
UNIT 9 MANAGING TRAVEL AGENCY OPERATIONS – II

(Dealing with Principal Suppliers)

Structure

- 9.0 Objectives
- 9.1 Introduction
- 9.2 Relationship with Principal Suppliers
- 9.3 Dealing with Air Travel Providers
- 9.4 Dealing with Tourist Transport Suppliers
- 9.5 Relationship with Accommodation Suppliers
- 9.6 Challenges for Relationship
- 9.7 Let Us Sum Up
- 9.8 Clues to Answers

9.0 OBJECTIVES

After going through this Unit, you will be able to:

- explain the shift from traditional to modern relationship between travel agencies and their principal suppliers,
- learn techniques of engaging and handling principal suppliers, and
- know the challenges for sustainability of this relationship.

9.1 INTRODUCTION

You have already been told in the previous Unit the reason for the growth of travel agency business. In this Unit our focus will be on the traditional and modern linkages between travel agencies and their principal suppliers. In this Unit, therefore, you will not only study the traditional relationship between travel agencies and principal suppliers like airlines, hotels, tourist transport operators, conferences/convention facility providers and all those individuals or groups who are directly or indirectly involved in tourism activity, but an attempt is also made to provide you an insight to view the emerging concepts of B2B (Business to Business) relationship in travel trade. This B2B can be seen as a shift from traditional B2C (Business to Customers) concept.

9.2 RELATIONSHIP WITH PRINCIPAL SUPPLIERS

The modern travel industry is characterised by many small businesses, i.e., the service providers. These small businesses have recently come under pressure from changing external factors including those in the technological and competitive environments as well as from the “customers”.

The economic linkages of principal – agency relationship served the tourism industry well over last 50 years or so. It made sense in the days when travel agents were just intermediaries remunerated by airlines and other travel suppliers to distribute their products. But today a very different world is emerging where agents are emerging as “Travel Management Companies” whose first loyalty is to customers. On the other hand, in most of the cases monopolies have broken down and intense competition has moved in as far as the suppliers are concerned. The travel agencies have developed their own brands in relation to the quality of service provided to the customers and keeping this in mind they now choose their suppliers also. In the light of this changing scenario new sets of guidelines and strategies have emerged for engaging and handling travel service providers. Increased commissions are no more a criteria for selecting the principal supplier unless matched by the quality in service. In the competitive market of today no travel agency is going to survive for long if just

profits are given priority over the quality of service. Hence, as a strategic shift the travel agencies offer a varied price range of products, co-relating the type and quality of services with the prices. To this is added the concept of collective management efficiency of the services which can be achieved through:

- a) a one stop shop facility, i.e., one phone call or one electronic message enables you to organise the complete trip;
- b) the coordination of the bookings to reduce wasting times and mistakes;
- c) administrative/processing savings; and
- d) the coordination of management information through one source.

Like the travel agencies every principal supplier also has its own priorities like retention and growth of market share and distribution cost reduction. Travel agents play a crucial role in the accomplishment of both these priorities.

Both tour operators and travel agents enter into long-term contracts with air carriers, hotels and other suppliers for the provision of bulk travel services. Tour operators assemble them into a package tour, which are then marketed to the general public through travel agents. In this case now the travel agents are responsible to consumers for the provision of each component of the travel services that are offered in the package. This is because the consumer has bought the package in its totality. This very aspect of responsibility to the consumer makes it crucial for travel agency to deal with their principal suppliers on the basis of quality and costs both. Hence, the following aspects must be taken care off:

- 1) Investigate the reliability and willingness of the supplier to deliver the service timely, safely and as per the quality promised. In this connection, you may take into account suppliers' financial status prior history (both accident and safety), existence of insurance and compliance to all applicable licensing and safety regulations (both domestic and foreign).
- 2) Take into account risk factor as you cannot operate under an assumed duty theory. The consumer's exposure to risk should be minimal. Though there might be situations like that in adventure tours where a calculated risk would always be there.
- 3) In case of principal suppliers being health care providers or insurance agencies ensure that the claims settlements are timely.
- 4) In fact, an extremely professional approach is required while selecting the principal suppliers and this has to be customer oriented. Commissions, credit time, incentive schemes, etc., though necessary for achieving profits in business should not overwrite the quality aspect as ultimately it is the quality of the service that is going to bring you business and thereby profits.

