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COMPETITION AND STRUCTURAL CHANGE IN THE UK TRAVEL  
INDUSTRY DURING THE 1980'S AND INTO THE 1990'S.

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## ABSTRACT

This thesis examines competition and structural change in the UK travel trade during the 1980's and into the 1990's. The travel industry, tour operators, travel retailers, integration, pricing policies, the 1990's and the European travel trade are looked at.

The evidence in the first part of the thesis indicates the increased trend towards concentration of market share into the control of a few companies, and polarisation of both the tour operators' and travel retailers' sectors. An explanation of this trend is sought by reference to price strategies and integration movements used in both sectors.

The second part of the thesis considers how these trends might continue to change in the 1990's. Particular agents identified are the single European market, the E.E.C. Directive on Package Tours and the opening of the Channel Tunnel. This analysis is supplemented by reference to the European travel trade to identify possible threats and opportunities for the UK travel trade in the E.E.C. countries.

The conclusions highlight the uncertainty and volatility of the 1990's, and the challenges these present to tour operators and travel retailers.

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## HYPOTHESIS

The travel market in the 1990's will continue to be concentrated in the way it has become in the previous decade with large tour operators and travel retailers dominating in terms of market share.

At the other end of the scale the specialist tour operators will improve their market share as the demand for this type of holiday increases with consumers making direct arrangements.

Structural changes in the industry will occur following the single European market and European Commission directive on package holidays. The abolition of stabiliser as a result of this will have the most profound effect on the structure of the industry. Competition across European boundaries will lead to more emphasis on giving the consumer a quality holiday experience rather than a cheap package trip.

## OBJECTIVES

The objectives of this thesis are;

- a. To examine the travel trade in terms of how tour operators and travel retailers interact with each other.
- b. To examine the structure and growth of the tour operators and travel retailer sectors during the 1980's.
- c. To look at the nature of competition in the industry.
- d. To illustrate how price is used as a major competitive weapon.
- e. To examine integration in the travel trade and its consequences.
- f. To examine market changes and relate these to possible developments in the 1990's.



## DEFINITIONS

Tour Operators - Those companies that purchase individual holiday components and package these together to provide all inclusive holidays, for sale direct to the consumer or through travel retailers. They create and market their own tours.

Travel Retailers/Travel Agents - A person acting as an agent dealing direct with members of the public in the sale of travel and related services.

The Retail Travel Trade - The environment in which Travel retailers/travel agents operate.

The Travel Industry - The industry that consists of Tour operators, travel retailers, hotels, airlines, resorts, tourist attractions and service companies.

The Travel Trade - The travel industry together with the consumers.

The Travel Market - Consumers who either purchase travel products or who are potential customers.

## CHAPTER 1

### INTRODUCTION

The reasons for undertaking this study were the increase in the numbers of holidays being taken in the 1980's, most notably those abroad, and the increased dominance of the travel trade in the UK. There has been marked growth of the travel trade during the 1980's, with travel retailers and tour operators increasing in number. Therefore, this thesis looks at what constitutes the travel trade in the UK, and develops a model of what the travel trade could look like during the 1990's.

Chapter 2: The UK travel industry defined.

This examines how the travel retailers, tour operators and the consumers combine to form the travel industry, i.e. the main sectors. It also shows how the other sectors of the wider travel industry such as hotels, resorts, airlines and insurance companies relate to the main sectors of the travel industry.

The Association of British Travel Agents (ABTA), and other associations concerned with the travel trade are also examined in this chapter.

Chapter 3: The UK travel market of the 1980's.

The rise in foreign travel, especially in the case of package holidays is studied and its influence on the numbers of tour operators and travel retailers. Major destinations in foreign travel are looked at, indicating the major foreign destinations which provide a vital income.

Chapter 4: The nature of competition.

The theory of competition, is examined as a foundation theory chapter. Together with chapters 5 and 6, this chapter is one of the core chapters of this thesis. Competition models are explained and then related to the travel industry, in preparation for the more detailed examination of price and integration.

Chapter 5: Pricing policies in the UK travel industry.

This chapter details the determinants of demand for holidays and how prices are established. There is a comprehensive study of price as a marketing tool, and its use in the UK travel trade.

Chapter 6: Integration in the UK travel trade.

The basic theory of integration is explained together with the advantages for companies. Another aspect that is examined is 'economies of scale', which results from an increase in the size of a firm.

Chapter 7: The competition and structure of the UK tour operator's sector during the 1980's.

This chapter covers the growth in the total number of tour operators and the different types, and explains how the structure of the sector has changed and become dominated by just a few companies, in terms of market shares.

Chapter 8: The competition and structure of the UK travel retailer's sector during the 1980's.

The growth in both the number of outlets and market shares of the major companies are looked at. Their market shares are compared to the number of outlets to highlight how they are dominating the sector.

Chapter 9: Innovations in the UK travel trade.

New ideas from the travel trade to enhance marketing for the 1990's are studied as competition increases.

Chapter 10: The UK travel trade and the 1990's.

This chapter examines those factors that are likely to affect the travel trade in the 1990's. These include the effects of the single European market in 1992, the European Commission directive on package holidays in 1993 and many other factors that are likely to affect the structure of the travel trade during this period.

Chapter 11: The European travel trade.

The travel trade in the E.E.C. countries. The chapter includes the travel trade organisation in each country with a view to discovering whether opportunities exist for foreign companies establishing themselves in this country, or whether opportunities exist for UK companies to enter foreign markets, which until now has not happened.

Chapter 12: Industry survey on the impact of Europe.

The chapter gives details of the results of a survey carried out on people in the travel industry regarding their expectations for the 1990's. The questionnaire covers most events that could affect the structure and competitive nature of the of the travel trade, including 1992 and the single European market, and the opening of the Channel Tunnel.

Chapter 13: Conclusion.

## CHAPTER 2

### THE UK TRAVEL INDUSTRY

#### 2.1 INTRODUCTION.

This chapter examines the UK travel industry and its major components. It covers the history and the institutional and regulatory framework.

This is a foundation chapter, on which the other chapters on tour operators and travel retailers will build to give a complete picture of the travel industry in the UK.

#### 2.2 BRIEF HISTORY OF THE UK TRAVEL TRADE.

In order to understand the travel trade as it exists in the UK at present, a brief history of the travel trade, before the 1980's is required.

1950: when there were about 300 retailers, The Association of British Travel Agents (ABTA) which governs the UK travel trade, was founded.

1952: the International Air Transport Association drew up the standard agency agreement. This set the

pattern for airline-agent relationship to the present day. Retailers have to be members of I.A.T.A. in order to sell air tickets.

1955: the Association of British Travel Agents was formed into a company limited by guarantee.

1960: the Civil Aviation Authority (Licensing) Act was introduced by the government, making it a requirement for tour operators to have Air Transport Organisers Licences.

1966: ABTA introduced Stabiliser. Within the first year of the introduction of Stabiliser there was an increase of nearly 800 travel retailers.

1968: the value of package tours was placed at around £130 million, based on an average expenditure of £70 per head including spending money (Source: Financial analysis Group, British Travel Agents and Tour Operators 1975).

1970: the Bank Settlement Plan (BSP) was introduced by the International Air Transport Association for computerised accounting for air tickets between airlines and retailers.

1973-1975: the value of package tours rose to £750

million, accounted for by an increase in the number of package tourists and also by an increase in average expenditure to £150 per person. As far as destinations were concerned in this period, there was an increase in popularity of Spain, France and Yugoslavia at the expense of Italy and Austria (Source: Financial Analysis Group, Travel Agents and Tour Operators 1975).

1975: following increases in fuel prices and the collapse of Court Line which left many thousands of people stranded abroad, ABTA established bonding for operators and retailers, and the Air Travel Reserve Fund was set up by the government, both introduced to pay for the repatriation of people stranded abroad by company collapses.

1976: The Restrictive Trade Practices (Services) Order was introduced and came into effect on 22nd March. Stabiliser was referred to the Director General of Fair Trading, and the case went to the Restrictive Practices Court, having previously not been covered.

In an agreement with the Director General of Fair Trading, ABTA agreed to amend their codes of conduct. ABTA agreed to the abolition of the following; retail price maintenance between tour operators, standard rates of commission, minimum service charges, recommended cancellation charges, minimum standard



deposits and restrictions on the use of credit cards. However, minimum standards for premises of retail agents requiring them to be used for travel agency business only and price maintenance for retailers remained.

1978: Stabiliser was again referred to the Restrictive Practices Court.

1982: the court made its decision that Stabiliser operated in the public interest.

### 2.3 THE TRAVEL TRADE.

A diagrammatical look at the structure of the travel trade structure is shown at appendix 2.1.

#### 2.3.1. Principals.

The principals include hotels, resorts, airlines, and coach companies. These are the components that make up package tours. The principals can sell to the tour operator, to the retailer or direct to the consumer. As far as foreign travel is concerned the principals normally sell through the tour operators or directly through retailers, bypassing the operators. In respect of domestic travel, the principals normally sell direct to the consumer.

### 2.3.2. Tour Operators.

The first level in the travel trade is the tour operator, who packages the components (e.g. airline seats, hotel beds) in order to make an attractive product that the consumer will want to purchase and will also yield a profit for the tour operator.

The main direct link for the tour operator is through the travel agents. The degree of this link is shown in the fact that 90% of all holidays are package holidays<sup>1</sup> i.e. the tour operators' products sold through travel agents. Some tour operators own travel agents and in some cases airlines and hotels, highlighting the importance of these links to the tour operators. As far as the supplier interface is concerned Mintel<sup>2</sup> showed the restrictions and limitations:

"The relationships between large package tour suppliers and large travel agents are generally governed by a very tightly written agreement which lays down on the one hand the rates of commission payable (including the terms and conditions of overrides) and on the other whatever limitations are agreed-or imposed-relating to how and at what prices the suppliers' holidays may be sold. The limitations in these agreements may, in the past, have extended as far as imposing prohibitions on the offer by the travel agent of inducements to buy and very many contain express prohibition of activities such as commission sharing with the customers of third parties or other agents."

A tour operator cannot offer incentives to travel retail staff individually, such as monetary reward for selling the companies holidays. However, travel staff can be rewarded with educational trips.

The reasons for many of the restrictions is that tour operators are seeking to keep open and supply through as many outlets as possible. This way the operators are dealing with comparatively weak intermediaries who have very little bargaining power with the suppliers. The suppliers are thus able to dictate terms.

There is little doubt that tour operators see the emergence of major chains as a threat to their economic power in the market. If the market becomes concentrated in fewer more powerful hands (as has happened, for example, in food retailing), the intermediaries/retailers enjoy increasing power and can dictate terms to the suppliers. It is only a comparatively short step from this position to the situation where major travel agency chains can devise and demand 'own label' equivalent holidays from the suppliers. While the independent and the small chains predominate numerically, this situation is unlikely to develop.

Package holidays not sold through retailers are sold by a method known as "direct sell". The consumer or

tourist contacts the company directly and in return they receive a brochure. They complete the necessary reservation forms, send them back, and the holiday is booked for them by the tour operator. This method completely cuts out the services of the travel agents.

There are varying figures for the size of the direct sell market, one report <sup>3</sup> places the size at 10%, a later report <sup>4</sup> quotes ABTA as estimating the direct sell figure at 20% with 80% of sales going through retailers for package holidays. In the same reference, Mintel places the direct sell figure at 15%. The Monopolies and Mergers Commission placing the figure at 22%, or 26% (if sales through agencies owned by operators are classified as direct sell).

Table 2.1 Sales of Foreign Package Holidays by Tour Operators 1984.

	<u>%</u>
Direct Sales	22
Sales through agencies owned by operators	4
Sales through other agencies	74
	---
Total	100
	---

(Source: Monopolies and Mergers Commission, 1986, Foreign Package Holidays).

Whichever figures are used, it appears that direct sell is not enjoying rapid growth but accounts for a significant proportion of the market share. This is the reason the major tour operators have direct sell sections to their companies. However the normal channel for holidays to reach the public are sales through agencies not owned by tour operators, accounting for 74-90% of the total sales, depending upon whose figures are used.

Table 2.2 Direct Sell Market in 1983.

	<u>Holidays (000's)</u>	<u>%</u>
Martin Rooks	180	23
Tjaereborg	130	17
Portland	130	17
Others	340	43
	---	---
Total	780	100
	---	---

(Source: International Tourism Quarterly, Special Article No 50 part 2, 1984, "The Agents").

Three companies dominate the direct sell market: Martin Rooks (Falcon Leisure Group), Tjaereborg (Falcon Leisure Group) and Portland (Thomsons). In 1983 the top three companies accounted for 57%, (54% in 1985).

Table 2.3 Direct Sales Estimated Market Shares 1985.

	%
Martin Rooks(British Airways)	22
Portland (Thomson)	16
Tjaereborg	16
All Others	46
	---
Total	100
	---

(Source: Mintel Tourism Special, 1985, Tour Operators).

### 2.3.3. Travel Retailers.

The next level in the tourism industry is the travel retailer. There is only one forward direct link and that is to the consumer or tourist. Travel retailers provide almost every service that a consumer or a tourist needs in order to travel, either within the UK or abroad. They provide all the transportation services, they can book accommodation and they also provide package holidays, which has become the most popular type of holiday with consumers. Key Note (1987) <sup>5</sup> stated its view on the relationship between travel agents and operators:

"Agents and operators are closely interdependent, but there is only a limited degree of vertical integration in the travel industry, the largest operator, Thomson, owns the Lunn Poly chain of agents, and the largest agent, Thomas Cook, provides it own holiday packages.

This interdependence is based on the dominant product of the travel industry, the package holiday by air, which constitutes a large and still expanding market. This type of travel arrangement accounts for two thirds of agents' foreign business, with the remaining third coming from business travellers. The air package proportion of smaller agents' turnover is usually much higher, up to 90%, since business travel is dominated by the larger chains, especially Thomas Cook and Lunn Poly. Operators are dependent on the agents because the agents distribute over 90%, in value terms, of all package holidays. Direct booking of holidays by tourists, avoiding the agent's 10% commission, is a minor part of the market, with only three prominent names."

The aim of the travel agent is to satisfy the customers and also to make an adequate rate of return for themselves. This is accomplished by the fact that the tour operators pay varying rates of commissions to the travel agents, and income depends on the price of the holiday sold.

#### 2.3.4. The Consumer.

Consumers can purchase services directly from the producers, private sector support services and the public sector support services, or they can buy direct from the tour operator, or travel agent.

### 2.3.5. The Support Services.

Besides the linkages mentioned, there are also peripheral linkages from other organisations. One of these other links is from insurance companies who provide the customers with travel insurance for their holidays.

Other peripheral industries include banks for travellers cheques, guide producers, brochure printers, computer support companies. Amongst these, only insurance and banks sell their services to the consumer. All the other companies are support for the travel trade. The next aspect when looking at the industry is to look at the institutional framework that is present in the travel industry.

## 2.4 THE INSTITUTIONAL FRAMEWORK IN THE TRAVEL INDUSTRY.

### 2.4.1. The Association of British Travel Agents.

As far as the travel industry is concerned, the most important institutional body is the Association of British Travel Agents (ABTA). As the travel trade began to grow rapidly it found itself in a pre-eminent position in the travel trade.

Its membership has mushroomed during the 1980's. The



number of retailers rose from just under 4500 to over 7,000, tour operators having a less dramatic rise of about 300.

The structure of the organisation is fairly simple to understand, and in general is made up of councils and committees. Its constitution is laid down in the Memorandum of Association and the Articles of Association, exactly the same as most companies in the UK. Both these documents are sent to all members in a loose leaf form so that any changes can be easily inserted.

There are three councils each having a very distinct role to play in the overall structure. The first is the Tour Operators' Council. This consists of twenty members, who are elected from and by the tour operators class of ABTA. Seventeen of the twenty are elected by and from members of the tour operators class within each of the four turnover brackets.

The second council is for Travel Agents which comprises twenty two members. Nine of the members are elected by and from members of the travel agents class within three turnover bands. The remaining thirteen members are elected by and from all the other members of the travel agents' class on a regional basis.

The third is the National Council. This is made up of five members of each of the Tour Operators and Travel Agents Councils. These ten members are the directors of the association and their job is to manage the affairs of the association and to represent it in its overall dealings with the outside world, and to approve and publish the Codes of Conduct, produced by the councils of tour operators and travel agents.

In addition to the three bodies mentioned, there are also various standing and ad-hoc committees.

The association also has a consumer protection department which takes complaints from the public about their holidays and has an arbitration service to deal with these, together with a conciliation and advice service. ABTA also has a membership department. Therefore, apart from the councils there are other departments that enable the association to function as a complete body, the structure is shown in diagrammatical form in appendix 2.2.

Its function can be very broadly divided into two main categories; the first is a commercial role and the second is a regulatory and financial role.

The commercial function is to influence events and it does this in many ways. It deals with communications

at governmental level, international level and also at business level to create the right trading environment for its members. ABTA also promotes the image of its membership through what they term as "external" public relations.

As a trade body it manages to exert influence by activities such as opposing legislation that could be damaging to the trade. One of the ways in which ABTA influences events at governmental level is to sponsor an MP who is paid to look after trade members interests in the House of Commons.

In its capacity as a trade association it is also a member of the worldwide group, the Universal Federation of Travel Agents Associations (UFTAA) and the European Consortium of Travel Agency Associations (ECTAA). The membership of these enables the exchange and developing of ideas, which can then be passed on to the national membership for their trading benefit.

#### 2.4.2. Travel Retailer Associations.

There are many retail associations in the UK. In terms of national associations, these are divided into the multiples and independents. There is the Multiple Travel Agents Association (MTAA), The National Association of Independent Travel Agents (NAITA) and the Alliance of Retail Travel Agents Consortia (ARTAC).

The MTAA has the major multiples as members such as Co-op Travelcare, Pickfords, AT Mays, Hogg Robinson, and includes the smaller multiples with twenty to thirty outlets. The purpose of this association is to look after the interests of the multiple travel retailers and to lobby on their behalf to bodies such as ABTA.

In order to compete with these large multiples, some retailers belong to consortia in order to band together to form a type of multiple of single outlets. The main consortium of independent agents is the National Association of Independent Travel Agents (NAITA), founded in 1979, whose membership steadily grew during the 1980's as is shown in the next table.

Table 2.4 NAITA Membership During The 1980's.

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Members	80	180	220	280	320	375	400
Branches	200	450	500	550	670	750	800

(Source: NAITA)

NAITA lacks a single identity at the present time. It was expected to produce a "Liberty" logo to give the retailers a single type identity, yet still retain their independence, like the Best Western group in the hotel industry. To be a member of NAITA a company can have no more than twenty five branches including a head office.

NAITA is far larger than any multiple and would be in an ideal position to fight them if they had a single identity that people could easily recognise. As the association stands at the moment, it organises its own conferences and negotiates special rates of commission with tour operators. With 800 outlets it is much larger in those terms than any of the multiples.

The second national independent association is ARTAC founded in 1978, (membership figures before 1985 are not available).

Table 2.5 ARTAC Membership During The 1980's.

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Members	160	160	230	200	180	305
Branches	200	200	250	300	210	380

(Source: ARTAC)

In September 1990, ARTAC formed a co-operation agreement with the American National Association of Travel Agents which had 1,400 members in the USA. This agreement means that the handling of inbound clients, corporate accounts and joint networking will be undertaken by each consortium. This is another example of joint co-operation agreements looking towards the 1990's in travel retailing. ARTAC is as large as the third largest multiple in terms of the total number of outlets.

There are also independent associations that are regionally based, such as the north western based Consortia of Professional and Independent Travel Agents (COPITA) with only three company members<sup>6</sup> at mid 1990. In the midlands retailers can belong to "Midconsort", which is a ten year old group of seventy four independent retailers.

As well as the independent associations which have been described there are associations regionally based for both multiples and independents. The Scottish

Passenger Agents Association (SPAA) is a very good example of this, and as the name suggests it contains retailers who trade in Scotland. In 1985 they had seventy member companies. To gain membership of this organisation a company has to have a minimum turnover of £750,000, therefore it contains multiples as well as independents.

Some associations are formed for a particular market; The Guild of Business Travel Agents (GBTA) founded in 1967, is one such association. Its members group together to concentrate on the business travel market. The GBTA has an IATA licence for its shop, Guildfare, selling budget air fares to its members.

This particular type of association also contains multiples including Pickfords Business Travel and Hogg Robinson. The membership of the GBTA numbered fifty companies in 1990. To be a member of any of the above associations, companies must first be members of ABTA.

In 1990 another trend began to emerge as Pan European associations were being formed. There is now the Guild of European Business Travel Agents (GEBTA) which looks after the interests of business travel agents throughout Europe.

There is also the World Association of Travel Agents (WATA) which is a worldwide group comprising individual company members. Its authority and activities are quite limited at the present time. WATA was founded in 1949 and in 1985 had 250 company members in 216 cities in 84 countries.

#### 2.4.3. Tour Operator Associations.

The tour operators are different to the retailers in respect that there are no associations which include the large companies. However, the independent tour operators have problems in the same way the independent retailers have, and have therefore formed their own association.

The smaller tour operators can become members of the Association of Independent Tour Operators (AITO), founded in 1976. In 1978 there were seventy four members, in 1988 seventy two, 1990 sixty eight and in 1991 eighty four. The membership of this association is seen to fluctuate a great deal, which is most likely due to the problem of many smaller tour operators going out of business. This is only a fraction of the number of tour operators. Among the group of smaller tour operators there are many direct sell tour operators such as Page & Moy, Hayes & Jarvis, Abercrombie & Kent and Tjaereborg.



The Association of Independent Tour Operators (AITO) have introduced their own bonding scheme for non-ABTA members, which by September 1990 had received fifteen applications. AITO is looking to a time when ABTA may lose its regulatory status after 1992 (see chapter 10).

As well as AITO there is one other association in the tour operating sector of the travel industry which is the Tour Operators Study Group (TOSG). This is an organisation of seventeen tour operators, including some of the major companies. The group's main activities are the discussion and solution of operational problems facing tour operators, holidaymakers and the travel industry generally. It formulates ideas by studying the industry and looking at the trends. It also looks at technology and tries to improve the technological capabilities of the tour operators by introducing new systems.

Incoming tour operators, who deal with foreign customers coming to the UK on inclusive tours, have an association called the British Incoming Tour Operators Association (BITOA), which in 1989, had one hundred members.

A new association formed in 1989 is the European Tour Operators Association (ETOA). This is a federation of leading international incoming tour operators, handling

groups coming into Europe from the rest of the world and moving within more than one European country.

## 2.5 THE REGULATORY FRAMEWORK IN THE TRAVEL INDUSTRY.

The institutional framework for the travel industry has been examined, now the regulatory framework should be discussed. The regulatory bodies in the UK travel industry are numerous, with different responsibilities.

### 2.5.1 The Association of British Travel Agents.

One of the main functions that ABTA has, is a regulatory role. This is apparent in the codes of conduct for tour operators and travel agents that are issued, to which all members have to conform to. The Association deals with all the complaints against members, and indeed can expel members for any severe infringements of the code of conduct.

