opaque travel sites, namely because airlines have limited seating and also take monetary cuts when publishing discounted fares, whereas a hotel sells to opaque sites to fill empty rooms (Nalazek 2010).

2.5 Online Travel Agencies in the European Travel Market

In the European Travel Market, the online travel agencies have gained a very strong position, which in terms of direct online gross bookings will surpass in 2010 any of the suppliers' bookings.

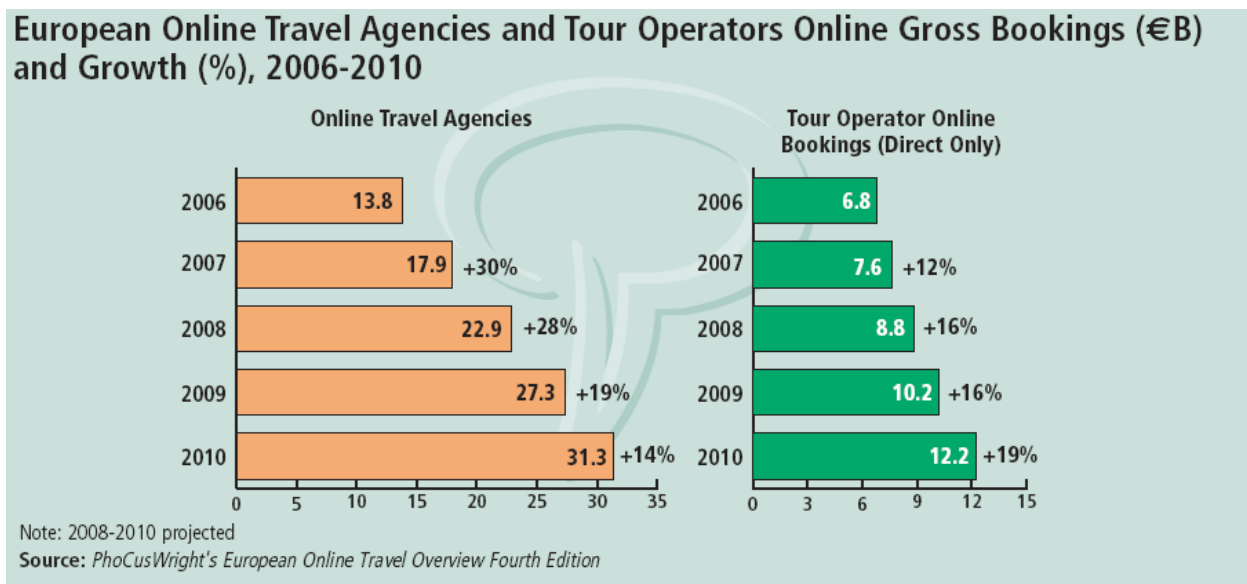


Figure 10 “European Online Travel Agencies and Tour Operators Online Gross Bookings (€B) and growth (%), 2006-2010”

Source: PhoCusWright 2008

In 2007, the OTA segment pulled ahead and outperformed the growth of supplier websites with a 30% increase over 2006. By 2010, OTAs are expected to surpass airline websites as the share leader of online bookings (see figure 8). Though OTAs used to sell the majority of tours pre-packaged, dynamic packaging keeps on growing. About one third of all packages are now being sold dynamically, and the split is expected to become more balanced in 2008-2010 (PhoCusWright 2008).

The constant growth of the OTAs in the past years was mainly driven by increasing Internet affinity, investments in marketing, and expansion of leading regional OTAs such as Venere, Booking.com, and hotel.de into new European markets. Many of these OTAs are focusing on the hotel market, as this segment is considered to be critical for both OTAs and the overall online market in the upcoming few years.

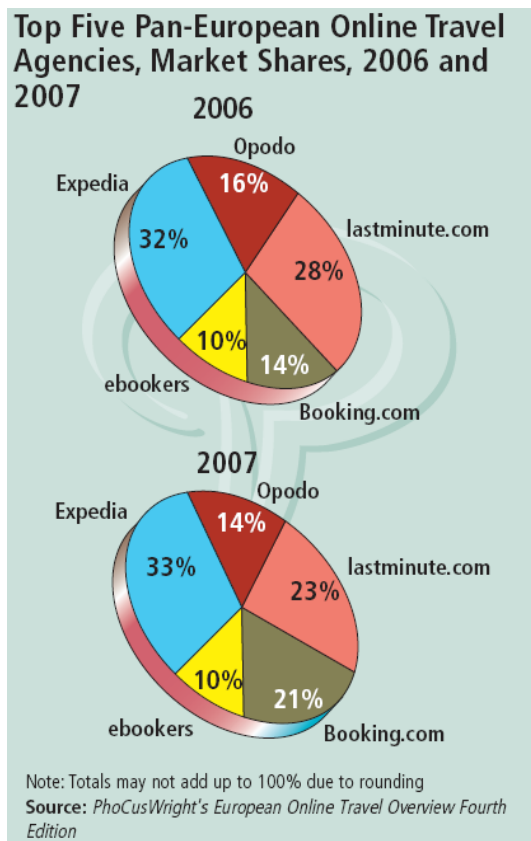


Figure 11 “Top Five Pan-European Online Travel Agencies, Market Share, 2006 and 2007”

Source: PhoCusWright 2008

The pan-European OTAs market is dominated by few large players, whose benefit from extensive resources, experience and expertise was borrowed from the U.S. These OTAs took the lead in the European market years ago, and still demonstrate continued and strong growth, both generic and through acquisitions of regional OTAs.

Expedia and Travelocity/lastminute.com are at the forefront; their gross bookings are in the range of €2.5-3 billion and their market shares reached 55% by 2007(see the above figure). The online agencies choose different ways of strengthen their position in the OTA's online business. Expedia gains the power and the market share through acquisitions. For example acquisition of Italian OTA Venere demonstrates both interest in European expansion and in the potential that the fragmented European hotel industry provides. Similarly Travelocity ensures its expansion and growth. In 2005 the company bought lastminute.com, which closed the aggressive acquisition period, in which 14 other OTAs were purchased, including for example Holiday Autos, the German lastminute.de and the U.K.'s Med Hotels.

Opodo, represents the only European owned OTA among the European market leaders. However, the company experiences difficulties in competing against its US-originated counterparts, and registered significant lost in market share.

Following the current trend, it is expected that the major players in the European OTAs' market will continue to increase their market shares in the long run. Furthermore, the significance of the regional OTAs will increase, which will enrich the competition and support overall market growth. The local OTAs' competitive advantage is certainly their sound regional knowledge, which differentiates them from the international players and on the other side assures the gain of market share. The consolidations and acquisitions are expected to continue, to contribute to the change of the competition landscape (PhoCusWright 2008).

3. Analysis of the individual suppliers' product distribution

3.1 Airlines' product distribution

The airline sector is clearly divided into two groups, the scheduled carriers and the no-frills (low-cost) carriers. The distribution of their product, the online penetration as well as the generated revenues significantly differ depending on the group they belong to. For this reason the distribution analysis will be made separately.

Currently, the airline sector in Europe generates most of its revenue in the European market. The leadership in the online penetration have the LCCs, reaching an average of 70% online sales level of the total sales in 2007. The traditional airlines also push the more effective online channel sales. The strong growth can be registered year by year, which in the next years is expected to slow down due to the market saturation (PhoCusWright 2008).

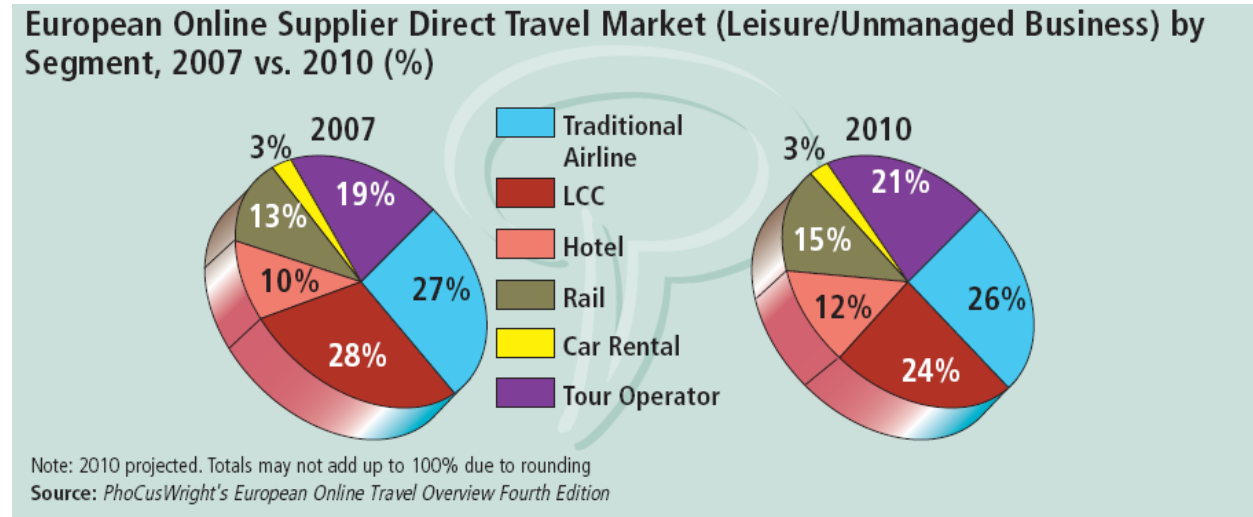


Figure 12 "Growth European Online supplier direct travel market by segment, 2007 vs. 2010 (%)"

Source: PhoCusWright 2008

As the figure above shows, the airline sector became online travel market leader concerning online services booked online, with the significant contribution of the LCCs. The traditional

airlines, according to the PhoCusWright predictions, will strengthen their position surpassing the LCCs by 2010 (PhoCusWright 2008).

Low-Cost Carriers

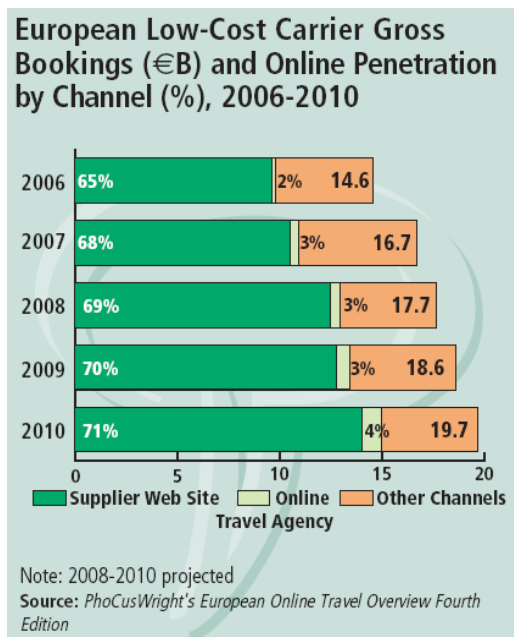


Figure 13 “European Low-Cost carriers gross bookings (€B) and online penetration by channel (%) 2006-2010”

Source: PhoCusWright 2008

The total gross bookings of the LCC in 2007 accounted for €16.7 billion – up €2.1 billion from 2006, which pushed the online penetration up to 68%. Despite the continuous consolidation in the airline industry, the European LCCs increased their seats capacity by 22% within one year. The considerable part of this increase was driven by the LCCs’ own websites. The most successful examples of the “direct distribution only” strategy only, are considered to be EasyJet and Ryanair, which reached over 90% of the bookings made via internet. However, the rapid growth is expected to slow down, as numerous LCCs are operating hybrid business models with a persistent offline revenue share (PhoCusWright 2008). The reservation systems usually have multi-year contracts with airlines and charge a fee per booking. Since the no frill carriers were not bounded by the contracts with the travel agents and consciously decided not to belong to the GDS, they gained an obvious advantage towards the scheduled airlines (Buhalis 2004).

The distribution through their own websites is, for the low cost carriers, as indicated, the primary distribution channel. The integration with the GDS structure followed in just recent years. However the rules were still dictated by the low cost carriers. GDSs were forced to integrate the low cost airlines with the intention to offer the variety of options for the travel agencies.

PhoCusWright reports that the online travel agencies (OTAs) were involved in tough negotiations with low-cost carriers (LCCs) on fees and payments for bookings. The discussions centered on fees of around US\$1 (note: the GDS system offers a booking basis for the offline and online agencies). Although the LCCs bring low or none profit to the (online and offline) agencies, they are contributing to the multi-hub strategy. Short distances (mostly covered by the LCC) are part of the integration of the long haul flights (PhoCusWright 2008). OTAs sellings of the LCC fares holds at the constant rate of 3% and represent a very small percentage among the online distribution channels, which is an effect of the “direct distribution only” philosophy, pursued by the European LCC, with the Ryanair as leader. This model can be changed, due to the recent hybrid distribution model implemented by some of the LCCs.

The LCC has also an interest of getting integrated into the other distribution channels. Namely the strategy of avoiding any intermediaries leads to losing the business travel segment as a customer and expose the company to a higher risk, while relying only on one distribution channel. While Ryanair, the leading European LCC, is sticking to its “direct distribution only” philosophy, other low cost carriers start pushing the segment in other directions. For instance, easyJet recently announced plans to distribute through the GDS, with the goal of expanding into business travel and increasing load factors and average fare yield. This move is expected to attract followers, as it might help overcome the challenges posed by volatile fuel prices and the general economic downturn (PhoCusWright 2008).

Traditional Airlines

The online penetration of traditional airlines' sector in comparison to LCCs is significantly lower. However, the LCCs market saturation will lead, in the future, to the stagnation of the online growth sales, whereas the traditional airline still demonstrate a big potential in that sector.

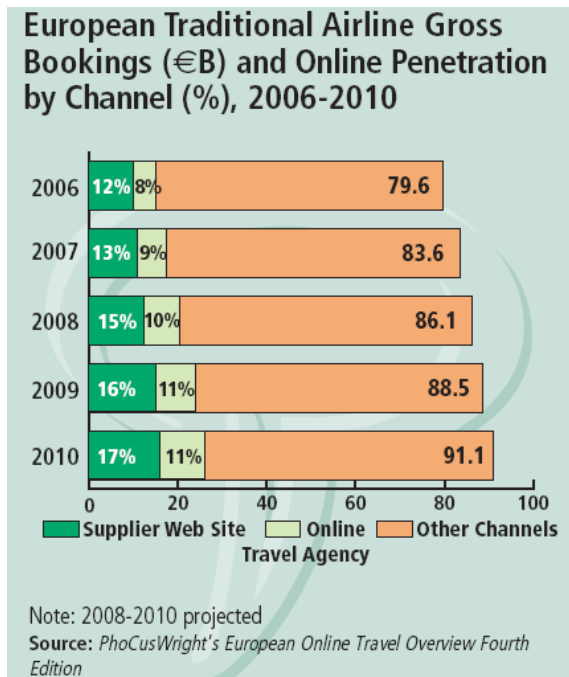


Figure 14 “European Traditional Airline Gross Bookings (€B) and Online Penetration by Channel (%), 2006-2010”, Source: PhoCusWright 2008

Across Europe, the online penetration of the traditional airline reached 22%, in 2007, from which the website gross bookings in the respective year accounted for almost €11 billion, accounting for 13% of the total online sales and the OTAs owned only 9% of the overall traditional airlines online distribution. This is not likely to demonstrate a further increase due to the decreasing margin in that sector, as well as the customer tendency to book directly on the airlines’ own websites.

The online penetration among the tradition airlines usually concerns the low-price fares for short-haul flights. Typically the long-haul and higher-yield tickets tend to be booked offline.

The sour competition with the no-frills airlines and the drastic increases in the fuel prices forced the traditional airlines to rationalize their high fixed cost structures. Thus they started to refocus their strategy towards online distribution throughout their own websites. The traditional network carriers remain focused at this distribution channel, by implementing constant improvements in usability, content and technology. An additional priority is given to cross- and up-selling

functionalities. Additionally, the airlines have already started to integrate other products such as hotels and cars into their offerings, and are now bundling their air inventory into their own products and acting as online tour operators (which is similar to the dynamic packaging model of the OTAs). Adopting the dynamic packaging models will enable these airlines to drive additional revenue online and enhance their relevance in the overall trip-planning process for consumers (PhoCusWright 2008).

Some of the airlines have also initiated “tricky” approaches to assure the traffic to their websites. Air France, for instance, only considers reservations made directly on the brand sites eligible for frequent flyer miles. Moreover, higher service fees are charged when booking was made through call center, travel agents or retail outlets, rather than directly (PhoCusWright 2008).

On the other, the traditional airlines were in the past years not as flexible as the LCCs, in the implementation of the rapid changes. Almost all of the carriers were bounded by long term contracts with the GDS, which required to the service suppliers, the payment of a compensation negotiated in advanced, when the service was being sold via GDS. However, their contracts are expiring, leading to a huge decrease of the commission or even its total elimination. The scheduled airlines are interested in corporation with the GDS due to the still high distribution portion via agencies. The airlines are trying to drive higher traffic to their own sites, but they are obligated to offer the same price as the agencies do, not to create conflicts between agencies. The way the airlines try to bypass the constant pricing obligation, is with special offers available only on their own websites (E-travel Forum, 27-28.01.2009).

PhoCusWright estimates that airline web revenues will decelerate in the next several years. A mean to withhold successfully the competition is maximization of share in all sales channels. This on the other hand prevents the airlines from using negative tactics, such as for example commission-cutting, to drive direct distribution. OTAs stand to gain from this competition, as they will receive better flight content (PhoCusWright 2008)

3.2 Hotels' product distribution

In the hospitality industry there is a trend of moving from the offline to the online environment as well, but the online penetration in that sector is even lower than in the case of the traditional airlines. This could be explained by dispersion across the industry, represented mainly by the small and middle businesses.

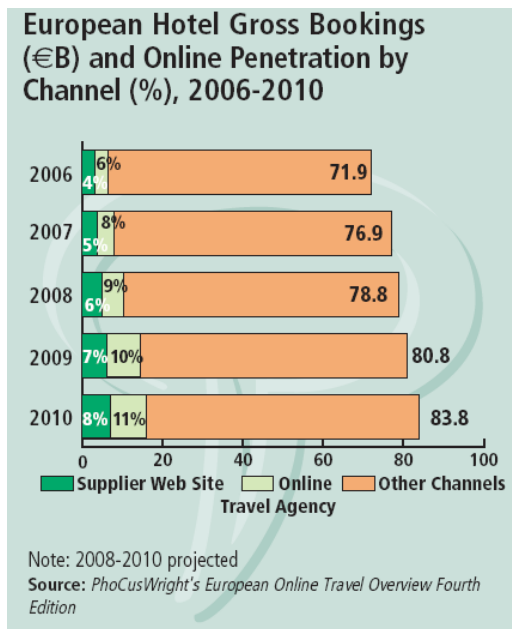


Figure 15 "European Hotel Gross Bookings and Online Penetration by Channel 2006- 2010"

Source: PhoCusWright 2008

As the following figure presents the bookings made online constantly grow and within four years (2006-2010) the portion of the internet-based bookings in the European hotel sector has grown by 10%, forecasted to reach a portion of almost 20% by 2010 (PhoCusWright 2008).