9.3 DEALING WITH AIR TRAVEL PROVIDERS

Among the varied range of travel services, air carriers assume greater importance as principal suppliers. Mode of travel, time and cost related to it affect the decision making of the tourist consumer and is applicable in case of both – domestic as well as international air travel.

- i) **Domestic Air Travel:** Sales of domestic air travel is made through airlines and travel agents. In domestic air travel market elements to be considered are:
 - all players offer almost parallel services and aim to create strategic competitive advantages through the development of software application and customer loyalty programmes like Frequent Flyer Programme (FFP),
 - in marketing terms, airlines have two priorities, the retention and growth of market share and distribution cost reduction. As you have already been told that market share of any airline largely depends upon its distribution network. Distribution cost reduction obviously increases the competitiveness and profitability of the airlines,

- the channels of distribution network receives commissions from the airlines for the services provided. The rate of commissions paid are negotiated and agreed upon in agreement between the airlines and agent. Thus, one agent may receive more commission from one airline than the other,
- increasingly airlines and travel agents are using information technology to improve their competitive position. As a result, for agents the handling of their principal supplier has also become difficult due to the forces of globalisation which are transforming the way our corporate customers conduct their business, i.e., through internet, as a perfect medium for the sale of distributed products with instantaneous delivery. As we all know this has already swept all through this industry and there will be no going back. Airlines aren't going to review the cap or raise commission to the levels of the past. The internet is here to stay. Booking and ticketing processes will get more and more automated, and
- now you can handle your supplier by asking for following practices:
 - a) point of sales discounts;
 - b) discount for different types of payments, e.g., direct debiting, EFT or credit cards, etc.;
 - c) special discounts for using preferred carrier on individual bookings;
 - d) rebates for achieving a percentage usage of a particular (preferred) carrier;
 - e) discounts for group bookings;
 - f) discounts for travellers travelling in off-season; and
 - g) percentage discount on certain non-trunk international routes.

On the other hand, when you are booking for your customers, you must convince your customers that if earlier the bookings are made better would be the discounts available, higher the discount greater would be the number of conditions while negotiating with airlines. Thus, your objective shall be to make your buyers overall cost of travel attractive rather than just offering good discounts.

While handling your airline as supplier it would be advisable to base abovementioned discounts on the lowest logical fare. In practice you must know that there can be only three exceptions from taking lowest logical fares;

- when application of discount on another fare is cheaper;
- when discounted full economy fare which offer flexibility achieve a comparable cost; and
- where the overall costs of a fare and associated management cost is comparable when you are purchasing a higher cost fare.

As you know that the fees for service arrangements, an agent is employed by the customer rather than by the airlines, thus, you charge from the customer the net cost plus an additional fee for the services provided. It, therefore, changes the process from payment of travel agent by the airline to payment of the travel agent by the customer. When you pass this payment to airline on or before the settlement date commission is passed on to you, and you in return, if agreed, pass on partial commission to your customer.

- ii) **International Air Travel:** As you have learnt in your previous Units that the international air travel market is an open market with the diverse and flexible fare structures. International airlines have alliances which are reflected in special fare offers, code sharing and incentive schemes like Frequent Flyer Programme (FFP). Besides a wide range of fares, international air traveller from a variety of itineraries, accommodation type and other services. On the other hand, these choices give option to air traveller as regards what to choose from but on the other hand, these add complexity to the booking of tickets.

You must know as travel agent that international air travel and its suppliers are governed by following elements:

- a) Since there are many suppliers in the International market and supply and demand have a great influence on pricing when during off season prices go down demand increases, and during holidays even when holidays are sold at premium demand remain unchanged;
- b) Airlines which aligns their operations often compete in the international market a group by offering special deals;
- c) Consolidators buy airline tickets in bulk and then wholesale to agents, holiday groups, etc. This can naturally influence the availability of tickets especially during holiday seasons.
- d) International air travel market is more influenced by changes in fuel price or fluctuation in currency value than domestic air travel market.