The association is also responsible for financial regulations. The system that it operates is a very complex one which is a reflection of the fact that its membership is wide ranging. In the past people have been stranded overseas on holiday and/or lost their money when travel companies have gone bankrupt. As far as the financial regulations are concerned, all possible situations have to be taken into account.

The basis of the financial protection is that all the members of the Association are required to contribute a certain sum of money to the central fund. The purpose for their financial system is that it has the funds:

"To arrange for customers whose holidays or other travel arrangements are in progress at the time of the failure to continue their holidays, as far as possible as originally planned and in any event to make certain that customers abroad are returned to the United Kingdom; and; to reimburse customers whose holidays, have not started the money they paid for the holidays, or to make alternative arrangements for the holidays to proceed." (ABTA Code of Conduct)

One of the main tasks of ABTA through its Stabiliser system is financial protection of consumers. The financial protection system is divided into the bond and insurance. As far as the bond is concerned it divides the holiday supply into licensable activities which covers foreign inclusive tours or other travel arrangements that involve the chartering of aircraft, and non licensable activities. Both are carried out by the tour operator class.

Licensable activities require an Air Travel Organisers Licence (ATOL) from the Civil Aviation Authority (CAA).

In addition to the above two categories, there are retail activities that are carried out by the travel

agents class.

The type of activity carried out will depend on the amount of bond that has to be paid. The bond is the amount that has to be paid into a central fund. ABTA also take out insurance against failures. In 1990 it became apparent that companies who were members before 1975 were not bonded. This resulted in the fact that two companies who ceased trading during 1990 drained the central fund, and provided many financial problems for the Association.

The Stabiliser rule means that if an ABTA tour operator wishes to sell a foreign inclusive holiday or other travel arrangements through a third party, it can only be done through member travel agents (or such of them as he chooses to appoint as his agents). Conversely, ABTA travel agents can only sell the foreign inclusive tour arrangements of member tour operators (or, again, of those tour operators who choose to appoint them as agents and whose agents they are willing to be).

Stabiliser does not affect domestic holidays and holidays in the Irish Republic, and does not stop a sale through a person who is the organiser of a closed group of travellers and is a member of that group. Under the Articles of Association companies may sell the foreign package holidays of the Bonded Coach

Holidays Section of the Bus and Coach Council (BCC), and there is a dispensation from Stabiliser so that members may sell the cruises of members of the Passenger Shipping Association (PSA). This Stabiliser agreement has the result that most tour operators and travel agents seek to belong to ABTA, ensuring that the net of safeguards for the travelling public is cast as widely as possible.

This Stabiliser is the only way in which there is a control on travel retailers. The UK does not have a licensing system for travel retailers as in other countries such as France. Anyone can open a travel retail outlet, and therefore the Stabiliser agreement has a type of licensing effect on retailers, as well as the benefits of financial protection for consumers.

ABTA maintains its Stabiliser agreement and other rules via its codes of conduct. When a company is a member it must abide by the association's codes of conduct which cover aspects such as the rules for trading, not trading with non-ABTA members, staff qualifications, bonding arrangements, consumer protection etc. Members that breach the codes of conduct could be expelled from the association.

There is a major restriction on entry to the travel trade; in order for a travel company to trade it needs

to be a member of ABTA, which can restrict the number of members in a year. The association looks at the finances and the owners of the companies which can take many months, and, in those months, the products a company is able to sell are very restricted in the case of the retailer, or in the case of the operator, its distribution network is limited.

The rules that companies have to abide by when they are members can also be regarded as restrictive practices, such as premises and staff requirements, preferred operators etc.

#### 2.5.2. Civil Aviation Authority (CAA).

In the UK the CAA regulate the airports, aircraft and most aspects associated with flights. The Civil Aviation Authority (CAA) grants licences to anyone who wishes to sell or supply air package tours, providing the CAA's regulations are fulfilled. In order for a company to supply air package tours the operator requires an Air Travel Organisers Licence (ATOL).

The operators have to supply a bond for the number of ATOL's they are licensed for. This money goes into a central Air Travel Reserve Fund, set up in 1975, in a similar system to that of ABTA's central bond fund. An operator that has an ATOL will have to pay a licence

fee, depending on the number of seats that the company is licensed for. This is payable on an annual basis.

### 2.5.3. International Air Transport Association.

The International Air Transport Association (IATA) is a very important association in the travel trade worldwide. Retailers who sell air tickets must be members of IATA and similarly operators who sell "seat only" tickets must be members of IATA. IATA members, however, do not have to be members of ABTA.

IATA lays down rules regarding the qualifications of staff, security of premises, air fares and the administration for the selling of air tickets. Staff must be qualified so that they are competent in filling in air tickets and knowledgeable about the rules of air travel. The regulations for retailers also include financial soundness, in the same manner as ABTA's.

The administration of the retailer's programme is entrusted to the IATA secretariat, which is responsible for assisting the airline committees and conferences controlling the programme and for distributing material required by retailers in the course of their work.

IATA has a working relationship with the Universal Federation of Travel Agents Associations (UFTAA).

The growing use of automation has led IATA airlines to use a "Settlement Plan" for computerised processing of accounting between airlines and retailers on a country-by-country basis. For accounts involving travel retailers the Bank Settlement Plan (BSP) was developed.

IATA is also involved in training and there has been a growing demand for well trained staff in the travel industry. The association has developed retailers' training programmes which include knowledge of the rules and completion of airline tickets.

#### 2.5.4. Monopolies and Mergers Commission (MMC).

Another regulatory body occasionally involved in the travel industry is the Monopolies and Mergers Commission (MMC). The Commission was established by the Monopolies and Restrictive Practices Act 1948. Its functions have been modified and extended to subsequent legislation. It consists of representatives from the law, industry, commerce, the trade unions and the academic world.

The laws relating to monopoly in the UK have three major targets: the dominant firm (where one firm has a substantial share of the total market); restrictive trade practices (where groups of firms combine to



restrict competition between themselves in respect of prices or other conditions of supply); mergers (especially those horizontal mergers which lead to a substantial reduction in competition). The control of monopoly and monopolistic practices is carried out by three important institutions: the Monopolies and Mergers Commission; the Restrictive Practices Court; the Office of the Director General of Fair Trading.

There have been two major examples of the use of the Monopolies and Mergers Commission in the travel trade during the 1980's. In 1986 on the supply of foreign package holidays, and in 1988 on the Thomson Travel Groups takeover of Horizon Travel Ltd.

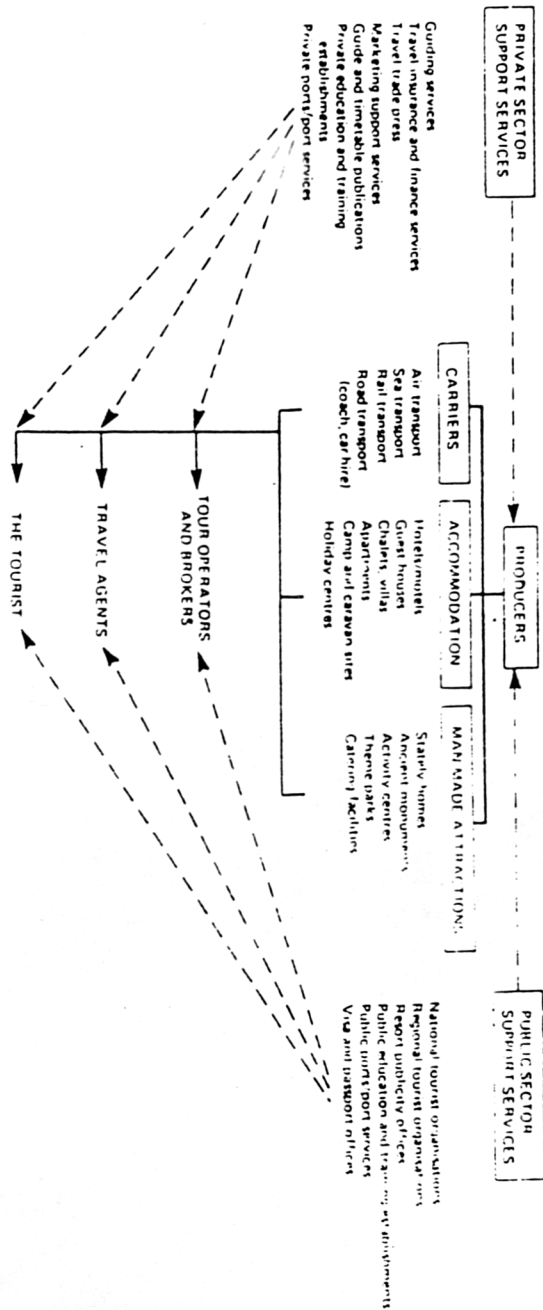
## 2.6 CONCLUSION.

Approximately 75-90% of all package holidays are sold through travel retailers. The other distribution method was direct sell from the tour operators or principals, to the consumers; the top three companies in the direct sell market having over 50% of the market share.

The most important organisation in the UK travel trade is the Association of British Travel Agents (ABTA), with its Stabiliser rule. A majority of travel retailers (90%) and tour operators are members.

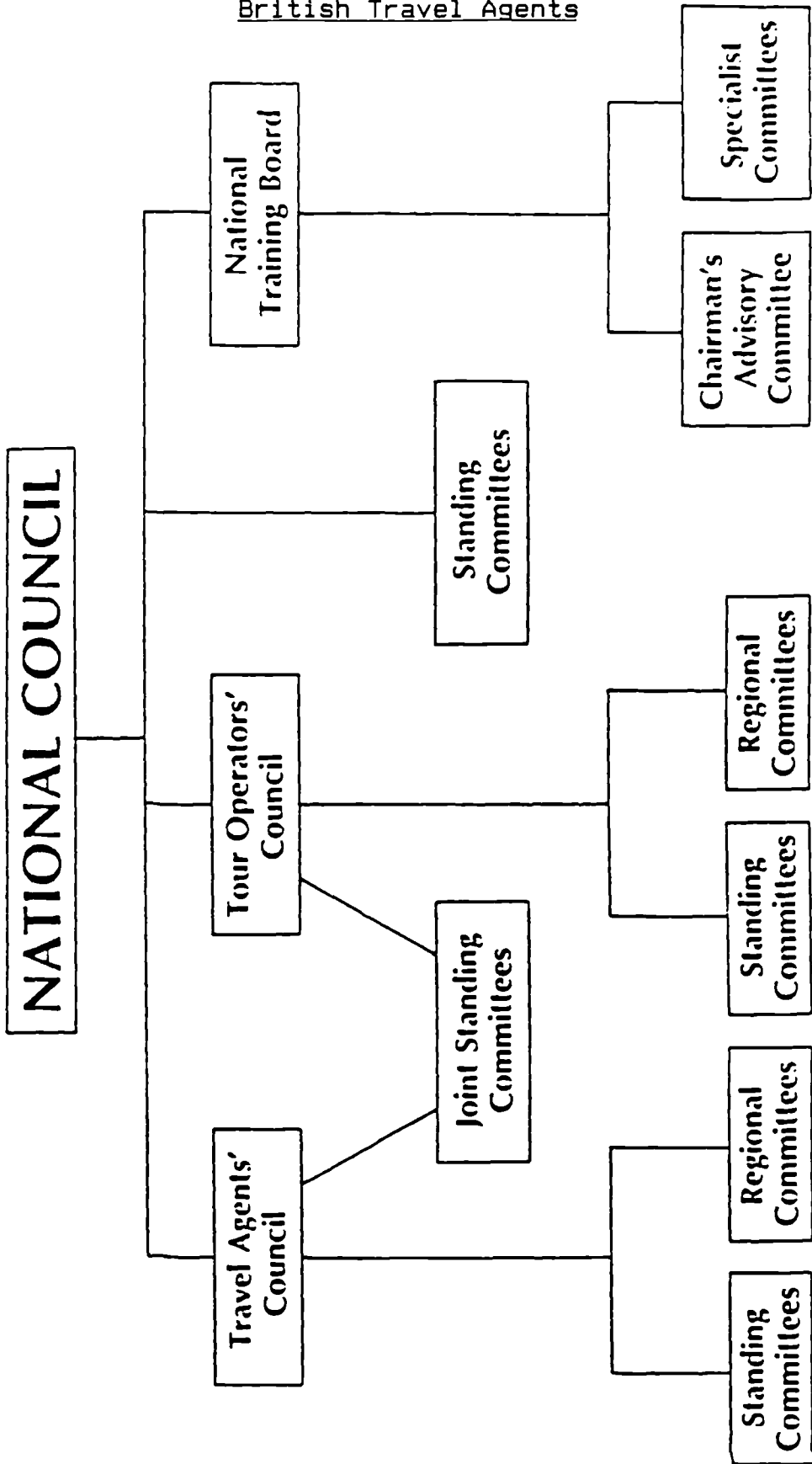
The regulatory framework was detailed, including its involvement in the travel trade during the 1980's. These institutions covered mainly air travel and economic factors.

## Appendix 2.1 Structure of the UK Travel Industry



(Source: Holloway, The Business of Tourism)

Appendix 2.2 Structure of the Association of  
British Travel Agents



(Source: Association of British Travel Agents)

## NOTES

- 1 International Tourism Quarterly, Special Article No 50, part 2, 1984, "The Agents".
- 2 Mintel Retail Intelligence Report, 1986, Travel Agents and Overseas Tour Operators.
- 3 Mintel Leisure Intelligence, Volume 1, 1989, P8.4.
- 4 Mintel Retail Intelligence, Volume 3, 1990, P6.
- 5 Key Note Report, 1987, Travel Agents and Overseas Tour Operators.
- 6 Travel Trade Gazette, June, 1989.

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Travel Trade Gazette.

## CHAPTER 3

### THE UK TRAVEL MARKET

#### 3.1 INTRODUCTION.

This chapter considers the travel market in the UK. The first part of the chapter looks at foreign holidays and the second part domestic holidays.

#### 3.2 FOREIGN TRAVEL.

There are five basic divisions in the foreign travel market: package holidays; independent holidays; business trips; visiting friends and relatives; miscellaneous trips.

The growth in the number of trips abroad during the 1980's has to be examined in relation to the increases in the number of retailers and the growth in the tour operators' market shares.

It is the growth in the number of trips abroad during the 1980's that has enabled the travel trade to develop as it has. The total number of trips abroad during the



1980's increased from 17.5 million to over 28.8 million in 1989, but dropping to 20.5 million in 1990.

Table 3.1 Total Number of People Going Abroad 1980's  
(mns).

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Total										
Trips	17.5	19.1	20.6	20.9	22.1	21.8	24.9	27.4	28.8	28.7
Holiday										
Trips	11.6	13.1	14.2	14.2	15.2	14.9	17.5	19.3	20.6	21.1
-----										
-IT's	6.3	6.8	7.8	8.0	9.0	8.5	10.4	12.0	12.6	12.5
-Ind	5.3	6.3	6.4	6.4	6.2	6.4	7.0	7.3	8.0	8.6
-----										
VFR										
Trips	2.3	2.4	2.5	2.5	2.7	2.7	2.9	3.1	3.2	2.6
Business										
Trips	2.7	2.7	2.8	2.9	3.2	3.2	3.4	3.6	3.9	4.0
Other	0.9	0.9	1.0	0.9	1.0	1.0	1.1	1.0	1.0	1.0

(Source: The British Tourist Authority, Department of Trade)

When the total number of trips are looked at by destination, shown at appendix 3.1, the importance of Europe is illustrated by the fact that there were 12.7 million trips in 1980 and 22.3 million trips in 1989, an increase of 76%. The total trips abroad were 17.5 million in 1980 and 30.8 million in 1989 therefore

Europe accounted for 72% in 1980 and 72% in 1989.

Within Europe, France is the main destination accounting for 3.8 million trips in 1980 and 6.5 million trips in 1989. Spain is the second major destination accounting for 2.6 million trips in 1980 and 6.2 million in 1989.

Outside Europe the main destination for trips abroad is the USA, accounting for 1.4 million in 1980 rising to 2.2 million in 1989.

The most dramatic aspect is the proportion of the total visits to Spain which is made up of holidays; holiday trips are shown at appendix 3.2; in 1980, 92% of the total trips were holidays and in 1989, 98%. In the case of France (the other major destination), in 1980 only 76% of the total trips were accounted for by holidays, in 1989, 74%. The importance of countries such as Spain to the travel trade is becoming apparent.

In North America, the major destination outside Europe, holidays only accounted for just under 50% of the total number of visits.

A major factor that influences holiday travel to particular destinations is exchange rates. This will not affect the total number of people going on holiday

but it will affect the direction or countries that people will go to. A favourable dollar will cause more tourists to travel to North America who would have normally travelled to Europe. A poor exchange rate on the US dollar could lead to a decline in trips to the USA and an increase to European destinations.

Table 3.2 Exchange Rate Trends of Sterling during the 1980's.

	<u>US\$</u>	<u>Swiss</u>	<u>French</u>	<u>German</u>	<u>Spanish</u>	<u>Japanese</u>	<u>Italian</u>
		<u>Franc</u>	<u>Franc</u>	<u>D.Mark</u>	<u>Peseta</u>	<u>Yen</u>	<u>Lira</u>
1980	2.33	3.89	9.83	4.23	167	562	1,992.17
1981	2.03	3.97	10.93	4.56	186	445	2,287.29
1982	1.75	3.55	11.48	4.25	192	435	2,364.05
1983	1.52	3.18	11.54	3.87	207	360	2,301.61
1984	1.34	3.13	11.63	3.76	214	317	2,339.14
1985	1.30	3.15	11.54	3.78	219	307	n/a
1986	1.47	2.63	10.16	3.18	205	247	n/a
1987	1.64	2.44	9.84	2.94	202	236	n/a
1988	1.78	2.60	10.73	3.12	210	228	n/a
1989	1.64	2.68	10.37	3.08	192	226	2,202.00
1990	1.79	2.47	9.73	2.88	183	257	2,162.25

(Source: Bank of England, Quarterly Bulletin, Euromonitor, 1990, UK Travel & Tourism).

As the exchange rates fluctuate it may make destinations cheaper in terms of holiday expenditure. If the above is seen in conjunction with appendix 3.2,

it can be seen, for example, that in 1982, 1983, 1984 and 1985 the exchange rate of sterling to the US dollar grew progressively worse, and the number of tourists also declined in those years, rising again in 1986 as the exchange rates improved.

In 1980 there were just under 5.5 million inclusive tours to European destinations, shown at appendix 3.3; at the end of the 1980's this total reached 11.4 in 1988 and 11.1 in 1989. The increase during the 1980's for inclusive tours to Europe was 54%. The total inclusive tours to non-European countries in 1980 was 0.8 million and in 1989, 1.4 million. Clearly European destinations are the most important to the travel trade.

The most important country in Europe for the travel trade is Spain. In 1980, 1.9 million people went to Spain for a package holiday out of the total visits of 2.6 million. In 1989 just over 6 million people went to Spain, out of which just under 4 million went for package holidays. The increase in inclusive tours during the decade to Spain was 110%, which more than accounts for the increase in European inclusive tours therefore this destination has the most impact on the travel trade and the holiday figures in total.

In 1990 provisional figures indicted that the package

tour market was in decline at the end of the 1980's and 1990, down from 12.5 million in 1989 to only 9.5 million in 1990.

The main reason for the drop in 1989 and 1990 was the economic downturn with the increase in interest rates and mortgage rates. This resulted in many people not being able to afford holidays abroad, some turning to domestic holidays or not going on holiday at all.

In the first part of 1991 there was another decline in the package holiday market as a result of the Gulf War. The threat of terrorism turned many people away from flying and certain destinations associated with the war. In many cases at March 1991, trade bookings were 50-60% down on 1990.

The number of business trips, shown at appendix 3.4, to countries such as Spain and Greece is very small. The main countries for business trips are North America, Germany, Netherlands, Belgium and Luxembourg, four of which are in the EEC, and, as expected, business trips to these countries are high. The total number of EEC business trips in 1980 was 1.2 million rising to 3.2 million in 1989, an increase during the decade of 167%, greater than the rise in package tours. The increase

in 1989, when holiday trips declined, shows that this market is much less volatile than holidays.

Business travel is the second largest market after holiday trips. Although less important than holidays in terms of volume, it is more cost-effective for the travel companies and is a much more stable market.

The VFR market, shown at appendix 3.5, is also dominated by Europe accounting for 1.5 million trips in 1980, increasing to 2.5 million in 1989, representing an increase of 67%. Non-European destinations accounted for 0.7 million trips in 1980 and 1 million in 1989. Of the non European total the USA accounted for 50% in 1980 and 40% in 1989.

Eastern Europe is growing in prominence in this market since its political changes, rising from 24,000 visits in 1980 to 47,000 in 1989, an increase of almost 100%.

Europe and North America are the main destinations as they are the main countries where people go to work and live, having the result of family and friends going to visit them. VFR trips are clearly very small in comparison to holiday and business trips.

Those trips that are so far not categorised are miscellaneous trips, shown at appendix 3.6, which

includes religious trips and educational trips etc. The main country for miscellaneous trips is France (where many people go on day trips across the Channel) and Eire, the two countries closest to the UK. The Middle East is fairly high which could be accounted for by for religious trips.

Table 3.3 Travel Business Turnover by Travel Retailers 1980's.

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
	<u>£bn</u>	<u>£bn</u>	<u>£bn</u>	<u>£bn</u>	<u>£bn</u>	<u>£bn</u>
Inclusive Tours	1.43	1.70	1.72	2.00	2.45	3.25
Business Travel	1.00	1.30	1.00	1.56	1.75	2.58
Independent Travel	0.77	0.75	0.66	0.40	0.48	0.62
	----	----	----	----	----	----
Total	3.20	3.75	3.40	3.96	4.68	6.45
	----	----	----	----	----	----

(Source: Mintel, May 1984, Mintel Retail Intelligence Volume 5 1988, Mintel Retail Intelligence Volume 3 1990, Euromonitor, UK Travel and Tourism 1990)

The value of inclusive tours is growing rapidly, as is business travel, but independent travel has a slower growth. The above figures are not available broken down into domestic and foreign travel; the figures are the total taken through travel retailers in the UK. They demonstrate how important the business travel market is to the travel trade in the UK. In 1987 ABTA

undertook their own survey and they stated that the turnover in 1986 of travel retailers was £4.5 billion. In 1985 the survey estimated that the turnover was in the region of £3.9 billion.

The previous figures, can be looked at in a different format, illustrated in the next table.

Table 3.4 Breakdown of Travel Retailers Turnover  
1980's.