There is a significant growth in the availability of the hotels' own web pages, recording the small but constant growth in booking made that way. PhoCusWright made the estimation that the hotel inventory will be rather distributed within this small percentage via the direct suppliers' pages, whereas the majority (over 50%) will overtake the third parties sides (Buhalis & Law 2001).

The revolutionary effect of the internet on the hotel distribution channel can be demonstrated by the comparing a distribution model before (Figure 14) and after (Figure 15) the internet-based distribution channels.

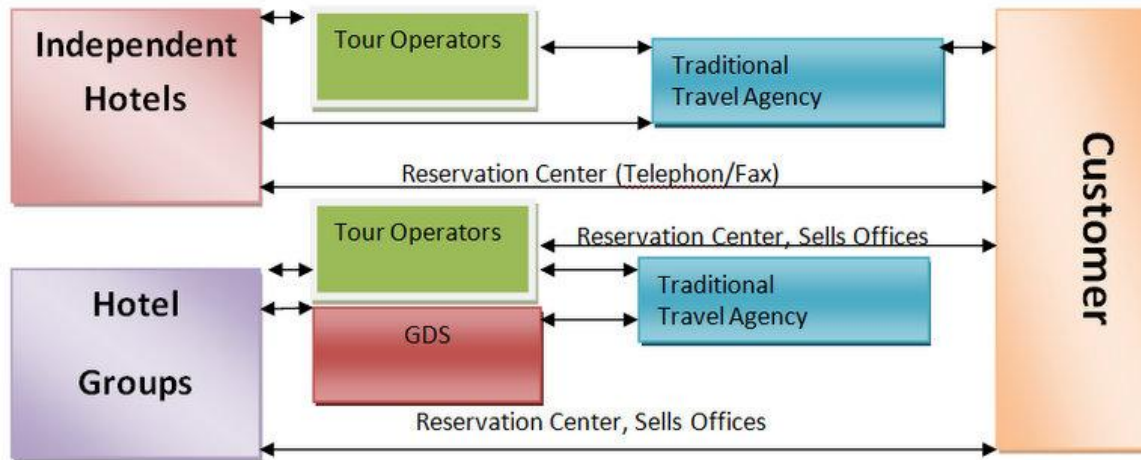


Figure 16 “The Hotel Distribution Model before the implementation of the internet-based distribution channels”

Source: Nalazek 2010

The hotel groups, besides the distribution via tour operators and the travel agencies used to rely heavily on the GDSs as well as on the own reservation systems. Participating in these channels brings clear benefits for acquiring the business travel segment. In case of the independent hotels these channel would be too costly and hardly ever used (Nalazek 2010).

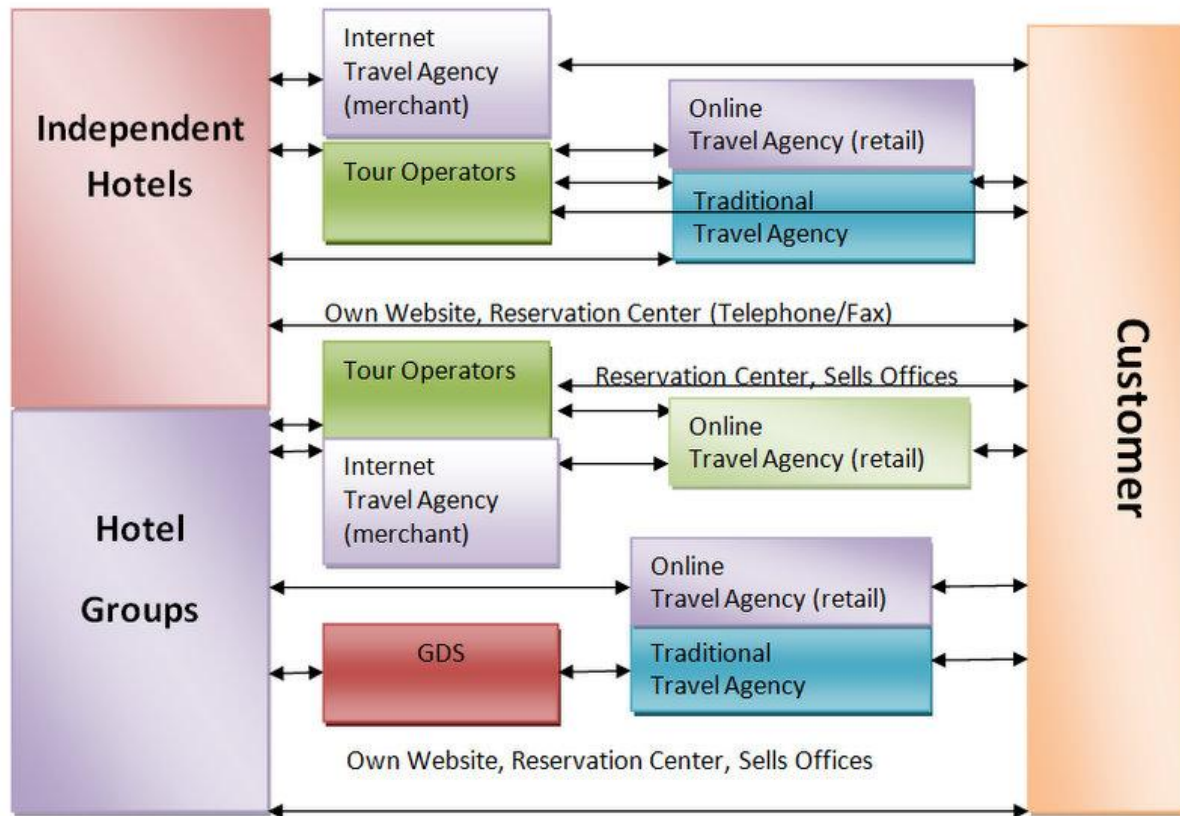


Figure 17 “The Hotel Distribution Model after the implementation of the internet-based distribution channels”

Source: Nalazek 2010

The internet caused the hotel distribution to be more complex. As the figure above demonstrates, besides the “old”/indirect forms of distribution, new (direct) channels have appeared. Both, the independent and the group hotels started to take advantage also from distribution through their own websites. The direct, own website based distribution model contributes to the significant percentage of the sells especially in case of the group hotels, as they have a trusted and recognized brand, when compared to the stand-alone hotels. Hotels focused on the direct distribution by launching various brand websites and focusing on the search engine marketing (SEM) as well as search engine optimization (SEO) with a highest priority. Owning the website reduces the distribution costs and enables the direct communication with the customer. This results in strengthening the brand awareness and loyalty. However, based on the PhoCusWright report, this strategy does not necessary brought the desired effects in comparison to OTAs which

still have advantages with exclusive rates, high-quality content and a widespread selection of properties and destinations.

Small and middle hotels can also benefit from this advantage. They distribute their travel product through the new players in the market: online travel agencies (retail- and merchant-based) (Nalazek 2010).

The impact of the internet in the hotel bookings contributes to strong growing trend. TravelClick.com has made a survey among the 30 biggest hotel groups worldwide. The results have shown that the internet-based reservations have increased by 20% in years 2003-2008, from 27% to 47%.

	2004 (%)	2005 (%)	2006 (%)	2007 (%)	2008 (%)
Own Website	71,4	75,2	81,4	76	75,2
Online Travel Agency (retail)	12,5	10,6	6,4	8,7	5,4
Online Travel Agency (merchant)	8,6	9,0	7,9	9,7	10,7
Online Travel Agency (opaque)	7,5	5,2	4,3	5,7	8,7

Table 2 "Internet-based Reservation Structure among the biggest hotel groups worldwide in years 2004-2008"

Source: TravelClick www.travelClick.com

The table above presents the internet-based reservation structure and the dynamic of its growth in the years 2004-2008. The significant portion of the reservation is shared by the own website reservations. As mentioned before, the strong brand in case of the hotel groups assures the high traffic to their owned distribution channel. The internet based agencies of the merchant type generated much lower reservations' volume, accounting for only about 11% in 2008. However, the channel records the continuous growth.

The own website distribution differs when the small and middle hotels are concerned. As a result of highly fragmented market, a large number of hotels struggled to increase their direct website booking shares, estimated to reach only about 6% in 2008. Independent hotels remain largely reliant on intermediaries (travel agents, tour operators and other wholesalers) to increase their global and pan-European reach. In 2007, OTAs accounted for 8% of total hotel gross bookings (up from 6% in 2006). Direct offline distribution via call centers and on-site reservations remain very high, but this sector creates significant potential for the hotel segment to improve online sales (via their own websites as well as OTAs), especially as hotels consolidate into chains and OTAs increasingly focus on distributing hotels online (PhoCusWright 2008).

The main issue is that the independent hotels do not generally have the budgets to invest in the sophisticated websites and online marketing campaigns necessary to compete with medium-sized and large hotel chains and OTAs. As a result, OTAs, mainly those focusing on the hotel industry (as hotel.de, HRS and Booking.com) produce a significant share of hotel online revenues. These three hotel specialists alone were able to increase their combined German gross bookings by an impressive 66% in 2007. PhoCusWright estimates the current split between online direct and OTA sales to be 27% to 73% in favor of OTAs. This prediction confirms the intermediaries will continue their dominant presence in the online hospitality landscape in the next several years.

The hotel industry is currently undergoing the most significant change in the online travel industry. The benefits of online hotel distribution are particularly valuable for both OTAs and hotel companies. OTAs are able to achieve higher margins on hotels versus other products such as air tickets. Hotel companies are also able to realize significant cost savings associated with websites creation with integrated sophisticated reservation systems and promotional costs. By engaging OTAs in gaining the customer base, those costs are being overtaken by OTAs. Due to its sheer size and relatively low current online penetration, the hotel segment holds the largest future potential (PhoCusWright 2008).

Improved Internet booking engine technologies with new features such as better usability – especially up- and cross-selling functionalities – will also contribute to the success of the online direct channel in the medium term. Considering technological enhancements, as well as the increase in chain hotels versus independents, PhoCusWright estimates that website bookings will reach 8% of hotel revenue in 2010 (PhoCusWright 2008).

3.3 Cruise Lines' product distribution

The main characteristic of the cruise industry is fast growth of the average cruise capacity, which increased from about 2,000 berths in 2000 to 3,000 in 2005. This trend continues, because from 2006 through 2010 produced ships were able to carry more than 3,000 passengers (five of them more than 4,000) (EyeforTravelResearch, "North American Online Travel Report 2009", 2009). The overwhelming majority of the cruise trip is being sold by agents (up to 90%) (www.cruising.org access on 12.12.2009). Agencies, especially the online ones, have a great potential to generate an international traffic to their sites as well as ensure the geographical spread.

Until 1999 the number of travel agents in North America cooperating with CLIA (Cruise Lines International Association) have grown to over 20,000. An interesting thing to notice however is that from this year on, a declining trend is being recorded, reaching in 2007 only over 15,000 (CLIA webpage: www.cruising.org). This trend is strongly being influenced by the entry of the online agents in the market, as well as suppliers' distribution via own websites.

Online cruise distribution is nevertheless in its infancy when put alongside other online travel sectors. The online penetration shows a continuous growth reaching 4.1% in 2002, 11.3% in 2008 and the forecasted 19% by 2012. Despite the increasing online distribution channel market share, the online/offline gap will remain significant. (EyeforTravelResearch, "North American Online Travel Report 2009", 2009).

OTAs have strongly driven the online cruise market, accounting for about 94% of the online cruise revenue. The online presence is also gradually increasing in the form of direct distribution online, however OTAs will continue to dominate the online cruise distribution. (EyeforTravelResearch, "North American Online Travel Report 2009", 2009).

The cruise lines industry faced in the recent years many difficulties, which contributed to the great increase of operating costs, such as fuel, food, payroll, insurance as well as security costs. Furthermore, the US state as well as foreign authorities have implemented higher taxes. These costs are beyond the control of the companies; but the implementation economies of scale gives a partial solution for the cruise line companies. Extending capacity in form of larger ships allow the companies to carry more passengers without a corresponding increase in certain operating

expenses (USSAEC Royal Caribbean 2006). Similarly, the geographical expansion contributes to achieving economies of scale. The urgency of the rapid and geographically extensive growth explains a strategic use of the mega travel agencies as the distribution channel.

3.4 Car rental companies' product distribution

Car rental accounts for very a small portion of the suppliers market however it is relatively mature in terms of online penetration. This is because four leading car rental providers recognized the potential of online distribution early and invested in quality technology and marketing right away. The big four companies (Avis, Hertz, Europcar and Sixt) generated up to 30% of their gross bookings online in 2007, substantially contributing to an overall market online penetration of 19% (PhoCusWright 2008). Small local car rental companies hardly generate any online revenues, due to minimal marketing budgets, limited resources and required investments for online booking engines. (PhosCUSWright 2008) Furthermore, the competition in the car rental industry is very tough and for this reason small players could take advantage of the mega travel agencies as a distribution channel, assuring the ongoing reservations while using as their capacity (Monestime 2005).

The car segment has a strong future growth opportunity through partnerships with other suppliers and/or OTAs which will complement car rental with other products (e.g., dynamic bundling with air and hotel offerings) (PhoCusWright 2008). The car rental companies, to avoid the additional costs in form of commission, strengthen the distribution via their own websites, to conduct the transaction without any additional intermediaries. This however turned out to be a great challenge, due to the fact that the car is seen as a supplement to the vacation, which can easily be booked directly in the destination. Thus, the car rental companies mainly cooperate with the travel agencies, which either offer to the client a car rental as an integration part of the travel package or as a standalone product. This normally yields a commission for an agency for the intermediary process.

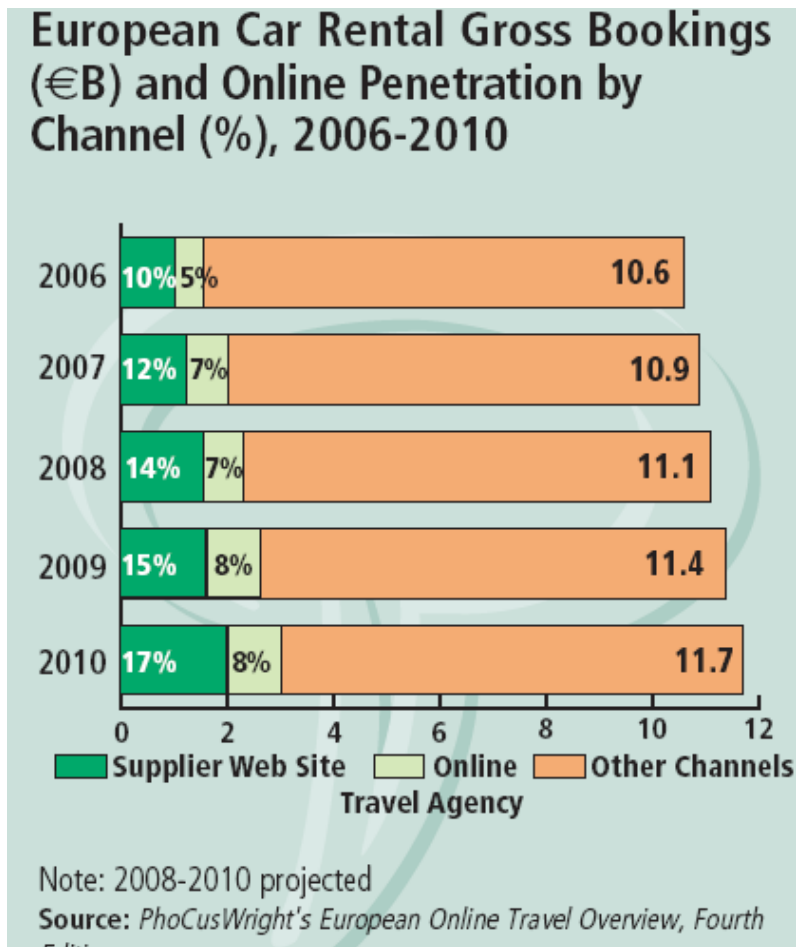


Figure 18 "European Car Rental Gross Bookings and Online Penetration by Channel"

Source: PhoCusWright 2008

Direct distribution via key supplier websites is on the rise, and OTA distribution is also growing, though at a slower pace. In 2007, direct distribution clearly dominates online car rental sales. The major car rental companies aim to drive their online direct shares up to 35% within the next three years by increasing online marketing budgets and enhancing their websites (PhoCusWright 2008).

Distribution through online intermediaries represents an important channel for the European car rental markets. OTAs are focusing on that sector and pushing it forward, enabling car rental companies to reach beyond their own brand websites. In contrast to airlines, which often perceive online intermediaries as competitors, car rental companies assign OTAs the role of a decisive distribution channels. In many cases, car rental companies have been developing strategic partnerships, being Hertz and Opodo can serve here as an examples of that. They have

allied with airlines (easyJet and Sixt), hotel companies (Europcar and Accor), hotel reservation and marketing associations and other transport providers such as national motorist associations and railway companies. These partnerships have served the car rental companies well and provide a significant source for online bookings (PhoCusWright 2008).

Large car rental companies use also a strategy called white-label solutions which contribute with a significant part to their online revenues. This practice allows third-party websites such as airlines or OTAs to use their booking engines. However, all the major players strongly compete for these distribution opportunities. Hertz has integrated other travel booking solutions into its website – for example, the site enables customers to directly book hotels or parking when completing the online buying process (PhoCusWright 2008).

4. Decision Making process for the tourism suppliers

4.1 Decision Making: Introduction

Most suppliers in the tourism industry utilize a portfolio of channels to distribute their products. But O'Connor & Frew (2004) notice that the channels cannot be added ad infinitum. The companies are forced to take important decisions on how to distribute their products and services based on system complexity, technical factors and management issues. This, in the age of ICT and new intermediaries' entry the tourism industry, plays a crucial role to justify the costs and benefits of the alternative solutions of the distribution channels.

The paper analyzes the suppliers' decision of integrating the OTA's in a common platform with three different levels, the operational, tactical and strategic one. Each of them differ in terms of focus, level in the organization at which the decisions are made, the scope, time horizon, degree of (un)certainty and complexity.



Figure 19. "Levels of decision making process"

Source: Evans, Cambell 2003

Strategic Level

The strategic level stands for long term decisions mainly taken at a senior level. The goal of such decisions is mainly achieving the competitive advantage in the business (Evans, Cambell 2003). The strategic level for the tourism organizations requires continuously assessing the external environment, including the competitors and the customers' needs, in order to enhance their competitiveness (Buhalis 2004). From the strategic point of view the tourism companies pursue the goal of improving the efficiency, maximizing the profitability and maintaining the long term prosperity (Buhalis 1998). Those long term plans can take about 3 years (Moutinho 2000) and can be realized by close monitoring of an external environment as well as the competition. The airlines, for instance, have to decide upon what products to develop and which routes to operate, thus an analysis and forecasting of the current and the future company's performance is critical. The strategic level also supports the pricing strategies as well as yield management (Buhalis 2004). Willcocks (1996) focuses on the measurement and the evaluation of the specific management decisions, directly linked to the IT investment. He uses investments' categorization of Norris (1996) revealing the main strategic goals of the companies.

Tactical Level

The tactical level relates to the midterm decisions which deal with the implementations of the strategical decisions (Evans, Cambell 2003). The tactical level is enhanced by taking both the proactive and reactive measures to adjust the demand with the supply. Once the strategic

decision has been taken, the tactic approach should reveal how to execute the given strategy (Moutinho 2000).