Having learnt these elements involved in international air travel you can handle air service suppliers by following practices like:

- a) since there can be a number of different fares and conditions offered for the same itinerary for overseas travel. Fares for international travel are market driven and can see changes daily, different conditions or numbers of stopovers may apply. Thus, as a travel agent you should obtain the best option for your client;
- b) If certain international routes are travelled frequently, you should ask for special route fares from the carrier; and
- c) Discounts and rebates discussed in the case of domestic air travel can also be negotiated in case of international air travel.

9.4 DEALING WITH TOURIST TRANSPORT SUPPLIERS

When you talk about principal suppliers for tourist transport products you broadly think about:

- a) Private taxi and airport shuttle operators,
- b) Private bus line operators,
- c) Private tour operators,
- d) Operators of mass transit systems and their patrons,
- e) Independent operators of commercial vehicles,
- f) Commercial fleet operators,
- g) Emergency service providers, and
- h) Regional and state government transport undertakings.

a) **Private Taxi and Airport Shuttle Operators**

When an independent tourist or group arrives in our country, as a travel agent your first job is to arrange the transfer of the same. In other words, you need the services of private taxi or airport shuttle operators in countries like Singapore, Malaysia and Thailand. In our own region, tourists are issued pre-paid vouchers by overseas operators to use airport shuttle services. Hence, you have to maintain linkages with these frontline service providers.

In our country we have constraints of parking space for these private taxis or airport shuttle operators. At one point of time you will find only one or two airport coaches in the waiting area or for pre-paid/ registered taxis at airport are only five to seven hundred. If we analyse the whole situation we find that most of the international flights land at midnight or in the early morning

hours, if one flight carries approximately 550 passengers and there are a minimum of 15 flights a day, number of passengers seeking services of these taxi operators or airport shuttle operators would be around 8250. For this number, 500-700 taxis are grossly insufficient. Thus, it becomes all the more important for you to handle your transport supplier in such a manner so that whenever you need their services you can easily find them.

b) **Private Bus Line Operators**

This segment of suppliers assumes importance when you are dealing with overseas groups, i.e., when in one season you are sure of booking for 15-20 groups each consisting of 50-70 passengers you would always require the services of these private bus line operators since you will have to move your groups from one tourist centre to another. For example, most of the foreign tourists want to have golden triangle of Delhi-Agra-Jaipur on their itinerary this circuit is normally covered by road. Thus, to have smooth operations of groups you shall have good linkages with them. Sometimes you do not handle your groups rather you assign it to some other person located at different place, thus, you shall establish healthy linkages with these **private tour operators** so that they give priority to your assignments and take total care of your groups.

c) **Operators of Mass Transit Systems**

Mass Transit Systems are advanced public transport systems that provide information on availability, location and scheduling of public transportation services and it also facilitate ride sharing. Objective for introducing such system would be to enhance customer service in general, service reliability schedule information accuracy and on time performance while reducing costs in particular. It is believed that more accessible more complete information about transit schedules routes and fares would attract more consumers. When you are in travel agency operation business, you shall ensure that you have been establishing linkages with right kind of operators of Mass Transit System so that you are able to provide satisfactory services to your customers. This will also enable you to provide customer care with regard to provision of information to the customers. Travellers need information concerning schedules, routes and fares before they leave known territory so that they can plan their trips in unknown territory(ies). They may also require your assistance during the course of their trip due to unprecedented conditions or circumstances. These days to provide information at all times and at all places tour operators have either established linkages or have setup their own call centres to answer the inquiries of valuable customers.

