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E-tourism: players and customer behavior

Abstract

With the arrival of Internet, the structure of travel industry intermediation has changed significantly. New players have arrived on the scene, traditional players such as the GDS (Global Distribution System) have repositioned, producers are developing direct sales, and consumer buying behavior has changed radically as individuals are able to compare prices more quickly and easily. This paper firstly attempts to analyze the impact of the Internet on tourist product retailing and the positioning of e-tourism players. We, then, look at the buying behavior of travellers in the different stages of the buying process, together with the reasons for the success of the Internet as a distribution channel for tourist products.

Keywords: e-tourism, players, customer behavior, Internet, distribution channel, price sensitivity, yield management.

JEL Classification: L83, L86.

Introduction

Despite the current economic and financial downturn, the online travel market has grown significantly in Europe, and is now catching up with the USA. In France, e-tourism generated an 8 billion euros turnover in 2009, up 15% compared to 2008¹. Some markets are more mature than others. In France, 35% of travellers book their journey online, while over 51% of bookings are made online in the USA (excluding business trips).

E-tourism concerns the distribution of tourist products and services rather than their production. In effect, the increasingly widespread use of the Internet has drastically altered the different stages of travel sales as well as customer service management: the communication of offers in the pre-sales stage, interactive trade and booking systems in the sales stage, and alterations to bookings, the sale of adjunct services and customer loyalty schemes in the post-sales stage (Raffour, 2003). With regard to suppliers and middlemen, Internet offers three main advantages: professionals have easier access to customers, can develop tailored offers and cut distribution costs. Tourism-related costs over the Internet can be as much as 50% to 90% lower, especially with the dematerialisation of transactions and proof of bookings such as e-tickets (Geyskens, Gielens and Dekimpe, 2002). Bookings with low-cost airline companies are almost exclusively online based. The Internet also allows customers to make considerable savings (cutting information search costs and ticket prices), allowing them to compare offers and facilitating access. These two factors combined explain the huge price variable arising from this medium.

In effect, we are witnessing a real shake-up in the sector's distribution channels. Prior to this, the distribution make-up was relatively simple. Travel agencies had access to products from different pro-

ducers (airline companies, tour operators, hotels, etc.) via the GDS (Global Distribution System) or centralised booking systems, which they sold and took on commission. The GDS was introduced by some airline companies from the 1960s onwards: Sabre (1960), Galileo (1971) and Amadeus (1987). They were positioned as technical tool designers that linked producers and distributors, and acted as profit centres for the airline companies. The different players (producers, GDS, travel agents) were more like partners than competitors, although some producers already sold certain products directly. In the 1980s, airline companies in particular sold 15% to 30% of their plane tickets directly through their call centres and brick-and-mortar sales outlets (Datamonitor, 2005).

The Internet changed the industry's intermediation structure with the arrival of new players, the repositioning of traditional players like the GDS and the development of direct sales by producers, as well as changes to consumer buying behavior as the latter were able to compare prices more easily. This paper studies the impact of the Internet on the distribution of tourism products, on the one hand, and the buying behavior of travellers, on the other.

1. E-tourism service suppliers

1.1. Characteristics of online tourist product sales.

The e-commerce report by CNUCED² suggests that one of the main changes arising from e-tourism has been the decline in the role of traditional middlemen in the tourism value chain, largely due to the arrival of new intermediaries and the potential for suppliers to sell their products directly. The strategies used by these 'cyber-mediaries' are diverse. They are in direct competition with traditional travel agents who have also turned to online sales, exploiting specific niche markets or specialising in certain areas (Bailey and Bakos, 1997; Brousseau, 2002). Relations between sector players oscillate between competition and

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¹ Raffour Interactif, 2010.

² CNUCED, Report on the Information Economy, 2005.

cooperation, hence, the notion of “co-opetition” that illustrates the paradoxical nature of their interactions¹. In effect, airline companies and virtual travel agencies may well compete in flight only sales, while at the same time cooperating in the sale of packages, with the agency playing the role of product assembler (flights, overnight stays, tour, etc.). In fact, this new role has led to increased competition (Neysen, Wauetelet and Achbany, 2007), although the middleman still has a role to play.

Apart from single products like flights only, tourist products are generally complex. A complete journey includes transport (including shuttles to and from the airport in the case of air transport), overnight stays, meals, tours, etc. The extensive product range, available in catalogues, is difficult to put online, if only for practical reasons of user friendliness, multiple choice options (room features, for example) and updating issues. In addition, customers often require help in their purchasing decision, whether in face-to-face situations or by phone.