Operational Level

In this level the company mostly focuses on the tactical/operational actions. The broad strategies must be disaggregated into specific actionable and quantifiable sub-strategies and goals. (Moutinho 2000). The operational level represents the shorter term decisions based on a high degree of certainty and depends on the strategic and tactical decisions. This level primarily refers to the day-to-day operations. Those actions will be proactively aligned with the budgeting, forecasting, and scorecard environments with the overall strategic plan (Evans, Cambell 2003).

4.2 Decision Making for the tourism suppliers

O'Connor & Frew (2004) developed a framework for the evaluation of the relevant factors to be considered for this specific channel. The study is based on the qualitative and quantitative approaches through Delphi study. The panel of independent experts identifies the key factors, which serve as a framework for the distribution channel evaluation in this paper. Although, the O'Connor & Frew's paper gives an approach for evaluation methodology for the electronic channel of distribution in the hotel sector only, it will be extended here to the other tourism product suppliers due to the similar characteristics of the players.

After reviewing the literature we notice that different approaches for IT evaluation techniques are being used. However, they refer mostly to the financial aspects (Griffin 1997). While it is true that the strong analysis of the monetary contribution of IT in form of the cost benefit analysis, value added approaches, productivity or capital appraisal methods give well-defined and direct results, those outcomes present only short-term views and overlook the future benefits, hidden costs and competitive advantages (Clemens Weber 1991). Out of all IT investments, nearly 75% have no easily calculated business value (O'Brian 1997). The economic approaches are originated in the manufacturing economy, characterized by objective, well-

grounded methodology but in case of evaluating the information technology those approaches are clearly limited (O'Connor & Frew 2004).

Consequently, researchers looked for the non-economical approaches, which would significantly influence the evaluation performance of IT. As the 'intangible assets' the intellectual capital and customer loyalty are listed, as well as other factors contributing to the profitability, competitive strength and long-term goals achievement (Ittner & Larcker 2000). Strategic advantage with using IT comes when it helps achieving the economies of scale, reduces the costs, creates barriers to entry, builds switching costs, changes the basis of the competition, adds customer value, alters the balance of power with suppliers, provides first mover effects and generates new products (Applegate and McFarlan 1996).

O'Connor and Frew (2004) gathered experts from different fields: academic, consultants, hoteliers, researchers and also from the system suppliers. With a group of 45 experts, they conducted a three-round Delphi study with the goal to develop, validate and prioritize a list of potential evaluation criteria. First an unstructured qualitative research took place to create a frame for the study, followed by a qualitative research focused on the research problem. Finally the quantitative investigation finalizes the model.

The factors in the study indicated refer to the six categories: financial, marketing, management, operational, system provider and technical issues. The categories were then organized in three different levels: operational, tactical and strategic. This was done to address the level of the organization at which the decisions are made, the scope, time horizon, degree of (un)certainly and complexity.

	Financial Factors	Marketing Factors	Management Factors	Operational Factors	Technical Factors	System Provider Factors
Strategic Goals	Lower the Costs	Potential to address current market	Effect on existing channels of Distribution			Competitive Advantage
		Potential to open up new market segments	Availability of alternative electronic channels			
		Effect on brand Image				
Tactical Goals		Ability to recognize customers	Capability to provide Management Information			
		Effects on existing Customer Relationship	Independence of Channel Providers			
		Presence of Competitors				
		Reputation of channel providers				
Operational Goals				Effect on resources in customer support	Ease of use	Update/Transaction Speed
				Resources for technical maintenance	Integration	
				Technological functionalities	Security	
					Traffic Level (number of visitors/hits)	

Table 3 “Evaluation Factors of Electronic Channels of Distribution”

Source: Adopted from O’Connor & Frew (2004)

Financial Factors

The decision to join a certain distribution channel is mostly driven by the financial costs of joining the particular channel. Sometimes the decision is also connected with the additional capital costs, which occur at the initial stage of the cooperation due to certain prior technology requirements. The supplier has also to consider some ongoing costs, as the transaction costs and fees paid on a regular basis to the intermediary. The benefits have to clearly offset the hold costs to assure the revenue for the supplier, thus such aspects as transaction volume of the particular distribution channel and the forecasted revenue shall be considered. The rate, offered by the channel also plays a crucial role to avoid cannibalization of the different channels. Thus, the financial costs mainly contribute to the strategical management in terms of lowering the costs in the long term strategy.

Marketing Factors

The marketing factors represent the strategical, tactical and operational factors for the company. They are aligned to the strategy chosen by a company and can be implemented in the short, middle or long term, depending on the scale of the marketing initiatives.

Connolly (1999) claims that the decision to choose a particular distribution channel should consider various factors such as the reach of the channel, its visibility and popularity, the level of marketing and also the services that front-end this channel. It is also important to indentify the audience targeted by the channel and compare it to the profiles of the own customer base.

Every distribution channel has its particular audience. The traditional travel agency will target mostly the regional customers. The online distribution makes for a wider reach and bigger visibility of the channel, but it will experience some constraints in the form of linguistic aspects and thus the geographical reach can be limited automatically decreasing the volume of bookings.

The front-ended database of the OTA portals, on the other side, provides access to numerous products and numerous service providers. That is why there is no need for the supplier to join each service separately. As they promote their own websites, there is also an indirect promotion of the individual suppliers reducing the suppliers' marketing costs (Connolly 1999).

Management Factors

The management of the distribution channel highly depends on the intra- and inter-organizational functions with the aim to enhance the efficiency and productivity of the company. For that reasons this could be assigned to the strategic and tactical goals.

Operational Factors

The operational dimension requires firms to think and anticipate requirements and solutions for the customer. The service component has become an integral source for strategic and sustainable competitive advantage. Business success depends not only on an organization's ability to imagine and/or create a need (See for example, Kandampully, 2002; Pilzer, 1990), it also depends on the ability of businesses to successfully anticipate the latent demands of consumers and provide creative product and service solutions to satisfy such demand.

Technical Factors

The technical factors are also strongly correlated with the integration level and correspond to the operational type of decisions. It enables a better exchange of the data, which speeds up the transaction process. The speed plays a crucial role in the IT driven world, and so the offline distribution channels often fail to provide a quick and reliable transaction processing. Furthermore, the up-to-date information has to be available for the customer 24/7, and that is why an easy and fast update should be enabled to the supplier. The transfer of the data brings a certain level of security requirement to assure neither distortion of the information delivered nor failure by the transaction processing (Connolly 1999). The intra-organizational process includes integration of some functions within the organization, for instance property management systems, management and strategic information systems or accounting and payroll system. The inter-organizational functions are mostly based on the interconnectivity of systems and applications to assist the communication between the tourism organizations allowing structured data transfer from computer to computer (Buhalis 1998). The more fluent, quick and unproblematic the data transfer occurs, the better the efficiency and the productivity of the channel. The online environment enhanced this process, contributing to a better organization of

the tourism enterprises (Buhalis 1998). The integration into any structures should not, however, negatively affect the control tools of the enterprise but rather enhance it. The potential channel can give better insights into the strategic planning, competition analysis and the management statistics. Also, there is a better consumer behavior understanding due to the direct distributor's contact with the travelers. If the particular reports are being shared among the members, they then can bring additional value into enterprise management.

System Provider Factors

The distribution channel provider, either in offline or online dimension shall be analyzed closer due to its strategic position in the current and in the future tourism market. The paper focuses only on the specific channel – OTAs, the online travel agencies.

5 Analysis of the offline and online distribution channels

The following analysis presents the general evaluation for all the suppliers' common strategic, tactical and operational goals while joining the integration platform. Those criteria which are specific for the particular provider, are discussed under the individual supplier evaluation (sections 5.2).

5.1 Joint Suppliers' analysis

5.1.1 Strategic Goals



Figure 20 “Evaluation of impact of the selected distribution channels on strategic suppliers' goals”

Source: Author's own resources

* the scale of impact: 1-small, 2-middle, 3-big

Economy of Scale and Global Reach, New market penetration

The competition on the travel market increases as the technology facilitated entry for many new players with low resources commitment. It is essential for the suppliers to increase their customer base and extend their activities to new markets.

The OTAs' global customers' reach creates an opportunity for the suppliers: a true cross-geographical market penetration. The OTAs operate on the global market. Their rapid growth and cross geographical penetration ensured them global presence. They quickly grew by the ongoing acquisitions and first movers strategy.

OTA integrates not only the GDS but also affiliates independent hotels, car rentals, cruises lines and airlines across the globe. This creates a large global database, creating economy of scale which in turn leads to lower operating costs and transaction fees (Connolly 1999). OTAs' average cost per unit fall as scale is increased. In the knowledge context, the costs in the sector are: ongoing technology investments, human resources needed for the maintenance of the database, necessary marketing costs, etc. Those operating costs per unit decrease as the scale is extended.

Besides the large scale of the operations, the online travel agencies are able to generate the demand for their suppliers. The dynamic packaging application, made the demand for the certain product and services increased automatically. Primarily, the number of hotel nights booked, has increased, due to the vocational package component; secondly some additional services were booked (based on the cross-selling method, for example insurance, sightseeing trips or theatre tickets), which also enhanced the additional demand (O'Connor & Piccoli 1993). Economy of scope triggers reductions in average costs attributable to an increase in the number of goods produced.

Aggregating the great number of players in the sector by the mega online travel agencies allows the horizontal and the vertical integration. Creating a stable portfolio of the products offering allow to reduce the risk and compensate the fluctuations in the demand. For instance, Expedia deciding upon the elimination of the flight booking fee, offsets the lost revenue by gained profit made on additional hotels and package bookings.

Penetrate new customer segments

OTAs and supplier Websites attract very different traveler segments. OTAs are mainly focusing on more infrequent leisure travelers, who may take just a few trips a year and are more price-sensitive. Suppliers, by comparison, are the preferred destination of the more frequent, loyal leisure/unmanaged business traveler, who may be less concerned with price and more interested in schedule, convenience and booking with specific suppliers (www.4hoteliers.com access on 20.12.2009). The business sector, in a time of crisis demanding costs savings, started to switch to low carriers and OTAs's corporate travel solutions. Thus, the suppliers' geographical expansion should be combined with the new customer segments penetration in order to gain an addition market share

Business Travel Segment

Business travel segment represents the frequent customers, becoming most often the user of the loyalty programs, introduced especially among the traditional airlines and the hotel chains. This tends to change as, in a time of the weak global economy, the businesses around the globe look for the saving potential. Carlson Wagonlit Travel company, leading business travel management provider worldwide, has conducted research among the Travel Managers in 2003. The results have shown that when the travel managers are under pressure to optimize their travel deals and find even a few percents of savings, the LCC can offer cost cutting opportunities. LCCs bring 56% of savings on average on the city pairs they service versus corporate fares. Currently LCCs have 8% maximum coverage of the European Business Travel Market in sales, but this percentage keeps on growing. By 2010, over a quarter of corporate bookings are expected to be made online, driven in part by the online adoption efforts of major travel management companies (TMCs), and Internet TMCs such as Egencia - formerly known as Expedia Corporate Travel (CVT, 2003).

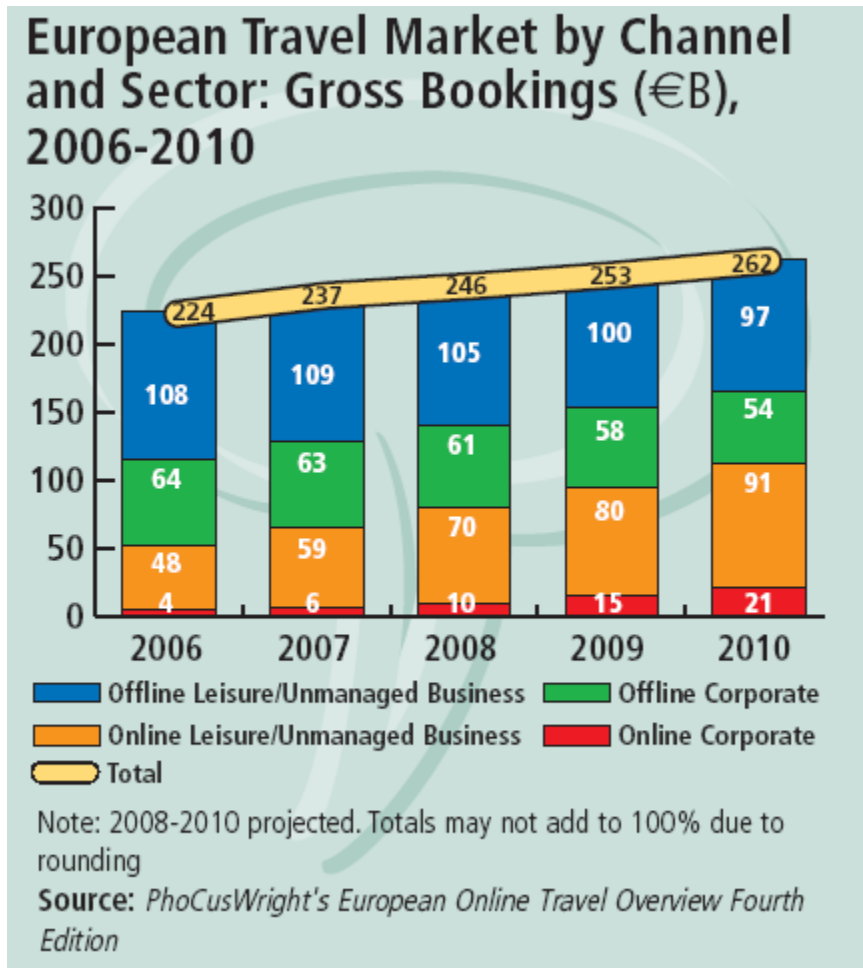


Figure 21. "European Travel Market by Channel and Sector: Gross Bookings (€B) 2006-2010",

Source: PhoCusWright 2008

The corporate travel sector has been increasingly driving its sales volumes online through technological advancements that deliver cost savings and improved usability for clients. With only about 10% of corporate bookings in 2008 being processed online, corporate travel is about to double in current year 2010, gaining a significant share of the online travel market. Nevertheless, corporate travel holds a significantly smaller share of the total European travel market (approximately 30%) than the leisure/unmanaged business sector, and it is predicted to keep a relatively small portion of the total online travel market. (PhoCusWright 2008).

Despite this suppliers are aware that integrating that customer segment into their customer base will influence distribution of their more expensive or even luxurious product, which generate higher profits. Strategic decision of joining the online travel agency creates new opportunities for the suppliers and highly profitable customers' segment acquisition.

Tourism Travel Segment

Dynamic packaging offered by the OTAs enhances the travel product, creating a potential to reach more customer segments, especially vocational tourism sector.

The president of Travelocity, Tarell B. Jones, argued that the carrier' websites mostly target the frequent travelers, who tend to be loyal to a certain supplier. The OTAs rather address the 'shoppers', so mainly those who take leisure in vocational travel (Miller 1999). The leisure segment is less attached to a particular airline and for this reason, tends to search more according to own preferences and is more likely to switch suppliers. Thus, gaining a new customer segment allows the supplier to achieve further expansion and the economy of scale, improving its performance in form of revenue increase as well operating costs reduction.

Protection against seasonality and risk factors

The suppliers, when taking the decision to join the integration platform of the mega online agencies, not only enhance their customer reach but also protects, to some extent, against the fluctuation of the tourism market. The changing economic situation and other conditions create a highly volatile and fluctuant environment (recent examples: fears of terrorism, war, fluctuations in fuel prices, labor actions, weather etc.). The integration platform serves as a strategic tool to regulate the inconsistent demand due to the seasonality and the differentiation in terms and conditions between the parties could make them both profit out of it. The access to the large spectrum of the customers enables the promotion of the special fares and discounts driving additional traffic in a short period of time. Apart from this, the mega online travel agencies strongly promote thematic vacations. This can also contribute to the tourist traffic out of the typical season time. For example, Mallorca could be promoted as a destination offering climbing activities or the wine package tours could be offered in France, Italy and Greece, attracting the tourists besides the normal season time. The activities based vacations are being offered in a customized interface in the mega agencies pages.

Ensure Efficient Yield / Flee Management

The suppliers must constantly face the challenge to sell the right resources to the right customer at the right time for the right price. As the travel product represents the perishable resource to maximize the revenue or profits, it is essential to understand, anticipate and influence the consumer behavior. The suppliers realize the revenue management on hand of price discrimination, charging for identical goods or services different prices.

The travel companies implement the yield management mainly through market segmentation. Some other actions include purchase restrictions, length of stay requirements, additional fees for changing or cancelling reservations, etc.

OTAs can heavily contribute to the effective yield management. As previously described, integration into OTAs platform helps acquiring new customer segments as tourism and business travel sectors. The new product offering, in the dynamic packaging form, contributes to increase in nights booked, which especially impacts the hotel and car rental industry. The online agencies with its global reach and aggressive marketing can help the suppliers to manage the price fluctuations, enabling the greatest level of “willingness to pay” extraction from the entire customer base.

Address effectively current market segments

Retention of the current customer can be mainly achieved by winning the customer loyalty through numerous CRM mechanisms. The loyalty program offered by suppliers is their big strength and allows them to maintain the current customer base. The airlines, for instance, encourage the long-term relationship with their customers through airline clubs, frequent flyer programs, as well as promotional web site fares available online. These actions shall not only give incentive for the potential customers to visit the carriers’ website, but also to return after the time to repeat the purchase (National Commission 2002). For the online travel agencies this creates a direct danger, since there are not able to create such offerings. The described form of the customer promotion surely creates a potential of great competition, which both, Expedia and Orbitz mention in their Annual Report of the Securities Exchange Acts. “*Our brands face*

increasing competition from travel supplier direct websites. In some cases, supplier direct channels offer advantages to travelers, such as long standing loyalty programs, lower transaction fees and better pricing.” (USSAEC Expedia 2007).

OTAs try to build the customer relationship by a different method: complex customer service during and after the trip. As an example, Expedia, implemented the system mobile alerts informing the client about any changes during his/her vacation. The technological innovations are constantly being implemented by the OTAs, making it hard for the traditional agencies, despite the human aspect, to keep up in such aspects as convenience and flexibility for their clients.

OTAs try also other techniques to create value added services with the objective to enhance the customer retention. Travelocity, for instance, has introduced the ‘Best Fare Finder’ and ‘Online Tip Review’ (Granados, Gupta, Kauffman 2003). The services integrate the frequent flyers programs of various airlines. Travelocity can also automatically book a coach class ticket on British Airways, and then use the miles to upgrade it to business class, capture the meal preferences, and order special diets at the reserved hotel (www.travelocity.com).

Create Customer Value

Nysveen and Lexhagen (2002) defined the ‘value-added services’ as “services giving access to various forms of information about the tourism products offered on a website”. Nysveen, Methile & Pederson (2003) focus on the value added services as services added to the core products demanded. Those services are important both for the tourism companies and the customers. The overall customers’ perception of the value of the offered side, as well as its service performance will increase due to the value-added services. This in turn, contributed to the higher level of customers’ satisfaction (Yi, 1990). The added value can be demonstrated as additional services enhancing the core product, taking advantage of the broad service integration. It can be, also be enhancement of the core product through rich media implementation, community forums or personalization approach.