d) **Independent Operators of Commercial Vehicle**

Independent operators of commercial vehicles can also be viewed as important suppliers for tour operation business. They are also known as independent commercial vehicle operators. These independent operators have a few of the Indian and imported vehicles catering the needs of selected segments of tourism industry. Therefore, it is advisable to be in good books with these operators. To achieve it, you are advised to make their payments regularly, give their staff members training at your own expenses from time to time to introduce your products/packages with the single objective of providing satisfaction and value for money to your customer. These fleet operators play a crucial role in successful operation of your business. These independent commercial vehicle owners are different from **commercial fleet operators** in the sense that latter have a big fleet of vehicles consisting of different sizes and qualities, i.e., both Indian and imported. Moreover, you don't have to provide training to them. They always recruit trained personnel for example commercial fleet operators utilize automatic tracking of vehicles, despatching of vehicles and weigh-in-motion system to improve the safety, efficiency and convenience of commercial vehicle operators. They also subscribe to way-finding and traffic status system (most advanced road signalling systems).

e) **State Government Transport Undertaking**

Even today tourists prefer to visit many states of India by road. For instance, Rajasthan, Himachal Pradesh, West Bengal, Maharashtra, Karnataka, Tamil Nadu, are a few areas to name from the list. Attractions in these states, though remotely located, are enjoyed by visitors due to their accessibility by road or by rail. Wherever tourist be located if he or she has to go to Shimla will first reach to Chandigarh or Kalka and from there proceed to Shimla. Hence, road transport

provided by state transport undertaking also plays as important role as airlines or private taxis. It wouldn't be an exaggeration to say that 70 – 75% of about 230 millions domestic tourists use state transport system for their visits. So, it becomes unavoidable for you to establish good linkages with them to get bulk bookings (groups) even during peak seasons.

9.5 RELATIONSHIP WITH ACCOMMODATION SUPPLIERS

After travel the next is to deal with accommodation providers. In many cases the role of accommodation is so vital that it has become a destination in itself. Imagine going to a hill station during summers without having booked your accommodation. You might have used the best mode of transportation but in the absence of accommodation the tour will be a waste. Commissions and credit time play a crucial role in deciding in the nature of accommodation to be packaged or sold to a customer. This is applicable to all types of accommodations ranging from five-star to non-star categories. At the same time the location of the property and the destination, services offered, etc. are also crucial determinants. You must ensure that your customers get a preferred treatment and are not put to any discomfort (wait in the lobby for location of rooms, bad location of room, etc.).

9.6 CHALLENGES IN RELATIONSHIP

Ever since the travel trade has come into existence travel agents have enjoyed healthy relationship with tour operators. This relationship is based on the mutual benefit for both the trade partners. If tour operators want to sell their products/services they need retailers and the travel agents fill this gap by acting as their intermediary. However, today this relationship is facing natural challenges from the market conditions, i.e., travel agents are forced to act as tour operator to sustain themselves in the trade. As a result, there exist thread line difference between their function and huge gap in their relationship. In the recent times tour operators have started reaching to their customers directly due to cut throat competition and price war. You must have seen in the newspapers even big tour operators have started advertising their special tour packages designed for all sections of the society be it up market or budget market.

The travel agent component of the tourism industry is a prime example of an industry that has undergone immense environmental changes. For example, the most contributing supplier airlines has seen significant macro-economic changes which are often volatile, i.e., rising, then dropping and recently rapidly rising jet fuel prices have its reflections on the costs of tickets. Similarly, the periods of recession and economic growth, demographic changes and deregulation of the airline industry have all affected relationship within the tourism industry.

In a survey conducted by National Business Travel Association (NBTA), U.S., over 350 corporate travel professionals, 56% cited reduction in travel costs and 45% said improved security procedures at transportation gateways, can turn around business travel volumes, trimming travel costs and strengthening buyer/supplier relationships are priorities for most respondents. 67% said they have increased contact with preferred partners in past 12 months and 53% have seen corporation implement cost-cutting measures. According to the survey most of the travel managers have reached out to suppliers, with 78% saying that they have sought and renegotiated current contracts and 75% said that they have increased contracts with alternative suppliers. On the other hand, according to the same survey, suppliers are implementing more alternatives to normal booking channels in order to reduce their distribution costs because 86% of suppliers say that there have been increased sales as companies have now being seeking alternative travel suppliers with lower costs. (Website: NBTA)

If we look at the whole gambit of relationship between agent and principal supplier from this changing perspective we see that competition has intensified in the travel market place, forcing down margins. Airlines have cut commissions and accelerated the availability of net fares in the hope of driving down their distribution costs.