	<u>1980</u>	<u>1983</u>	<u>1987</u>	<u>1988</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Inclusive tours	52.3	54.5	54.5	60.0
Air Tickets	33.0	31.1	31.1	25.0
Rail Tickets	2.7	2.6	2.6	3.0
Ferry Tickets	2.4	2.3	2.3	4.0
Insurance	0.8	1.0	1.0	1.0
Car Hire	0.3	0.3	0.3	0.2
Other	8.5	8.2	8.2	6.8
	-----	-----	-----	-----
Total	100.0	100.0	100.0	100.0
	-----	-----	-----	-----

(Source: Travel and Tourism Analyst, September 1986, Mintel Leisure Intelligence, Volume 1 1989, Key Note Report 1989 and 1990).

Again it can be seen that inclusive tours are vital, followed by the sale of air tickets. The different



categories for air tickets, rail tickets, ferry tickets etc. are included in the independent travel and the business travel category in the previous table. The sales of the other products are for the independent holidays, business trips, VFR trips and the miscellaneous trips.

Table 3.5 Structure of Sales Revenue of a Typical Tour Operator 1981.

	<u>% of Total</u> <u>Revenue</u>
Summer IT Programme	60
Winter IT Programme	12
Minimum-rated Packages	5
Holiday Insurance	3
Excursions in Destinations	8
Interest on Deposits and Currency Speculation	12
	---
Total	100
	---

(Source: Holloway, The Business of Tourism)

These figures may have altered during the 1980's, but not in proportion; the summer inclusive tour market is likely to be still the main source of income with approximately 70%, and the winter inclusive tour market increasing to about 20%. The latter has continued to increase during the 1980's in proportion to the summer

market. The above figures demonstrate the importance of the summer inclusive tour market to the tour operators.

Seasonality of holidays is therefore a major consideration to the tour operators and this is covered in greater detail below.

Table 3.6 Inclusive Tours Broken Down into Seasonality (mns).

	<u>80/81</u>	<u>81/82</u>	<u>82/83</u>	<u>83/84</u>	<u>84/85</u>	<u>85/86</u>	<u>86/87</u>	<u>87/88</u>	<u>88/89</u>
S	4.0	4.7	5.4	5.9	6.6	6.0	8.0	9.5	9.5
W	1.1	1.2	1.4	1.5	1.7	1.9	2.2	2.3	2.4
T	5.1	5.9	6.8	7.4	8.3	7.9	10.2	11.8	11.9

S=Summer, W=Winter, T=Total.

(Source: Travel & Tourism Analyst, No 5, 1989).

Most inclusive tours are taken during the summer. It is clear that the main increase and therefore the main impact on the travel trade is at that time, growing from 4 million to 9 million. However, the winter market has increased from just over 1 million to just under 2.5 million.

Table 3.7 Package Tour Bookings through Travel  
Retailers 1980's.

	<u>%</u>
Sun/Beach	86
Long Haul	85
City Breaks	76
Lakes & Mountains	72
Self Catering	69
Winter Sports	58
Coach Holidays	55

(Source: Key Note, Travel Agents & Overseas Tour  
Operators, 1988 and 1990)

Package holidays to sun destinations are favourite, Spain being the most popular destination and one of the reasons why summer holidays are the largest group of the total taken.

Foreign travel can be broken down further into short haul and long haul. Short haul travel is where the destination is three to four hours from the UK. This can include trips to Western Europe or the Mediterranean areas. This has been the largest market during the 1980's. The main growth area for the short haul market is the package tour market to Spain.

Long haul travel is where the destination is over four

hours from the UK. This includes such countries as the USA, Canada, Australia, Japan, South Africa and New Zealand.

The short haul destinations have risen from 14.5 million in 1980 to 23.9 million in 1989, a rise of 65%. Long haul destinations have risen by 1.7 million.

### 3.3 DOMESTIC HOLIDAYS.

Domestic holidays can be broken down into package holidays, independent holidays, business trips, VFR trips and miscellaneous trips, in the same way as foreign holidays.

Table 3.8 Total Number of UK Trips 1980-1988 (mns).

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Total Trips	130	126	123	131	140	126	127	131	130
Hol Trips	75.4	72.0	72.6	78.0	78.4	70.3	71.2	73.1	73.2
VFR Trips	29.9	30.2	27.0	28.2	30.8	30.5	28.8	33.8	32.8
Bus Trips	19.5	18.8	18.5	19.6	25.2	19.8	22.1	20.0	20.0
Other	5.2	5.0	4.9	5.2	5.6	5.4	5.4	4.6	4.3

(Source: The British Tourist Authority)

From the figures above, it can be seen that the UK domestic market is huge. The travel trade, as will be seen throughout this thesis, is missing this potential

market in its aim to dominate the overseas inclusive tour market.

Figures released by the British Home Tourism Survey in 1987 and 1988 show that in 1987 only 6% of people used travel retailers for domestic travel arrangements and in 1988 only 5%. The numbers of domestic trips during the 1980's have been fairly stable. This suggests the fact that there is room for growth in this market.

The dominance of independent travel in the domestic market is the reason for the lack of involvement of the travel retailers and operators. There is also lack of commission due to customers travelling by their own cars and staying in inexpensive accommodation.

There is a very small amount of package travel, which could be increased to include resorts and hotels, in the same manner as foreign package holidays. This could earn the travel trade more commission, resulting in them becoming interested in domestic travel.

#### 3.4 CONCLUSION.

The major destinations for package holidays were Spain, Greece and Italy, i.e. the sun beach type destinations, Spain accounted for almost a third of all package holidays in 1989. Another major destination was France

which is popular with the short break market.

Package tours are the most important sector for travel retailers and tour operators, accounting for 60% of operators turnover and 50-60% of retailers turnover. The travel trade is therefore, dependent on the package holiday market, and in particular, summer holidays to Spain.

The problems for the trade is that the package tour market is very unstable, and is affected by the domestic economic situation and political situations abroad. The instability of the industry is therefore affected by the instability of the package tour market. A downturn of the package tour market of about 20% in 1990/1991, was partly responsible for the demise of the second largest tour operator in the UK.

In the case of domestic trips, the relative lack of importance of the travel trade was clear, with only about 5% of customers using retailers.

Therefore travel companies need to expand their business portfolio, to include domestic holidays, to try to counter problems with the foreign markets. In the same way reductions in exports in other industries, can be countered by increased domestic sales.

Appendix 3.1 Total Trips Abroad by Destination During the 1980's.

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>
United States	1093	1201	970	780	719	722	946	1245	1486	1860
Canada	289	313	329	243	200	193	221	314	337	336
<b>Total North America</b>	<b>1382</b>	<b>1514</b>	<b>1299</b>	<b>1023</b>	<b>919</b>	<b>914</b>	<b>1167</b>	<b>1559</b>	<b>1823</b>	<b>2196</b>
Belgium/Luxembourg	671	614	894	831	776	755	761	642	758	824
France	3844	4513	5002	5058	4482	4523	5188	5321	5032	6469
West Germany	995	1115	1101	1091	1294	1321	1258	1397	1329	1652
Italy	1102	1051	1068	1154	1184	1066	1103	1188	1036	1288
Netherlands	729	711	838	784	868	949	868	940	1060	1123
Denmark	136	170	175	128	136	151	154	152	131	160
Eire	1430	1392	1440	1472	1552	1462	1425	1545	1823	2010
Greece	855	935	1000	869	1048	1319	1520	1842	1715	1625
Spain	2617	3040	3688	4278	5022	4175	5887	6559	6828	6171
Portugal	364	401	472	547	573	709	956	903	1108	998
<b>Total EEC</b>	<b>12743</b>	<b>13942</b>	<b>15678</b>	<b>16211</b>	<b>16936</b>	<b>16430</b>	<b>19120</b>	<b>20488</b>	<b>20820</b>	<b>22320</b>
Yugoslavia	220	257	266	293	477	566	661	644	652	551
Austria	328	377	407	490	609	557	587	624	762	694
Switzerland	329	418	493	474	519	488	520	540	564	601
Norway	115	133	107	135	139	161	149	129	130	128
Sweden	132	130	134	120	135	143	153	142	183	157
Finland	21	34	31	30	28	42	37	36	50	48
Gibraltar/Malta/Cyprus	541	520	472	434	475	475	534	863	859	1091
Others	25	32	36	42	53	82	115	212	499	402
<b>Total Non EEC</b>	<b>1712</b>	<b>1901</b>	<b>1947</b>	<b>2018</b>	<b>2436</b>	<b>2514</b>	<b>2757</b>	<b>3189</b>	<b>3699</b>	<b>3672</b>
Middle East	219	228	222	219	223	189	221	201	203	220
North Africa	228	232	212	224	253	273	280	380	375	385
South Africa	61	69	91	78	78	70	48	79	86	118
Rest of Africa	122	136	146	141	169	162	176	197	222	243
Eastern Europe	221	202	123	149	164	237	194	225	300	319
Japan	11	15	23	27	28	31	24	46	52	58
Australia	88	98	131	121	136	130	161	168	197	209
New Zealand	22	22	33	26	31	24	27	36	39	37
Commonwealth Caribbean	160	174	169	147	140	122	162	188	209	274
Latin America	45	49	43	40	42	50	49	53	77	95
Others	493	447	494	571	519	463	564	638	725	686
<b>Rest of the World</b>	<b>1670</b>	<b>1671</b>	<b>1687</b>	<b>1743</b>	<b>1781</b>	<b>1752</b>	<b>1905</b>	<b>2210</b>	<b>2486</b>	<b>2644</b>
<b>Total all Countries</b>	<b>17507</b>	<b>19029</b>	<b>20607</b>	<b>20994</b>	<b>22072</b>	<b>21610</b>	<b>24949</b>	<b>27446</b>	<b>28828</b>	<b>30832</b>

(Source: The British Tourist Authority, Department of Trade)

Appendix 3.2 Total Holiday Trips Abroad by Destination During the 1980's.

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>
United States	629	717	520	360	310	287	451	641	876	1211
Canada	106	123	131	86	68	71	86	132	141	138
<b>Total North America</b>	<b>735</b>	<b>839</b>	<b>651</b>	<b>446</b>	<b>377</b>	<b>358</b>	<b>537</b>	<b>774</b>	<b>1017</b>	<b>1349</b>
Belgium/Luxembourg	342	288	529	486	425	414	450	256	400	307
France	2863	3577	3785	3884	3238	3276	3782	3888	3665	4754
West Germany	284	343	388	397	492	506	420	526	399	599
Italy	814	763	788	843	880	747	786	821	705	887
Netherlands	296	318	414	362	401	493	387	429	514	570
Denmark	61	97	108	55	67	67	71	63	42	62
Eire	522	548	507	383	344	369	356	371	535	713
Greece	804	881	965	816	984	1264	1472	1787	1630	1556
Spain	2403	2843	3493	3987	4736	3896	5557	6182	6409	6093
Portugal	321	362	422	503	519	650	882	824	1011	897
<b>Total EEC</b>	<b>8711</b>	<b>10019</b>	<b>11399</b>	<b>11716</b>	<b>12084</b>	<b>11682</b>	<b>14165</b>	<b>15147</b>	<b>15309</b>	<b>16438</b>
Yugoslavia	203	246	251	273	453	551	640	623	622	520
Austria	257	328	361	434	552	487	524	564	681	612
Switzerland	181	268	337	304	317	305	328	317	333	360
Norway	56	62	37	52	50	51	67	49	48	32
Sweden	54	50	56	36	46	50	57	45	46	38
Finland	2	6	5	6	6	10	9	9	16	9
Gibraltar/Malta/Cyprus	482	461	417	379	417	423	472	779	779	982
Others	14	20	20	22	35	48	84	167	440	358
<b>Total Non EEC</b>	<b>1249</b>	<b>1440</b>	<b>1484</b>	<b>1506</b>	<b>1876</b>	<b>1925</b>	<b>2181</b>	<b>2554</b>	<b>2965</b>	<b>2911</b>
Middle East	93	87	84	79	67	59	76	79	73	76
North Africa	172	175	147	172	199	225	239	329	325	342
South Africa	27	29	37	32	34	28	15	27	43	59
Rest of Africa	53	62	65	57	96	86	83	103	124	151
Eastern Europe	163	138	69	84	94	167	125	144	214	189
Japan	1	5	9	2	5	7	6	10	9	11
Australia	19	23	33	35	35	34	45	53	73	86
New Zealand	4	4	7	8	8	5	9	8	17	12
Commonwealth Caribbean	107	126	114	102	92	80	112	126	147	208
Latin America	17	15	11	15	11	18	21	23	34	61
Others	314	245	263	314	267	223	283	317	349	357
<b>Rest of the World</b>	<b>970</b>	<b>910</b>	<b>841</b>	<b>900</b>	<b>909</b>	<b>932</b>	<b>1014</b>	<b>1219</b>	<b>1409</b>	<b>1552</b>
<b>Total all Countries</b>	<b>11666</b>	<b>13208</b>	<b>14373</b>	<b>14568</b>	<b>15246</b>	<b>14898</b>	<b>17896</b>	<b>19694</b>	<b>20700</b>	<b>22250</b>

(Source: The British Tourist Authority, Department of Trade)



Appendix 3.3 Total IT's Abroad by Destination During the 1980's.

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>	<u>000s</u>
United States	219	235	136	69	52	40	111	192	307	508
Canada	6	7	33	10	10	2	6	12	25	22
<b>Total North America</b>	<b>225</b>	<b>242</b>	<b>169</b>	<b>79</b>	<b>61</b>	<b>42</b>	<b>118</b>	<b>205</b>	<b>332</b>	<b>530</b>
Belgium/Luxembourg	112	83	186	189	137	193	191	99	201	128
France	718	926	1005	1134	996	1100	1234	1376	1426	1826
West Germany	96	121	161	140	213	193	151	233	105	226
Italy	605	523	556	627	628	522	559	588	476	605
Netherlands	132	128	195	189	180	226	158	211	238	290
Denmark	18	35	39	21	19	27	27	22	21	31
Eire	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greece	628	723	796	641	797	1066	1262	1515	1402	1321
Spain	1938	2223	2399	3020	3719	2716	4076	4438	4487	3867
Portugal	257	276	342	390	385	467	622	563	711	548
<b>Total EEC</b>	<b>4505</b>	<b>5038</b>	<b>5679</b>	<b>6350</b>	<b>7073</b>	<b>6510</b>	<b>8281</b>	<b>9046</b>	<b>9067</b>	<b>8842</b>
Yugoslavia	191	231	233	259	437	516	605	598	592	494
Austria	209	261	294	371	471	402	438	484	585	511
Switzerland	92	159	203	178	184	153	187	174	177	184
Norway	31	25	20	22	20	18	26	18	19	n/a
Sweden	16	11	16	10	12	5	11	7	13	n/a
Finland	*	1	*	*	1	2	*	2	5	n/a
Gibraltar/Malta/Cyprus	363	330	299	255	302	295	343	576	588	754
Others	7	9	6	12	24	31	50	120	365	n/a
<b>Total Non EEC</b>	<b>910</b>	<b>1027</b>	<b>1071</b>	<b>1107</b>	<b>1450</b>	<b>1422</b>	<b>1660</b>	<b>1980</b>	<b>2344</b>	<b>2256</b>
Middle East	40	35	41	31	30	20	40	34	34	34
North Africa	145	151	122	146	175	196	218	300	281	325
South Africa	3	1	2	2	3	2	1	2	3	6
Rest of Africa	19	20	23	20	45	41	46	51	62	83
Eastern Europe	144	126	64	74	75	146	108	130	195	156
Japan	*	1	2	*	2	2	2	1	*	*
Australia	*	1	*	2	4	2	3	7	7	16
New Zealand	*	*	1	*	1	1	1	2	2	2
Commonwealth Caribbean	48	58	47	37	32	32	47	65	79	116
Latin America	5	4	2	4	3	6	6	11	18	39
Others	211	133	139	164	122	96	131	148	172	125
<b>Rest of the World</b>	<b>615</b>	<b>530</b>	<b>441</b>	<b>480</b>	<b>493</b>	<b>545</b>	<b>603</b>	<b>751</b>	<b>853</b>	<b>902</b>
<b>Total all Countries</b>	<b>6255</b>	<b>6835</b>	<b>7760</b>	<b>8016</b>	<b>9077</b>	<b>8518</b>	<b>10661</b>	<b>11980</b>	<b>12596</b>	<b>12530</b>

(Source: The British Travel Authority, Department of Trade)

Appendix 3.4 Total Business Trips Abroad by Destination During the 1980's.

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
	000s	000s	000s	000s	000s	000s	000s	000s	000s	000s
United States	222	256	240	222	246	257	295	352	335	369
Canada	24	26	32	23	28	23	29	27	31	35
<b>Total North America</b>	<b>246</b>	<b>283</b>	<b>272</b>	<b>246</b>	<b>274</b>	<b>280</b>	<b>324</b>	<b>379</b>	<b>367</b>	<b>404</b>
Belgium/Luxembourg	198	201	182	184	199	213	193	231	252	317
France	457	442	511	472	532	548	546	639	651	817
West Germany	386	407	372	381	471	473	506	499	524	589
Italy	142	146	155	176	165	183	187	208	213	254
Netherlands	251	232	236	249	299	287	279	330	348	357
Denmark	48	35	51	49	44	55	52	59	60	68
Eire	276	258	266	281	268	222	231	269	404	467
Greece	27	28	20	23	29	22	22	25	30	30
Spain	89	94	86	152	151	134	164	191	204	225
Portugal	23	21	27	27	33	35	47	45	56	50
<b>Total EEC</b>	<b>1899</b>	<b>1864</b>	<b>1906</b>	<b>1994</b>	<b>2191</b>	<b>2172</b>	<b>2226</b>	<b>2497</b>	<b>2743</b>	<b>3174</b>
Yugoslavia	9	7	10	8	9	9	13	12	9	13
Austria	23	24	23	27	27	43	37	36	56	50
Switzerland	92	92	99	108	131	126	127	148	141	166
Norway	45	46	51	55	65	84	60	48	61	70
Sweden	58	56	53	67	70	69	72	75	96	80
Finland	13	22	16	16	17	24	21	21	22	28
Gibraltar/Malta/Cyprus	15	18	16	18	14	16	19	19	20	34
Others	4	5	7	12	10	22	21	29	39	29
<b>Total Non EEC</b>	<b>259</b>	<b>270</b>	<b>275</b>	<b>311</b>	<b>342</b>	<b>394</b>	<b>370</b>	<b>387</b>	<b>444</b>	<b>470</b>
Middle East	59	72	63	63	65	65	69	41	60	65
North Africa	45	41	40	32	39	33	23	29	23	23
South Africa	14	16	17	14	17	13	9	15	13	18
Rest of Africa	34	34	35	39	40	37	33	45	47	50
Eastern Europe	28	33	32	31	27	40	32	37	47	59
Japan	7	8	9	22	20	19	15	32	36	37
Australia	7	12	14	12	17	16	24	17	23	18
New Zealand	2	1	2	1	2	2	5	4	2	n/a
Commonwealth Caribbean	16	13	11	11	17	13	10	15	11	15
Latin America	19	25	20	14	23	18	18	22	27	21
Others	54	56	61	73	82	86	91	104	114	102
<b>Rest of the World</b>	<b>287</b>	<b>311</b>	<b>306</b>	<b>312</b>	<b>347</b>	<b>342</b>	<b>329</b>	<b>361</b>	<b>403</b>	<b>408</b>
<b>Total all Countries</b>	<b>2690</b>	<b>2728</b>	<b>2759</b>	<b>2886</b>	<b>3155</b>	<b>3188</b>	<b>3249</b>	<b>3625</b>	<b>3957</b>	<b>4456</b>

(Source: The British Tourist Authority, Department of Trade)

Appendix 3.5 Total VFR Trips Abroad by Destination During the 1980's.

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
	000s	000s	000s	000s	000s	000s	000s	000s	000s	000s
United States	204	192	177	170	139	158	175	216	239	238
Canada	151	155	155	130	102	93	103	148	157	155
Total North America	355	348	332	300	241	251	279	364	396	393
Belgium/Luxembourg	74	71	69	80	72	79	77	100	79	112
France	230	236	265	228	244	244	251	259	253	338
West Germany	248	280	257	263	284	300	291	310	357	388
Italy	112	115	96	109	118	103	113	128	103	129
Netherlands	123	127	119	117	134	140	166	146	157	146
Denmark	21	26	14	22	22	25	22	26	25	25
Eire	528	497	545	674	809	757	727	769	758	830
Greece	20	19	10	26	28	26	24	26	47	30
Spain	82	70	63	104	93	94	131	134	149	195
Portugal	16	13	18	15	17	19	15	26	34	38
Total EEC	1380	1454	1456	1638	1822	1787	1817	1922	1962	2231
Yugoslavia	7	4	5	9	12	4	4	3	13	n/a
Austria	18	19	18	20	22	24	21	22	16	25
Switzerland	42	45	48	47	52	49	56	66	70	57
Norway	10	22	15	23	18	23	21	28	17	25
Sweden	17	20	22	15	13	22	21	20	37	35
Finland	5	4	9	7	4	6	6	5	10	n/a
Gibraltar/Malta/Cyprus	40	34	36	35	41	35	39	61	56	60
Others	7	5	8	6	6	11	10	13	18	n/a
Total Non EEC	146	153	161	162	168	174	178	218	237	239
Middle East	53	44	56	58	61	49	55	59	42	59
North Africa	10	14	19	17	14	12	16	19	25	17
South Africa	17	19	33	26	24	26	23	35	29	40
Rest of Africa	31	33	36	40	29	32	54	43	43	33
Eastern Europe	24	24	12	29	37	23	33	37	31	47
Japan	2	1	4	2	2	4	2	4	5	12
Australia	58	58	76	64	77	73	86	82	91	92
New Zealand	14	15	20	15	19	15	12	23	19	23
Commonwealth Caribbean	33	31	40	32	28	27	37	43	46	44
Latin America	6	6	11	6	8	8	6	5	12	11
Others	113	133	157	169	160	147	176	204	244	215
Rest of the World	362	378	464	458	459	416	500	554	587	593
Total all Countries	2317	2333	2415	2559	2689	2628	2774	3057	3182	3456

(Source: The British Tourist Authority, Department of Trade)

Appendix 3.6 Total Miscellaneous Trips Abroad by Destination During the 1980's.