Service Integration

Integration of the services combines the bundle of the information and services which stand for the complementary components to the core product (Nysveen, Methile, Pederson 2003). Customers want to spend less and less time on every transaction. Thus, the service integration by the provider will not only increase the customer satisfaction, but also bring more profit for the supplier due to the cross-selling. More often the suppliers tend to implement the functionality of dynamic cross-selling, collecting the provision from sales. Companies as EasyJet and AerLingus are successful examples of the cross-selling of travel products like hotels, cars, insurance. Also in the case of some traditional airlines the model has been proved to be successful. On the website www.lot.com the car hire reached conversion rates in 2007 between two and five percent (<http://www.eyefortravel.com> access date 20.12.2009). For the supplier “which being cross-sold” this form of distribution costs them less than GDS and offers better show rate (<http://www.eyefortravel.com> access date 20.12.2009). The dynamic cross-selling could result in direct competition to the OTAs’ concept of dynamic packaging.

However, many industry leaders have lagged behind and don’t see the clear return on investment which has to be made, in order to implement the sophisticated cross selling functionality. Often their offer is very poor and does not offer the customers the desired choice.

OTAs providing the packaged tours is an example of the integrated services, bundled vertically. For suppliers it means that they can expect earlier reservations, longer duration of the reservations made and lower customer price sensitivity, as well as new customer segment acquisition.

Personalization

The approach of mass customization exercised by OTAs drives a new form of individualized products. The online travel agencies manage to successfully implement the customization strategy by gathering and evaluating the customers’ information. The personalization could be described as a right match between the customer information about the products/services and the individual profile of the customer. The website shall be thus well adapted to the unique and

individual needs of its users (Cingil, Dogac & Azgin 2000). The individual suppliers try to personalize their websites by offering their customers seating and food according to their database customers' profiles. The advanced portals collect complex databases with various types of the information, such as personal dates (birthday, wedding), lifestyle information (e.g. hobbies) and also directly travel-related information as for example previous bookings (Nyheim, McFaden & Connolly 2004). The great part of the personalization's success lies in the storage of the individual customers' preferences which enables the automatic adjustment of the website and the products' offering to the individual profiles, without the necessity to express their preferences every time they make the purchase (Nysveen, Methile, Pederson 2003).

Such advanced data handling requires additional resources, on which the suppliers won't necessarily be eager to invest in. They could however rely on the personalized interaction the big OTAs perform and to some extent share it with their partners.

The way the data is being gathered can follow three different ways: by online questionnaires to get the opinion about some travel experiences, by automated click stream or by previous bookings and peer group analysis. Based on the collected data, the online travel agencies interact with the customers via the personalized packaging process. This can include for instance the pre-selecting of certain preferences (e.g. hotel category, country of origin or price range). This facilitates the searching process for the customer as well as saving him/her time. Furthermore, the cyber-customization of the product can be extended by some personal events, as for instance notifying the traveler about the upcoming issues or relevant happenings in the region (Cardoso & Lange 2007).

Customer Communities

The lack of the face-to-face contact, which normally occurs in the traditional travel agency, is being offset by the personalized recommendations system in the virtual reality. The travel and tourism industry distinguish itself by a highly complex and difficult consumers' buying decision. Thus the objective of the recommendation service is to facilitate the process by recommending particular activities such as cultural activities, sightseeing, excursions, etc., providing the consumers with more knowledge and working as an incentive to purchase (Sancho 2001).

The customer communities could contribute especially to the promotion of the small players in the sector, which cannot afford to make big investment in advertisements.

The virtual communities create a friendly environment for the users, delivering them the opinion of the other travelers (Sancho 2001). This form of customers experiences' exchange gains an increasing popularity in the tourism web pages. This mainly results from the fact that they deliver a fair word-of-mouth and serve as the trusted third parties' neutral information. Although the content of the communities is to some extent being controlled by the vendor, the users' perceive it as neutral information which influences their purchases, reduce the risk and the same contributes to the higher level of control for the customer (Nysveen, Methile, Pederson 2003). The virtual community service can be very useful for the collection of data as well, since the opinions and suggestions of the tourists will be presented and will not be biased. (Sancho 2001). Cardoso & Lange (2007) notes that the virtual community adds value in two ways to the products: it provides the traveler personal information about the destination, and facilitates the emotional retention. (Cardoso & Lange 2007).

The online travel agencies are those who quickly acquire and look for new challenges to implement into their websites. One such challenge is Web 2.0. The term describes content features such as social networks, blogs, user reviews, videos and podcast. The users can thus co-create the content of the OTA webpage (USSAEC Orbitz 2007). Thus, Web 2.0 (or Travel 2.0) brings together the concept of social networking as well as the virtual communities with the tourism application (Buhalis Law 2008).

Rich Media Implementation

Implementation of the rich media bring great potential to the online suppliers. The use of graphic and animated information in the form of videos, maps or even interactive presentations, enhance the product presentation and description (Buhalis & Licata 2002). Those aspects include the customer-centric opportunities as virtual tours, 360°views and up-to-date information on destination location and surroundings. The examples include the tools to locate and display hotel properties on maps with the aid of Google Earth or Microsoft Virtual functionalities for the convenience of the users. This form allows the customers to personally judge certain location characteristics, as well as the vocational surroundings including the local attractions before making the final decision (E-business Watch 2006). The OTAs mainly use the multimedia in the

hotels' description. Additionally Expedia and Travelocity provide 'virtual tours' which give the illusion of videos. Orbitz also provides its users with differentiated city destination guides (Cardoso & Lange 2007).

Availability of alternative electronic channels

Mega travel agencies have on disposal many electronic channels, differently branded and differently geographical spread. Expedia, for instance, besides its own branded webpage, uses the hotels.Com, hotwire.com, classicvacations.com, etc. The already great number of existing channels, is continuously expanded with the acquisitions of new ones (USSAEC Expedia, Inc. 2006). This gives the participating suppliers the great chance to maintain visibility through different websites but with the same partner. Analogically the breadth of products offered is very big, ranging from the very simple discounted travel, to complex, luxury travel. The global reach enables Expedia the multilingual display of its website, which, already in 2006, selectively covered the American, European and Asian markets.

Most of the online agencies offer the independence and choice in terms of multiple brands and an extensive product range (e.g. flights, rooms and car hire) for the customers. The requested product is displayed with the brand name while listed together with its competitors. Thus, a clear drawback for the suppliers for placing their product in such a platform is the big exposure to the competitors. The supplier has to offer competitive price and create strong brand awareness in order to gain the customer.

Effects on existing channels of distribution

Wide products' offer creates a competitive environment for the suppliers. Own website distribution gives the airlines a great level of independence in financial but also in the management aspect (Miller 1999). Suppliers can (and do) basically decide to distribute via different channels. The problem, however, is that by doing so they could initiate the cannibalizing of their own sales, as claimed by Robert Crandall, former chairman and CEO of AMR Corp. Inc., parent of American Airlines (Miller 1999). The OTAs appeared in the travel

market as new players. Competition among tourism players revolved around information delivery and transaction speed. The GDS popularity started to decrease because OTAs could perform the same actions as OTAs did, the suppliers had to put more effort into positioning themselves in the online environment and the traditional agencies are not in position to keep up with the changes in the industry and stay competitive in terms of price. The entry of the new player, OTAs, has definitely changed the competitive environment in the sector and changed the drivers for success into convenience and price advantage.

Lower the costs

In 2003, the Global Aviation Associate has conducted an analysis of distribution costs of an OTA and the “brick and mortar” travel agency.

Airline Distribution Costs Per Transaction - Summary							
Orbitz vs. Sabre (June 2002 – May 2005)							
Cost Category	Travel Agency	ORBITZ			Percent Orbitz Total Cost Is Less Than Travel Agency:		
		Industry Average	Charter Assoc.	Supplier Link	Industry Average	Charter Assoc.	Supplier Link
Total Distribution Cost ('02-'03)	\$26.20	\$16.43	\$16.22	\$9.58	-37.3%	-38.1%	-63.4%
Total Distribution Cost ('03-'04)	\$26.82	\$15.52	\$15.31	\$8.67	-42.1%	-42.9%	-67.7%
Total Distribution Cost ('04-'05)	\$27.46	\$14.25	\$14.04	\$7.40	-48.1%	-48.9%	-73.1%

Figure 22 “Airline distribution costs per transaction”

Source: Global Aviation Associate, www.intervistas.com.

The total distribution costs consist of booking fee and related commission and transactions costs of a ticket booked (GDS Booking Fee + Commission/Transaction Fee, the Agency Fee to Passenger is not included). This comparison can be extended to other suppliers as they distribute through GDS as well. The following analysis shows that the cost of distributing a round trip airline ticket through Orbitz is measurably less costly than booking that ticket through a Sabre-based or other “brick and mortar” travel agency. An interesting trend can be noticed: the disparities in distribution costs to airlines increase over the years as the transaction fees to Charter Associates of Orbitz decline (Global Aviation Associate , www.intervistas.com access 6.01.2010).

The provider taking the decision to distribute through its own website runs higher costs with customer support, independently of this being provided in house or outsourced. Customer support in form of email, chat or/and phone interaction plays an essential part of the internet transactions, especially in case of tourism industry due to the product specificity. The higher volume of transaction will be directly correlated with higher operational costs.

Marketing Costs

Joining the online agency lower the distribution costs when compared to the brick mortal agency, but the distribution via own website brings the largest savings, as the GDS is eliminated totally from the distribution. However, this form requires a heavy investment in the marketing to make sure the customer lands on the own branded website.

OTAs invest heavily in self-marketing as well as to be positioned in the top of the search results, in the search engine. According to a Google Report (ROPO Effect in tourism, 2010) 75% of the internet users use the search engine to search a particular travel page. Furthermore, about 47% surf the internet about a month before departure is planned and 30% start searching 1-3 months in advance. This indicatives that the e-traveler is continuously exposed to the online advertisement and the top results in the search engine. OTAs invest great a amount of their resources in online marketing in many markets across the globe. For instance, Orbitz as well as Expedia heavily invest in marketing, working hard on its strong brand. In year 2007 they spent 35 % of their total revenue. Orbitz uses different channels to advertise itself, online as well as offline, with the objective to build brand awareness among the travelers.

The online marketing mainly relies on the search engines marketing, display advertisement, affiliate programs and email marketing. Orbitz actively searches for methods which enable it to optimize the efforts in the online marketing. This was partially achieved by pay-per-click optimization and search optimization efforts, as well as loyalty programs and email marketing targeting customers with specific offers that correspond to their particular interests. The offline marketing includes the print media spending, radio and television advertisements with the main focus mainly on brand differentiation (Orbitz USSAEC 2007). Thus the suppliers should be aware that it could be very difficult to be found by the potential customers in the search network without joining the big aggregators' platforms.

Improve brand awareness and market penetration

The online agencies enable the suppliers high level of brand visibility. The brand name is often displayed in the OTAs' search results. This often causes that user after the conducted search, makes a purchase directly from the suppliers' landing page. Online agencies operate globally so they enable the suppliers the global customers' reach and the promotion of their brand in the new markets.

Ensure some level of independence

The innovative business strategy, proposed by the OTA, based on the "merchant model", contributed to better management of the inventory. This mainly applies to the elimination of the commission or other transaction costs which simplified the cooperation with the intermediaries. The applied rate by which the OTA is being charged is a prior negotiated fixed net rate (O'Connor & Piccoli 1993). Orbitz, being aware of the importance of providing the suppliers with the strategic tools to realize a good corporation, created special teams to manage and negotiate the agreements with the suppliers. The teams cover all of the activities sectors, air, car rentals, cruise, travel insurance and destination services suppliers. The objective of the mentioned teams is "*to offer suppliers access to Orbitz's customer base in a manner that meets their strategic needs for distribution of their products and services*"(USSAEC Orbitz, Inc. 2007).

5.1.2 Tactical Goals

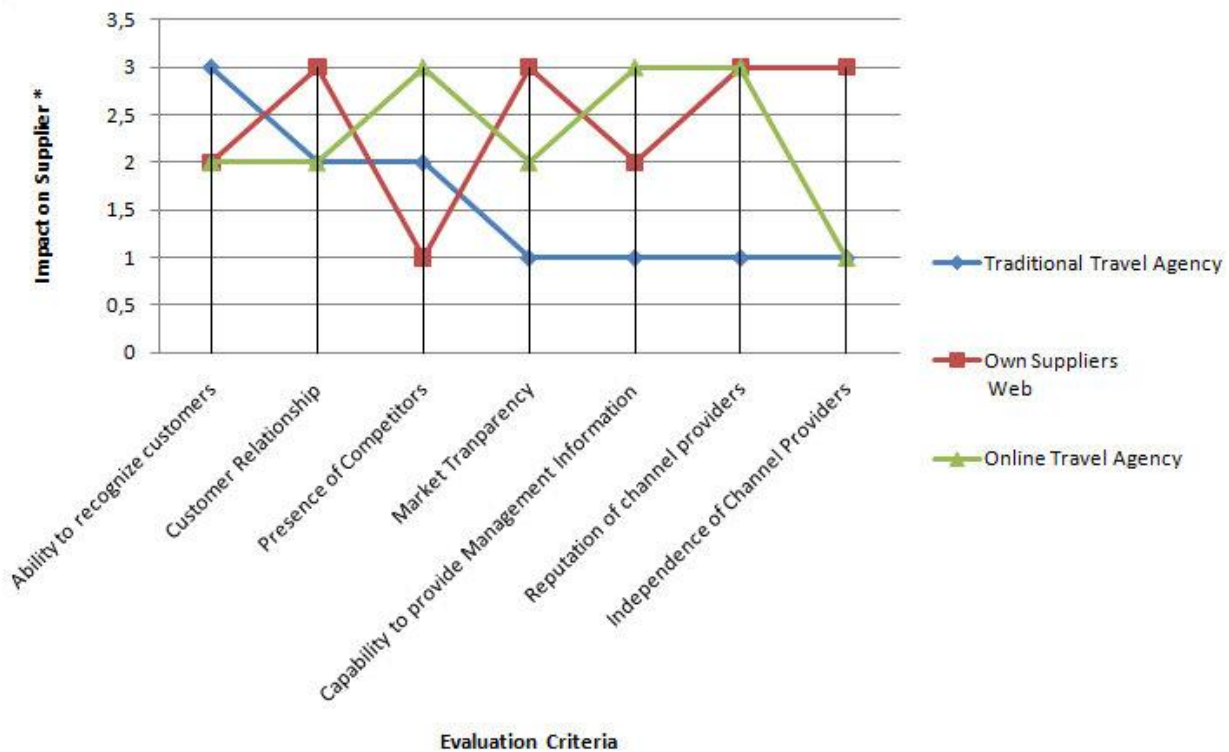


Figure 23 “Evaluation of impact of the selected distribution channels on tactical suppliers’ goals”

Source: Author’s own resources

* the scale of impact: 1-small, 2-middle, 3-big

Ability to recognize customers

Obviously the face-to-face contact allows the best recognition of the customers and their travel preference. The virtual contact cannot fully substitute the personal interaction. However the cyberspace gives a great opportunity of getting to know the client and his preferences. The OTAs take advantage of these technologies, installing cookies on the users’ browsers. Cookies are tiny packets of information passed between the browser and a Web site such as, for instance, Expedia. They allow the web servers to remember the users and register their previous visits on the website (Montgomery 2003). Expedia, using this technology, verifies the internet surfers’ identity, attaching itself as a name tag. The user is basically being forced to use the cookies,

since Expedia can only be used when the cookies are accepted (www.expedia.com). This, of course, enhances the data collection and assures that no bias is possible. This is not specific to hotels.

Internet also enabled identification of the consumers more accurate and effectively. Thus, both the hotels and the intermediaries can, in the online environment, create a more intimate communication, perform a better transaction and efficiently gather the data (Carroll & Siguaw 2003). This is possible through a range of segmentation questions which are often asked with the objective of drawing the profile of the consumers and of the specific market segments (Buhalis & Licata 2002). The data gathered serves as basis for the advanced customizable reports for the suppliers supported by the customized consultancy which significantly contribute in the management decision making process. Having on disposal the relevant tourists' information, the company can tailor the sales and the marketing efforts, according to the personalized needs of the customers (Carroll & Siguaw 2003). The technology allows collecting very detailed information and learning passively from them. Some of the methods are listed by Montgomery (2003), and includes as examples click stream data, recording every movement of the user as well as the time needed to consider a particular purchase; e-mails with embedded web bugs with references to graphic images which leave a trace of the customers' click stream dataset. Another tool is called user profiling, recognizing the users' demographic characteristics and attitudes based upon the clicks which the user made while visiting the website. This can significantly enhance the right customers' targeting with the vocational offers or advertisements. The collaborative filtering adjusts even better the content to the individual requirements of the users by analysis of their previous purchases or on by expressed preferences for particular products (Montgomery 2003).

A good example of this is Travelocity which invested massively in those tools after the year 2001, when it experienced a loss of market share. Then the company became a specialized retailer by managing its access to the customers. Travelocity was able to develop customers' models by improved understanding of its customers as well as their purchasing pattern. The click stream database became a goldmine of insights for the company, enabling the detection of the conversion rates (probability that a customer buys something instead of leaving the side without making any purchase). Additionally, they developed robots to shop selected markets on the competitors' websites to determinate the conversion rates of the competitors as well (Smith, Darrow & Elieson 2007). Based on this information, the OTAs deliver numerous reports to the

suppliers, giving them insights into the customer behavior as well as the industry trends. Additionally, the suppliers can have the guaranty that they correctly target, via the mega agencies their potential customers, segmented according to many variables.

Customer Relationship

The customer relationship is easier to achieve through the own channel distribution as the suppliers have full control over their products and the current customers. They create many loyalty programs, which should retain the customer. They can easily track the customer behavior on their website to better target him with customized offers. OTAs strength, in that context, is the ability to provide a complex customer support in form of email or call center, which the individual suppliers often cannot afford or, due to the cost, are forced to outsource. The big online agencies have also the resources to create a complex cycle of pre-, during- and post-trip customer support combined with aggressive marketing techniques which enhances the customer relationship and results in customer retention.

What is highly important for the suppliers, while distributing their products, is the number of touch points (presentation of the offer enabling the interaction with the customer), presenting correctly and appropriately the product. The product should be offered as stand-alone or combined with the bundle of products, via the email marketing, in form of the promotional email offers, email templates to the other tourism products offerings, email reminders or confirmation after booking, serving as an incentive to book additionally a car to an already made reservation of another travel product (CarTravel 2007). This is ensured by the online travel agencies by enhanced marketing strategies which create many touch points with the customers in form the of banner, website or emails advertisements.

Presence of competitors

Besides the potential cannibalization effect, mentioned in the previous strategic goals analysis, the big suppliers' aggregators create the risk of a potential customer to be taken over by a competitor. The OTAs create the most competitive environment for the suppliers, which mostly

compete on a price basis. The big exposure to the comparative shopping makes the suppliers to rely also on their brands, which are displayed by the aggregators. Potentially, the strong brand name and competitive pricing will win the auction among the competitors. Here the individual strategy of the company should however be taken into consideration as the suppliers' objective could be the presence in a certain distribution channel to improve its visibility and brand awareness and not the level of transactions. The brands' strategy of market penetration can be achieved via participation in the integration platforms, being exposed to a number of global markets. Thus, the decision should be based on the individual strategy of the company, e.g. brand strengthening, low season sales push or new markets acquisition.