For agents, the handling of principal suppliers has also become difficult due to the forces of globalisation which are transforming the way our corporate customers conduct their business, i.e., through internet as a perfect medium for the sale of distributed products with instantaneous delivery.

As we all know this change is sweeping all through our industry and there can be no going back. Airlines aren't going to remove the caps or raise commission to the levels of the past. The internet is here to stay. Booking and ticketing processes will get more and more automated.

With the rise of the web and the development of call centres airlines have the chance to take back, direct control of their passengers. This has reinforced new phenomena, i.e., internet travel agents such as e-bookers or expedia. In part this is because airlines are under pressure to sell a product with a limited lifespan. A seat on an aeroplane is worthless when it is empty to take off. Therefore, challenge is to sell these unsold seats before take off. In response to this demand online bookers have online auction of unsold seats at last minutes. For example, if a cross-Atlantic unsold seat is auctioned at US\$ 50, it is betting on net loss because even after meeting travel agents' commission, payment and fee, global distribution system fee and ticketing charges, airline itself is lucky to see 50% of total amount, i.e., US\$ 25. Thus, airlines as a principal supplier shall admit that they cannot survive alone. Even when these airlines reduce commission, travel agents would manage to compliment their efforts with wafer thin margins. It is also because of the fact that travel agents and payment card companies know more about an airline's customers than it does.

From this point there can be two-way movement, i.e., either some big players in different sectors could form partnership to break up airlines. For example, partnership between an online travel agency and AOL/Time Warner could create a virtual airline, hiring jets, crews, maintenance facilities and any other necessary services to undercut real world airlines who are their partners other movement can be that airlines join hands with banks and other organisations in providing products and services for defined target markets. Every body will benefit. The single action of buying an airline ticket from the partnership website will trigger a chain of cost saving and cross selling opportunities. For instance, airline will immediately save ticket commission of upto 15% plus charges for distribution, ticketing and reconciliation. The bank on the other hand gets payment card fee and if one of its smart card is used the ticket details themselves can be downloaded directly on the chip, eliminating ticket printing and distribution costs. This would pose a challenge for travel agents to gear up and upgrade their websites. Though airlines have websites specifically designed for them, but it would be intermediaries who should make the running travel agents shall make airlines realise that more is ordered through them, lower would be the operating cost for airlines and moreover airlines can do away with the inherent fear of sharing information which other wise has become difficult for them.

Another important challenge before the intermediaries of present times and future would be to develop two sets of business relationships, i.e., one relationship with customers and one relationship with suppliers. You should build one set of relationship primarily around the needs of your customers because without them you have no business. You should be able to analyse what are their needs and to what extent you are able to deliver them. Business travel is projected to be growing at a faster rate than holiday tourism; therefore, you are advised to carefully analyse the needs of corporate customers. These corporate customers have primarily three priorities:

- a) They want their execution to be well cared for,
- b) They want to see costs come down, and
- c) They want to put more effective travel management operations in place.

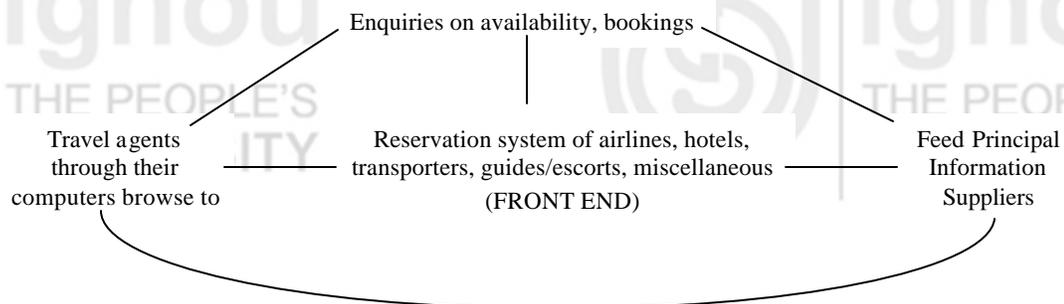


Figure I

All these priorities of corporate customers can be met by creating a healthy and competitive environment by you.