Another important factor in online buying is consumer confidence in the seller/product or service/means of payment triptych. Consumers are more likely to trust products from a leading brand name (Arkantos, 2005). They will be more confident buying an Air France flight from the Air France website, for example, than purchasing the same flight from a little-known online middleman. Sales are also affected by consumer confidence in the means of online payment proposed. Generally speaking, e-commerce development is strongly linked to the degree of consumer trust in online payment systems (Wales, 2003). Finally, after-sales service is crucial as there is heavy demand, and this has a strong impact on the overall quality of service. It mainly concerns booking alterations and cancellations, and requests for additional services.

1.2. Typology of e-tourism providers. In this Section, we look at a range of e-tourism product providers, their role and their comparative advantages over traditional players, to better understand the issues regarding Internet as a tourist product outlet. Eight categories of players (Figure 1) were identified. They are positioned as suppliers, middlemen or infomediary middlemen (Behr, 2001).

1.2.1. Suppliers. Suppliers (transporters, hotels, car hire companies, tour organisers, etc.) gain a number of advantages from direct online product sales:

1. They reduce distribution costs, particularly ticket-related costs (e.g., low cost companies

like EasyJet or low cost hotel groups like Formule 1), and cut out the commission to be paid to middlemen. However, investment costs to set up and maintain the sales infrastructure, not to mention the running costs, are relatively high.

2. They help safeguard the brand name as there is greater control over the sales processes and associated services. It is not possible, for example, to order special menus when booking a flight through an online agency.
3. The company has more control over sales prices and there is less dependence on middlemen, especially discounters who tend to negotiate tough conditions in terms of prices and commission.
4. They ensure better sales promotion (e.g., Iberia).
5. They attract a higher class of customer through improved product presentation, subsequently providing a better image.

Some transporters, like the SNCF, have created a virtual subsidiary agency (Voyages.sncf.com) to sell their train tickets online as well as to improve their offer. The company is in a joint venture with Inter-ActivCorp, owner of Expedia. It was the number one e-tourism website in France in terms of traffic in 2010 (7 million hits a month on average)².

1.2.2. Global distribution system. Originally launched by airline companies, the initial objective was to design and market a technical tool that would enable agencies to book plane tickets in real time, with access to different prices and availabilities.

Internet technology called their role into question, however, as airline companies were able to distribute their products directly, and tour operators launched websites with traditional travel agency destinations. They joined forces with other online agencies, created their own online agencies or bought up virtual agencies looking for capital to ensure their growth. Thus, Galileo acquired GTA, OctopusTravel, Ebookers, CheapTicket and Orbiz. Sabre now owns Travelcity, Odysia, Lastminute and Zuji, while Amadeus owns Opodo, Karavel and Vivacances. They also branched out into the business trip market, giving businesses the possibility to access GDS online to organize their trips. They didn't abandon their core business, however. Diversifying simply allowed them to extend the content and operations of their technical booking tools. With the acquisition of GTA, Galileo now offers over 20.000 hotels worldwide.

1.2.3. Tour operators. Tour operators design and organize trips which they sell under their own brand. They produce, integrate and sell, constructing

¹ Ben Haj Youssef and Ouziel (2002) give the business ecosystem as an example, taking Microsoft Windows technology standard.

² Médiamétrie-FEVAD, May 2010.

product and service packages under their own brand name even though they use suppliers and sub-contractors. These packages are either sold directly or through travel agencies.

1.2.4. Traditional travel agencies. Traditional travel agencies belonging to groups or networks all now use online bookings in their strategy to prevent market share from being lost to aggressively-priced competition. Only independent, local or highly specialized agencies use Internet simply as a shop window to mirror the physical agency and/or as a means of responding to customer requests by e-mail. Their online strategy is, therefore, similar to the virtual agency.

1.2.5. Virtual travel agencies. These “mega-agencies” like Ebookers, Orbitz, Expedia and Voyages-sncf.com are all distributors who sell mainly by Internet and by phone. They offer a wide range of products, enabling customers to compare offers from different suppliers and so choose the best option. They also distribute tour operators’ products, sell their own packages (train or plane tickets, overnight stays, car hire deals, etc.), and offer customers the possibility to create their own trip (dynamic packages). The dynamic package is in fact a tailored product that offers product differentiation. Virtual travel agencies generally attract consumers through exclusive offers or lower prices than more traditional service providers. They follow the same business model as traditional agencies (selling suppliers’ products for a commission), using specific sales techniques and strategies (discounts or auction, for example). Some agencies also adopt the broker business model for certain products. This involves bulk buying like a wholesaler and then reselling as a retailer. Income from this activity is more risky (risk of significant loss if sales do not follow or if prices are lower than the full cost of the product) than income from the middleman activity where the agency gets sales commission.