Market Transparency

Market transparency allows the user to identify what products are available, in which place and for which price. When the customer purchases an individual travel product, the OTAs clearly display the final price and the name of supplier. This, according to the Nielsen (2005), creates a clear opportunity for the suppliers, as the majority (54%) of online travel shoppers begins travel research with an online travel agency. Consumers are evenly split between travel agencies and suppliers' websites when it comes to the actual online purchase of a travel. Thus, the participation in the integration platform drives the additional traffic to the suppliers' own websites.

The option of the dynamic packaging does not offer a similar price transparency. The price is shown as the cumulative charge for the package. The brands of the travel product however are clearly displayed during all the transaction stages.

The traditional distribution model based on the airlines' CRS favors some and disfavors other airlines. The systems, developed by the particular airlines results in a better positioning on a screen (Smith 2001). This assured the first-movers airlines success in the installation, by the agencies, of the CRS terminals. Furthermore, the CRS intentionally displayed positioned information, leading to screen biases which favored the vendor, but were unfair towards the other airlines (Granados, Gupta, Kauffman 2003). Observers commented it as follows: "...As the CRS screens became the major distribution channel for airline tickets, air carriers that owned CRSs were able to charge "tolls" and disadvantage competitors. Some competitors were charged a fee

for screen placement of their flights (others, whose flights were in direct competition, found their screen placement to be less favorable” (ProComp 2003 by Granados, Gupta, Kauffman 2003). Despite this these GDS display regulations do not apply to the internet distribution channel (Smith 2001). Thus, many suppliers can prefer the OTA due to a high level of objective positioning, where the prices are displayed with the equal priority as of the other airlines (Granados, Gupta, Kauffman 2003). Orbitz, for instance, committed itself to neutral displaying of all fares, regardless favored contracting with the supplier or ownership rights of the participants (Mead, 2002). The market transparency the OTAs assure through their innovative technology approach, as for instance Expedia with its Best Fare Search technology, enables deconstruction of the segment feeds from GDS partners. This reassembling leads to less expensive and more flexible services for the travelers. The innovation is scalable, extensible and service-orientated (USSAEC Expedia 2007). Orbitz, on the other side, uses ITA software, pricing and airfare shopping technology. The software obtains fares directly from the Airline Pricing and Airfare Shopping system, which enables Orbitz to bypass the high CRS and GDS fees (Granados, Gupta, Kauffman 2003). This approach creates a direct competition to the GDS, and makes it possible for mega agencies to substitute the central reservation systems (Regan 2002). Such market transparency cannot be offered by the traditional agencies, where agents sell the products from the GDS data base and their sells are often driven by the commission earned on more profitable products.

Capability to provide management information

Every supplier has its own statistics based on its own operations and the past versus current performance analyses. Those serve as powerful tool for strategic decision-making. But the reports lack the external environment analysis and overall trends. OTAs, having the large data base of the global customers, could serve as a comprehensive source of the particular travel sector as well as total industry analysis, showing the current trends and being capable to predict the future trends. Furthermore, the online agencies developed technologies which create real time reports, allowing creation of real time snapshot analysis.

Reputation of channel Providers

The pan-European OTAs market is dominated by few large players, who benefit from extensive resources, experience and expertise borrowed from the U.S. These OTAs took the lead in the European market years ago, and still demonstrate continued and strong growth, both generic and through acquisitions of regional OTAs. The large aggregators are characterized in detail in section 3.5 Online Travel Agencies.

Independence of Channel Providers

The multichannel distribution model which includes distribution through the traditional and online agencies as well as the own website does not offer the independence for the channel providers as they compete with each other. The channels target customer segments which often are overlapping with each other. Furthermore, the players offer the same products. The dynamic packaging is the only exception here as the product is not being offered by other channels. Thus, it allows the OTAs some level of independence in terms of the product presentation and pricing models.

The highest level of control and independence gives the suppliers the own single channel distribution. Own website distribution brings the airlines great level of independence in financial aspect but also in the management. Through a number of promotions and auctions the airline is able to sell seats which never have been sold before (Miller 1999). Suppliers can (and do) basically decide to distribute via different channels. The problem, however, is that by doing so they cannibalize their own sales, as claimed Robert Crandall, former chairman and CEO of AMR Corp. Inc., parent of American Airlines (Miller 1999). Furthermore, distribution by intermediaries obligates the suppliers to price parity and makes them dependent in terms of the price settings.

5.1.3 Operational Goals

Evaluation of the operational goals

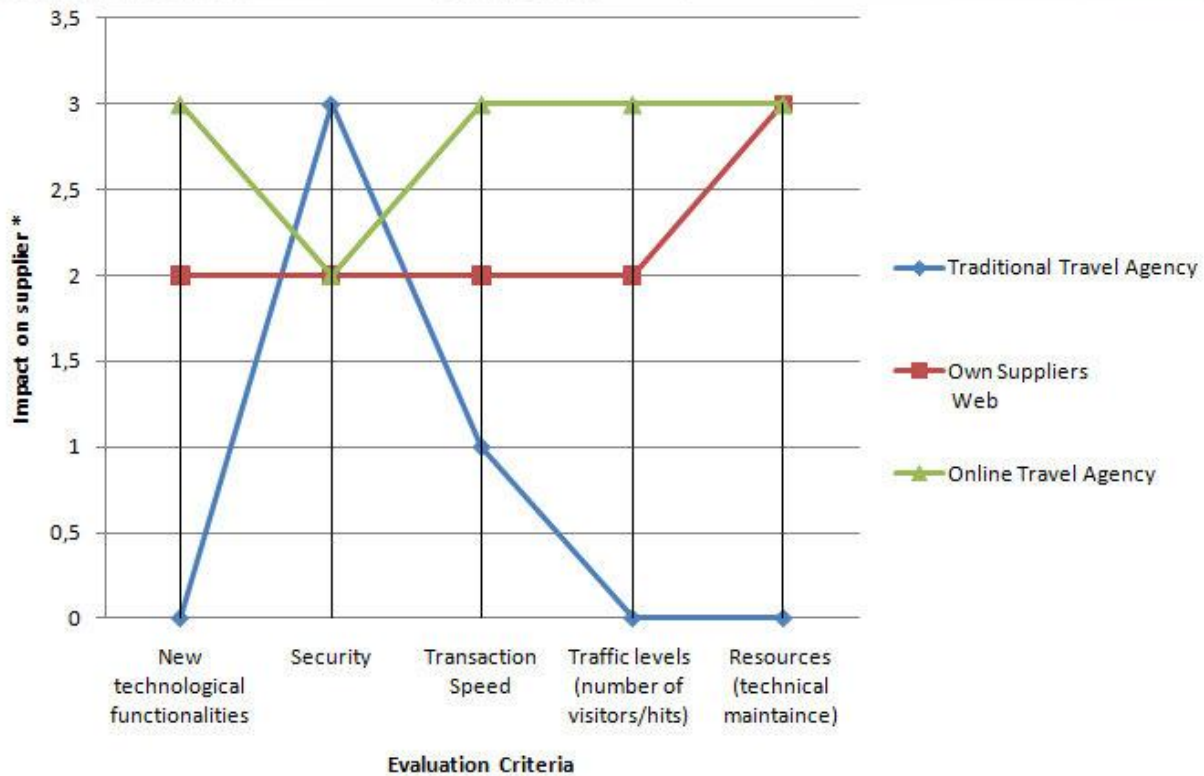


Figure 24 “Evaluation of impact of the selected distribution channels on operational suppliers’ goals”

Source: Author’s own resources

* the scale of impact: 1-small, 2-middle, 3-big

New technological functionalities

Historically, technology contributed to the OTAs’ success entry on the market and currently they continuously invest to invent comprehensive, customized and cost-effective technologies. Expedia, for instance, invests annually about 6-7% of the total revenue into technology development (Expedia USSAEC 2007). The more reliable and advanced technologies assure and facilitate for update and maintenance of the databases, as well as reducing the costs and the need for a human operator. The low human intervention and the full automation also ensure high data precision (Buhalis & Licata 2002). New technologies enabled more reliable and almost infallible booking system, eliminating some of the most common human errors: over/under booking (Connolly 1999). The hotels can only distribute their products if there is a perfect real-time

synchronization with the distribution channel. All the relevant information regarding rates, availability and restrictions has to be barrier free transferred (Connolly 1999).

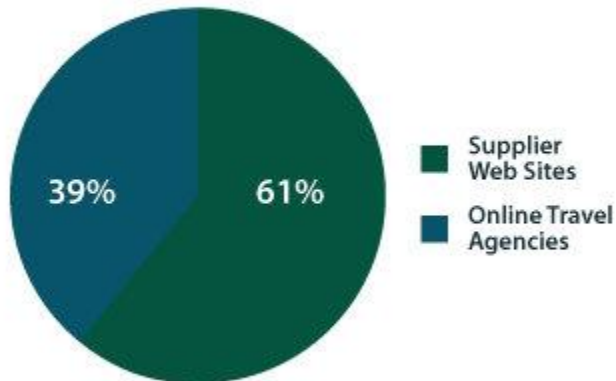
An interesting feature, which especially matters for the airline suppliers, is the ability of OTAs to deliver different air flight searches than GDSs. Through the company's system platform, it is possible to deconstruct the segment feeds from the GDS partners for air flight searches, to rearrange them according to the other priorities, such as costs-effective or flexible multi-leg itineraries. The company has also the ability to connect and book on multiple supplier host systems through their supplier link technology (USSAEC Orbitz 2007)

There is also other technological features which differentiate OTAs from the GDS based technologies and create an incentive for the suppliers to become a partner. OTAs for instance use the ESP Platform (Expert Searching and Pricing Platform), which enables the complex search for airline fare and schedule and stands for a common database platform, which allows cross-market and package travel inventory. Furthermore, they introduce the Best Fare Search technology, which enables deconstruction of the segment feeds from GDS partners. This reassembling leads to less expensive and more flexible services for the travelers. The supplier-orientated technology enables the streamlines interaction between the OTAs and the suppliers. The 'direct connect' technology allows the suppliers to upload directly from their central reservation systems up-to-date product information into the OTAs' website. This solution eliminates the usual manual work necessary to manage the reservation and information provided. (Expedia USSAEC 2007).

Traffic Level

PhoCusWright's Online Travel Overview Eighth Edition (2008), indicates that supplier's sites account for 61% of the online market vs. 39% for OTAs in 2008. This balance is projected to hold steady through 2010, although intense competition and tumultuous dynamics underlie this uneasy equilibrium.

Supplier Web Sites vs. Online Travel Agencies Market Share, 2008-2010



Note: 2008-2010 projected
Source: PhoCusWright's U.S. Online Travel Overview Eighth Edition

Figure 25 "Supplier Websites vs. Online Travel Agencies Market Share, 2008-2010"

Source: PhoCusWright 2008

The conversion on the online travel agencies sites (the relation of the visits to the actual transactions) varies depending on the travel sector. In year 2008 online travel agencies have experienced high level of conversions, with cruise shoppers converting at only 0.2 percent and those for rental cars reached 19.7 percent. This trend is heading upward. However a substantial portion of figurative window-shoppers are not completing their bookings on the OTAs websites, turning into the suppliers' website to finalize the transaction (PhoCusWright 2008). For the suppliers this trend is a great opportunity to acquire more potential customers

As the response to the "window-shopper" phenomena, non-transactional travel websites entered the market, represented by review websites, travel blog and online travel communities, where potential buyers compare notes, share photos and discuss experiences. These not only help the buyers to shape their opinions but also generate the traffic to websites where the transaction can be made.

Security

The decision of the supplier to share its data base with the intermediaries demonstrates a certain level of trust. Furthermore, the transaction security between the buyer and seller has to proceed securely, or it will negatively affect the reputation of the suppliers' brand. Trust between the consumers and the business on the web became a taboo topic. According to Hoffman, Novak and Peralta (1999) there is lack of trust in the e-commerce business due to the low level of confidence between the buyers and sellers. Trust is being associated with a different issue, such as misuses of the data, reliable product information, secure payment, etc. The transaction security and secure payments can be, despite this, enhanced by implementing advanced technologies (SSL, SET and PKI). Also the particular businesses try to enhance the security and the simplicity of the online transactions. For instance, the agreement of Mastercard and Visa on one security standard for credit card transactions over the internet is one of the many steps toward a safe online marketplace (Bloch, Pigneur & Segev 1996).

The OTAs security enhancements regarding business-customer interaction are described in detail in section 6 Customer Cost Benefit Analysis. Those are also applicable in business to business interaction. Overall for the customer it is important not to share their personal data information or their credit card details, in multiple places around the cyber space. As the OTAs allow a comprehensive cross selling functionality which makes it possible for the client to share their personal details only once for the various travel transactions.

Transaction Speed

Speed also represents an important factor which matters not only for the customers but also translates into the quantitative numbers for the travel business. The Travelocity engineers speculated that the speed increases the conversion rates (so the probability that the customer will finalize its internet surfing with a purchase). They empirically proved their point and to their own surprise registered a huge increase in the conversion rate growth. The enhancement of the respond time by 30 percent contributed to an increase of 55% of the conversion rate. (Smith, Darrow, Elieson 2007). The enhancement and maintenance of the technology means ongoing investments which the small companies will not be likely to make.

The synchronization in real time can be realized by the flexible and full integration of the suppliers with the distribution channel. The current OTAs use the so called service orientated architecture (SOA) which enables the dynamic use of services over a network. The aforementioned mentioned integration creates a loosely joined and highly inter-operative network. There are two forms of SOA technologies, the Jini and the web services. The first is being used by Orbitz, whereas the second is used by Expedia and Travelocity. Both forms give a functional integration between the platform and the suppliers, thus providing a higher level of intra- and inter-organizational integration (Cardoso & Lange 2007). This way, the current dynamic packaging applications allow a highly advanced form of integration allowing the interoperability of decentralized, autonomous, and heterogenous tourism information systems (Dell, Fodor, Ricci and Werthner 2002), by parallel likelihood minimization of errors such as: inaccurate or incomplete information (e.g. rates, availability, hotel information, or guest profile), lack of knowledge regarding the product, reservation “Not In Order” at time of Check-In, guest (e.g., Frequent Travelers) not properly recognized, over/under booking, technology failures (downtime), etc.(Connolly 1999).

Technical Resources required

In order to serve the client in the best possible way, travel agencies have to deliver real time searching results: they take a user's request, pass it to several other heterogeneous databases and then compile the results in a homogeneous manner based on a specific algorithm.

This results in ongoing searching activities, sometimes hundreds of times of crawling the pages which leads sometimes to only few or none transaction a day. It is important to note that the suppliers' servers are being exploited by the over excessive searching activities. Thus, every supplier should take into consideration additional costs associated with human capacity responsible for additional website maintenance

5.2 Individual Suppliers' analysis

5.2.1 Airline Perspective

Both, the traditional airlines and LCCs are struggling to find the best distribution strategy which would make best use of their own websites on the one side, and distribute via travel agents when appropriate, on the other side.

Once champions of growth in the online market due to a universal emphasis on direct website bookings, some LCCs are now reconsidering their distribution strategies and gradually beginning to open other distribution channels to bolster load factor and increase revenue per seat. Ryanair is continuing the original strategy, but despite its status as the market's profit margin leader, the LCC is struggling with unpredictable fuel prices and has started cutting capacity. All these factors will limit the LCC segment further influencing online market growth.'

Air France has invested heavily in driving online sales by constantly improving the functionality of its booking engine and introducing e-services such as online check-in to encourage consumers to interact with the airline electronically. Air France is also using a stick approach to drive online bookings to its websites – for example, reservations not made on the brand site are often ineligible for frequent flyer miles, and higher service fees are charged on bookings made through the call center, travel agents or retail outlets than on online bookings. These tactics appear to be successful, as online sales grew 21% in 2007 (PhoCusWright 2008).

The unfavorable external environment creates a certain danger especially for the low-cost carriers, which operate their businesses on the low margin principle. Distributing their product via more channels offers more resistance to the seasonality issues as well as fluctuant external factors. Furthermore any added value to their product could be a way to encourage the customer to pay more, this however does not comply with the LCC strategy.

Dynamic packaging bundles the low carriers' products and additionally addresses new customer segments. This way the low carriers could offset the fluctuations on the market, keeping up with their strategy and becoming a part of an enhanced travel product.

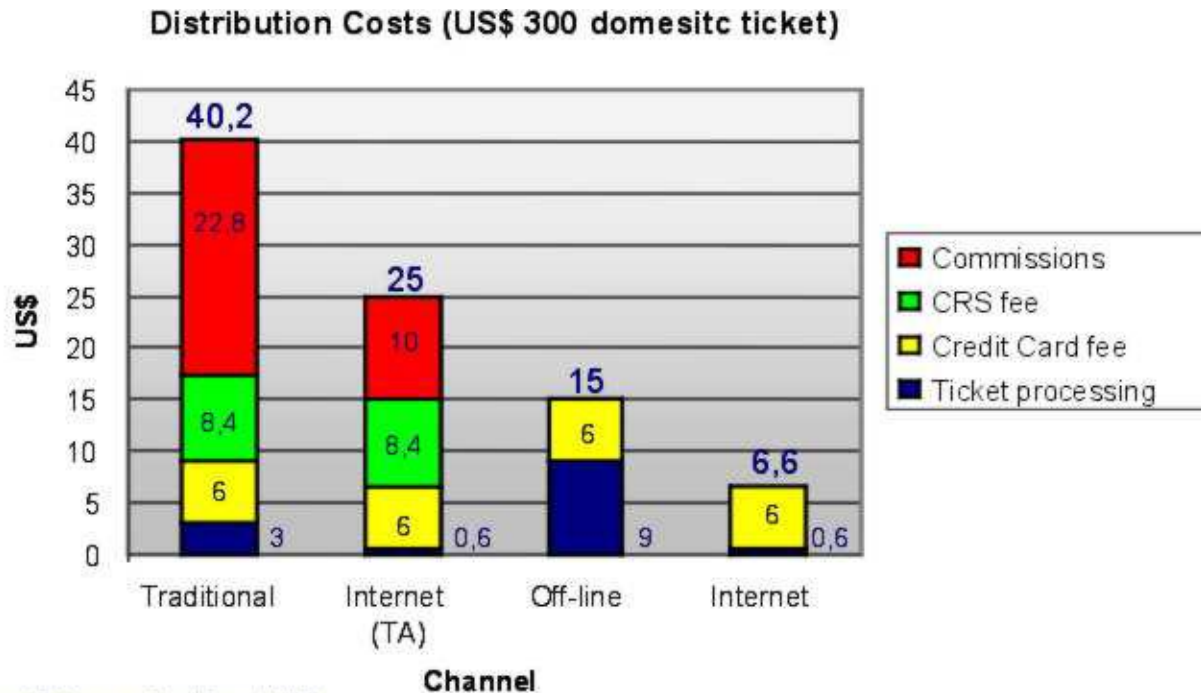
The traditional agency can somehow offer this but it usually does not integrate such a large number of suppliers as the OTAs. Additionally the tendency shows decreasing popularity of the

offline channels. The suppliers' own website scores similarly in the middle field due to the lower customer reach. The sales in the low season however, can be pushed with special incentives. Furthermore, better capacity utilization could be realized for the LCC by the multi-hub route planning. OTAs incorporate low carriers and allow them to combine the short distance- with the long haul flight connections. While the scheduled airlines profit from a better access of the potential customers to the international airports, the low cost carriers benefit from the additional traffic by transferring the passengers to these airports.