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
	000s	000s	000s	000s	000s	000s	000s	000s	000s	000s
United States	38	35	34	28	24	20	25	35	37	42
Canada	8	9	11	3	3	5	3	7	8	7
<b>Total North America</b>	<b>47</b>	<b>44</b>	<b>45</b>	<b>32</b>	<b>27</b>	<b>25</b>	<b>28</b>	<b>42</b>	<b>44</b>	<b>49</b>
Belgium/Luxembourg	56	54	115	78	80	50	41	55	27	88
France	294	258	442	474	468	455	610	535	464	560
West Germany	75	86	84	50	48	42	42	62	48	76
Italy	33	28	30	25	21	34	17	30	16	18
Netherlands	59	34	70	35	35	29	36	36	41	50
Denmark	6	11	2	2	3	3	9	3	4	5
Eire	103	89	118	135	130	113	111	120	127	n/a
Greece	4	8	4	4	6	6	2	5	7	9
Spain	43	33	45	36	43	51	35	52	66	n/a
Portugal	4	5	5	2	4	5	11	7	7	n/a
<b>Total EEC</b>	<b>678</b>	<b>606</b>	<b>915</b>	<b>841</b>	<b>839</b>	<b>788</b>	<b>912</b>	<b>905</b>	<b>807</b>	<b>993</b>
Yugoslavia	2	1	*	3	4	2	4	6	9	n/a
Austria	31	6	5	9	8	3	4	3	8	7
Switzerland	14	13	8	15	19	9	10	9	21	18
Norway	4	4	4	4	6	3	2	3	3	1
Sweden	3	4	3	2	5	1	2	2	5	4
Finland	1	2	*	1	1	1	1	1	2	n/a
Gibraltar/Malta/Cyprus	3	7	3	2	4	1	4	4	4	15
Others	1	2	1	1	2	1	*	2	1	n/a
<b>Total Non EEC</b>	<b>58</b>	<b>39</b>	<b>25</b>	<b>37</b>	<b>50</b>	<b>21</b>	<b>27</b>	<b>30</b>	<b>53</b>	<b>54</b>
Middle East	14	24	18	18	29	16	21	22	28	20
North Africa	1	2	6	3	1	2	1	2	3	3
South Africa	3	5	3	6	3	3	*	2	2	1
Rest of Africa	4	6	10	4	4	7	6	5	7	12
Eastern Europe	5	7	10	5	6	7	4	6	7	24
Japan	1	1	1	1	1	1	1	*	1	*
Australia	3	4	9	11	7	7	7	16	10	13
New Zealand	2	1	3	2	2	2	1	*	1	*
Commonwealth Caribbean	3	4	3	3	3	2	3	4	5	7
Latin America	3	2	1	4	1	6	4	2	4	2
Others	11	16	13	15	10	9	14	17	18	14
<b>Rest of the World</b>	<b>51</b>	<b>72</b>	<b>75</b>	<b>72</b>	<b>66</b>	<b>62</b>	<b>62</b>	<b>77</b>	<b>86</b>	<b>92</b>
<b>Total all Countries</b>	<b>834</b>	<b>760</b>	<b>1060</b>	<b>982</b>	<b>982</b>	<b>896</b>	<b>1029</b>	<b>1054</b>	<b>990</b>	<b>1188</b>

(Source: The British Tourist Authority, Department of Trade)

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## CHAPTER 4

### THE NATURE OF COMPETITION

#### 4.1 INTRODUCTION

The aim of this chapter is to look at the theory of competition. This is examined, as it helps to understand the travel industry in more detail, and explain what has happened in the travel industry.

The competition theory will look at the economic model and the marketing model, highlighting how both models can be combined to form one model of competition. This single model will then be applied to the travel industry, looking at, how, in the context of competition, a better understanding of the travel trade and its implications, can be established.

#### 4.2 COMPETITION THEORY

The study of competition is aimed at explaining how companies in an industry inter-relate with each other, and breaking down the structure of an industry, to help to explain the structure.

#### 4.2.1 The Economic Model

The economic model of competition is concerned with perfect and imperfect competition. Perfect competition is where there are a large number of sellers, and imperfect competition where there are only a few, an oligopoly, two sellers, a duopoly, or one seller, a monopoly situation.

Separate models can be used to look at a monopolistic industry or an industry operating an oligopoly, duopoly or under perfect competition, by examining the characteristics of each situation.

In this model, there is a continuum, at one end there is a monopoly, one seller, and at the other end, there are many sellers, perfect competition. Stanlake (1983), states that, in most situations, industries will lie somewhere in the middle of the continuum, neither a monopoly nor in a situation of perfect competition.

#### 4.2.2 The Marketing Model

The marketing model of competition is concerned with looking at those companies that satisfy the same consumer need, or those that satisfy the same consumer demand segments.

Therefore there could be one company satisfying all the consumers needs for a particular product or service e.g. the consumers need for gas supplies is satisfied by one company, i.e. British Gas. At the other end of the scale there could be many companies satisfying a consumer need, e.g. a need for clothing is satisfied by a number of companies.

When looking at consumer segments, this is the same situation as looked at above. A particular market segment will have similar needs. Therefore a company satisfying all the needs of a single consumer segment, would be the same as in the case of British Gas mentioned previously. Several companies satisfying one particular consumer segment would be the same situation as in the case of clothing companies.

The marketing model, therefore, also has a continuum, similar to the economic model, along which most industries will be positioned. At one end would be the situation of one company only supplying one particular consumer need and at the other end, there will be many companies satisfying a single consumer need.



### 4.2.3 The Economic and Marketing Models Combined

From the description of the two models, above, clearly there are links between them. In the economic model a monopoly situation can be measured by the market share of a company, i.e. a company with 25% of the market share is a monopoly (Stanlake 1983). In the marketing model a company that satisfies over 25% of a total market segment is therefore a monopoly in the economic viewpoint.

The difference between the two models is that it is only a way of analysing an industry, in one sense looking at the total structure of an industry, and in the other sense looking at the satisfaction of consumer demand, looking for possible opportunities.

Competitors can be broken down (Kotler 1988), into, desire, generic, product form and brand competitors, a breakdown such as this is concerned with satisfying consumer needs. Within each of these categories competitors can be further broken down into the market leader, market challenger, market follower and market nicher, which are based on market shares.

#### 4.2.4 Characteristics of different competition models

It is important to look at the characteristics of competition models as it helps in the analysis of an industry, i.e. it allows explanation of why certain actions are taken or not taken by companies in an industry.

##### 4.2.4.1 Perfect competition

In the perfectly competitive market model, all the products would be identical. The reason for this is that the consumers would be indifferent as to which producer they buy from, as it would make no difference in the product.

There would have to be many buyers and many sellers. This would have the result that the actions of any one buyer or seller would have no significant effect on the market.

There would have to be a total awareness by all the sellers and buyers, aware of the activities of competitors, terms and conditions of competitors, which includes pricing policies etc.

The factors of production must be totally mobile, i.e. the freedom to place workers, land and money where they would work most effectively, efficiently and profitably.

Consumers would be free to move from one supplier to another and workers would be free to move from one employer to another. Suppliers would be free to enter and leave the market.

This market model would produce one market price in theory, independent from the activities of any one buyer or seller. The perfect knowledge of the market would ensure that buyers will not pay different prices. Perfect mobility ensures that consumers and the factors of production move to eliminate any price differentials that may occur. The similarity of products ensures that preferences will not happen, which could be converted into price differentials.

The sellers would only control a very small percentage of the market share and are therefore powerless to exert any influence on the market price. The industry would be characterised by a very large number of small companies, each roughly the same size, no one company or few companies dominant.

#### 4.2.4.2 Imperfect competition

This would include a market that is dominated by a few companies, an oligopoly, two companies, a duopoly, or one company, a monopoly.

In this model the opposite applies to the previous model, in that there is no perfect knowledge, the factors of production are not mobile, there is no freedom to enter the market etc.

The companies in this situation are, in the main, very much larger, controlling large percentage shares of the market. Stanlake (1983) argues that if it is possible for one company to satisfy the total consumer demand, then this is likely to lead to a monopolistic market.

Therefore the actions of one company could have a dramatic effect on the market, such as the price. This effect could be such that it would provoke a reaction from the other large companies in the industry, creating a "tit for tat" reaction in the market.

Price competition, according to Stanlake (1983), is not normal competitive practise, as companies now that if one company lowers its prices then another company could follow, therefore maintaining levels of market shares, but lowering the profit levels for the

participants in the price cutting competition.

Competitors reactions are unpredictable and this unpredictability produces a very complex nature to an imperfectly competitive industry.

The main advantage of the monopolistic market is that in theory it should be more stable than the more competitive market.

The main disadvantages of a monopolistic market is that they do not get any competitive pressures, which leads to less efficiently and higher costs. Monopolists do not have an incentive to improve its products, in terms of innovation or the creation of new products.

#### 4.2.5 Why Competition is Looked at

The theory of competition is looked at in order to examine the structure, past, present and future of an industry. The ways in which an industry has become structured in a certain way, can in the main be explained by the use of competition theory.

With a large number of companies in an industry, with one large dominant monopoly present, then possible conclusions could be low profitability and low market shares on the part of the smaller companies.

### 4.3 RELATION OF COMPETITION THEORY TO THE TRAVEL TRADE

The theory of competition has been looked at briefly, it now has to be applied to the travel industry. As mentioned previously, by using competition theory, it will enable a more detailed analysis to be made of the travel trade.

#### 4.3.1 Tour Operators

In the tour operating sector there are a large number of companies, with a few dominant companies, i.e. this is an oligopoly situation from the economic viewpoint, merging on a monopoly situation, as the market leader has a large market share. From the marketing model, the consumers need for holidays, is satisfied by a large number of companies, but, because of the market share situation, that need is dominated by only a few companies.

When looking at the satisfaction of market segments, there are a number of companies satisfying the mass segments of the beach holidays, as demonstrated in the chapter on tour operators. However when looking at specialist holidays, outlined in the chapter on tour operators, it is clear that there are only a few companies offering these types of holidays. The main reason for this is the size of these potential

markets. The segments are so narrow, the market size potential is very small indeed.

The large companies concentrate on very large, generic market segments such as youth holidays, older age holidays, particular geographical holidays (Spain, Greece etc), holidays based on particular accommodation (apartments, self catering, hotels, guest houses, camping etc).

In the tour operating sector, when looking at competition, a continuum, as described previously can be used in the analysis. At the monopolistic end of the scale, there are the three or four largest tour operators, operating in an oligopolistic atmosphere. The smaller companies fall into further categories going down the continuum, towards a more competitive environment.

There is no total monopolistic situation, and no perfectly competitive market. Smaller tour operators compete against other comparatively sized companies, as the companies get smaller there are more of them, and therefore greater competition.

Those tour operators that concentrate on small specialist market segments, may not directly compete with other smaller tour operators concentrating on

different market segments. These companies could act as monopolists within particular market segments, however these segments are so small, it has very little effect on the total market.

#### 4.3.2 Travel Retailers

In the case of travel retailers, in the case of the economic model, there are a large number of sellers, not dominated by one company, therefore more competitive than the previous sector.

From the marketing view there are very few segments, in the retail sector, the requirement is to fulfil the consumers need which is the purchase of holidays, the need is satisfied by a large number of companies.

The large companies, controlling, small amounts of market share, are unable to affect the industry by their actions, a good example of this is price discounting, which some retailers have undertaken, but others did not. This resulted in a small increase in market shares but not as significantly as in the tour operating sector, which operates in a more imperfectly competitive market.

Customers get a very similar service, regardless of which outlet they go to. Technology has created a



situation, where one travel retailer can offer similar services to almost any other travel retailer. Services offered by the large travel retailers, such as specialist guides, could be counter balanced by the small retailers being able to provide a more personalised service.

The location of retailers is a very important factor, in main shopping areas there could be a large number of travel retailers, with very little to differentiate them by their facade and window displays, highlighting the degree of competition in this sector.

#### 4.4 THE IMPLICATIONS OF THE THEORY OF COMPETITION

By looking at competition in relation to the travel trade, a better understanding of the travel trade can be achieved. The industry can be broken down into smaller sections to predict future structural changes.

The examination of competition in the travel trade, has clearly shown the domination in the tour operating sector, which is not yet present to the same degree in the travel retail sector, by the "few" companies.

By examining the competitive nature of the industry, the reasons for integration and price competition is easier to understand. Integration in the tour

operating sector has taken place in order that companies can increase their appeal to different market segments. A company may have been lacking in a particular product range, and used integration to close the gap in their product portfolio.

Price competition took place to increase market share at the expense of the smaller tour operators. The oligopoly nature of the larger tour operators, indicate that price competition by the largest tour operator would have been followed by its large competitors.

However the more competitive nature of the smaller tour operators indicate that they are vulnerable from any unpredictable action by a company in the same industry.

In the travel retail sector integration has taken place more than in the tour operating sector. As was mentioned in the last section, location is a very important feature of the retail sector, in its nature of competition.

This sector operates in a more competitive market, the main differential between the companies is their location. Integration has increased location for the larger travel retail chains, enabling them to compete against the smaller independent, less represented, geographically, travel retailers.

The freedom to enter the travel market at the smaller end of the scale increased competition, in terms of very small tour operators and single outlet travel retailers. The larger tour operators being interested in market share either used integration or price policies to take out the medium sized companies. Combined with the freedom to enter and leave the industry, led to the oligopolistic nature of the top tour operators, and increasingly the top travel retailers, and the very competitive nature of the smaller tour operators and travel retailers.

For companies to enter at the medium or larger end of the industry vast financial resources and specialist knowledge would be required. As companies managed to grow gradually to medium sized they were either priced out of the market, or taken over by the large companies.

The implications of an oligopolistic tour operating sector is that the larger companies can dictate prices offered and product quality, and in that sense control the industry.

#### 4.5 CONCLUSION

Both the economic and the marketing models of competition have been looked at. These were combined to enable one model to be used to examine the travel industry. The characteristics of both imperfect and perfect competition were mentioned so that when an industry is looked at, certain characteristics can be identified, therefore enabling that industry to be put into its appropriate competitive model.

When the travel industry was examined it was shown that the tour operating sector exhibited the characteristics of imperfect competition, and the travel retail sector exhibits a more competitive atmosphere.

In actuality by looking at the models of competition, there is two competitive models in tour operating and travel retailing. The oligopoly model at the larger end of the scale and the more competitive model at the smaller end of the scale.

Once the competitive nature of the travel trade has been outlined, the reasons for the competitive use of price and integration was made clear, and has increased the domination of the industry.

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## CHAPTER 5

### PRICING POLICIES IN THE UK TRAVEL INDUSTRY.

#### 5.1 INTRODUCTION.

In Chapters 7 and 8, the fact that polarisation occurred in both the tour operator and travel retail sectors will be established. This happened as a consequence of the use of pricing policies in both sectors. This chapter concentrates on tour operators as they establish the prices for holidays.

#### 5.2 MARKET DEMAND.

Demand can be defined as a need for goods or services which may be influenced by price over a specified period of time. There are several factors that effect demand for holidays, some of which are the same for other products, but many are distinct for holidays/leisure travel. The prerequisites of demand can be divided into economic and social determinants.

Some factors increase overall demand and some will determine the exact type of product. Economic and social pressures will affect the total supply. Demographic and geographic influences will channel that demand into specific products.

#### 5.2.1. Economic Determinants.

Economic determinants are vital when looking at demand for products. These include aspects such as general income, disposable income and the national economic climate. Economic factors will be the basis of demand for any products, not only holidays. The first economic factor is domestic income levels.

Table 5.1 Trends in UK Household Income During The 1980's/1990's (£bn).

<u>1981</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
202.4	238.8	258.1	283.5	311.5	337.3	374.4	420.0

(Source: Social Trends, Vol 21, 1991)

Household incomes during the 1980's have increased very substantially, almost doubled. This factor will increase general demand in the economy, not just for holidays or leisure products, but for all consumer products and services, such as food, and other

essential consumer goods.

When looking at demand for products such as holidays, disposable income has to be looked at. Disposable income is the household income, mentioned previously, after essential expenditure has been deducted (costs such as food, accommodation, rates, electricity and gas).

Table 5.2 Trends in UK Disposable Income During The 1980's/1990's (£bn).

<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
191.5	205.6	220.5	237.2	255.6	272.3	303.8	318.5	357.1

Note: Figures are for income at current prices.

(Source; Mintel, April 1988, Travel Agents.)

Disposable income has increased throughout the 1980's which could have had a major influence on the purchase of products such as holidays. The number of people taking holidays also increased during the 1980's.

During the 1980's, the percentage of spending on recreation has increased from 13.4% in 1981, 16% in 1986 and decreased to 15.6% in 1989; still an increase of just over 2% since 1981. Of this total, £3.08 per week was spent on holidays in 1981, rising to £5.39 in 1986 and £7.76 in 1989. This means that in 1981 a total of 18% of the total household income was spent on



holidays, by 1989 this had reached 22%, a 4% increase.

From 1976 to 1989 household expenditure on holidays abroad rose by 230% clearly indicating the increase in the popularity of foreign holidays.

The second factor influencing demand for products and services is the national economy. During the 1980's the national economy has undergone peaks and troughs, from very high interest and inflation rates to low interest and inflation rates, ending the 1980's with the former. The effect of interest rates on the demand for holidays is that an increase in inflation and interest rates reduces the amount of disposable income. This in turn could reduce the demand for inessential goods and services, which may include holidays. During the mid 1980's there was an increase in demand for holidays and in the late 1980's this demand reduced, as high interest rates reduced available income for holidays, although as the Travel Trade Gazette <sup>1</sup> pointed out:

"As budgets are stretched by soaring mortgage interest costs and rising prices, the family holiday is still one of the best bargains."

Intasun Holidays in 1989 calculated that in the past ten years the real cost of a week in the sun had dropped by nearly half. As an example, a 1978 two-week holiday to Greece costing £193 should in real terms now

cost £441 based on government figures of a compounded inflation rate. The brochure price was only £325, a reduction of 37%, or £116, over 1978.

An article in the Travel Trade Gazette <sup>2</sup> says that because of the competitive pricing from operators and discounting from retailers, a situation where prices in the travel trade have not risen over the years as other products have.

#### 5.2.2. Social/Cultural Determinants.

Apart from economic pressures, the second major category of demand factors is social. Social determinants are one factor that may affect demand for products and services. The aspects that could be included in this section are working hours, paid holidays, employment trends, social pressures, habit purchasing, product experience and fashions.

During the 1980's there has been an increase in paid holidays. In 1981, 66% of the working population had four to five weeks, by 1989, 91% of the working population had more than four weeks paid holiday, 27% having over five weeks. This increase in paid holidays raises the demand for leisure products, amongst which are holidays.

Despite a high unemployment rate, peaking at 11% in the mid 1980's, the workforce has been expanded by the numbers of women going to work. Many household incomes have been increased as a result.

Social pressures add to the demand for holidays with products such as holidays very much social events. Friends invite each other to go on holiday, and group holidays become more usual. People who have become used to going on holiday begin to budget for their annual holiday. Purchasing holidays during the 1980's has changed from being a luxury to being a habit, many people now expecting to be able to take an annual holiday abroad. In 1989, Mintel <sup>3</sup> stated that a holiday in the sun has become a mass market product like a television set or a washing machine.

Experience of a product can lead to demand for other improved versions of the product. Mintel in 1989 stated that holidays are positional goods like motor cars, enjoyment of them diminishes as the market increases. Seasoned holidaymakers forsake Majorca for countries such as Greece, or Greece for Turkey. This provides the demand in the market for other destinations, and it is possible that the market for different positional goods would bear a higher price, in accordance with the current fashion in holiday locations.

### 5.2.3 Demographical Determinants.

Demography is a way of dividing up the population by characteristics, which could influence demand for holidays. Such factors include household size and composition, age and education. During the 1980's smaller households have emerged with fewer children. There is also a greater proportion of married women in work, both full and part time. The population is also getting older, with fewer and fewer young children, a fall by over 2 million between 1971 and 1991.

In the 1980's there has also been an increase in divorce rates, which has created a large number of single parent households. This, together with the above changes, has a major impact on demand. The increasing number of people over the age of 55 who are in the retirement age has been identified as a major future population trend. By the year 2000, 25% of the population in Western Europe will be over 55 years old.

These demographic factors are clearly going to influence the type of holiday product that is purchased. The demand for such products as youth holidays, single parent holidays and holidays for the older population is increasing.

#### 5.2.4 Geographic Determinants.

For individuals living in northern climates such as the UK, the weather is a major determinant of holiday taking. Countries, such as Spain and other Mediterranean countries, offer the closest sunshine, thus having the highest demand.

#### 5.2.5 Media Communications.

Television watching is a major pastime in the UK, with the average adult watching around nineteen hours per week. There are constant advertisements by holiday companies, films based in foreign countries, news broadcasts for abroad, television travel shows and many other programmes giving images of places outside the normal place of residence. Certainly television, in tandem with newspapers, magazines and radio create awareness, desires and dreams of foreign and exotic places, which in turn must increase demand for the holiday product.

As well as the economy and social factors, price also affects demand for holidays. Price will be looked at for the rest of this chapter; the determination of the prices of package holidays, pricing strategies and how tour operators have used price for strategic objectives.

### 5.3 DETERMINING PRICES OF PACKAGE HOLIDAYS.

In order to look at price as a factor of demand, it must be established how prices for package holidays are decided. The pricing of holidays is a very complicated business as the negotiations with principals and brochure prices, are set far in advance of the client's purchase of the holiday, eighteen months or more, as shown in appendix 5.1.

Some of the main problems resulting for tour operators include fuel price and currency exchange rate fluctuations. The prices for holidays are then subject to last minute surcharges, passed on to the clients. This has been referred to the Office of Fair Trading, but the Director General of Fair Trading is still monitoring the situation. ABTA has tried to alter the situation and as a result many of the largest tour operators offer 'no surcharge' guarantees.

As a package holiday is made up of several components, the pricing of the package is very complex. The air transport component causes the most complaints. The fact that some airports are more expensive than others to operate from means that this extra cost is passed on to the consumer.

The pricing structure of package holidays is examined

below. The first example will look at charter airlines and the second will look at scheduled airlines. Although most inclusive tours use charter aircraft, many long haul tour operators such as Kuoni use scheduled aircraft because demand is much less for long haul and there is no necessity to charter a whole aircraft. Tour operators will, in the case of scheduled aircraft, buy blocks of seats from the airline.

Table 5.3 Cost Structure of a Typical Charter Inclusive Tour (ITC) 1980's.

	%
Charter air fare	40
Hotel Accommodation	35
Other Services	3
Office Costs & Profit	12
Travel Agents Commission	10
	---
Total	100
	---

(Source: Holloway, The Business of Tourism)

Costs can be cut on the charter air fare as large operators with their own airlines buy their fuel in advance and hotel accommodation can be reduced by contract buying in bulk. Tour operators in the 1980's also cut into their profit margins to reduce prices and

they have the power to negotiate favourable exchange rates. This gives the scope for larger operators to cut their prices much more than smaller tour operators can. The travel agents commission shown above at 10% can be increased to larger multiple retailers, to encourage them to aggressively sell the products of the large tour operators, earning the retailers more revenue. In the case of smaller operators, however, it is more difficult as they do not have the negotiating power with principals.

Table 5.4 Cost Structure of a Typical Scheduled Inclusive Tour (ITX) 1980's.

	<u>Low</u>	<u>Shoulder</u>	<u>High</u>
	<u>Season</u>	<u>Season</u>	<u>Season</u>
Scheduled Air Fare	67	62	55
Hotel Accommodation	21	19	17
Other Services	1	1	1
Office Costs & Profit	1	8	17
Travel Agents Commission	10	10	10
	---	---	---
Total	100	100	100
	---	---	---

(Source: Trade)

It is clear that as a proportion of the total, the air fare is much higher for an ITX than in the case of charter fares, appendix 5.2 shows examples of ITC and



ITX pricing. The flight costs are higher as scheduled aircraft seats are fixed in price and do not vary according to how many people travel on the aircraft, as opposed to the case of charter aircraft which are based on carrying over 90% of capacity.