As far as relationship with suppliers is concerned it is advisable to develop front-end business descriptions.

This is effectively a value added service to enable the distribution of leisure travel and tourism products between principals, tour operators and travel agents. It enables to maintain ‘many-to-many’ ‘trading relationships’. This “many-to-many” trading relationship can be illustrated as:

Figure I clearly illustrates that the front end gets you a generic (but customisable) user interface allowing you the entry of booking details with enhanced navigation and information facilities.

This kind of front-end user, if used by you can render following benefits:

- a) It gives you ability to make multiple, simultaneous enquiries for a holiday using only one set of data entry stream;
- b) It enables you to have effective link between front and back office system and thus gaining improvement in managing customers and providing customer service;
- c) You can speed up your booking process by taking full advantage of high network speed of this front-end intranet facility;
- d) It allows you automatic search on preferred supplies system, i.e., matching your commercial needs with that of supplier in line with existing business practices;
- e) When you are handling higher value sales in your presentation it enables you to make images and video clips;
- f) When you are using this facility cost of sale is known to both principal as well as tour operator;
- g) It generates detailed and accurate management statistics regarding booking transactions;
- h) Because of the use of the interface platform principal and travel agent are able to give better support to the retailers in the form of customer specific sales and marketing information as well as customer service; and
- i) Its use allows both principals and tour operators to maintain their market penetration whilst enjoying the benefits of the technological change.

To sum up, we are witnessing a rapidly changing scene in travel distributions driven by technology advances and an increasingly competitive market place. We are facing new issues and challenges more particularly related to the use of intranet and internet facilities which need to be carefully addressed for developing a healthy relationship between principals on one hand and tour operators and retailers on the other hand. In modern marketing terms it can be called business-to-business (B2B). E-commerce is becoming increasingly important topic to be addressed in the marketplace. The major challenge before you would be to survive in the age of e-commerce which is largely being used by suppliers as their distributors’ network. For instance, when they introduced tickets to eliminate the paper tickets that customers were accustomed to, having delivered to them by agents. In short, time has come where principal suppliers would do everything possible to bypass the travel agents to avoid paying commission and to recapture principals relationship with their customers, i.e., moving direction of e-commerce from B2B to B2C, i.e., from Business-to-Business to Business-to-Customers.

Check Your Progress

- 1) What precautions you shall take while engaging or handling providers of various travel services in your tour operation enterprise?
.....
.....
.....

- 2) Highlight the challenges being faced by the players of tourism industry while developing and sustaining relationships.
-
-
-

9.7 LET US SUM UP

A travel agent or as a manager/supplier of tour operation activity, you shall not only maintain linkages with different suppliers but must also handle them in such a manner so that they shall provide satisfactory services to your clients. Your customer spends directly or indirectly more time with your principal suppliers yet be it airline, hotel, local transport, site or any other ancillary service provider. This puts the entire onus of quality on you because the customer has bought everything out of you. Hence, customer satisfaction and promotion of your own business will depend on the relationship you have with your principal suppliers and remember this relationship gets reflected when the principal supplier cater to your customers, say for example, if you have delayed your payments to the principal supplier your customers may not be treated well by the principal suppliers. This again will be a right thing on the part of that principal supplier, as it will bring bad publicity to him only. Remember that intra-industrial relationships have to be built on the basis of mutual confidence, trust and fair play. If this is there, differences can be sorted out on company to company basis without affecting the quality of service to the customers.

9.8 CLUES TO ANSWERS

Check Your Progress

- 1) Refer Sec. 9.3.
- 2) Refer Sec. 9.6.