Financial Factors

The IT became a main driver for the airlines to move online and bypass the traditional travel agencies as well as in many cases, the GDS distribution channel. There is a clear financial advantage by omitting the commission fees as well as the GDS fees, which declines drastically the ticket price for the customers. Companies such as EasyJet, Ryanair and Buzz made the estimation, that by avoiding the travel agents and telesales, they made savings of up to 30% (Cooke 2000).

The creation of the new distribution channel, where the suppliers can sell directly to the customer, insured much greater net profit gain per unit. When distributing via the travel agent, the airline used to pay 5% commission to the retailers. However in 1998, this commission was abolished. The obligatory commission still exists in form of the commission to the reservation system (CRS). The figure below illustrates the various costs' options for the airline when choosing the different distribution channels. The example is based on the \$300 worth flight ticket, which price stays constant for the customer. But the airline company is being charged differently, depending on the particular channel. The example demonstrates an obvious financial benefit for the airlines through direct online distribution. (Gratzer & Winiwarter 2003).



Source: JP Morgan, e-Travel Report 11/09

Figure 26 "Distribution cost of an airline ticket", Source: Gratzner & Winiwarter 2003.

Note: As mentioned in the text, the "commissions" since 1998 are not included in the airlines' distribution costs due to its abolition.

The numbers differ depending on the commission, the CRS fee, which decline year to year as well as certain negotiated rates with the credit card companies.

Marketing Factors

Interacting directly with the customers increased the carriers' control over their passengers. This issue is equally, if not more, important as the financial aspect for the airlines.

In today's digital world, airlines typically distribute tickets both via their own websites and through OTA platforms such as Expedia and Travelocity. Although associated with higher distribution costs, selling tickets through the platforms offers airlines exposure to a broader consumer base, and potentially higher sales than selling tickets solely through their own websites. While most airlines have adopted a multi-channel approach by selling tickets through OTA platforms and their websites, some (e.g., Southwest Airlines, easyJet and Ryanair) sell only

via the latter. The selected approach is mainly associated with the level of the loyal consumer base (the higher loyalty, the less likely is the airline to complement the multi-channel strategy) or if the OTA platform is highly competitive (the more likely the airlines will join it).

Management Factors

Facing a greatly competitive environment the airlines responded by joining together in alliances. Mergers and acquisitions bring significant savings for the airlines. There is no duplication of commissions for travel agencies. Joining the resources gives better opportunity for investments, especially in direct online distribution channel. The benefits were quickly recognized by the airlines' suppliers, which across the sector started to merge, as for example SN Brussels Airlines with low-cost and non-GDS carrier Virgin Express made in 2008 or Spain's Vueling, which has just completed a merger with low-cost neighbour Clickair in 2009. As the next step, the merger introduced the multi-channel distribution by joining the GDS. This approach brought the airline company the clear benefit of expanding its customer base at crucial business markets, which still mostly rely on the travel agents. Vueling reports that joining Amadeus in mid-2008 rose the company's total sales by 20% and also brought higher yielding passengers (<http://www.flightglobal.com> access 22.12.2009).

5.2.2. Hotel Perspective

Financial Factors

The participation in the airline's GDS (with the integrated hotel CRS) means payments for every transaction booked, for the hotels. Additionally costs for the high development of the interface and for maintenance shall be taken into consideration due to the constant updating of the dynamic GDS market and constant changes in the hotel industry.

The initial investment, which is the development of the interface, can range from a thousand dollars to tens of thousands dollars, depending on the complexity and functionality of the

interface. The additional costs, connected to the constant update and frequent modification (often due to the change in the inventory), exclude the small hotels from the distribution channels which rely on the GDS. This means that the small hotels will most probably not appear on the agents' screens worldwide which display the GDS databanks (Connolly 1999).

The scale of the operations and the revenue generated is a significant difference between the airline and the hotel industry and explains why the decision of joining the GDS presents a different dimension of investment.

Even less than 15% of the European accommodation providers were listed on the CRS/GDS. The small suppliers have additionally little knowledge about how to market their hotels and in most of the cases, they are not aware of market development trends (Sancho 2001). The mega travel agencies can become an opportunity for middle and small hotels to get integrated into the international hotels' network by much lower costs.

The transactional fee among the online travel agencies differs due to the individual negotiated rates. Usually they range between 20-40% less than the regular price offer, which allows the OTA to add high mark-up prices. The higher mark-up often assures the hotel a prominent display position in cases when the user cannot influence the order himself. This is, for example, the case of Travelocity and Sabre Exclusives. One could say that this kind of action is a clear manipulation of the online agency to get the best deals first. On the other side it could also be argued that the property pays for its own better positioning and promotion (Carroll & Siguaw 2003). Furthermore, the hotels are obligated towards their distributors to hold a so called price parity. Thus, the price offered directly on own website has to be the same as the price displayed in all other distribution channels. So the hotel must adjust their net rates in order to ensure the competitiveness of the OTA against other agencies. OTAs strictly control the possible price deviation by using multiple techniques. Expedia, for instance, gives the customer the right to ask for any monetary difference return in case they find, within 24 h, a lower price elsewhere. The service is called "Best Price Guarantee" and besides this guarantees, it assures the customer a reward of \$50 coupon (Kharif 2006).

The beneficial side of the price parity for the hoteliers could be perceived in achievement of the specific price objectives. In high occupancy environments, OTAs help hotels to raise prices and in low occupancy, OTAs offer growth and impulse-driven demand, where pricing and promotional strategy can be highly effective, with a fair degree of opacity.

Still, the price parity is very controversial and perceived by the hoteliers as highly disadvantageous. Thus, the hotels try to join together to omit the intermediaries as well as the costs connected to presence of the middlemen. For instance, the hotels Hilton, Hyatt, Marriott, Six Continents and Starwoods founded TravelWeb, an online booking engine allowing lower rates for their customers. This should place a pressure on the mega agencies to lower the margin. But it still remains unclear, if the integration benefits of just a few hotels will outweigh the high costs of the promotion, development and maintenance of the created infrastructure, against the OTAs' already established and well funded existence (Carroll Siguaw 2003).

Management Factors

The control over the room inventory and the selling strategies is an important issue for the hoteliers. For them it is clear that the more external entities have an access to their inventory, the less control they can exercise, making their selling strategies more difficult as well. Thus, the technology will be a key factor contributing to the better hotel management opportunities due to the greater use of information technology and better data integrity (Connolly 1999).

The effects on the existing distribution channels is also a management issue. The hoteliers will always try to make sure that the most profitable channel is not being hurt by any other one. In this case, the biggest profit brings undeniably the own hotel's website, while offering the lower price for the customers and the special loyalty programs. Thus, the influence of the suppliers' own website as the distribution channel, strongly affects other ones. However, a similar effect can be caused by the mega agencies, which through merchant model can offer prices even lower than the hotels ones. This could create a certain disadvantage for the hoteliers who are obligated by the terms of contract to price parity and eventually offering higher prices on their own websites. But the lower profitability of the OTA's, from the hotel's point of view, can be strategically used and negotiated. The example of AccorHotels is the best way to illustrate the problem. The hotel group developed an interesting online distribution approach based on the products' seasonality characteristics. In the high season, when the occupancy is high and the need for the distribution is low, the commission would also be lower. In contrast, in the lower

season, when occupancy is low and the need for the distribution is high, the commission paid to intermediaries would also be high (E-Business Watch 2006).

The hoteliers' decision upon multi-channel distribution model clearly impacts in the independence of the supplier (for instance in pricing model); but the product sold via OTAs has a different characteristics and yields high margin. The OTAs current technologies allow them to up-sell and cross-sell in the form of dynamic packages, often resulting in higher number of nights booked by the customers. This makes for a better yield management for the hotel suppliers, focusing on the outputs and the way how to achieve those outputs. Sigala (2001) defines the term as "system for hotel owners to maximize profitability through their senior management in hotels identifying the profitability of different markets segments, setting pricing, discount and displacement rules for application to the advance reservations process, and monitoring the effectiveness of these rules and their implementation." The mega online agencies give access, to their suppliers, to a platform which registers and records all the crucial aspects to make the right decisions, including the specific customer data. Yield management is being enhanced by dynamic packaging solution, dramatically reducing the time to build travel package, increasing the number of packages a travel agent can process, and reducing the cost to do it. Joining the integration platform by the hotels can be a mean of achieving the strategic goals depending on the individual company. Some hotels may want to pay more to expand a geographical niche or support a low season. The OTA knowing what the supplier wants to achieve can stimulate the traffic appropriately.

Marketing Factors

The hotels' significant advantage is control over consumers' retention and service enhancement in the form of loyalty programs which create a certain level of competition for the OTAs (Carroll & Siguaw 2003). The loyalty programs, as the ones for instance of Marriott.com, can be based on the collection of loyalty points, special weekends offers or even gathering some 'miles' in cooperation with selected airlines for a stay in a hotel (www.marriott.com). The loyalty programs significantly contribute to addressing the current customers via the own suppliers' pages. The traditional agents can only partly maintain the current customer base through the face to face contact. However, the current hotel GDS available to the travel agencies does not satisfy

the hoteliers' expectations due to the higher complexity of the products' offering. In contrast to the airline seats which are relatively homogeneous, hotel rooms require more detailed description and categorization, which makes the information transfer more difficult and hinders the GDS capacity to cope with the diversity of the hospitality product. Thus, only a limited number of the rates could be displayed in the system. Furthermore, the description of the hotel often follows in a very poor level and the lead times do not allow the travel agents to be fully confident about the information displayed (Buhalis Laws 2001).

5.2.3 Cruise Line Perspective

Management Factor

Entering the European market for the cruise line companies is part of the strategy to achieve a competitive advantage and customer acquisition. The distribution channel in form of the mega online travel agencies will play a tactic tool for implementation of this strategy. The European customers represent in most of the cases the first-time cruisers. The cruise line realize that this type of customers contribute to the significant portion of the cruise passengers and the current cruise passengers represent only a small share of the vocational market. Thus, the companies try to 'steal' customers from the traditional tourism suppliers (airlines, land-based resorts) by giving them the alternative of the cruises. This strategy (mentioned further on the marketing factors section) can be performed by the online travel agency which:

- a) attracts primarily the airline and hotel shoppers
- b) can influence the potential airline and hotel shoppers' decision in favor of the cruise.

The online travel agencies can also influence, in the long term, the volatile cruise line industry, characterized by seasonality caused by the vocational periods, rather than weather conditions. The fluctuant demand is reflected by the inconstant flow of revenue. The strongest demand for cruising is during the summer months and holidays (USSAEC Royal Caribbean 2006). Thus, the access to the larger cross-geographical spectrum of the customers and various customers' segments helps the cruise companies to achieve the full coverage even throughout the low

demand periods. Furthermore, the thematic cruises, e.g. golf fans or seniors' cruise trips could balance the unequal spread of the demand.

Financial Factors

“Travel agents receive a standard commission of 10% (15% in the State of Florida), plus the potential of an additional commission based on sales volume. Moreover, because cruise vacations are mostly all-inclusive, sales of Carnival cruise vacations yield a significantly higher commission to travel agents than selling air tickets and hotel rooms”(USSAEC Carnival Corp 2001).

The commission obtained by the agents assured the cruises a good coverage and also highly contributed to fast growth in that sector. Starting with 10%, it can easily exceed 17% (Trucco, 2005), reaching 25% or more for “preferred agents”. Such as high commission is being awarded for a volume to those agencies which get a membership in a US consortium (Wade 1992). The OTAs negotiate its contracts similarly, varying the commission level. But reports say that Expedia, for instance, offers commissions ranging from 15 to 20% (Hamilton 2001).

It is important to mention that for the cruise lines, besides the tickets revenues, there are other revenue sources which highly contribute to the total companies' revenue. The examples here could be some extra services on board (sauna, massages, spa etc), sale of alcoholic beverages, as well as shore excursions.

Thus the on cruise revenue will be generated no matter what the distribution channel used making the cruise line companies almost indifferent to the the channel the product was distributed. Additionally, the cruise line companies offer to their customers booking the flight transport to the specific departure place; however the prices are close to the costs and do not significantly contribute to the overall revenue share (USSAEC Royal Caribbean 2006).

But the distribution via agent has an important strategic function. Studies have shown, that the phone or personal contact with the travel agents massively impacts the up-selling process. Upgrade of the offered product is especially important in the cruise sector due to the fact that the price of the booth on the same ship in the same time span can be offered in 20 or more price variant (depending on the standard, deck, etc.) Thus, the travel agencies let the customers make

the online reservation. Nevertheless, the final step, which is the transaction, is mainly done with a phone call or a personal meeting, which effectively up-sells (E-Travel Forum, 20-22.01.2010).

Marketing Factors

The big players in the cruise line market are currently expanding their capacity, increasing not only the number of cruises but also the average ship sizes, which helps them achieve a certain economy of scale (USSAEC Royal Caribbean 2006). Thus, it is highly important for the cruise companies to address, through its distribution channel, both the current and the new market segments. Currently the travel agencies generate the majority of the bookings. This trend indicates that indeed the travel agencies have the most powerful position in the customer acquisition. The Royal Caribbean Cruises Ltd. supports the network of the international travel agencies, as well as affiliates, by its digital asset management system: DAM. The system highly facilitates promoting and booking vacation packages and supports the advertising and the marketing means. The company is able, throughout the DAM, to deliver the cataloged photography and video, which develops the promotional communication as well as ensures the information consistency across the channels and contributes to the brand awareness of the company (DPCI 2008). This means that the online agencies use the communication tools provided by the suppliers, which does not differentiate itself from the direct use of the cruise website. However, the comparison of the available cruises provided on the OTAs pages, include additionally the differentiation in pricing, routes, as well as target market. This helps the customer to make a better decision fitting his/her needs. Furthermore, the mega online agencies' customer reach is very big, meaning that many European customers can receive information about the cruise line in their native language, supported by the call centers. Without a doubt, the page is the most visited among all the travel websites. The OTA's strength in that sense lies in the acquisition power of new customers, who entered the webpage to book the "traditional" hotel or resort-based vacation and ended up with booking a cruise due to the particular positioning and value comparison in the OTAs interface. Thus, the specific clients of the online agencies are mostly the first-time cruisers (www.advertising.expedia.com). Thus OTAs as distribution channel contribute significantly to the acquisition of new customers. While pursuing the objective to retain the current customer base, the distribution via own website is more

beneficial than the direct interaction of the customer with the suppliers' webpage ensuring the enhanced customer relationship. The Royal Caribbean, for instance, makes the passenger loyalty program available for its customers, which offers enhanced level of accommodation features, including the new amenities as well as priority services. The customer is also continuously being informed about the special cruise offers as well as onboard amenities (USSAEC Royal Caribbean 2006). In that point, the OTAs cannot propose to its customers such a comprehensive customer relationship and furthermore, displaying the competitors' offer creates a risk of bouncing the current customers.

The competition, as in the case of aforementioned suppliers, is the highest in case of OTA. As the cruise companies are aware of that highly competitive environment, they focus on positioning themselves in the market, for example in the geographical or demographic sense. "We compete principally on the basis of quality of ships, quality of service, variety of itineraries and price" informs Royal Caribbean Cruises in Annual Report of the Securities Exchange (USSAEC Royal Caribbean 2006). Thus, branding allows the cruise companies to differentiate among each other and create an additional value for a customer. OTAs are aware of the potential threat for the cruise companies, therefore they have implemented website cruise line reviews, in which every company can be easily differentiated from each other, gaining a particular group of customers. Expedia for example presents the following cruise lines: Royal Caribbean as being modern and devoted the active travelers, Carnival creates itself as the fun cruises, for both adults as well as children, whereas the other Carnival's brand, Celebrity Cruises is presented as large, graceful ships with a premium experience at affordable prices (www.expedia.com).

Management Factors

The company intern management system, in case of the Royal Caribbean, mostly refers to the revenue management which facilitates the decision making process concerning the pricing inventory and marketing actions (USSAEC Royal Caribbean 2006). Thus, the companies have a high capability to provide management information themselves. OTAs could in that context contribute to global focus on the market due to access to the number cruise line companies. This can impact with better positioning decisions as well as more precise strategy planning globally. As mentioned already in the general section: marketing factors, the OTAs channel distribution cannot cause the cannibalization effect on the suppliers' own websites due to the different

customer targeting. In the cruise sector this argument is being reflected by differentiation between the first time shoppers and repeating clients. The first group of the customers will mainly purchase the cruise line trip from the online mega agency, as a substitute product for a traditional flight & hotel option. The suppliers' websites will in general use the repeating and loyal client which knows the product and the company. This is mainly the result of the loyalty programs present in the cruisers' website as well as special offers displayed in their sites.

5.2.4 Car Rental Companies Perspective

Due to its size and relative maturity, the car rental segment influence on the online market growth is expected to be limited. The four leading car rental companies have already achieved strong direct online penetration. OTAs, through dynamic packaging, contribute to a fair share of car rentals, which represents a typical element for cross-selling. Renting a car is seen by a customer as a supplement to the other travel product as flight and/or hotel. "The car rentals deals are the best sellers, after the insurance, while attached to other travel components" (CarTrawler 2007). Such cross-selling results in a very high conversion rate (which stands for a ratio of "Lookers" to "Bookers") of 5%, for every 20th visit (CarTrawler 2007).

Furthermore, the consolidation and the expansion of current market leaders are likely to drive growth even more. The car rental companies have been developing strategic partnerships. They have allied with airlines (easyJet and Sixt, Hertz with Air France), hotel companies (Europcar and Accor, Hertz and Club Méditerranée), tour operators (Europcar with TUI), hotel reservation and marketing associations and other transport providers such as national motorist associations and railway companies. These partnerships have served the car rental companies well and provided a significant source for online bookings. All the major companies continue to use a multi-channel approach, working with both online and offline intermediaries and selling directly on their brand websites. Overall, such partnerships have been highly successful, driving as much as 30% of overall sales. OTA bookings are the fastest-growing sub-segment. In contrast to airlines, which often perceive OTAs as competitors, car rental companies see them as key distribution channels and are being rewarded. Increased emphasis by OTAs on cross-selling, as

well as the wider adoption of dynamic packaging, means that such growth is likely to continue (PhoCusWright 2008).

Distributing via own websites, the suppliers have to be aware of the low loyalty of the consumers, which does not guarantee the repetition purchase in that sector. Thus, the companies have to make a great effort to not only acquire the new clients but also to address the current ones. Deciding upon joining the integration platform on one side exposes the supplier to the larger base of competitors, while on the other side increases the chances for the new customer acquisition. The argument of low customers' loyalty in that sector allows taking the risk for competing on the same integration platform. The mega online agencies offer a comparative analysis of the prices, companies and the cars online, adjusting to the customers' preferences. Furthermore, value is added due to the incorporation the service into the package. But the cars are not clearly differentiated among each other, as the hotels are. Thus, the distribution via OTA can be seen by the car rental company as either an advantage or disadvantage depending on how competitive the price is.