The large tour operators control their own charter airlines but not long haul scheduled aircraft. This has the result that in the case of ITX's, larger tour operators do not have as much flexibility on pricing as they do on short haul charter inclusive tours. The demand for long haul inclusive tours however is very small.

The next section details the trend in the average costs of a holiday abroad during the 1980's. This is done by examining how the price wars during the 1980's have affected the prices of holidays. Looking at these prices and spending on holidays it gives some idea as to why tour operators make such low profits.

Table 5.5 Average Total Spend Per Person on Holidays Abroad 1980's.

<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
£201	£322	£287	£327	£337	£351	£381	£376	£419	£480

(Source: British National Travel Survey)

The average total spend per person on holidays abroad

has increased nearly every year. During the operator price wars, however, the average cost of a holiday only rose by £24 in three years 1983 to 1985. The cost actually dropped in 1987, but rose steadily in 1988 and 1989, possibly due to an increase in more expensive holidays and/or the total number of people going on holiday.

Table 5.6 Average Total Spend Per Person on UK Holidays 1980's.

<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
£ 67	£ 75	£ 78	£ 80	£ 88	£ 95	£ 98	£109	£112	£122

(Source: British National Travel Survey)

The dominant factor when a price is determined is the corporate strategy and the positioning of the product. These would include decisions such as maximisation of market share, good return of investment, and strategies for growth of the company. These decisions set the context for the marketing operations over a period of several years. This effectively sets the upper and lower limits within which the prices are likely to fluctuate.

Marketing objectives also influence the price for products as do operational decisions based on particular consumer targets for sales volume and revenue. Price is a very important part of the

marketing mix, which can be adjusted to meet short term objectives for each product/market segment. Therefore, the objectives of particular marketing campaigns will be a crucial input to the price decisions.

The market segments, that the tour operators aim at, would normally influence the pricing decision. The pricing decision has to be realistic, in the context of the expectations and perceptions of chosen market segments, which should take into account their ability and willingness to pay. Research and knowledge of each segment should yield what price level each will bear, and to what extent price signifies value for money and product quality. A younger market could enable tour operators to set a higher price as this segment has more disposable income.

Another influence of the pricing decision will be the operating costs of a company. In order for a company to survive the average prices charged must be high enough to generate sufficient revenue to cover both fixed and variable costs, and an acceptable return of investment. The operating costs broken down into average costs per customer is, therefore, a vital input to the pricing decision. In the case of tour operators costs per customer include brochure, booking costs, hotel room, meals and air fare.

Competitors' actions are an important feature in the pricing decisions of companies. It is at the tactical level that price competition becomes the dominant influence of price decisions. A good example of this is when, in 1985, brochure prices rose by approximately 15% to destinations abroad the result was many thousands of seats were unsold. In order to combat this, massive late price cutting between competitors took place. The International Leisure Group and other tour operators let competitors' actions have a major influence their own pricing decisions during the 1980's. Some examples of this influence of pricing are looked at later.

If a product has a close substitute and there is surplus capacity, the price is likely to be a dominant influence in marketing tactics. In tour operating there are a number of close substitutes, and there has most certainly been a surplus of supply during the 1980's. This, together with the fact that there is a need to supply daily patterns of customer purchase, increases the level of marketing dependency of pricing tactics. The wide choice and availability of package holidays is a major reason why the products are highly price elastic. A small move in price could dramatically affect demand for the product.

There are, however, other ways in which it is possible

to limit the intensity of price competition, by removing the choice factor of travel products, by introducing attributes to make the product unique. The different attributes would be determined by the particular market segment, such as the youth or ski market segments. This would include such features as adding value for money to the products. Tour operators could offer free child places, free rail travel to the airport, free ski equipment hire, no single supplements, no surcharge guarantee or other features. This would result in customers choosing a product according to its attributes, rather than because of its possible low price. This is known as the product augmentation, the difference between the contractual essentials, and the totality of all the benefits and services offered.

The actual price of the product mentioned earlier, added to the above decisions on what price to charge the customer, would normally result in the final package holiday price. The holiday product, it must be remembered, is perishable; that is, if it is not sold by a particular date, it is gone forever. This has a critical influence on the price.

The pricing strategies used in the travel industry by the tour operators are highlighted next, and should bring all the above factors together.

#### 5.4 PRICING STRATEGIES.

Overall holiday prices are determined by the costs of the different components of the tour. The prices are then altered to achieve the objectives of the tour operators, which have been looked at in terms of an increase in market shares.

The pricing strategies that have been used in the travel trade are penetration pricing, flexible pricing and competitive pricing. These methods are used in the travel industry as weapons in the battle for market share.

##### 5.4.1. Market Penetration.

Market penetration pricing involves setting a price below that in existence in the present market with a view to gaining market share. In general, the use of this method means that the companies may hope to raise prices in the future, maintaining the high proportion of market share that has built up. Penetration pricing is sometimes called the market-minus approach, and is based upon the premise that a lower than market price will attract buyers and convert potential customers to at least the brand recognition stage.

The main advantage to the tour operator of this type of

pricing is that it discourages competition, since the prevailing low price does not suggest attractive financial returns. Penetration pricing is normally used where the demand for the product is highly elastic, where large numbers of customers are price sensitive.

Since the mid 1980's Thomson Travel has used penetration pricing with a view to building up its market share, especially in the short haul market.

Penetration pricing was introduced in order to expand the whole market, with an additional aim of increasing the company's market share. In 1984 Thomsons reduced their package holiday brochure prices by 2% on average. However, this average reduction is very misleading in that some destinations such as Spain, were reduced to nominal prices. Horizon reduced their brochure prices by 6% and Thomas cook by 4%, with Intasun giving the largest discounts with an average of 7% of their brochure prices. It is shown that the biggest discounts were given on the self-catering holidays and the smallest on the package holiday brochure prices.

Table 5.7 Reductions in Prices on Summer Packages,  
1984.

	<u>Type of Holiday</u>	<u>Average % Reduction as at November 1984</u>
Thomson	Package	2
Thomson	Self-Catering	6
Horizon	All Holidays	6
Thomas Cook	Package	4
Thomas Cook	Self-Catering	7
Intasun	All Holidays	7
Enterprise	All Holidays	6
Global	Package	4
Global	Self Catering	7
Blue Sky	Package	3

(Source: Key Note, Travel Agents and Overseas Tour Operators 1985)

In 1985 brochure prices rose by 15% as a result of increased costs of hotels and poor exchange rates. In 1986 Thomson Travel reduced its brochure prices by 15% and significantly increased its capacity. The reduction in 1986 was due to favourable exchange rates, falling oil prices and lower hotel prices. Thomson again engaged in penetration pricing, in 1986, to increase its market share.



#### 5.4.2. Competitive Pricing.

This pricing strategy is where penetration pricing is used by one company to maximise its market share. In response to this close competitors may follow with very low prices in order to try to protect their own market share. This method was used by the International Leisure Group to try to maintain its position in relation to the market leader. The market leaders competitors will follow its lead in pricing. In the 1980's this was a downward movement.

Examples of competitive pricing have been shown; Thomson Travel leading the way and all the other large tour operators following.

#### 5.4.3 Flexible Pricing.

Flexible pricing takes into consideration market demand and can enable price discrimination in terms of time, place and volume. Pricing of holidays should be based on the maximum the market will bear. However, it is not always easy to determine what this price level is; it is only possible by segmenting the market and producing different prices for the different segments. These segments are based on the willingness and ability to pay.

Price discrimination by time is used where there are peaks and troughs in demand. In the case of tour operators they offer cheaper holidays during trough periods.

Table 5.8 Quarterly Breakdown of Inclusive Tours Abroad  
1980's (000's).

	<u>Jan/March</u>	<u>Apr/June</u>	<u>July/Sept</u>	<u>Oct/Dec</u>	<u>Total</u>
1980	763	1,779	2,590	1,124	6,256
1981	851	1,896	2,941	1,148	6,836
1982	889	2,261	3,338	1,272	7,760
1983	894	2,220	3,605	1,298	8,017
1984	1,079	2,607	3,900	1,492	9,078
1985	1,161	2,374	3,501	1,482	8,518
1986	1,306	2,838	4,719	1,798	10,661
1987	1,439	3,527	5,198	1,816	11,980
1988	1,681	3,428	5,282	2,204	12,595
1989	1,900	3,349	5,320	1,964	12,533

(Source: Department of Trade & Industry).

Retailers discount holidays generally at times when bookings are low, for example, between Christmas and New Year. There has been a tendency for people to book later and later, looking for very cheap holidays from the tour operators. Therefore retailers also discount to stimulate early booking of holidays.

These "trough" periods, could be revitalised by retailers giving discounts or tour operators reducing prices, to maximise the use of staff and technology during these periods. This point is illustrated clearly by a 1989 report in <sup>4</sup> which stated:

"Thomson Holidays has followed its huge capacity cuts by slashing up to £100 off more than 100,000 holidays. The offer applies to bookings made before the end of March 1989 on specified holidays in the Summer Sun, Villas and Apartments and Simply Greece brochures. The move was intended to stimulate the market where Thomson had problems in flying capacity. The discounting is a reflection of Thomson's free child places in May & June 1989, which left them with an uneven sales pattern."

The example above is clearly an attempt to stimulate the market into booking early. Late booking leaves tour operators with major problems in planning. If they have no idea of late booking figures they could be left with large numbers of unsold holidays. By trying to attract earlier booking, they may be able to calculate the possible demand for the product, enabling them to reduce their availability, by cancelling airline seats and hotel beds, so that they do not get left with unsold holidays.

In 1990, many tour operators cancelled their air seat reservations early in the year, and, as a result, there were very few late bargains. Most people looking for a

late bargain had to go to destinations other than planned, and at the full brochure price or near it. The reduction in the last minute holidays is aimed at leading to an early booking market to ensure that people get the holiday and resort/hotel that they want.

Discrimination by product is another flexible pricing method used in the travel industry. This can be used where a tour operator may have several products, broken down into different market segments. Some products will be priced higher than others as the company feels some market segments will bear a higher price. This can include the long haul destinations to places such as the Pacific, North America, Australia and New Zealand. Short haul could be charged cheaper. Market segments to short haul destination such as Spain are unlikely to bear high prices. Another example of this is that youth holidays are more price sensitive than other types of holidays.

Intasun had launched a new Quality Selection programme for summer 1989 offering hand-picked hotels and apartments throughout the Mediterranean. The prices started at £207 for seven nights' half board in Malta. It can be argued that in this case Intasun launched a completely new programme aimed at a particular segment of the market, which was looking for quality at a certain price. This is discrimination pricing by

product category, or segmentation.

The final flexible pricing method is discrimination by volume, where companies offer quantity discounts. The more people who book a holiday, such as a large party, the larger the discount. This approach is used especially on youth holidays. Some tour operators offer free travel insurance, free ski lessons, cheap rail fares to the airport of departure with certain holidays, all with an aim of increasing the volume. Examples are shown in the Travel Trade Gazette <sup>5</sup> in April 1989:

"Thomson Holidays has unveiled a new initiative alongside its Square Deal offers in a bid to shift summer capacity. The operator's new Price breakers brochure offers 100,000 holidays from its main Summer Sun brochure with savings of at least £20 on most deals. Resorts include Majorca, Ibiza, Costa Brava, Tenerife, Yugoslavia, Rhodes, Corfu and the Algarve. Holidaymakers in Majorca, Menorca and Almeria also get three days' free car hire. Price breakers clients are offered groups of selected accommodation from which to choose before booking."

From this it is clear that Thomson Travel at that time believed that it would be left with a large number of unsold holidays in the summer of 1989.

Volume discrimination is also apparent in the late booking market in the case where sales have not reached budgeted levels, then the prices have to be reduced

substantially at the last minute to sell remaining products. Tour operators when faced with a product that cannot be sold in the future, have to sell at below cost price, normally only covering the variable costs, with a possible contribution to fixed costs.

Table 5.9 The Trend in Late Booking of Summer Holidays, 1980's (%).

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
<u>Booked By:</u>				
January	58	48	42	34.5
March	72	70	63	60.0
June	92	88	81	78.5
August	98	96	93	91.5

(Source: Key Note, Travel Agents and Overseas Tour Operators 1985)

In April 1984 some 3.5 million of an available 8 million package holidays remained unsold. This accounted for 44% of the total volume.

In April 1989 only 20% of people had booked a summer holiday, an ABTA survey <sup>2</sup> revealed. The survey found on a second survey a month later that only 58% had booked, which showed that 42% were waiting for discounts, highlighting the level of the late booking market in 1989.

In 1990 Thomson Travel introduced a programme called "Hot Favourites" and "Pick-N-Choose" by the International Leisure Group, both of which were aimed at the late booking market. These programmes were introduced to sell remaining holidays from a variety of other brochures. In order to make them more presentable they were amalgamated into one programme.

Some tour operators undertake flexible pricing when particular destinations do not attract budgeted volume. In April 1988 a report <sup>6</sup> stated:

"The discount war intensified this week as Horizon slashed the prices of 50,000 holidays. Reductions of up to £160 have been made on holidays to Majorca, Ibiza, the Algarve, Spain and Corfu. With the final choice of apartment left to Horizon up to £40 savings per person are offered on self-catering holidays in Cala d'Or or Cala Bona/Millor. Children's prices are cut by 50%."

Horizon's bookings to Spanish resorts and Corfu did not reach budgeted levels, therefore to stimulate bookings, the company reduced prices.

Another method on the same theme is to issue second editions of brochures or regional issues. This enables a company to issue a later brochure with lower prices in order to increase market share if volume is lower than was budgeted for.

In late 1988, Intasun launched the second editions of its Summer 1989 and 'Greece Plain and Simple' programme with £5 million of price reductions. At the same time, the firm's Intasun Skyworld flight only operation cut thousands of prices in its summer 1989 programme. This demonstrates that Intasun's Greek product was not up to their budgeted expectations, possibly because people were booking late. In order to stimulate the market they issued a second edition of the brochure with price reductions.

#### 5.4.4. Skim Pricing.

Skim pricing, charging above normal rates, can be applied to a very differentiated product such as specialist types of holidays or destinations, where premium prices may be charged. This type of pricing can be applied to the specialist tour operators. It can only be applied to a demand that is very strong. In order for skim pricing to work, there has to be very little competition or close substitutes which is often in the case of the smaller tour operators.

#### 5.5 PRICING USED AS A COMPETITIVE WEAPON.

Pricing is one component of the marketing mix used in business, which also includes the product, distribution, public relations and promotion.



The different methods of distribution of the travel product are shown in Chapter 2 in the structure of the industry. The tour operators products are examined in Chapter 7; travel retailers do not have their own products. In the holiday trade substitution can be a problem for companies as many tour operators offer the same type of products. The main aspect of the marketing mix, therefore, that can affect competition and market share in the travel industry is price.

According to Middleton (1988), price can have two roles, strategic and tactical. In the travel industry both these have been used extensively.

The strategic role is where a company's objectives could be market share maximisation and growth in the company's product segments. This has been used by the major tour operators in the UK.

A tactical role can manipulate marginal demand, which could be general or concentrated on particular market segments. Tactical pricing can be used to match competitors' prices and to provide a short-term tool for crisis management.

A Key Note report <sup>7</sup> in 1985 stated that price reductions were aimed at increasing the volume of the market, which in 1983 did not increase as was expected

in 1982. It stated that tour operators were worried about declining profits due to a lower increase in the market than was expected and, as a result, all of the major tour operators lowered their prices for 1984 in a battle for increased market share.

Thomson's first 1984 brochure showed a real fall (8%) in prices. Intasun timed its launch so that they could respond to Thomson's stance and came in with a real fall in prices of 9%, backed by a 30% increase in capacity, whilst Thomson's capacity increased by a more modest 10%. Horizon, which lost market share in 1983 as a result of a refusal to cut prices, came in with a 6% real price cut. The second, re-launched brochures show Thomson trimming a further 2%, and Horizon also a further 2% off the first brochure prices. The tactical role of prices is illustrated in the re-launched brochures, where prices were reduced to compete with competitors.

It is clear that there were two strategies in price reductions in 1984, the increase of the total market volume and an increase in the market share for the major tour operators.

Tour operators have used price and supply in order to manipulate the volume of demand. A reduction in price, together with a massive increase in supply, has

increased the total demand for the products at a lower price. Instead of using one variable they used two, increasing market shares for the major tour operators, which must indicate that the strategy has worked, at least in the short term.

Another example of price being used strategically was in 1985 when Spanish hoteliers increased tariffs which Thomson Travel passed on to customers. This led to a drop in demand. Thomson Travel cut prices in a 'limited availability low price offer' to increase demand.

In 1986, due to favourable exchange rates, a drop in fuel prices and a decrease in hotel rates, Thomson Travel lowered its brochure price by 15% and dramatically increased its capacity.

These pricing policies continued throughout the 1980's up to 1990, the results being an increase in the overall market and in the market shares, certainly for the top two tour operators in the UK.

Smaller tour operators offer a more specialised product. This means that they are not at risk of losing market share to the larger tour operators as they do not offer the same products and are, therefore, able to maintain their level of prices.

Mintel <sup>8</sup> in 1987 stated that the smaller operators in the mass market areas will be squeezed in the price wars, while the smaller operator who has specialist products still has plenty of scope. Specialist holidays will continue to flourish and that means the sector is less price sensitive. A Key Note report <sup>9</sup> in 1987 suggested that smaller and more specialised tour operators are more likely to be recommended to friends or used again.

From Chapter 7 it is also clear that many of these specialist or small tour operators do not get shelf space on retailers shelves and therefore sell, in most cases, direct. As a result of this, these tour operators do not compete directly with the large tour operators, and are less affected by price wars between mass market tour operators for market share.

The characteristic of the tour operating sector is that it has become concentrated or polarised into a few giant companies and a large number of very small companies. The holiday product is very elastic, as small price changes alter demand considerably.

In the case of travel retailers, however, the effect of pricing is more difficult to assess, as they do not have products to sell and therefore cannot lower these prices. Since 1986 they have been able to discount on

holiday prices. This means that travel retailers can sell package holidays at cheaper than brochure price, but must pay the tour operators the brochure price. This has the result that the discounts offered directly reduce the profits of the retailers.

An aim to increase market shares by the retailers is a strategic objective. Tactical pricing can be used if some of a retailer's shops are trading below budgeted targets. Those shops then can be a focus of extra discounting to increase their sales. The discounting by travel retailers is a very clear example of sacrificing profits for market share, in the same way as tour operators.

Retailers have to pay the tour operators the brochure prices of the holidays, less their commission, but if customers pay less than the brochure prices, then the discount comes off the commission and therefore off the profits.

Only large travel retailers who wish to increase their market share, discount, as a large volume is required. The only way in which a retailer can survive on reduced profits is by increasing volume. Pricing policies by tour operators during the 1980's have some potential economic hazards. Products, as mentioned earlier, are placed on the market for the maximum price that the

market will purchase the product at. Before 1984 this was happening to holidays, with demand increasing as incomes rose. However, the travel companies, not satisfied with the degree of increase created a rise in demand by using pricing strategies.

The public are now used to purchasing mass market holidays that are easily affordable. If the mass market product is raised in price, then more expensive products would have to be increased in proportion, to maintain the perception of value for money. This could mean some of the products on the peripheral of the mass market would be perceived to be too expensive.

The 1980's price reductions and market share domination of the top companies has been a very short term view, and a return to profitability and price increases could be very difficult for tour operators to achieve. One way in which this may happen, is for the largest tour operators to take a lead and offer the perception of a better quality product, in return increasing prices.

## 5.6 CONCLUSION.

The large tour operators lowered their prices with a view to increasing market share and increasing the total volume of the market.

The pricing policies led to a reduction in profits and in the case of some companies, resulted in losses and company collapses. This created polarisation causing the medium sized operators to go bankrupt as they tried to compete and the smaller operators managing to survive by not competing on price.

In the future it is likely that there may be an increase in prices as companies try to return to profit. This increase in price is expected to be combined with better quality, so as to maintain the perception of "value for money" for the consumer.

The size of the market will most probably stabilise as tour operators try to consolidate their market shares. This could reduce the late booking market as major tour operators could concentrate on contracting fewer airline seats and hotel beds, in the stabilisation effort.

During the 1980's, price reductions and low profits, discouraged many large non-travel companies, from entering the travel market. During the 1990's, with increased prices and presumably an increase in profitability, more large non-travel companies could be attracted into the travel market, in direct competition with the larger tour operators.

Appendix 5.1 Typical Time Scale for a Tour  
Operator Programme

YEAR 1	Summer	RESEARCH/ PLANNING	First stages of research. Look at economic factors influencing the future development of package tours. Identify likely selection of destinations.
	September/ December		Second stages of research. In-depth comparison of alternative destinations.
YEAR 2	January/ February	NEGOTIATION	Decide on capacity for each tour, duration and departure dates. Initial negotiation with printer, including dates for printing brochure.
	February/ March		Negotiate with the airlines for charter flights.
	March/April		Negotiate with hotels, transfer services, optional excursion operators. Early artwork and text under development at design studio, with layout suggestions.
	April/May	ADMINISTRATION	Establish hotel prices and arrange for contract with hotels and airlines. Contract with transfer services, etc.
	July		Determine exchange rates. Estimate selling prices based on inflation, etc. Galley proofs from printer. Any necessary reservations staff recruited and trained.
	August		Final tour prices to printer. Brochures printed and reservations system established.
	September/ October	MARKETING	Brochure on market, distribution to agents. Initial agency sales promotion, including launch. First public media advertising, and trade publicity through press, etc.
YEAR 3	January/ March		Peak advertising and promotion to trade and public.
	February/ April		Recruitment and training of resort representatives, etc.
	May		First tour departures.

(Source: Holloway, The Business of Tourism)



## Appendix 5.2 Examples of Pricing for an

### ITC and ITX

#### Cost-orientated tour operation pricing (time-series charter)

This first example is based on a series of short-haul charters to a destination such as Spain.

Flight costs, based on 30 departures (back to back) on Boeing 737 130-seat @ £7,020 per flight	£210,600
Plus one "empty leg" each way at beginning and end of the season	<u>7,020</u>
Total flight costs	217,620
Cost per flight	<u>7,254</u>
Cost per seat at 90% occupancy (i.e. £7,254 ÷ 117)	£62.00
Net hotel cost per person, 7 nights half board	42.00
Resort agent's handling fees and transfers per person	6.60
Gratuities, portorage, etc.	<u>0.40</u>
Total costs per person	111.00
Add mark-up of approx. 20% on cost price to cover agency commission, marketing costs (including brochure, ticket wallet, etc.), head office administrative costs and profits	<u>23.00</u>
Selling price	<u><u>£134.00</u></u>

#### Cost-orientated tour operation pricing (specialist ITX scheduled programme)

The second example is of a specialist long-haul tour-operating programme using the services of scheduled carriers to Hong Kong.