The main challenge for virtual agencies is their lack of visibility as they can get lost in the immensity of the web. This is especially worrying for them in that customers have access to a wide and varied tourist product offer at the simple click of a mouse, forcing them to invest in advertising to boost their image, or to develop partnerships with traffic-generating web-sites or with business-generating middlemen.

1.2.6. Specialized sites. This category covers a range of players like brokers and social network communities. Their specialty differentiates them from travel agencies, even if their activities at times overlap.

Brokers buy products from suppliers or virtual agencies that they then sell on to their clients. This

middleman role is more risky than that of other intermediaries because they bulk buy products from various suppliers that they often sell on in a package. Their viability depends on their capacity to negotiate well with their suppliers, because in return for the risk, they need to have a substantial margin and to generate a large amount of business. Their business model is nonetheless different from that of tour operators as they simply sell on products or packages without packaging them under their own brand name. Virtual tourism communities on the net (e.g., voyagexperiences.com or bedycasa.com) try to bring together groups of web users around a specific tourism theme via a website. The group is considered as just one aspect of the website content. Internet precursor, Joseph Licklider, called these communities ‘communities of common interest’. They may be set up by one person (using Web 2.0 which makes it technically easier) or by a company that tries to monetize the community, it develops by acting as the infomediary between the community members and the tourist product vendors. The communities help to segment the customers by way of all the information exchanged on the site between the different members.

1.2.7. Quoters. Their aim is to aggregate and compare offers from different distributors. Unlike brokers, quoters do not deal with transactions as such but are simply infomediaries playing an informative role. Some quoters focus on sellers while others are more customer-focused. The first category, such as MonNuage.fr, plays the role of business provider. The advantage for the customers is that they no longer need to duplicate requests to travel with various vendors. They fill in a request form that MonNuage.fr uses as a basis for its partners. The site then sends the prospect several offers to compare. The main drawback for the customer with this type of approach is the middlemen’s independence compared to distributors. There is a temptation to promote the seller who pays the best commission and only send customer requests to their partners.

On the other hand, customer-oriented quoters, with price comparison sites like Trouvtoo-voyages.com or intelligent agents, search for the best offer on the Internet according to user preferences. Here, the problems are of quite a different nature. On the one hand, distributors can block intelligent agents from their site. In effect, some distributors do not want to find themselves on the same ‘shelf’ as their competitors. However, there is relatively little risk of this, as it is technically difficult to realize, and by blocking out the intelligent agents, they exclude themselves from a potential market. On the other hand, it is not a straightforwardly viable approach

economically speaking, as they either need to get direct payment for their services or else indirect payment through advertising or spin-off products.

1.2.8. Portals. Websites like AOL, Altavista, Yahoo and Netscape have brought the portal concept into the mainstream. These websites put a range of services online, designed to attract and federate Inter-

net users. As traffic generators, they offer the possibility to buy links (or key words) to redirect web surfers to commercial sites and advertisers. Before September, 2007, a central feature of LastMinute.com's marketing policy¹ involved purchasing key words from Google. This made e-business sites relatively dependant on Google whose prices have risen sharply in the last few years.

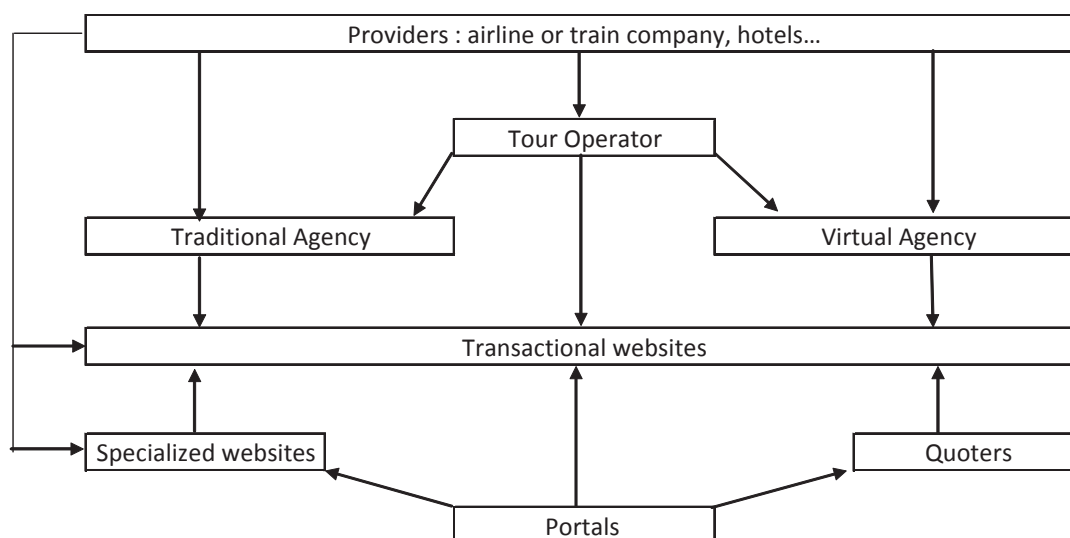


Fig. 1. Online distribution of tourist products

The appearance of new players has altered the sales strategy of the whole supply chain as well as their pricing policy.