Financial Factors

The car rentals companies pay the traditional travel agents a commission of 10% when they book via the GDS system. In case the agent has sold promotional discounts, the car rental companies offer lower commission of 5%. An interesting incentive for the agents to book on the websites is given by Thrifty. In this case the car rental company offers the agents the usual 10% commission, besides an additional 1% (www.thrifty.com). The online travel agencies have comparable condition, however, Thrifty explicitly informs that in case of airlines and online agencies, incentive fees/payments can be based on a contract (www.thrifty.com). The mega online agencies indeed make a contract agreements with all car rental companies, thus the concrete conditions are impossible to obtain. The information is highly confidential and even in the Annual Report of the Securities Exchange Act Dec 31, 2007 Expedia does not reveal this information to its stockholders (USSAEC Expedia 2007).

The following table compares prices of different channels. The product for which the comparison was conducted is an economy class car, for a cheapest rate possible, rented for one day, inclusive taxes and all payments. The comparison was made for different car rental companies and for different countries to give best possible overview.

Country (where the car is rented)	Rental Company	Travel Agency ¹	Car Rental webpage	Online Agency ²
Austria	EuropaCar	59.5	86.64	62.01
Switzerland		90.6	102.58	56
Poland		85.88	86.64	71.84
Greece	Hertz	32.4	108	32.4
Switzerland		95	120.68	90.6
Sweden		85.02	80.46	70
France	Sixt	113	62.29	70.49
Germany	Avis	83.62	83.62	84.6
Sweden		70.74	78	82.5
Average Price		79.53	89.88	68.94

Table 4 :Comparison of the car rentals companies' pricing strategies for different distribution channels

Source: Author's own resources

The table above reveals that the lowest fares are offered, on average by the online travel agencies.

However, there is no rule and, whether the lower price is offered by the rental companies or the online agency, often depends on the car rental companies. Car rental companies can strategically use the various distribution channels for the different inventory. Such a strategy is used by Hertz, which offers, on its website, mostly very exclusive cars like limousines, cabriolets or jeeps. This automatically yields a higher price and addresses mostly the loyal Hertz clients, who are not that

¹ The included in study travel agencies: Neckermann Reisen, TUI, Thomas Cook

² The included in study online travel agencies: Expedia, Orbitz, Travelocity

price sensitive. This shows a clear strategy from the car rental companies to achieve the highest profit possible from the own websites, counting on the loyal customers.

Hardly ever are the prices the same between distribution channels, which encourages the car rentals companies to price differentiation depending on the channel used as well as using different car categories. The profit increase by such a differentiation can go from 30 to 50% (Boeffgen & Kartach 2002).

Management Factors

An important factor contributing to the efficient fleet management is the booking period. The earlier the booking is made, the easier for the company is to manage the unsold stock. Traditional travel agencies rarely receive the car rental bookings, because usually they are made in the destination already. The car rental companies' websites and the OTAs collect the bookings in advance. However OTAs ensure longer time period between booking and travel time, because the product is being bundled into the package. This impacts booking made many weeks in advance before departure. OTA as a distribution channel brings the car rental companies high benefits in comparison to others due to the longer prior reservation period which automatically requires lower processing costs as well as longer reservation times.

For a car rental company the differentiation of the distribution channels is very beneficial. The companies can be mostly seen as a supplement to the main tourism product, as hotels or flight. Hotels and airline companies especially, can easily sell their product on a stand-alone basis, but car will mainly be attached to those products. Thus, cross-distribution strategy allows the car rental companies to manage the fleet effectively and ensure the full capacity coverage. The diversification of the channels provides the car rental companies also a great opportunity for price differentiation based on customers' segmentation. The important fact for those companies, however, is acquiring necessary knowledge of the price sensitive customers to avoid the cannibalization effects (Boeffgen & Kartach 2002).

6 Customer Cost Benefit Analysis

On the top of any decision concerning the choice of the distribution channel stands always the customer. He will be finally the one who decides what and where to buy. It is essential to include the analysis of the customers' benefits and costs to be able better predict the success of the undertaken decision.

		Customer Criteria	Traditional Travel Agency	Own Suppliers Web	Online Travel Agency
BENEFITS	Financial Value ³	Price Perception	High	Low	Low
		Service Aggregation	High	Low	High
		Customer Communities	N/A	Low	High
	Customer Added Value ⁴	Personalization	N/A	Middle	High
		Pricing models	Simple	Complex	Complex
		Trust	High	Middle	Middle
		Transaction Speed	Low	High	High
	Functional Value	Usefulness	Low	Middle	High
		Convenience	Low	Middle	High
		Fit to needs	Low	Middle	High
	Novelty/Customization ⁵	Epistemic Value	Low	Middle	High
		Customization Value	Low	Middle	High
	Relative Choice	Variety of Choice	Middle	Low	High
		Control of Choice	Low	High	Middle
		Freedom of Choice	Middle	High	Middle/High
		Prior to Travel	High	Middle	Middle
		During the Travel	Low	Low	Middle/High

³ (Strader & Shaw 1997)

⁴ (Nysveen, Methile, Pederson 2003)

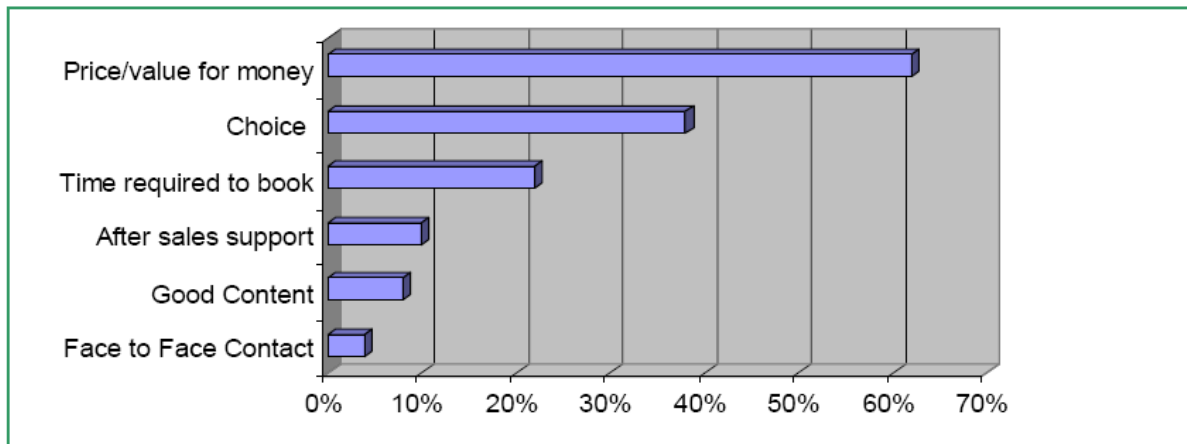
⁵ (Sigala 2006)

		After the Travel	Low	Middle	Middle/High
COSTS	(Non)financial Costs ⁶	Product Price	High	Low/Middle	Low/Middle
		Search Costs	High	Middle	Low
		Risk Costs	Low	Middle	Middle
		Distribution Costs	High	Low	Middle
		Market costs	Low	Middle	Middle
		Control/Freedom of Choice	Low	Middle	Middle
		Privacy and Security Costs	Low	Middle/High	Middle/High

Table 5 “Customer Costs Benefit Analysis”

Source: Author’s own resources

Exhibit 4-18: Customer drivers for dynamic packaging



Source: lastminute.com (OTC Survey, 2005)

Figure 27 “Customer drivers for dynamic packaging”

Source: E-business Watch (2006)

The listed costs and benefits are not equally weighted by the customer. Lastminute.com conducted a study, which reveals the main customers’ drivers for dynamic packaging. Note that the results will not sum up to 100% because the customers were eligible to select more than one

⁶ (Strader & Shaw 1997)

criterion. The majority stated that the main driver of the customers' satisfaction is value for money. After the financial aspect, over one third valued the availability of choice. The convenience, expressed in form the flexible time required to book, as well as the relevant content was mentioned, supporting the customization issue. Finally the customer relation support, in form of the either after sales support or face-to-face contact were indicated, as contributing to the customer satisfaction (E-business Watch 2006).

Financial Factors

By using the online distributed tourism products, the customers can enjoy the lower prices due to the negotiation ability, bargaining power and the economies of scale (Buhalis & Laws 2001). Strader and Show (1997) have conducted an analysis of the consumer cost differences for traditional and internet markets. The authors splits the total price of the product into five various components: the product price, search, risk, distribution and market costs. Each of the components is analyzed in detail below.

Product Price

Purchasing the stand-alone products by the online travel agencies is usually connected with slightly higher prices than purchasing the product/service directly by the supplier. When deciding for a flight only, the customer is charged an additional booking fee, which differs depending on the OTA. Expedia, for instance, use to charge \$7 or €5 and the fee did not depend on the flight distance, so the flight can be either domestic, within EU or intercontinental (www.expedia.com). Travelocity (lastminute.de in Germany) has differentiated service fees: for the flights within Germany €10 per flight booking is charged, €13 for the European flight, and for the intercontinental one, €29. For any other services' booking, the company charges a fee of €25 per booking. In March 2009, Expedia has decided to eliminate the flight booking fees on expedia.com. Currently, on average 31% users who spend time shopping with an online travel agency go to the airline's own site to book, according to PhoCusWright, a travel research company. "There is some evidence that the online agencies are retaining more of these customers

since they began their no-booking-fee promotions”, claimed Jake Fuller, an analyst at Travel Wise Research LLC (<http://consumerist.com> access on 01.12.2009). Thus, for the customer it makes no price difference if the flight ticket is being purchased via OTA or suppliers’ website.

Furthermore the dynamic packages are also exempt from the additional service or booking fees, which means that no extra charges are made. The dynamic packaging does not explicitly reveal the components’ prices which gives certain flexibility for the OTAs. Some of them (Travelocity) claim that no booking fee is added within the package, others (Expedia) include the service fee in the total price even though it is not possible for the costumers to investigate the individual components’ prices. OTAs websites openly announce information that the additional fee is being charged in case of the hotel reservation only. In that case, the agency charges the service fees as compensation in servicing the travel reservation. This payment varies on the amount and type of hotel reservation. (Kharif 2006).

The different pricing strategies implemented by the OTAs causes the offered services’ prices to substantially differ between each other. Clemons, Hann & Hitt (1999) proved empirically that the price differentiation among the OTAs goes up to 18%. The authors concluded that these price variations derive from the lack of perfect competition in the online environment as well as simply some degree of random inefficiency (Clemons, Hann & Hitt 1999)..

The price of the travel services can differ across the channels but the hotels are the exception here as the hoteliers are obligated by the OTAs to price parity. The same price has to be held across all the distribution channels, inclusive their own branded website.

For the customers it is beneficial to find the uniform and transparent rates across the web while on the other hand it is frustrating to find confusing and sometimes fake rates online at sites that are not authorized partners of the hotels.

Search Costs

The online environment significantly contributed to lower customers’ search costs. The search costs include the costs of obtaining and processing the information about the prices and the product features. This includes opportunity costs of the time spent searching, as well as certain expenditures as driving, telephone calls and also the computer expenses or magazine

subscriptions (Bakos 2001). Internet transforms the whole customers' effort into just few clicks, which enables them to inform themselves about the product, namely its features and the price. Without doubt, the traditional agency yields the highest search costs for the travelers. The suppliers' web pages, because they operate in the online environment facilitate the search process. Still however, the integration platform manages in the best way the information overload in the virtual space and minimizes the customers' search costs, due to the data collection into one place as well as filtering functionality, which saves the customer time and effort of clicking through different pages.

The OTAs help the buyers identify the best offers based on the particular agencies' search engines, organizing the search inquiry in the requested order, enabling price comparison. The lower search costs contribute as well to the higher price competition among the sellers, which also influences the buyers positively (Bakos 2001).

Risk Costs

The risks costs involve mainly costs of minimization of the transaction, combining the economic risk, performance risk as well as personal risk (Strader & Shaw 1997). The lowest risk costs associated with the transaction security as well as the personal risk related to the possible harm of the privacy has the traditional channel. The online distribution channels has higher costs due to the higher transaction danger and higher access to the customers' private data. The OTAs runs the highest performance costs, which refer to the customers' perception that the product or service may fail, since it does not take any legal responsibility for the performance of the service purchased (Strader & Shaw 1997, www.expedia.de :AGB).

Distribution Costs

Distribution costs minimization or even its elimination due to the IT is the major reason for the big price reductions of the tourism products for the customers. The shorter distribution channel saved commissions as well as the distribution charges for the suppliers, which then passed pass to the consumers in form of price discounts (Buhalis Law 2008).

Market Costs

The market costs are costs associated with the participation in the channel. Thus, the traditional markets are costless, whereas the online ones, produce for the customers additional cost to get an access to them (internet access) (Strader & Shaw 1997).

Security Costs

The customers are concerned about the security of their personal and bank data sharing (Connolly 1999). Thus, it is crucial to create secure systems with encryption, firewalls and other technologies (Connolly 1999). At the current stage, however, most security systems are good enough to be used for most commercial transactions, and the evolving legislation in the field will allow the development of better systems (i.e. crypto-systems with longer keys) and their export worldwide. (Bloch, Pigneur & Segev 1996). The security risk management in e-services calls for the design of a system which minimizes the users' feeling of discomfort with technology as well as the degree of insecurity regarding the electronic transactions.. The development of the own systems also yields a great investment for every single supplier. For the OTA the investment is centralized allowing implementing advanced tools to assure to customers' data security. The majority of the e-commerce companies, which are provided with the personal data of their customers, code this information with the special SSL (secure Sockets Layer) Technology which protects the users from their credit cards' misuse (www.lastminute.de).

Cross channel migrations to environments in which the customer is not physically present at the "Point of Sale" result in increased exposure to hackers and imposters. Ongoing mergers and acquisitions in order to gain a competitive edge, expanding their service portfolios or attaining economies of scale led to expansion of large databases. Thus, a single breach into increasingly larger databases could place millions of accounts and customers at risk. In that aspect OTAs create a particularly high risk while processing a transaction. The more the users will get educated about the risk potential, the bigger drawback against the big aggregators it can create.

OTAs, being aware of the customers' sensitivity regarding sharing of their personal data on large platforms, have integrated additional security technologies into their system; SSL, SET, PKI and web services (Mura), already used by the three major online travel agencies – Expedia, Travelocity and Orbitz (Cardoso & Lange 2007). The web services assure the confidentiality (information is not made available to unauthorized identities), authorization (granting of access

only to authorized identities), data integrity (data cannot be undetectably altered or destroyed in an unauthorized manner) and proof of origin (evidence recognizing the originator of the message) (Muro 2006). The CRG presented an international report of the most respectful of their online customers' privacy companies and within the top 10 were Expedia and Orbitz (Mello 2005). Throughout this kind of ratings OTAs want to eliminate the possible consumers' drawbacks in regards to security aspects.

Privacy Costs

In the online environment the need for control as well as the protection of privacy is very intense. The results of an international research and consulting firm, the Customer Respect Group (CRG), reveal that only 23% of companies had policies considered as "good", which allowed customers to delete their personal data from the corporate database in case they wanted so (Mello 2005). The key for the online organizations is on one hand to inform the users of a clear and well-advertised privacy policy and on the other hand to stick to it. The company shall also resist in providing the customers information through indiscriminate cross-selling and up-selling. So taking advantage of the customer in any form causes the lost of trust and value in the customers' perception (Rust & Kannan 2003).

The mediation by the online agency significantly facilitates security due to the "privacy of communicated information and authenticating the credentials of the e-components involved. In many circumstances confidentiality is also important, allowing service providers and clients to remain mutually anonymous" (Peraire & Coleman). Bloch, Pigneur & Segev (1996) emphasize the importance for the customer of the trusted third party, which can provide them with the reliable information about the reputation of a particular supplier.

Functional Value/Transaction Speed

The transaction speed in general also got enhanced due to the faster online data transmission. Any customer inquiry can be responded much quicker and so the customer satisfaction increases (Pechlaner, Rienzer, Matzler & Osti 2002). Referring to the Travelocity engineers survey, the customers undertake the purchase decision more likely if the transaction speed is high and it can be finalized without any interruptions or loading times (Smith, Darrow, Elieson 2007).

Usefulness

According to the Lu and Yeung (1998) the functionality and the usability of the website both contribute to the usefulness. They argue that every successful tourism website should not only provide the sufficient and updated information, but also enable the user to easily and quickly process all kinds of activities, which will surely contribute to the efficient and enjoyable use (Young & Law 2006).

Functionality

According to the definition of Young & Law (2006), website functionality "involves the provision of sufficient information on a Web site about products and services. Lu (2001) indicates the importance of general tourism service information publicity, which he subdivides into: presentation, sharing and supporting of the information. In the dynamic packaging websites the presentation of the information would include the general info about the particular destination, as well as the tourism news or policies in certain countries. The information sharing function would fulfill the online community, forums or newsletters. Whereas the support information is provided by the maps, route- planning application, Google Earth visualization or weather information. Furthermore he mentions advertising of tourism product/service which allows the customer informing himself about the current promotions, the last minute offers, the new offers in the company's' catalog, with or without price information. The interaction between the customer and the business is important, mainly on form of email communication, but also through online forum or information feedback. The website registration, requiring the customer to fill out the member application allows the customer a higher degree of access to the information, in the form of additional service and updated offers providers. Lu also includes into the website functionality the facility to proceed with the booking online as well as with the payment (Lu 2001).

Usability/Convenience

The term "usability or ease of use" mainly refers to the website design, the offered customer support, the website linkage, the browsing facility and the quick transaction processing giving

the customer a full control. Customer support can be for example measured by the speed and the quality of the response to the customers' queries or the frequently asked questions function.

To usability of the webpage is also reflected in its convenience, which could be achieved by easy and logical navigation in the site as well as quick loading time of pages. This means that the graphical arrangement should be made in a way that avoids slowing down the overall processes.

The typical "don't" include complicated and long reservation forms, confusing navigation systems, technical errors messages, etc.(Young & Law 2006).

Bernstein (1999) made an overall evaluation of some of the travel pages, referring also to the mega travel sites, as Expedia and Travelocity. He referred to the Expedia website as "one of the best overall travel sites, very easy to use". The reservations of the tourism products can be made with specific location maps, there is a comparison of the individual deals and the bargaining offers are also provided. Additionally, links exists to any kind of practical information as weather, currency conversion, currents status on flights etc. Travelocity provide similar features. After making reservation, the customer can also access the airplane seating chart, as well as access links to local newspapers or travel books (Bernstein 1999). Expedia enhances its ease of use and this contributes to the convenience for the customer by implementation of the multimedia. Besides maps and pictures, the agency offers slideshows and virtual tours of hotels and cruises which give a better presentation of how the places look like. Furthermore, it is possible to look at the room layouts in 3D. Expedia also gives the customer the possibility to narrow down his/her search by explicitly listing those features which are especially important for the customer, as for example swimming pool or high-speed internet access (Kharif 2006).

Fit to needs

The change of the customer needs and the growing desire for flexibility and co-producing of the purchased product definitely have contributed to the mass customization strategy acquired by companies throughout the world (Gilmore and Pine 1997).