Flight cost, based on net group air fare per person, London-Hong Kong, using scheduled flights	£340.00
Twin-bed room in medium-grade hotel HK\$300 per night	
Price per person, 7 nights, using currency exchange rate of HK\$10 = £1	105.00
Transfers @ £2.50 per person each way	<u>5.00</u>
	450.00
Add mark-up to cover agent's commission	<u>50.00</u>
	<u><u>£500.00</u></u>

Selling prices:	
"Lead price" (offered on 2-3 flights off-season)	£510.00
Shoulder season price	£550.00
High season price (high summer, Christmas or Easter holidays)	£620.00

(Source: Holloway, The Business of Tourism)

## NOTES

- 1 Travel Trade Gazette, January, 1989.
- 2 Travel Trade Gazette, April 6th, 1989.
- 3 Mintel, 1989, The Tour Operator Business.
- 4 Travel Trade Gazette, March 9th, 1989, P1.
- 5 Travel Trade Gazette, April 13th, 1989.
- 6 Travel Trade Gazette, April 21st, 1988.
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## CHAPTER 6

### INTEGRATION IN THE UK TRAVEL TRADE.

#### 6.1 INTRODUCTION.

The subject of this chapter is how companies grow through integration, which is one of the reasons why the industry has become polarised in both the retailer and the operator sectors. Price was one of the causes of polarisation; the second is integration.

Companies grow in order to achieve economies of scale, to obtain a greater share of the market, to obtain greater market power and the wish to achieve greater security by extending the range of products and markets. This growth can be established by internal growth, where a firm increases its size by making more of its existing products or by extending its product range, or by amalgamation, merger or takeover.

#### 6.2 INTEGRATION.

When a company grows through a merger or amalgamation it is normally referred to as integration. It is possible for a company to amalgamate with one or more existing companies to form an entirely new enterprise.

One firm may takeover another, in which case the firm taken over will normally lose its identity completely. It is possible for the amalgamation to be carried out by forming an entirely new company for the sole purpose of acquiring the assets of a number of separate companies, and this company is then termed a holding company.

Integration may take two forms, vertical and horizontal. In the case of vertical integration, this can be subdivided into forward and backward.

### 6.3 VERTICAL INTEGRATION.

Vertical integration is where a merger takes place between firms engaged in different stages of the productive process. In the case of tour operators, it would involve taking over travel agents, hotels and airlines.

#### 6.3.1. Forward Vertical Integration.

Forward integration is a merger with a company which is nearer the market outlets than the purchasing company. In the case of tour operators, this would include purchasing hotels or travel agents. In the case of travel agents, forward integration cannot take place and in the case of airlines this forward integration

would take place if they purchased tour operators or travel agents. Forward integration has the aim of controlling the quality and quantity of products and service to the consumer and the desire to secure an adequate number of market outlets.

Since the tour operators and airlines provide the holidays and undertake most of the promotion, it is only natural that they would be concerned that their products reach the public in a form and in an environment which supports the expectations that they have created with their promotion. Some companies may be forced to takeover in a forward integration move in order to counter threats, and react to the prospect of being squeezed out of the market.

Table 6.1 Forward Vertical Integration by Travel

Companies in the 1980's.

<u>Company</u>	<u>Company Owned</u>
Thomson Travel	Lunn Poly Travel Agents
Falcon Leisure Group	Owners Abroad Travel Retailers
British Airways	British Airways Tour Operators

(Source: Trade Press)

During the 1980's there were more examples of forward integration with British Airways owning Four Corners travel retailers and Horizon owning Horizon Travel

Centres. British Airways sold Four Corners in 1990 and Horizon was taken over by Thomson Travel in 1988. In the case of British Airways, forward integration for the airline is into tour operation.

### 6.3.2. Backward Vertical Integration.

Backward integration is where the acquisition of a company takes the purchasing company towards the source of supply. This enables a firm to exercise a much greater control over the quantity and quality of its supplies. Another motive could be for a company to want to absorb the intermediate profit margins.

In the case of the travel industry, backward integration would be travel agents purchasing tour operators, or as is more likely tour operators purchasing airlines or hotels, examples of backward vertical integration are shown at appendix 6.1.

The major interest of tour operators is in charter airlines, with all the top tour operators owning their own airline. At present only one tour operator owns a retail chain, which indicates that operators are quite satisfied with the distribution network of their products.



#### 6.4 HORIZONTAL INTEGRATION.

Horizontal integration is where the company takes over another company at the same stage of production; a tour operator taking over another tour operator, for example. The objective behind horizontal integration is market domination by reducing competition.

As far as horizontal integration is concerned, this was the major method of growth in the UK travel industry during the 1980's, in both the retail and the operator sectors.

Some firms integrate horizontally in order to carry out rationalisation of their own products. If there are firms making similar commodities and each firm is only working at two-thirds capacity, a merger will enable the new company to close down the least efficient sections and operate the remaining sections at full capacity. A classic case was the Sunmed merger with British Airways to create the tour operator Redwing, which was then rationalised, and later taken over by the Falcon Leisure Group in 1990.

The main criticism of the horizontal integration of companies is based on the creation of a monopolistic situation, where the number of companies is reduced. The most widely used indicator of monopoly power is

market share. The Fair Trading Act 1973, defined a monopoly as a company controlling 25% of the market share. The market share test is probably the easiest to establish.

A company with 25% of the total market may have great market power, where the rest of the market is shared by small firms but it may face keen competition where the rest of the market is supplied by four or five firms of almost equal size, which is a similar situation to the UK tour operating sector.

Another test of a monopoly power is the level of profits. It is usually assumed that the existence of profit levels substantially above those being earned in similar industries, or the industry generally, is evidence of a monopoly. Such profits may, however, be due to greater efficiency compared to its competitors.

The Thomson Travel's takeover of Horizon Travel was referred to the Monopolies Commission <sup>1</sup> in January 1989. This was many months after the takeover which was on the 18th August 1988. The takeover meant that Thomson Travel had more than 28% of the market share. The Monopolies Commission found no reason to object to the takeover, as there was still keen competition from the other top tour operators.

#### 6.4.1 Horizontal Integration by Airlines.

There have been very few cases of horizontal integration in the case of airlines.

Table 6.2 Horizontal Integration by Airlines in the 1980's.

<u>Company</u>	<u>Company Owned</u>	<u>Date</u>
British Airways	British Caledonian	1987
Britannia Airways	Orion Airways	1988

Note: Britannia purchased due to the take over of Horizon by Thomson Travel.

(Source: Trade Press)

The only scheduled airline to be involved in this situation is British Airways.

#### 6.4.2. Horizontal Integration by Tour Operators.

Examples of horizontal integration by the major tour operators are shown at appendix 6.2.

Some takeovers are solely to gain market share, as the Falcon Leisure Group takeover of Redwing demonstrates. Others can be for different reasons, such as the purchasing of a brand name; Falcon bought the goodwill and name of Twelve Islands in September 1990.

Vertical and horizontal integration are common practice, the examples represent some of the takeovers by the large companies. Appendix 6.3 shows the snowball effect of taking over companies that have taken over other companies themselves.

#### 6.4.3. Horizontal Integration by Travel Retailers.

Although, in some cases, companies take over large chains, they do not always grow by a numerical addition of the two companies, as they close some of the units shortly after taking them over. Following Badger Travel's takeover of National Travelworld, they closed many branches. When Badger Travel was subsequently taken over by Co-op Travelcare the number of branches was much lower.

Horizontal integration, shown at appendix 6.4, illustrates that smaller chains and independent agencies get picked up and absorbed as the large multiples grow.

There are benefits to be gained from operating a large number of outlets; competition is reduced, operating efficiencies are improved through economies of scale and the growth of nationally recognised chains can lead to greater awareness from consumers to the existence of the company.

## 6.5 INHERITANCE INTEGRATION.

Another method of takeover is by inheritance, where a company in a different trade takes over a rival that could have travel in their product portfolio. This happened in the case of Sunsites, Inn-Tent and Eurocamp, which were inherited <sup>2</sup> in 1987 by Next, when it bought out Combined English Stores, but later sold them to a management team.

In 1987 Next bought Timsway Holidays who were having financial difficulties. The profits, however, were so disappointing that Next sold Timsway Holidays back to its original owner in 1988. It was found that Next could not instill the same style present in the company's clothing shops.

The Four Corners network had a similar situation, in 1990, trying to create a designer holiday image, selling luggage, cameras and watches and other holiday merchandise in an up-market atmosphere. British Airways insisted that there was a niche in the market for this, but Four Corners ceased trading in 1990, due to financial difficulties.

This fuels the claim by many travel retailers that profits in travel are not sufficient to provide a sensible return on investment. The Next case shows

that progressive retail organisations have decided that they cannot afford the investment in travel because they will not get a fair return. Next built up a justifiable reputation of being able to market successfully in several retail areas, but they could not market travel in a designer way.

The travel trade commented that it supported the view that travel agents have claimed for some time, that the margins in travel retailing are insufficient. Travel retailers still have to compete in the high street with the purveyors of such items as furniture, clothes, cars and electrical appliances.

## 6.6 CONGLOMERATES.

### 6.6.1. Conglomerates in General.

Conglomerates can be present in the travel industry. A conglomerate is defined as:

"Those mergers or amalgamations which are neither substantially vertical nor substantially horizontal. They are generally understood to be those combinations of firms which produce goods or services which are not directly related to one another. The major aim of the conglomerate is clearly to obtain a diversification of output so as to reduce the risks of trading."  
(Stanlake 1973)

Conglomerate mergers may also arise where a firm

believes that there is little scope for any further growth in the markets for its existing products. It may then satisfy a desire for further growth by taking over, or merging with, a firm in a different industry. Although a large conglomerate may appear to have a range of very different products, the diversification of output is rarely completely random. It is often found that the products or services are linked by the use of common markets.

#### 6.6.2. Conglomerates in the Travel Trade.

Some travel companies are owned by conglomerates. The presence of conglomerates in the travel industry is relatively rare. There are one or two conglomerates where the only common links seem to be those of managerial or financial services. There is the involvement of banks, insurance companies and credit card companies.

The justification for such mergers appears to lie in the promised injection of better management techniques and a more efficient use of the available resources.

Table 6.3 Ownership of the Major Travel Companies 1991.

---

<u>Parent Company</u>	<u>Travel Subsidiaries</u>	<u>Other Subsidiaries</u>
International Thomson Organisation	Thomson Travel Lunn Poly Britannia Airlines Portland Holidays	Publishing Oil
WH Smith	WH Smith Travel	Retail
Midland Bank	Thomas Cook	Access Credit Cards
Hogg Robinson	Travel Retailers	Shipping Insurance
Co-operative Society	Co-op Travelcare	Retailing Dairies

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(Source: Travel Trade)

### 6.7 THE STRATEGIC REASONS FOR INTEGRATION.

Before the different types of integration are looked at in detail together with industry examples, it is



important to examine why companies integrate, as opposed to growing internally. There are some companies in the travel industry that have attained internal growth and others who have mainly grown through acquisition. Thomson Travel have mainly grown through internal growth, ILG had mainly grown through acquisition.

Those tour operators who have taken over airlines and hotels have tried to develop their market in order to increase market share. In the case of some tour operators they have taken over other tour operators to increase their range of products, such as the International Leisure Group taking over Club 18-30, who lacked a product aimed at the younger age groups. Falcon Leisure Group, weak in Devon and the South West, took over Sunward Holidays <sup>3</sup> who are based at Exeter Airport. The company operated to areas new to Falcon Leisure, such as the Channel Islands, Isles of Scilly and Southern Ireland.

Smaller operators may take over companies in the same type of operation in order to make themselves viable, e.g. Supertravel purchasing John Morgan in July 1988 to increase its ski capacity.

In the case of travel retailers, they have used integration to increase their present market,

penetrating the market, which is aimed at increasing their market share.

With tour operators, it can be argued that if they grow internally then they can control the products at each stage of development. In the case of acquisition they take over existing products and are then left with the option of marketing the products as they exist or trying to improve the products before selling them. It is not unknown for a tour operator to take over a rival company, abandon substandard products and repackage the remainder, selling the revamped product.

Forward or backward integration by tour operators is to protect either the transportation aspect of their products or the distribution of their products at the selling stage. In the case of airlines, they can create business for themselves, to help to utilise under-used aircraft. A tour operator who does not own an airline could take over a tour operator who does. One of the main reasons for tour operators to own airlines is that the forward purchasing of fuel enables the tour operators to control their costs more closely (It was noted in the last chapter that air costs are a major proportion of the cost to the tour operator of the package tour).

Very few tour operators own retail chains. It may be

that the major tour operators are confident that their products will gain shelf space in the present network of retailers. Travel retailers place most of the larger companies brochures on their shelves, as they are the products in most demand, witnessed by their market shares. Major tour operators assure themselves of shelf space by offering retailers high commission rates. This ensures maximum geographical coverage for their brochures.

By increasing the range of products, horizontal integration provides greater security in the form of spreading trading risks throughout a number of products. This means that if there is a drop in demand for one product, this may be balanced by a possible increase in the demand for one of its other products.

Many of the larger tour operators own direct sell outlets. This is to capture any remaining market share that the retailers do not satisfy. The reason that they own direct sell outlets as opposed to retailers is that direct sell operations are associated with individual tour operators. Most tour operators would like to utilise this method in addition to retailers as it can account for anything from 10% to 15% of the total market for package holidays.

In the case of retailers, the main strategic reasons

for taking over other retailers is to increase geographical coverage, to gain maximum market share.

The most cost effective way of doing this is for travel retailers to take over other multiple chains. This is cheaper per shop to do than opening individual outlets one at a time. If a retailer lacks coverage in a particular geographical area they may purchase a local retailer with ten to twenty outlets and instantly gain market share in that area. AT Mays in the late 1980's were unrepresented in the south of England and used this method to gain market penetration.

It is clear from the quotation below <sup>4</sup> that increasing size is important to both retailers and tour operators, in order to increase their market share. As well as market share, however the other main reasons for growing are to gain economies of scale:

"As with tour operators, there is a continuing tendency for multiple travel agents to grow via merger or acquisition. Size also brings economies of scale to operating costs and paves the way for new technology and automation. Size also brings the ability to develop specialist aspects such as business house or own branded brochure programmes. But market share is probably the most vital concern, for the tour operators exert a dominant influence over the travel agents and dictate terms to them."

An advantage of size is larger commission rates from the tour operators in terms of override commission

rates, thereby increasing income. By having a large market share retailers find it easier to discount, as they have the volume, i.e. large volume at cheaper prices, can earn as much revenue, or more than small volume with more expensive products.

A tour operator when taking over another tour operator also normally leaves the original brand intact, producing brochures with the old logo. This has certainly been the case with ILG, whose portfolio of products is clearly labelled with the original company's name and logo, such as Lancaster, Club 18-30, Intasun, Nat Holidays and so on. Thomson, after they took over Horizon, now issue brochures with the name and logo of Horizon on them. In the case of ILG, none of their products had a central identity with the parent company. One aim of this strategy is to avoid a parent company becoming tainted with a bad name if a subsidiary encounters difficulties. Thomsons, on the other hand, have a corporate identity apart from their Horizon brand, mainly because they have grown by internal growth with their own products.

#### 6.8 ECONOMIES OF SCALE.

When an increase in the scale of production yields a disproportionate increase in output, the company is said to be experiencing economies of scale. Economies

of scale might be defined as those aspects of increasing size which lead to falling average costs. Economies of scale are experienced when the company grows larger, via integration or other means.

There are two types of economies of scale, internal and external.

#### 6.9 INTERNAL ECONOMIES OF SCALE.

Internal economies of scale are those factors which bring about a reduction in average cost as the scale of production of the individual company rises, these include technical economies, financial economies, marketing economies and risk bearing economies.

##### 6.9.1. Technical Economies.

Technical economies of scale are those that accrue from the increase in size of the production process. In the travel companies this would include much greater usage of computer systems, more efficient use of aircraft and the employment of specialists.

Computer system usage is one of the major economies of scale in the travel industry. Large scale volume on the part of retailers and tour operators enable maximum cost effective usage of these systems.

The use of capital equipment such as aircraft rely on large volume. Aircraft can only be employed most efficiently by filling as many seats as possible in the aircraft. It is possible that this minimum number of people required to fill the aircraft may well be too large for a smaller company. This is why only the larger tour operators own airlines, they have the volume of custom to be able to achieve high numbers of filled seats.

The printing of brochures is also a major technical economy of scale that large tour operators can take advantage of. The orders from the large companies are so large that they gain bulk discounts. Other promotional material will also be cheaper per unit than smaller tour operators can purchase them for, due to the volume orders.

Specialisation is a major technical economy of scale. The large travel companies are in a position of employing accountants, marketing and product advisers on a full-time basis. In a smaller company it would be more cost-effective to buy in expertise from a trade consultancy firm, or other specialist firms. Additionally there is greater scope for the specialisation of personnel. The overall operation can be broken down into separate divisions. Workers can be employed on more specialist tasks. This is evident in

large tour operators that have separate departments specialising in areas of winter sun, summer sun, youth market and the villa and apartment holidays.

#### 6.9.2. Marketing Economies.

A larger company can purchase raw material requirements in large quantities. In the case of tour operators this would include the airline seats, hotel beds and coach seats. This bulk buying enables large companies to obtain preferential purchasing terms.

It will be able to obtain products at lower prices and be able to dictate its requirements with regard to quality much more effectively than the smaller firm. Thomas Cook pick and choose which tour operations to sell as they have the power of their size and geographical coverage. The large firm can employ specialist buyers, whereas in the small firm, buying could be the function of an employee who has other responsibilities.

An expert buyer has the knowledge and the skill which enables him to buy at the right price. Thomsons and other major tour operators have specialist brokers for hotel purchasing and airline purchasing, who are experts in the field. Expert buying can be a great economy, unwise buying can be very costly.



The selling costs of the larger company will be much greater than those of the smaller firm, but the selling cost per unit will generally be much lower. This is why companies such as ILG and Thomsons can lower their prices and undercut the prices of the smaller companies, attacking their market share. Larger companies can make financial economies as they are held to be of better credit worthiness by lending institutions. Greater selling potential and attractive assets provide lenders with greater security.

### 6.9.3. Financial Economies.

Large companies have access to far more sources of finance. In addition to borrowing from banks, it may approach a wide variety of other financial institutions. This enables the companies like Thomsons and ILG to obtain finance to take over other companies and to purchase aircraft, which could not be undertaken without loans.

This is one of the main reasons why the large travel companies are getting larger and the smaller travel firms are getting smaller. Most of the larger financial institutions are not structured to meet the needs of the smaller firms. The terms under which funds can be borrowed are more favourable to the large-scale borrower because the lending of money in

large sums, like the bulk purchasing of raw materials, yields economies of scale in its own right.

#### 6.9.4. Risk Bearing Economy.

The risk bearing economies are applied to the larger companies as they are usually better equipped than small firms to cope with the risks of trading. The companies often benefit from the law of averages or the law of large numbers. It is often possible to predict what will happen on the average when it is not possible to tell what will happen in any individual case. When total sales are very high as in the case of the large tour operators variations in orders from individual customers and unexpected changes in customers' demands will tend to offset each other. A small demand away from the larger companies will not reduce the market shares by a great amount, but the smaller companies could be bankrupted, which is what has happened in the industry. Many large firms are able to reduce the risks of trading by diversifying.

Diversification is when a company produces many different products or a variety of the same product. In the case of tour operators they produce several brochures, in some cases nearly fifty brochures all aimed at different markets. A decline in one product could be counter balanced by an increase in demand for

one of their other products, such as a decline in expensive products and an increase in a cheaper product. For the same reason many tour operators have a variety of resorts and hotels in their brochures.

#### 6.10 EXTERNAL ECONOMIES OF SCALE.

External economies of scale result from the simultaneous growth, or interaction, of a number of companies in the same or related industries. External economies of scale are available to all companies in the industry, regardless of the size of the company.

These economies of scale include aspects such as the growth of service companies in a particular geographical location to service manufacturing industry. Particular skills and labour may also be prevalent in a particular place, for use by the company. However, in the case of the travel industry there are no real external economies of scale that accrue.

The travel industry is unlike manufacturing in that it does not need to be located near raw materials. Therefore, the tour operators can locate themselves near the various service companies they require. This is a major reason why many tour operators are located in, and around, London. The financial, marketing,

printing and other specialists are easily available.

### 6.11 DISECONOMIES OF SCALE.

As the increasing size of companies can bring certain advantages, they can also bring certain disadvantages, known as diseconomies. As companies grow beyond their optimum size, efficiency declines and average costs begin to increase. In general, the problems seem to accrue from the management of these large organisations.

Diseconomies are attributed to the inability of managers to carry out the functions of coordination, control, communication and the maintenance of morale as efficiently in the larger companies as it is possible to do in the smaller firms.

#### 6.11.1. Co-ordination.

In the case of coordination, large companies are subdivided into many specialist departments. As these departments multiply and grow in size, the task of coordinating their activities becomes more and more difficult. This can be seen in a comparison of Thomson Travel with scores of separate departments compared to the small tour operator with only one or two departments. In the case of retailers, the smaller

the number of units there are, the easier it would be to coordinate the sales and marketing of each outlet.

#### 6.11.2. Control.

Control, the taking of decisions and seeing that these decisions are carried out is one of the basic activities of management. The larger companies such as Thomson Travel and other large companies outside travel will always have the problem of maintaining good practice.

#### 6.11.3. Communication.

The transfer of information in industry and commerce is a two-way process, it is not simply a matter of passing orders down the line; subordinates must be able to feed back their difficulties and problems. There must not only be a vertical line of communication, information must also move laterally, because one section of the firm must know what the other sections are doing. Keeping everyone informed on what is required of them, and on what is happening elsewhere in the firm, is a test of managements abilities.

#### 6.11.4. Management Diseconomies.

With horizontal integration there is also the problem

of management diseconomies as the size of the company increases. Integration may present particularly difficult management problems where a company takes over a number of companies with different markets. The knowledge of these different markets within the company could be limited. There are also problems arising where it becomes necessary to weld together into one management team managers from firms having different histories, traditions and outlooks.

#### 6.12 CONCLUSION.

Horizontal integration is the major way in which travel retailers and tour operators have increased in size. Retailers can gain instant geographical coverage and tour operators can obtain any product areas they are deficient in.

Tour operators have used integration to purchase other stages in the travel market such as airlines, hotels and in the case of Thomson Travel a retail travel chain.

Polarisation in the travel trade has been accomplished partly by integration, especially in the retail travel sector, but also in the tour operating sector.

The increase in size of these companies has led to

economies of scale, such as the use of computers, specialist personnel and marketing. There are some disadvantages resulting in diseconomies but these are seen to be outweighed by the advantages.

Appendix 6.1 Backward Vertical Integration by Travel Companies in the 1980's.