In fact, in the goods and services market, lower prices lead to more demand while the opposite is true in the supply sector. Comparison of the two markets leads to a price definition and an optimal quantity of exchange (Walrasian process of price formation). This theoretical model assumes perfect information, in addition to the agents' rationality, to enable consumers, to compare the producers' offers, and to ensure absence of any friction or imperfection in the market. By its capacity to put buyers and sellers into contact at low cost and to share price information, Internet reduces market imperfections. It also encourages the use of innovative pricing strategies, such as auctions, which are more difficult to implement in the real model as buyers and sellers must be brought together in the same place. Consequently, price formation on the Internet is closer to Walrasian's price discovery than in physical markets.

Elmaghraby and Keskinocak (2003) identified two types of pricing mechanism: the mechanism of posted prices and that of price discovery. In the first instance, the seller determines the price and adjusts it during the sale period (price maker), depending on demand and the remaining lifespan of the goods or service. The more perishable the product, the more rapidly the price is adjusted as in the case of tourism

products (nights in a hotel, seats on a flight, etc.). In the second instance, the price is the result of supply meeting demand through auctions. Open ascending price auctions (otherwise known as English auctions) have been popularized by the e-commerce site eBay. The price varies in real time during the period of sale depending on buyers' interest. The sellers are price takers, but they can also ensure. They receive a minimum price by fixing a reserve price (visible or not) to cover their costs.

2. Tourist purchasing behavior

Firstly, we look at the behavior of travellers in the three stages of a purchase and we try to understand the choice of distribution channel and why they make it. We pay particular attention to the price variable, which has become a key variable in the tourism sector.

2.1. Tourist behavior in the three stages of the purchasing process. The impact of Internet on purchasing behavior affects each stage of the tourist product purchasing process.

2.1.1. Choice of destination. This medium influences the choice of destination to a certain extent. It

¹ Patrick Hoffstetter: "At last, in terms of marketing mix, we have stopped buying keyword on Internet since September, 1. We want to avoid being Google-dependant, especially as the cost of acquisition is constantly rising". Tour Mag 15/09/08.

is the fifth biggest influence¹ (22%) in France after discussions with friends, colleagues and family (68%), television (36%), holiday brochures (34%) and magazines (27%). Firstly, this demonstrates the increasing influence of the medium compared to other sources of information, and secondly, it indicates that consumers use several sources of information to make their choices. This behavior explains the significant development of institutional websites designed to promote a country, a region, a town, or even a site. However, if they are to be effective, there needs to be a minimum of coordination between the players and, more specifically, between the service providers and local authorities as well as between the service providers themselves. Many tourist information centres, for example, offer several types of accommodation for the same site on their website, as on a supermarket shelf.

2.1.2. Preparing the trip. The second stage relates to preparations for the trip itself. Internet has far more influence here as 51% of French holidaymakers prepared their trip through the Internet in 2009 (Raffour Interactif, 2009), in other words 77% of Internet users (Protourisme, 2009). For these people, it is by far the most frequent source of information, word of mouth being second at 33%, followed by tourist information centres (27%), and then guides and travel agencies (21% each).

2.1.3. Online purchases and bookings. When buying or reserving tourism products online, there seems to be a significant fall in the number of people using the Internet as a source of information:

- ♦ for web surfers this drops from 77% to 59%;
- ♦ for the population as a whole, it fell from 51% to 35%.

This indicates that the Internet has become a major sales channel, even if there is still some way to go as only 35% of the French book or buy online. Even 20% of dyed-in-the-wool Internet users are still ready to use travel agencies as much as Internet, and 8.6% buy exclusively from bricks-and-mortar agencies.

Individuals who continue to use traditional travel agencies, however, get their initial information from the Internet (91%) or from people around them like friends (57%), colleagues (30%) and family (28%). Printed sources of information like brochures and guides have become less popular as only 27% of travellers consulted them before going to an agency in 2009 against 39% in 2007 (Raffour Interactif, 2009).