Internet brought even greater flexibility into the travel market. It increased price and product transparency, offered information personalization and made possible the customers' participation

in the product development and design (Sigala, 2005). Dynamic packaging model enabled the tourists putting together the travel components by themselves in real time, delivering a final product in form of a vocational package with a single pricing. The model offers a great flexibility for the customers without taking advantage of the travel agent (Schmeing & Cardoso 2006). The customers are willing to spend more on the personalized tourism services, which component they can select and assembly by themselves. This contributes, according to the previous mass customization typologies, to its greater success and the greater customer involvement in the value chain creation (Sigala 2006). The customization of the travel product in the form of dynamic package gains the customers' acceptance and recognition. The market observers and major dynamic Packages (DP) providers report a significant growth in the DP sales. PhoCusWright records that in 2003, 24% of the online tourists used DP, while just one year later the percentage reached 33%. In the German market the survey revealed that almost 70% of the customers would prefer the DP over the traditional travel arrangements (E-Business Watch 2007).

Due to the specificity of the sector, Sigala (2006) suggests a customer value centric approach. The approach focuses on the customer's value and the benefits instead of the operational side of the process. The customer configures himself the properties of the products/services according to the own needs and preferences is one of the fundamental MC strategy providing the additional customer value (Sigala 2006). The presented customization example is based on the suggested Pine's (1995) customization strategy with the tourism implications of Sigala (2006).

Novelty / Customization

The customized approach represents a great challenge for the OTAs and should help them to gain and retain the customers. In the literature the term "mass-customization" has appeared recently, as an answer to the internet based global activities of the businesses which try to meet changing customer needs and desires. Pine has selected the decisive factors of the customization which allow the businesses to design a customized and well-fitted for the customer product, despite the mass-targeted strategy.

The table below presents the set of different approaches used by the OTAs to pursue the mass-customization strategy. Pine (1995) described four types of mass customization: cosmetic, adaptive, transparent and collaborative, which OTAs have successfully implemented in mass-customization business models. The examples below are based on the Expedia website analysis, www.expedia.com.

Mass-Customization Strategy Pine (1995)	Integration Platform Evaluation Examples of the mass customization approach Based on EXPEDIA (www.expedia.com)
Cosmetic- standardized physical product, but market it to different customers in unique ways	<ul style="list-style-type: none"> • Selection of the confirmation of the ticket reservation (e-ticket/paper ticket sent by mail or courier delivery) • Selection of the payment form • Additional offer of the travel insurance options
Adaptive – standardized product, but this product is customizable in the hands of the end-user	<ul style="list-style-type: none"> • Adoption of the predefined packaged tours (time constrains, hotel category) • Possibility of additional services’ bookings during the trip (e.g. car rental directly from a destination over Expedia portal)
Transparent – provide individual customers with unique products, without explicitly telling them that the products are customized	<ul style="list-style-type: none"> • The last query saved appearing when entering the portal again • The departure airport automatically shown • The travel insurance always included based on booking history of the customer • The searching based on individual price range category
Collaborative- determine the precise product offering that best serves the customer's needs	<ul style="list-style-type: none"> • Vacation Package self combine through “Click & Mix” function • Choice of time, room facilities, available activities (golf, wellness, hiking etc.) • Cruise booking according to time period, cruise type, tours selection, tour operator selection

Table 6 “Customization Strategy”

Pine 1995

Choice

The variety of choices plays an important role for the customers, which the Lastminute.com study, presented at the beginning of the section, confirms. Porter (1996) calls this approach ‘variety-based positioning’ because it is based on the choice of the products and service varieties rather than the customer segments (Porter 1996). Internet dramatically contributed to the increase in number of choices for the consumers, both in the searching and the purchasing process (Buhalis & Law 2007). The Expedia customer, for instance can choose its flight from a variety of options: the low carriers, the scheduled flights, charter flights or they can also check the current special offers. Similarly in the case of hotels, the customer can choose from a range of options, the top (e.g.) Germany’s hotels, in the Design-hotel, Luxury & Romantic one, Wellness or vocational hotel (www.expedia.com). The approach is aligned with the needs-based positioning strategy, which takes into account the fact that the customers’ needs differ depending on the occasion and type of transaction (Porter 1996). Sir X can go in August on a vacation with his family and thus, choose a vocational hotel, but in September he goes for a business trip and so he prefers to stay in Germany’s top hotel. The last approach, which Porter indicates is access-based positioning. The variety of customers’ needs worldwide is similar but the configuration of the activities to reach them differ (Porter 1996). James Vaile (Expedia.com) illustrates his company approach to this aspect as ‘glocalization’. This strategy requires providing specific content to the markets the firm operates, addressing cultural aspects and using the local language for communicating (Buhalis Dombey 2001).

The number of choices contributes to the online information overload. Thus, it is very important to support travelers in their complex decision-making process by identifying their preferences and providing them with the well needs-matching product (Buhalis Law 2007). Because of this the personalization features, described further, play an important role.

Customer Relationship

The face to face contact in the conventional travel agencies often contributes to the great advantage over the online agencies by building a trusted and long term relationship with the customers. Nowadays, however, the online tools can resolve the problem, contributing significantly to the improvement of the customer relationships (Stockdale 2006).

The previous aspect concerning sharing the personal data by the customers is also significantly correlated with the customer relationship aspect. Minghetti (2003) claims that the customers' willingness to share private information increases if they are rewarded with better service. Thus, for the travel companies it is highly important to collect the relevant traveler information, before during and after the travel to better understand their behavior, concerns and choices made. The adequate and comprehensive companies' actions based on the collected data increases the customers satisfaction and compensate them the certain value of money and time sacrificed for the product (Minghetti 2003).

The creation of the relationship between the customer and the company could be divided into the three stages: before, during and after the travel.

The first stage mainly concerns the trip preparation aspects. The traditional travel agent can inform the client about the destination, give him particular information concerning the legal regulation, health aspects and practical tips. The face to face contact ensures the travelers the first hand information from an experienced entity. But the virtual environment requires more effort from the travelers to inform themselves about the destination and facilities; however the channels provide the information in a more and more compact way, and in the convenient form of multimedia. Orbitz, for example, provides the customer with so called "Orbitz Insider Podcast" which stands for not only a destination guide but is also filled up with tips to create an original experience for the traveler. Additionally, the company helps the client to plan their vacation by providing them with the city guides including relevant tips sent via email. Also, shortly before departure, the 3-day weather forecast is sent (www.orbitz.com). Beside the regular hotel description, Expedia also gives the customer the rating from other consumers as well as indicating the location of the hotel on the virtual map. Often the 3D tour of the hotel is also provided (www.expedia.com). The online community is also available for the customer as a

source of reliable and objective information. Orbitz has 19 million registered users who can exchange videos, photos, plan the trips together and play online games (Sramana 2007).

During the travel the traditional agents do not have any impact on the customer. Similarly the supplier cannot assist the customer throughout his whole journey. This is a major difference to the online travel agencies. Orbitz.com (US) created a service called OrbitzTLC to assist the consumers without extra charge throughout their whole trip. The service includes real-time updates about the flight delays or cancellations, security wait times, traffic and parking and the taxi lines. The traveler can receive the information either online or via his telephone in the form of text messaging (www.orbitz.com). Expedia gives their customers the possibility to book some extra services online directly from the destination, as for example excursions or cars. This only requires logging into the personal Expedia's account to complete the transaction (www.expedia.com).

After the trip, having a range of services booked by the travelers the OTAs can better justify their preferences and thus, use a targeted marketing as well as informing the client continuously about the current offers.

7. Analysis of the integration platform and its competitive advantage.

Currently almost a half of the share of the US travel agencies are regrouped in three mega online agencies: Expedia, Travelocity and Orbitz (E-business Watch 2006). In recent years they also entered the European market, either under the same brand name (Expedia) or other ones (ebookers, priceline.com). They have repeated the success story from the US also in EU market, as confirmed by the growth rate of bookings and revenue (see case studies). But their great success is not a coincidence: the consequent and good business strategy assured them the current market position. Thus, it is important to take a closer look on the competitive advantages of the three agencies, supported by the case studies of Expedia and Orbitz.

The traditional models of competitive advantage are mainly based on the Porter's five forces model. Applegate and McFarlan (1996) distinguish strategic advantages resulting from the IT implementation, presented in the table below.



Figure 28 "Competitive Advantage of IT company"

Source: Applegate & McFarlan 1996

Cost (and resource) reduction

For the online travel agency, the ability reduce cost mostly comes from the merchant model – a business process in which intermediary negotiates the allocation of the inventory at the net rates with suppliers. The inventory is sold to the customers with a specific mark-up, contributing directly to the profit of the OTA. (O'Connor & Piccoli 1993). This cost reduction does not drive any additional risk factor for the business as the OTA does not make any commitment towards e.g. the minimum to be sold. Thus, acquiring a new business model allows the cost reduction without any negative impacts.

Without a doubt the online operating agents save money for their customers. On the other side it gives the opportunity to earn a high profit margin.

The conditions, negotiated in advance with the merchant suppliers, allow them to put a 20-30% of the mark-up of the base price and some of the agents are able to skillfully manipulate properties (with the merchant) to accomplish their net-rate-with-markup strategy. Expedia for example allows the customer to rank the hotels according to the price. Travelocity, on the contrary, does not offer such an option, with the purpose of controlling the order according the negotiated leverage rate and inventory availability (Carroll & Siguaw 2003).

Build switching costs: bound the customer with the brand

One of the main impacts of “ambient intelligence” is the decrease of information asymmetries between buyers and sellers. Information is readily available 24/7 and the resulting cost transparency enables consumers to make more informed choices (Sinha, 2000). These, combined with the low switching costs from one principal (or intermediary) to the other, gives the consumer considerably more bargaining power. The switching costs could be described as all costs incurred by customer when changing the supplier (Porter 2001). For the company it is important to increase switching costs by enhancing the ‘stickiness’ of the website. Increase in the switching costs makes the customers’ bargaining power fall, and makes it harder for competitors to enter the market (Porter 2001).

The online presence, forces to take a closer look at the ‘stickiness’ of the website, because in comparison to the traditional business, the switching costs tend to be much lower. Internet users can switch the supplier within just few mouse clicks (Porter 2001). The suppliers operating online try to implement the user-friendly interface, to make the potential customers to register on the website, and they tend to track the customer behavior to better respond the users’ needs to

provide a tailored service (Porter 2001). With the first transaction made, all the data is recorded into the system, meaning the customer won't have to reenter it the next time, while willing to purchase again. The customized offers received per email and the personalized interface whenever the customer logs in, contributes to the higher switching costs.

All of these activities lead to a common goal: building a successful internet brand assuring the high switching costs. This proved to be, however, very difficult in the virtual environment. Porter (2001) speculates that the difficulty mainly results from the lack of the physical presence and direct human contact, which makes the online business less tangible for the customers (Porter 2001). The way to achieve it is by creating trusted brand which increases the recognition, loyalty and consumer confidence. These provide the consumers with the sense of confidence and security (Connolly 1999).

The stickiness of the page highly depends on its particular content. In the tourism environment the one-stop shopping model plays a crucial role for a customer. The ability to satisfy all his or her needs in one location, getting both the information as well as making a transaction for all travel components, saves the time, decreases search costs and ensures multiple return visits (Connolly 1999).

Change basis of competition

The OTAs appeared in the travel market as new players, Competition among tourism players revolved around information delivery and transaction speed. The GDS popularity started to decrease as the OTAs could perform the same actions, the suppliers had to put more effort into positioning themselves in the online environment and the traditional agencies are not in position to keep up with the changes in the industry and stay competitive in term of price. The entry of the new player, OTAs, has definitively changed the competitive environment in the sector and changed the drivers for success into convenience and price advantage.

First mover Effects

The OTAs present an innovative approach in their business strategy. This mainly results from the management of the new e-intermediaries, which in many cases do not have tourism background and implement hitherto unknown in the sector but successful business approaches. Expedia, for instance, is powered by the non-tourism organization Microsoft. The major GDS reacting on the changing environment of the tourism industry entered the online market as the new players (Travelocity owned by SABRE, trip.com owned by Galileo) (Buhalis & Licata 2002).

The innovative actions are based on the ongoing technology investments, which contribute to the cost and product/service differentiation (Porter 1985). This makes the integration platforms first movers in the industry, offering guidelines for the tourism market development and the future steps direction for the tourism enterprises (Lu Han 2005). In the tourism context the first movers have the advantage of developing the corporation with many players in that sector. What makes the OTAs competitive is an access to the large data base of suppliers. Thus, contracting as first the businesses ensure them the long-term, often exclusive cooperation.

Economy of Scale and Scope

This part was discussed in section Joint Suppliers' analysis under 5.1.1 Strategic Goals.

Generate New Products

The one-stop travel-shopping is only a trend since a few years. Possibility for the customers to buy the travel services in one location, without visiting multiple suppliers' pages definitely creates a competitive advantage for the OTA. However, the idea of one-stop shopping experience is not a new invention. The traditional agencies offered this service already years ago. The real innovation (product-wise) that the OTA brought is the dynamic packaging, enabled by the tourism products/services gathered into one platform. The self tailored vocational package can be fully customized according to the travelers' needs and preferences, offered at competitive prices (O'Connor & Piccoli 1993).

But the idea of the product is not new, because the first packages were developed already at the beginning of the century by Sir Thomas Cook. The novelty however concerns the high level of

customization, where the consumer can participate in design and development of the product. The customization features changed as well as the dimensions of the other products offered by the online agencies. The searching and the selection process allow also the customization according to the own preferences (Cardoso & Lange 2007).

Creation of barriers to entry

The OTAs were named by O'Connor & Piccoli (1993) 'mega agencies' which reflects the large scale of their activities. Companies like Expedia or Travelocity are gradually gaining a considerable share of tourism inventory, like hotel rooms, airlines, cruise lines etc., significantly contributing to the substantial number of booking by their partners.

Portals like Expedia sell not only transportation tickets or accommodation bookings, but also insurance, show tickets and much more. Adding the application of the dynamic packaging, allowing the customers to design themselves tailor made products; the company became a leader in terms of range of service and depth of functionality, with which the individual suppliers' sites encounter difficulties to compete. Furthermore, the agencies are investing millions in online and offline advertising building strong brand awareness, influencing the customers' perception in terms of the best bargains and best service on their websites. O'Connor & Piccoli (1993) claim that due to the right and successful strategy, the mega-agencies are likely to become the winners, rather than the independent travel suppliers (O'Connor & Piccoli 1993).

The significant barrier created by the OTAs is often a financial factor. The economy of scale allowed the mega-agencies to charge the customers low commissions and the contracts negotiated with the suppliers assured the competitive pricing.

Add customer Value

OTAs enhance the travel product with some new functionalities, comprehensive customer service and user generated content. This aspect is described in detail in the evaluation of the suppliers' tactical goals.

Alter power balance with suppliers

Shifting the balance between the tourism distribution channel players (suppliers, travel intermediaries, technology providers) has an impact on capacity control. Overtaking the power to control the capacity of the hoteliers, airlines, etc. makes the balance shift to the the OTA (Connolly 1999). The power shift is mainly possible due to the substantial growth through mergers and acquisitions or through the strategic alliances of OTAs. The US market is mostly based on growth strategies done through joint ventures. On the other side, the European counterparts often try to grow via acquiring other companies.

8. Conclusion and outlook

The aim of the thesis has been to determine possible arguments for the different tourism suppliers to join the integration platforms. The evaluation of various distribution channels from the suppliers' point of view gives a better understanding of the current trends as well as of the changes in the future tourism industry.

The technology has changed the tourism industry. This is mainly reflected in the way the suppliers and the intermediaries interact with the end customer. The recent very popular online intermediaries, the online travel agencies, can only achieve the desired success when integrating the greatest number of the tourist suppliers. This, however, does not occur without obstacles often initiated by the mismatch in the strategic and tactical goals of the suppliers with the intermediaries. The main obstacle, however, remains the financial aspect which in the case of all suppliers, proved to be the most beneficial while distributing via own website. The online travel agencies tend to offset the financial disadvantage by assuring that the suppliers achieve other strategic goals. In general this concerns aspects such as: achieving economy of scale and scope, acquiring new markets globally and assuring the geographical reach, addressing new market segments, as well as creating customer value.

The aspects identified above could indeed play an important "trade-off" for the suppliers to compensate the lower financial benefits (when comparing to the own website). Thus, the online travel agencies could be accounted as a serious future intermediary, which organizes the tourism information globally. The potential and the interest of joining the platform of those mega online agencies could be justified by the success stories of some of the OTAs, for instance Expedia or Orbitz.

The traditional agencies, however, for every analysis of the respective suppliers, scores the lowest in almost every criteria considered. They not only contribute to the high costs for the suppliers but also cannot offset these costs (as OTAs do) with other benefits, as for example, new customer segment acquisition. The strong sides of the traditional agencies are the face-to-face contact with the customer as well as assuring the security of the transactions. Nevertheless this is compensated by the OTAs with a high level of personalization and customization of the website, as well as clear communication to the customer about the security aspects. This, in the opinion of the author, could significantly contribute to the total traditional travel agencies' elimination from the tourism distribution channel in the future.

The collection, integration and evaluation of the data online are crucial aspects to make the information accessible and useful for the user. And as Google created a search engine, to organize the world's information, similarly the OTAs created a tool to categorize the tourism information. This contributes significantly to the organization of the information, but cannot function in a "healthy" way, because financial aspects currently influence the true travel information. It affects the determination of the data base, the search results, the supplier-agent conflict and finally the customers' pocket.

As the Internet is increasingly accepted among consumers as a medium for booking travel, this will support the trend towards continued migration from off-line to online sales, with the online intermediary expected to benefit from the consumer's ongoing demand for independence and choice. Those suppliers, who view the online intermediary as a competitor rather than as a strategic partner to widen their distribution reach, may increasingly miss out on incremental sales and profit opportunities. One thing is certain: the balance of power in tourism distribution is changing and the companies that fail to react to this structural change will be placed at a long-term competitive disadvantage.

Thus, the outlook and the consideration for the future would be a creation of an unbiased search engine, the way Google did, which concentrates only tourism information. This could dissolve

the agent conflicts, deliver transparent information for the user as well as trigger the most interest from the suppliers' side supported by strong willingness to participate.

This is the conclusion that some companies already reached having, for that reason, created the next-generation "meta" search engines based on Google-like model. Currently, there are just few players in the global market: Kayak.com. Mobissimo, Sidestop.com (acquired recently by Kayak) and Forecast.com. All of them originated in the US, and are slowly expanding in the EU market gaining a huge popularity among the suppliers and the customers.

Meta search mean a travel search engine which searches hundreds of travel sites from all over the world, providing the information in an easy-to-use display, allowing the user to refine and choose the results and redirecting him to the source (the supplier) to make the purchase. The supplier do not hold any costs of participation in the platform, as the revenue model of those types of travel search engines relies purely on advertisements (the same as the Google engine).

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Declaration for the Master's Thesis

I warrant, that the thesis is my original work and that I have not received outside assistance.

Only the sources cited have been used in this draft. Parts that are direct quotes or paraphrases are identified as such.

Vienna, (date) _____

(signature)