<u>Company</u>	<u>Company Owned</u>	<u>Date</u>
Thomson Travel Group	Britannia Airways	1979
International Leisure Group	Air Europe	1985
	Merit Hotels	1985
	Riviera Resorts	1985
	Airlines of Europe BV (Netherlands)	1988
	Playcosta SA (Spain)	1988
	Guernsey Airlines	1989
	NFD Luftverkehrs AG (49% Germany)	1989
	Norway Airlines A/S (33% Norway)	1989
	Air Europe SpA (33% Italy)	1989
Falcon Leisure Group	Air 2000	1987
	Rushsense Ltd (Accommodation)	1986
Airtours	Airtours	1991
Thomas Cook	Compass Travel	1983
	Interchurch Travel	1980
	Rankin Khun	1982
Hogg Robinson	Alta Holidays	1983
AT Mays	Brighter Holidays	n/a
	Solair Tours Ltd	n/a
	Thistle Air Brokers	n/a

(Source: Monopoly and Mergers Commission Report, 1989, Thomson Travel Group and Horizon Ltd, Company Reports).



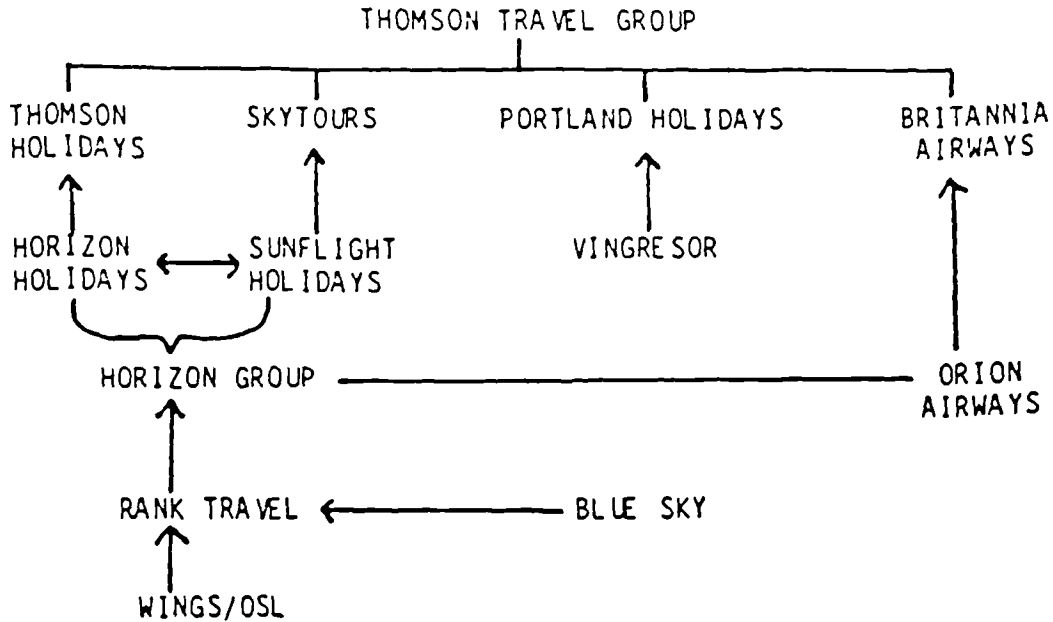
Appendix 6.2 Horizontal Integration by the Major Tour Operators in the 1980's.

<u>Company</u>	<u>Company Owned</u>	<u>Date</u>
Thomson	Vingressor	1982
Travel Group	Horizon (Trades as Horizon, Wings, OSL, & Holiday Club International)	1988
International Leisure Group	Schoolplan Club 18-30 D M Lancaster Ski Scene Airway Holidays Global Holidays NAT Holidays Hourmont Holidays Sol Holidays Select Holidays Quest Travel	1982 1982 1982 1983 1984 1985 1987 1987 1989 1989 1990
Falcon Leisure Group	Falcon Twenties Churchill Family Holidays (Trades as Falcon Family) Sunstart Twickenham Travel Ltd Arrowsmith Tjaereborg Top Hat Tours (Trades as Martyn Holidays) Sunfare La Manga Travel (Trades as Falcon Resorts) Sunward Extrawelcome (Trades as Villas Italia, Small World, Ski Whizz, Just Turkey & Scanscape) Twelve Islands Redwing (Trading as Sovereign, Enterprise Martin Rooks and Sunmed) Target Marketing (Trades as TransAmerica, TransCanadian & TransOriental)	1983 1984 1984 1984 1984 1985 1987 1987 1988 1988 1989 1989 1990 1990 1990
Airtours (Ex Pendle Travel until 1985)	Carousel Holidays Eurosites	1988 1989
Yugotours	Nil	

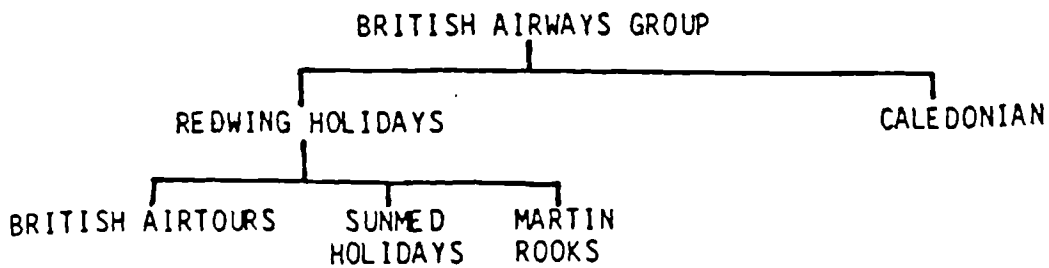
(Source: Trade Press)

Appendix 6.3 Examples of Integration by  
Top Tour Operators 1980's

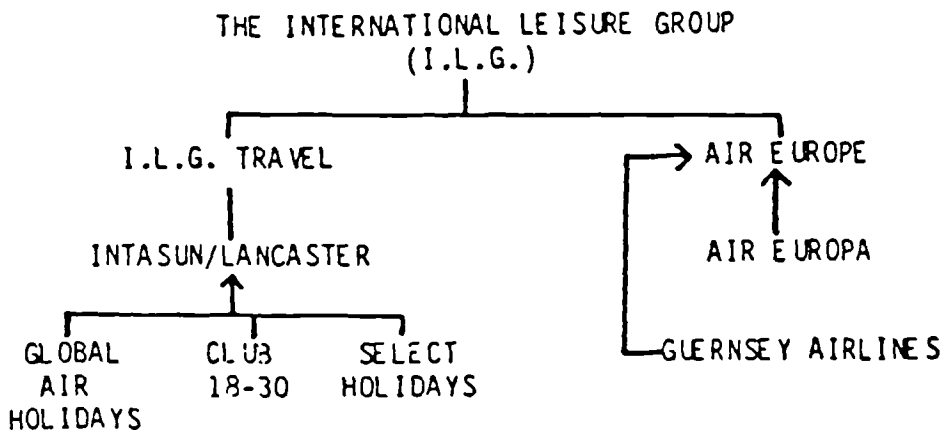
1.



2.



3.



(Source: Jordans, 1990, Britains Tour and  
Travel Industry)

Appendix 6.4 Horizontal Integration by the Major Travel Retailers in the 1980's.

<u>Company</u>	<u>Company Owned</u>	<u>Date</u>	<u>Number of Outlets</u>
Lunn Poly	Plantravel	1983	18 units
	Ellerman Travel	1984	63 units
	Renwicks Travel	1984	53 units
	Horizon Travel	1988	17 units
Pickfords	Blue Arrow	1984	11 units
	Lunn Poly		
	Business Travel	1986	35 units
	Hourmont	1987	11 units
Thomas Cook	Rankin Khun	1982	40 units
	Frames Tours	1985	41 units
	Blue Sky Travel	1986	22 units
	Four Corners	1990	33 units
AT Mays	Hunting Lambert	1984	42 units
	Nairn Travel	1983	41 units
	Deeside Travel	1988	11 units
	Warners Travel	1988	6 units
	Abroad Travel	1989	9 units
	Oxonian Travel	1989	4 units
	Towns Travel	1989	5 units
	Naylor Travel	1989	4 units
	Chichester		
	Travel	1991	1 unit
Berkshire Travel	1991	5 units	
Hogg Robinson	Worldmark	1980	1 unit
	Wakefield Fortune		
	International	1983	93 units
	Exchange Travel	1985	39 units
	Pendle Travel	1986	21 units
	Headway Travel	1988	1 unit
	Neilson Travel	1990	19 units

(Source: Trade Press)

## NOTES

- 1 Monopolies and Mergers Commission Report, 1989, Thomson Travel Group And Horizon Travel Ltd, A Report on The Merger Situation.
- 2 Travel Trade Gazette, December 1st, 1988.
- 3 Travel News, April 14th, 1989.
- 4 International Tourism Quarterly (1984), Special Article No 50, part 2, The Agents.

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## CHAPTER 7

### COMPETITION AND STRUCTURE OF THE UK TOUR OPERATORS' SECTOR IN THE 1980'S

#### 7.1 INTRODUCTION

The tour operators purchase the individual components of holidays and package them together to provide all inclusive holidays to sell either direct or through travel retailers. They are, therefore, a key element in the supply of holidays. This chapter shows their structure in the UK.

Tour operators are defined by ABTA as those companies creating and marketing their own tours. Some tour operators are also travel agents, i.e. they create, market and retail their own holidays.

In the UK tour operators can be divided into very large companies, small specialist companies, incoming, outbound, and domestic tour operators. The size and type of tour operators varies from one person operations to those companies that operate with thousands of employees.

In 1979 research <sup>1</sup> stated that the tour operators that receive the majority of custom in the UK tend to

be at opposite ends of the market. They are either the large household name groups or the small companies which are more orientated toward the personal service image. Most tour operators in this country, like travel agents, are members of ABTA.

Outbound tour operators are those that arrange package holidays for customers going abroad and inbound tour operators are those that arrange tours for people coming into the UK on a package holiday. Domestic tour operators are very similar to incoming tour operators but they take British tourists, as opposed to foreign tourists, to certain destinations or a particular type of holiday in the UK.

This chapter will concentrate on outbound tour operators.

## 7.2 THE VARIETY OF TOUR OPERATOR'S.

There is a wide variety of tour operators in the UK, from very large companies offering a number of destinations and types of holidays to the very small companies offering a single destination or type of holiday. A sample list of the different variety of tour operators in the UK is shown at appendix 7.1.

The range of products offered by the five largest tour operators, will be outlined next, in order for a comparison to be undertaken with the small tour operators. It will be shown that the top tour operators offer products to a number of countries and covering many types of holidays.

The major companies try to capture as many market segments as possible, by issuing a number of separate brochures. The problem for the retailer is that the top companies issue so many brochures that not all would normally get space on retailers' shelves. The top three companies issue in excess of 120 brochures. The different brochures issued by the major companies in 1990, are shown at appendix 7.2

This has the result that smaller tour operators do not normally get any shelf space in the travel retailer's outlet.

The wide range of interest activities that are catered for by the specialist tour operators illustrates the vast number of niche markets that are available. These tour operators are very rarely found on travel retailers' shelves due to the small markets for each product. These are normally sold direct, through advertising in special interest journals and magazines.



### 7.3 NUMBERS OF TOUR OPERATORS DURING THE 1980'S.

During the 1980's the number of tour operators has grown by 59%, from 523 to 831. This is related closely to the increased number of people going on holiday.

Table 7.1 ABTA Tour Operator Members During the 1980's.

<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
<u>Companies</u>										
440	460	462	484	506	511	541	634	665	689	699
<u>Branch Offices</u>										
83	85	89	100	120	122	126	108	120	116	132
-----										
<u>Total</u>										
523	545	551	584	626	633	667	742	785	805	831
-----										

(Source: ABTA)

Although the number of tour operators appears to be large, it must be considered together with the number of niche markets and the number of other tour operators such as domestic and incoming. The British Incoming Tour Operators Association had a membership of 100 companies in 1989, all of whom were ABTA members.

When only five tour operators account for almost 80% of the market, the sector is clearly dominated by a few large companies and many small companies.

For convenience in analysis, tour operators can be divided into four categories based on the number of air holidays they offer: over 500,000; over 100,000; over 50,000; less than 50,000.

Table 7.2 Top 3 Companies Offering Air Holidays Broken Down Into The Four Major Numerical Categories For 1990/1991.

<u>Over</u> <u>500,000</u>	<u>100,000</u> <u>to</u> <u>500,000</u>	<u>50,000</u> <u>to</u> <u>99,999</u>	<u>Less</u> <u>Than</u> <u>50,000</u>
Thomson Holidays	Yugotours	Quest Leisure	Manos
ILG Travel	Best Travel	Hotelplan	GTF
Horizon Holidays	Unijet Travel	Globespan	Kuoni

(Source: Civil Aviation Authority)

Those offering over 500,000 air holidays tend to be general tour operators offering a large range of holidays to a great many destinations. Those offering over 100,000 air holidays offer a similar range of holidays to the larger tour operators, but are not as large in terms of assets and controlling other interests such as airlines. Specialists such as Saga offering holidays to the older age group are in the third category while those with less than 50,000 air holidays are the smaller specialist operators offering

specific holidays e.g. to one destination.

#### 7.4 AIR TRAVEL ORGANISERS LICENCES DURING THE 1980'S.

The Civil Aviation Authority issues Air Travel Organisers Licences (ATOL's), for each charter air holiday sold by tour operators. Companies selling coach inclusive tours and those using scheduled air transport for long haul holidays, do not need an ATOL, therefore the ATOL ranking will not necessarily be accurate for companies who offer services other than air holidays by charter aircraft.

Civil Aviation Authority ATOL's, issued for the 1980's and 1990 are listed at appendix 7.3. This appendix also outlines takeovers and mergers in the tour operating sector.

The largest tour operators are defined by the Civil Aviation Authority as those offering 50,000 or more licensed air holidays.

The ATOL's issued during the 1980's to the top tour operators are examined in detail as they show movements in takeovers and mergers during the 1980's, illustrating how the sector has polarised into the control of a small number of companies.

By the use of these figures, the growth in the size of the major companies can be established. Thomson Travel had 796,000 ATOL's in 1980 and in 1990 they had over 3 million. By using the Civil Aviation Authority figures, market shares can be calculated, but they would only be estimates, as tour operators who use scheduled air transport would not be included.

The growth in the charter inclusive tour market is highlighted by the increase in the total number of ATOL's during the 1980's, rising from 6 million to 13 million, an increase of 116%. This is slightly greater than the increase in the number of people travelling abroad, shown in chapter 3, indicating that more ATOL's are issued than are actually taken up.

Table 7.3 Total Civil Aviation Authority, Authorised

ATOL's (000's) 1980's

<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
6166	6662	7067	7938	8624	8647
<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	
9844	12598	14567	13982	13065	

(Source: Civil Aviation Authority)

## 7.5 TOUR OPERATORS MARKET SHARES DURING THE 1980'S.

The next area that needs to be looked at are published figures for market shares for the major tour operators.

Table 7.4 Market Shares for Major Tour Operators 1980's (%).

	<u>1980</u>	<u>1982</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Thomson	13.0	18.0	19.0	20.0	27.5	31.5	35.8	39.3	35.0
ILG	9.0	11.0	13.0	15.0	18.0	18.0	16.8	16.2	21.0
Horizon	6.5	9.0	6.5	5.0	7.0	8.0	-	-	-
Redwing/BA	5.0	7.5	7.0	6.0	5.0	5.0	4.5	6.2	-
Falcon	-	-	-	-	-	-	4.3	6.4	16.0
Airtours	-	-	1.0	1.5	2.5	3.0	2.9	3.5	4.5
Yugotours	1.5	1.5	1.0	2.0	2.0	2.0	2.0	2.0	2.5
-----									
	35.0	47.0	47.5	59.5	62.0	67.5	66.3	73.6	79.0
-----									

(Source: Key Note Report, 1987 & 1990, Travel Agents & Overseas Tour Operators, James Capel, Trade Press)

The top tour operators in 1980 controlled 35% of the market share and in 1990 they controlled 79%. From the figures above the domination of the market by the top five tour operators is very apparent. Thomson Travel controlling 35% of the market share, is clearly the market leader. Since 1984 the market shares of the top

six companies increased dramatically. This was mainly due to the cheap priced holidays introduced by the large companies from 1984.

Another point to bear in mind is the fact that the total size of the holiday market has, apart from 1985, continued to rise, and this allows room for operators to sell more holidays, even if their market share is lower.

Key Note 2 in 1987 stated that as a result of the price-wars, a further concentration of shares at the top of the league table had occurred. The report goes on to say that it seems clear that the market share of the hundreds of smaller operators is relatively stable.

Most financial pressure, as a result of the price wars, is being put on the medium-sized operators beneath Thomson Travel, Airtours and The Falcon Leisure Group, as they are in direct competition with the large tour operators yet do not have the resources, in terms of financial reserves, to compete on wholesale price cuts.

## 7.6 TOUR OPERATORS' OTHER TRAVEL INTERESTS.

Table 7.5 Top Tour Operators other Travel Interests  
(1980's).

<u>Tour Operator</u>	<u>Retail Chain</u>	<u>Airline</u>	<u>Direct Sell</u>
Thomson	Lunn Poly	Britannia	Portland
International Leisure Group	Nil	Air Europa Air Europe	Intasun
Falcon Leisure Group	Nil	Air 2000	Tjaereborg Sunfare Martin Rooks
Airtours	Nil	Airtours	Airtours
Yugotours	Nil	Nil	Nil

(Source: Trade Press)

Most of the major tour operators have airline interests and many of them have direct sell outlets. However only one, Thomson, has a retail chain. This could indicate that tour operators consider aircraft as the

most important asset in tour operating, i.e. control of the transport factor.

### 7.7 TOUR OPERATOR FAILURES.

It is important when looking at the tour operator sector to look at the numbers of failures, as this helps to understand the competition in the industry.

Each year several tour operators leave the industry although precise statistics are difficult to obtain. The number of ATOL holders that lose their licences are shown below.

Table 7.6 Numbers of ATOL Failures 1980's.

<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
2	9	11	9	20	18	8	15	7	21

(Source: Civil Aviation Authority)

As most ATOL holders are members of ABTA, the above figures indicate the number of tour operators closing each year. Not all companies hold ATOL's therefore the actual number of cessations is likely to be higher.

In the financial year 1989/1990, sixty seven ABTA tour operators left the industry. Although most of these companies are small, there have been some notable collapses during the 1980's, including Laker in 1982,



Budget in 1984 and Pegasus Holidays in 1990. Despite the lack of success of many tour operators, people still seem to want to set up in business, seventy nine companies achieved membership of ABTA in 1989/1990, so the high number of closures was offset by the increasing number of companies applying for membership of the ABTA tour operator class.

In March 1991, the International Leisure Group was placed in administration. This was a combined result of the recession, the Gulf War and ILG entering the scheduled air travel market with Air Europe. This is the largest collapse of a tour operators since Court Line in 1974.

One explanation for people starting tour operating companies in this competitive environment is personal interest, which is known from personal contacts in the industry. Individuals open tour operating as a hobby. It is such a high risk business, with 10% of the total number failing, that this explanation would indicate why there so many small companies operating in such a competitive environment.

Another way of looking at the increase in tour operator numbers is by looking at the increase in the ATOL holders during the 1980's.

Table 7.7 New ATOL's Approved During the 1980's.

<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
108	91	104	76	80	80	60

(Source: Monopolies & Mergers Commission Report, 1989, Thomson Travel Group and Horizon Travel Ltd).

The following quotation sums up the situation in the travel industry very well, "It is like living on the San Andreas Fault" (Touche Ross, TTG, February 1989).

7.8 TOUR OPERATORS TURNOVER AND PROFITS.

Precise turnover and profit figures are very difficult to obtain as they tend to include the other interests of the tour operators such as airline operations.

The profit figures of the major tour operators, shown at appendix 7.4, are very low compared to the turnover figures. The profit from 1985 onwards is particularly low, which is a result of the price wars that were undertaken by the major tour operators. The reduction is particularly noticeable in Thomson Holidays figures.

The reason the major companies reduced prices was the domination of the market in terms of market shares.

International Leisure Group's figures have also shown the same decline, as they competed with Thomsons for market share.

It should be noted that the figures for the tour operators include any direct sell subsidiaries, as they form part of the total tour operations. In the case of Falcon Leisure Group, the figures start from 1982 as the company started trading in 1981. Before 1981 the company was called Kintyre Tea Estates, and the figures are not available.

In the case of Airtours, before the mid 1980's the company was called Pendle Travel and again figures are not available. Yugotours has tour operators in other European countries including Netherlands where it owns 68% of Yugotours BV and Sweden where it owns 88% of Yugotours AB.

The small profits earned by the major tour operators lead to doubts about the profitability of smaller tour operators, without the volume of the larger tour operators, could explain in some part the large numbers of failures, shown in the previous section.

The drop in profits in 1982 by Thomsons could have been a result of the Falklands war, during which people

avoided travel. The Gulf War had an adverse effect on profitability, due to the combined threat of terrorism and involvement of holiday destinations in the conflict.

After 1984/1985, the profit percentages were very clearly being eroded, mainly due to the price wars that were prevalent at that time.

Table 7.8 Turnover & Profitability of Top 30 Holiday Operators 1980-1987 (£m).

	<u>Turnover</u>	<u>Profitability</u>
1980	907	43.8
1981	1,020	52.2
1982	1,300	27.7
1983	1,407	55.3
1984	1,799	55.3
1985	1,841	60.9
1986	2,132	35.6
1987	2,791	(24.8)
1988	3,005	15.5

(Source: Mintel Leisure Intelligence, Volume 3, 1990)

The figures for the top thirty tour operators, can be compared to the top five tour operators, to illustrate concentration in the sector. The top five tour operators dominate the sector in terms of turnover and profitability. In 1988 they had a total revenue of

£1,887 million, 63% of the total shown above for 1988.

In 1986, ABTA undertook research on tour operators' turnover which established that the total sales figure for tour operators was £2.4 billion in 1985, and £2.5 billion in 1986. This is different to the above, which only covers the top thirty tour operators.

The research also found that in 1986 53% of tour operators had sales of less than £500,000 and 79% of tour operators had sales of less than £1 million. Additionally, 68% of tour operators accounted for 5% of sales and 10% accounted for 81% of sales.

These figures clearly show how polarised the tour operating sector is, not only by market share as seen previously, but also in sales revenue.

The combined loss of the top thirty tour operators in 1987 was the first combined loss since 1974, which was mainly due to the fuel crisis which increased costs. It is very clear from a comparison of the turnovers that the top tour operators account for a majority of the turnover of the top thirty tour operators.

Price wars and the search for volume at the expense of profitability led to the declining figures shown previously. The data on the turnover of the top thirty

companies does not include any losses of companies that fail during the year, and therefore it could show substantially worse figures.