Lastly, we looked at the type of product purchased and the average 'basket'. The most common travel

items purchased by the French online are travel items, with 37% for the train and 24% for other forms of transport (plane, ferry, etc.). Then there are hotel rooms (28%) and holiday rentals (23%). The percentage of car rentals is low at 8% (Fevad, 2010). Internet represented 12% of turnover for tour operators in 2009, against 10.1% in 2008. This rise is higher than for other means of direct sales but remains relatively low.

According to Fevad, tourism products are the most popular items purchased on the Internet, with 58% of web surfers buying this type of product in the first half of 2010 (Fevad, 2010). It is also the most valuable 'basket' at an average of 258 euros per basket, followed by technological products (153 euros), household goods (106 euros) and cultural products (24 euros).

2.2. Distribution channels and price sensitivity.

We distributed 500 questionnaires to tourists in Paris, in June 2009, to gain insights into what influences consumers to purchase tourist products. The sample group had a relatively balanced male/female ratio (52% men). The proportion of people, staying for business purposes, was almost equal to the leisure group (respectively 36.9% and 38.1%). However, in terms of age and profession, the customer group was relatively specific: 57% of people under 40 years of age, and 60% from a higher social category (business people, self-employed and managers).

We also found that 49.8% of the respondents used Internet to buy or book tourist products. This result is coherent with the market study by Raffour Interactif (2009).

Reservation channel	Nb	%
Travel agency	65	13,0%
Internet agency	88	17,6%
Hotel Internet website	161	32,2%
Phone (agency or hotel)	131	26,2%
Other	55	11,0%
Total	500	100,0%

We, then, focused on the reasons behind their chosen accommodation booking method.

We cross-referenced the two nominal questions:

1. Which method do you normally use to book accommodation?
2. Why do you choose this method?

Two possible answers were permitted for this question.

The Chi-2 test gives a significance coefficient of 0.01. We can, therefore, deduce that there is a link between the booking channel and the choice of this channel. In particular, the respondents continue to use the telephone despite the increased use of Inter-

¹ TNS-Sofres, 2009.

net, largely due to user friendliness and security. However, as soon as they wanted to find a better price, they used the Internet, whether they were searching on a virtual travel agency (for example, Bookings.com) or directly on the hotel's own site.

Reservation channel / Why?	Habit	Easy	Best price	Security	Other
Travel agency	23	37	20	31	2
Internet agency	20	60	53	21	5
Hotel Internet agency	47	90	82	42	10
Phone agency	52	81	15	73	12
Other	13	23	8	15	5
Total	155	291	178	182	34

We attempted to confirm this hypothesis by asking the respondents if they carried out research on their room rate.

338 people said they had carried out research to find the best rate before booking a room.

We, then, cross-referenced the two nominal questions:

1. If yes, which method do you most often use?
2. Why did you choose this method?

In this question, a maximum of two answers were allowed.

The Chi-2 test gives a significance coefficient of 0.018. The use of Internet as a means of searching for the best price was confirmed (with a risk of 1.8%). This result shows that there is a certain discrepancy between the channels used to find the best price and those used to book. The telephone and travel agency appear to be safer than Internet to carry out transactions. Safety covers all aspects of the transaction (date, type of room, etc.) and payment.

Moreover, 389 people said they had noticed pricing differences for the same room in the same hotel outside the periods of high and low occupancy.

In order to investigate if this identification of yield management (YM) practices is linked to the search for best rates, we crossed the nominal questions and two variables:

1. Do you carry out research on your room rate? (Q9)
2. Have you already noticed the difference in rates for the same room in the same hotel outside periods of high and low occupancy? (Q11)

The Chi-2 test gives a significance coefficient of 0.027. The link between the two variables is confirmed but the direction of the relationship is not specified. We do not know if it is the identification (Ident.) of YM practices which encourages consumers to find out about the rates, or if it is their search for best rates that makes them aware of YM practices.

Q9/Q11	Ident. of YM	No ident. of YM
No search	113	51
Search for best price	276	62

Conclusion

This paper has shown that Internet has had a significant impact on the distribution of tourist products, providing end-users with more power as they can compare the different offers more easily, and favouring direct sales providers to the detriment of the middlemen. This does not mean that middlemen have become obsolete but they have had to adapt by reducing distribution costs and developing new types of offer. The new distribution pattern has forced players to review their pricing strategies in order to remain competitive, especially as the intermediaries have developed far easier price comparison. Consumers are increasingly aware of these strategies and increasingly use the Internet to find the best price.

The price war between e-tourism players is, thus, far from over, although good management techniques such as yield management can limit the impact.

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