The interests on deposits and currency speculations, are likely to have been reduced in importance, as the increase in the late booking market has reduced the deposits obtained by tour operators, affecting tour operators income.

#### 7.9 ANALYSIS OF THE TOUR OPERATING SECTOR.

The tour operating sector has been characterised by the increase in the total number of companies, takeovers and mergers, the large number of collapses, the domination of four or five companies and the very large proportion of small companies.

The tour operator industry can be described as an oligopoly, that is, dominated by a few companies. Oligopolists do not normally engage in price competition, as price cutting by one firm will lead to price reductions by its competitors, the result will be reduced profits all round with no gain in market share. However, the major tour operators have, during the 1980's, gained market share from the medium and small tour operators.

Companies with 50,000-100,000 ATOL's were more likely to be taken over by the larger companies. This is possibly due to the fact that they have a good selection of products which can easily be integrated into the parent company. When Thomson took over Horizon it could add assets to all its operations, an airline, a retail chain and long established tour operating brands.

From a comparison of the products of the major companies and the takeovers, it is clear that the parent companies add the brochures of that company to their own product range, maintaining the original brands. With an increased number of different branded brochures companies run less risk of customers wanting to move away for a particular reason from ILG or The Falcon Leisure Group branded products.

During the 1980's the tour operators have concentrated on volume by taking over other companies and increasing their products. The more volume companies have, the more seats they are able to fill on their aircraft, consequently they have more bargaining power when contracting with hotels and fuel suppliers. The fact that the top tour operators have aircraft means that it could be more cost effective to have control of aircraft when a company is dealing with air inclusive tours.

By having maximum volume the major companies can offer very cheap products to the consumer, and thereby dominate the market in that way. In the search for volume companies reduced prices to very low levels. This led to very small profits earned by the major tour operators, although turnover increased very substantially.

Other factors exist as in the case of ILG they purchased Club 18-30 to give themselves a youth holiday product; Falcon Leisure Group (FLG) purchased Redwing to give them more stability in the market place in certain product ranges such as Greece and Turkey to widen their market as well as increasing their volume in their existing packages.

#### 7.10 CONCLUSION.

The total number of tour operators increased during the 1980's, in line with the increase in package tours.

The tour operating sector has become increasingly polarised during the 1980's. The top three of four tour operators control over 70% of the total market share, the remaining tour operators are very small, in terms of market share. These small tour operators are those that concentrate on speciality tours, such as sports, religion, specific destinations.



The large companies mainly grew through integration and mergers. The medium sized tour operators have been taken over or closed due to financial problems.

The high revenue and low profitability of the sector is a major characteristic as is the large number of cessations and new companies each year, demonstrating the fluid nature of the industry.

## Appendix 7.1 Types of Tour Operators in the UK.

<u>Products</u>	<u>Tour Operators</u>
<u>Destination</u>	
Africa	- Africa Bound, Ecosafaris.
Algeria	- Andrew Brock Travel.
Argentina	- Dellstar Travel.
Asia	- Asian Affair Holidays, Oriental Magic, Asia Voyages.
Australia/Far East	- Travelbag, Travel 2, Jetset Tours.
Bangladesh	- Albany Travel.
Bolivia	- Journey Latin America.
Cape Verde Islands	- Sunvil Holidays.
Channel Islands	- Preston Travel, Gala Air Holidays, Jersey Travel Service, Sun Blessed Holidays.
China	- Premier Holidays.
Christmas Island	- Cox & Kings Travel Ltd.
Columbia	- Latin American Tours.
Cyprus	- Cricketer Holidays, Cypriana, Libra Holidays, Cypion Travel.
Czechoslovakia	- Cedok, Canterbury Travel.
Denmark	- Insight Holidays Ltd.
Egypt	- Bales Holidays.
France	- Allez France, France Voyages, French Travel Service, French Life, Quo Vadis.
Galapagos Islands	- Silk Cut Faraway Holidays.
Greece	- Grecian, Manos Holidays, Aspro Holidays, Kosimar Holidays, Airlink Holidays.
Greenland	- Arctic Experience.
Hawaii	- The Hawaiian Dream, Hawaiian Magic.
Iran	- Top Deck Travel.
Israel	- Mancunia Travel Ltd.
Italy	- Citalia, The Magic of Italy, Italiatour, Italian Escapades.
Jordan/Near East	- Jasmin Tours.
Lithuania/Latvia	- Insight Holidays Ltd.
Malta	- Medallion Holidays.
Morocco	- Moroccan Sun.
Northern Ireland	- Jubilee Holidays.
Norway	- Taber Holidays, Scanscape Holidays, Finlandia, NSR Travel, Scandanavian Seaways.
Paris	- Paris Travel Service.
Poland	- Polarisis Travel.
Porto Rico	- Frontiers A to Z.
Russia	- Intourist.
South Africa	- Sartravel, Tempo Travel, Southern Africa Travel, CV Travel.
South Korea	- Joyful Holidays.
Spitzbergen	- Arctic Experience Ltd.
Switzerland	- Swiss Travel Service,
Tonga	- Rainbow Holidays.
Turkey	- Metak Holidays, Regent Holidays, Mosaic Holidays.
Uganda	- Trancity Link.
USA & Canada	- Bon Voyage, Albany Travel, The American Dream, North American Travel Service.
Vietnam	- Vacationland.
Yugoslavia	- Yugotours, Pilgrim Holidays, Phoenix Holidays, Inatours.

### Special Interest/Activity

Archeological	- Moswintours.
Archery	- Multitours.
Architecture	- Martin Randal Tours.
Art/Culture Holidays	- Jules Verne, Cox & Kings, Serenissima, Prospect Art Tours, Fresco, Renaissance.
Battlefields	- Major & Mrs Holt's Battlefield Tours Ltd.
Birdwatching	- Ecosafaris, Twickers World.

- Boating Holidays - Pennant Holidays, Hoseason Boating Holidays, Blakes.
- Camping Holidays - Carefree Camping, Keycamp Holidays, Haven Holidays, Eurosites, Sunsites.
- Canal Cruising - French Country Cruising, Blakes Holidays, Hoseasons.
- Castle Holidays - Moswin Tours Ltd.
- Climbing - Elite Vacations, Alpine Tours Ltd.
- Cookery/Gourmet - World Wine Tours.
- Cruise Holidays - Ocean Cruise Line, Chandris Ltd, CTC Lines, Cunard, Norwegian Cruise Line.
- Cycling - PGL Adventure.
- Disabled - Jubilee Holidays, Catalan Villas, Carisma Holidays.
- Educational Holidays - Learn at Leisure.
- Exploration - Exodus, Trailfinders, Twickers World, Explore Worldwide.
- Fishing Holidays - Abercrombie & Kent World of Fishing, Trusthouse Forte Country Pursuits.
- Floral/Gardening - Ashley Adams Spring Flowers Tour.
- Football - Multitours.
- Geology - Moswin Tours Ltd.
- Get Fit - Something Special Villa Holidays.
- Golfing Holidays - Longshot Golf Holidays, Destination Golf USA.
- Grizzly Bear Watching - Arctic Experience Ltd.
- Historical/Heritage - Ecosafaris, Swan Hellenic, Orientours.
- Horseriding - Northumbrian Horse Holidays, American Pioneers, Airborne Holidays.
- Hotel Barges - La France des Activities.
- Hunting - Beach Villas, American Round Up.
- Language Courses - VFB Holidays Ltd.
- Motoring Holidays - Automobile Association.
- Motor Racing - Page & Moy, Airtrack Sports.
- Music - Astro Tours Ltd.
- Naturalist/Botany - New Century Holidays, Twickers World, Swan Hellenic, Abercrombie & Kent.
- Naturist - New Century Holidays.
- Ornithology - Eurocamp, Eurocamp Independent, The Gambia Experience.
- Painting - Laskarina Holidays.
- Parapenting - Simply Ski.
- Parascending - Alpine Tours Ltd.
- Photographic - Alfred Gregory Photo & Trekking Holidays.
- Religious/Pilgrimage - Orientours, Spes Travel, Venus Travel, WST Charters.
- Running/Jogging - Sportsmans Holidays.
- Sailing - Sunsail, Minorca Sailing Holidays.
- Safaris - Africa Exclusive, African Safari Trails, Ecosafaris, Tana Specialist Travel.
- Scuba Diving - Sunvil Holidays, Pullman Holidays Ltd.
- Skiing Holidays - Supertravel, Inghams, Neilson Holidays, Crystal Ski, Ski Bound, Mark Warner.
- Spas/Health & Beauty - Erna Low Consultants (Health & Spa Holidays), Transair - Malta Health Farm.
- Steam Train Holidays - Turkish Delight Holidays Ltd.
- Tennis - Panorama Holiday Group Ltd.
- Villa Holidays - Beach Villas, Blakes Villas, Villasun Holidays, Rentavilla.
- Walking Holidays - Alternative Travel Group, HF Group.
- Water Sports - Greek Islands Club.
- Weaving - Andrew Brock Travel.
- Wine Tasting - World Wine Tours, Arblaster & Clarke Wine Tours.

#### Other Specialists

- Flight Only - Pilgrim Air, Travjet, Unijet, Flair, Poundstretcher, Arrow.
  - Lakes & Mountains - Inghams, Swiss Travel Service, Austratours.
- (Source: ABC Holiday Guide Summer 1991, Euromonitor 1990, UK Travel and Tourism)

Appendix 7.2 Top Tour Operator's Products In 1990.

Tour Operator      Products/Brochures Issued

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<u>Thomson Travel Group</u>	Thomson Summersun,	Thomson Family Choice
	Thomson Wintersun,	Thomson Price Breakers
	Thomson Ski,	Thomson Florida Fun
	Thomson Small and Friendly	Thomson Villas and Apartments
	Thomson Airfares	Thomson Lakes and Mountains
	Thomson Young at Heart	Thomson Worldwide
	Thomson A La Carte	Thomson Simply Greece
	Thomson Citybreaks	Thomson Discover Turkey
	Wings	Horizon Ski
	OSL	Skytours
	Horizon Airsavers	Thomson Caribbean Carnival
	Horizon Late Deals	Holiday Club International
	Horizon Summersun	Horizon Lakes & Mountains
	Horizon Wintersun	Horizon Villas & Apartments

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<u>International Leisure Group</u>	Intasun Our Choice	Intasun Turkey Plain & Simple
	Intasun Wintersun	Intasun Greece Plain & Simple
	Intasun Summersun	Intasun Cyprus
	Intasun Skiscene	Intasun Yugoslavia
	Intasun Camping	Lancaster Late Date
	Airways Jersey Camping	Intasun Skiscene Pick'N'Choose
	Intasun Golden Days	Intasun Lakes & Mountains
	Intasun Active	Intasun Far & Away
	Select Sunbelt Special	Intasun America
	Select Summersun	Intasun France
	Intasun City Breaks	Intasun America Fly Drive
	Intasun Pick'N' Choose	Select Florida
	Intasun Quality Choice	Intasun Cruise & Stay
	Intasun Express Coach	Lancaster Summerfun
	Lancaster Break	Lancaster Travel Greece
	Lancaster Travel Turkey	Lancaster Wintersun
	Lancaster Canary Islands	Lancaster Simply Spain
	Club 18-30 Summersun	Club 18-30 Ski
	Club 18-30 Wintersun	Club 18-30 White Hot Lates
	Club 18-30 Learn to Ski	Select Wintersun
	Airways Jersey Flyaways	Global Getaways
	Global Apartments	Global Ski
	Nat Summer	Global Villas
	Global Wintersun	Global Cruising
	Global Learn to Ski	Global Italian Affair
	NAT Red Hot Specials	Airways Jersey Best Sellers
	Airways Jersey Summersun	Airways Jersey Mini Discovery
Airways Jersey Brittany Breaks		

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<u>Falcon Leisure Group</u>	Falcon Wintersun	Sovereign Sunshine
	Falcon Summer	Martyn Holidays Portugal
	Falcon Flights	Martyn Holidays Madeira Yearbook
	Falcon Family	Sunmed Go Greek
	Falcon Greece & Turkey	Sunmed Go Turkey
	Falcon Florida	Sunmed Go Morocco
	Ski Falcon Far & Wide	Twenties
	Falcon People Like us	Sovereign Cities
	Enterprise Summersun	Enterprise & Sovereign Far Away

Enterprise Florida  
Falcon Corsica  
Villas Italia  
Falcon Dublin  
Falcon Belfast  
Falcon Boutique  
Sunmed Go Canaries  
Sunmed Go Ski  
Greece & Turkey

Just Turkey  
Enterprise Lakes & Mountains  
De Luxe Resorts  
Falcon Boutique Small World  
Falcon Boutique Scanscape Iceland  
Scanscape Denmark & Legoland  
Ski Falcon Colorado USA.  
Sunward

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Airtours

Airtours America  
Airtours Canaries  
Airtours Caribbean  
Airtours Carousel  
Airtours Eurosites  
Airtours Kenya  
Airtours Paris  
Airtours Airseats

Airtours Family First  
Airtours Florida  
Airtours Faraway  
Airtours Greece  
Airtours Islands  
Airtours Summersun  
Airtours Wintersun  
Airtours Long Haul

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Yugotours

Yugotours Summer Sun  
Yugotours Sailing

Yugotours Free & Easy  
Yugotours Winter Ski

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(Source: Trade)

Appendix 7.3 Civil Aviation Authority, Authorised ATOL's (000's) 1980's

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Thomson Travel	796	856	898	966	955	1313	2100	2697	3240	3646	3027
British Airways	459	444	656	721	534	296	392	478	641	*	*
Intasun North	161	196		G							
Intasun South	134	162	353	G							
International Leisure Group			G	509	550	880	1227	1814	2445	2244	1784
Owners Services Ltd (OSL)	220	249	254	C							
Rank	C	316	366	323	405	U					
Redwing							P	656	862	754	X
Horizon	351	361	481	481	544	409	591	884	1175	511	779Y
Martin Rooks	160	150	-	-	-	116	122	99			
Laker Air Holidays	150	166	A								
Global	150	151	151	175	174	190	M				
Arrowsmith	140	154	B	-	115	87	86	-	50	64	W
Blue Sky Holidays	124	148	195	233	220	219	N				
Thom Cook Holidays	106	138	136	160	205	161	109	128	72	*	*
Saga Holidays	106	90	253	253	88	88	88	88	88	88	88
Hotelplan	103	78	69	*	*	*	48	60	72	90	90
Ellerman	101	154	149	127	I						
Yugotours	100	95	120	120	120	160	220	250	294	283	320
Tjaereborg	100	85	85	115	115	115	100	125	130	Z	
Wardair	99	95	119	95	75	65	*	*	*	*	ss
Exchange Travel	74	67	*	*	*	*	*	*	*	*	D
Wings	73	105	89	rr			U	447	V		
Pontinental	68	68	70	L							
Medallion Holidays	67	76	*	*	*	*	*	*	*	*	*
Jetsave	60	80	*	F							
Schools Abroad	59	65	83	70	91	111	88	95	99		
Grosvenor Hall								99	85	69	hh
Cosmosair	339	276	350	300	300	225	250	250	238	200	190
Vingressor/AB	52	52	E								
Comos Coach Holidays	52	*	*	*	*	*	*	*	*	*	*
Hourmont	51	51	60	50	50	55	50	60	B		aa
Airway Holidays	50	*	50	52	tt						
Overseas Airways	*	*	*	*	*	*	*	76	62	*	57bb
Portland Holidays	*	77	121	150	128	233	176	223	299	323	307
Carousel	*	60	75	95	95	57	*	cc			
Olympic Holidays	*	57	85	69	88	63	57	*	53	*	62
Greenhall Whitley		B	156	H							
Falcon	*	*	90	-	119	130	203	203	218	nn	759
Pegasus Holidays	*	*	65	62	66	74	77	77	92	115	106dd
Holiday Club International			L	79	126	60	0				
Transpacific	-	-	-	73	jj						
Hards Travel	*	*	*	67	89	54	uu				
Owners Abroad	*	*	*	56	97	57	85	66	173	896	aa
Sunny Tours	*	*	*	*	131	J					
Pendle Travel	*	*	*	*	90	127	245	ff			
Airtours							ff	366	418	495	635
Club 18-30	*	*	*	*	90	kk					
Best Travel	*	*	*	*	88	188	240	270	400	287	265
Lancaster Holidays	-	-	-	-	80	pp					
Air Europe Travel (Skyworld)	-	-	-	-	66	pp					
Redwood Travel	*	*	*	*	52	87	112	151	P		
Sol Holidays	*	*	*	*	*	95	55	60	63	ee	
Paris Travel Service	*	*	*	*	*	50	*	*	*	*	*

Zebra Holidays	*	*	*	*	*	50	*	*	*	*	*
Sky Tours						K	150	830	500	348	227
CIT(England)	*	*	*	*	*	*	58	61	56	62	59
Neilson Holidays	-	-	-	-	-	-	*	64	*	*	*
Aspro Travel	-	-	-	-	-	-	*	52	63	89	76
Unijet	-	-	-	-	-	-	*	50	117	203	202
New Burlington Leisure	-	-	-	-	-	-	-	11	72	67	*
Pilgrim Air Holidays	-	-	-	-	-	-	*	*	72	62	ii
Globespan								*	55	82	90
Balkan Holidays	*	*	*	*	*	*	*	*	*	63	63
Beach Villas	*	*	*	*	*	*	*	*	*	50	*
Owners Abroad Travel										mm	285
Quest Leisure										hh	94
The Magic of Travel										*	62
Air Travel Group										ii	62
Crystal Holidays	*	*	*	*	*	*	*	*	*	*	56
-----											
Total Top Companies	4430	4805	5159	5506	5876	6137	7198	9975	11899	11911	10437
-----											
Others Companies	1735	1857	1908	2432	2748	2510	2646	2623	2668	2071	2628
-----											

(Source: Civil Aviation Authority)

Notes:

- \* Less than 50,000 seats authorised.
- Did not hold an ATOL.
- A Laker failed in 1982 due to financial problems.
- B Took over Arrowsmith and Laker North from Laker Holidays in 1982.
- C Owners Services Ltd (OSL) taken over by Rank in 1982 and renamed Rank Holidays Ltd in 1983.
- D Exchange Travel dropped out of the top league in 1982, the company closed in 1990.
- E Vingressor taken over by Portland in 1982.
- F Jetsave taken over by Blue Sky in 1983.
- G Intasun North and South Combined to form Intasun Holidays Ltd in 1983.
- H Greenhall Whitley renames holiday division to Arrowsmith Ltd in 1983.
- I Ellerman taken over by Rank Holidays Ltd in 1984.
- J Ceased trading in 1984 due to financial problems, was trading as Budget Holidays.
- K Sky Tours launched by Thomsons in 1985.
- L Pontinental renamed as Holiday Club International Ltd in 1983.
- M Global Taken over by Intasun in 1985.
- N Blue Sky taken over by Rank Holidays in 1986.
- O Holiday Club International Taken over by Horizon Holidays Ltd in 1985.
- P Redwing formed in 1987 from a 50/50 merger of Redwood Travel Ltd and BA Tour Operations.
- Q Hourmont taken over by Intasun in 1987, sold again in 1990.
- U Rank Holidays renamed Wings Holidays in 1987.
- V Wings Holidays sold to Horizon in 1987.
- W Arrowsmith taken over by Owners Abroad in 1985.
- X Redwing taken over by Owners Abroad in 1990.
- Y Horizon taken over by Thomsons in 1988.
- Z Taken over by Owners Abroad in 1987.
- aa Taken over by Granada in 1990.
- bb Taken over by British Airways.
- cc Taken over by Airtours in 1987.
- dd Ceased trading in 1990.
- ee Sol Holidays taken over by Intasun in 1989.
- ff Pendle Travel became Airtours, after management buyout in 1985.
- gg Schools Abroad became Grosvenor Hall Leisure in 1988 after being purchased by Granada.

hh Grosvenor Hall Leisure renamed Quest Leisure by Granada and taken over by ILG in 1990.  
ii Pilgrim Air renamed The Air Travel Group.  
jj Transpacific Tours ceased trading in 1984.  
kk Reorganised into ILG after being taken over by ILG in 1982.  
ll Formerly Ski Set Ltd until taken over by Granada in 1988.  
mm Owners Abroad direct sell division.  
nn Falcon reorganised into the Owners Abroad Group after being taken over in 1982.  
oo Owners Abroad renamed Falcon Leisure Group.  
pp Reorganised into ILG. Lancaster established in 1982, and Air Europe Travel (Skymorld) Founded 1982.  
qq Incorporated into British Airways, formed as part of Redwing in 1988, taken over by FLG in 1990.  
rr Wings taken over by Rank in 1983.  
ss Air Travel Organiser's Licence revoked in 1990, at the companies request.  
tt Taken over By the International Leisure Group in 1984.  
uu Hards Travel Service ceased Trading in 1986, by going into voluntary liquidation.  
(Source: Civil Aviation Authority)



Appendix 7.4 Tour Operators Turnover and Profit 1980's £m.

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
-----											
<u>Thomsons Travel Group</u>											
Turnover	111.7	140.3	146.9	179.7	346.2	378.9	597.8	817.3	948.5	1065.1	n/a
Profit	12.8	18.4	1.6	9.8	14.4	14.4	16.1	2.0	3.4	(15.9)	10.0
%	11.5	13.1	1.1	5.4	4.2	3.8	2.7	0.2	0.4	(1.5)	n/a

International Leisure Group

Turnover	30.6	84.9	92.1	109.4	155.8	198.5	242.2	366.4	494.5	561.5	n/a
Profit	1.8	7.0	8.7	7.7	8.7	6.6	4.5	3.1	2.9	5.4	n/a
%	5.9	8.2	9.4	7.0	5.6	3.3	1.9	0.8	0.6	0.9	n/a

Falcon Leisure Group

Turnover	n/a	n/a	41.5	69.2	88.9	117.2	136.2	148.6	242.0	306.6	n/a
Profit	n/a	n/a	3.7	6.8	7.8	8.8	5.2	3.8	6.2	6.8	n/a
%	n/a	n/a	8.9	9.8	8.8	7.5	3.8	2.6	2.6	2.2	n/a

Airtours

Turnover	n/a	n/a	n/a	n/a	24.2	36.3	66.1	68.3	102.5	155.6	183.0
Profit	n/a	n/a	n/a	n/a	0.7	1.8	2.0	2.0	4.1	5.2	6.3
%	n/a	n/a	n/a	n/a	2.9	4.9	3.0	2.9	4.0	3.3	3.4

Yugotours

Turnover	18.3	25.9	27.7	32.2	39.9	58.5	68.6	80.6	99.4	110.1	n/a
Profit	0.5	1.4	1.4	1.1	2.1	2.9	1.6	1.9	1.4	7.1	n/a
%	2.7	5.4	5.0	3.4	5.3	4.9	2.3	2.4	1.4	6.4	n/a

(Source: Jordans 1982, Jordans 1984, Mintel Tourism Special, 1985, Retail Intelligence 1988, Retail Intelligence 1990, Company Reports).

## NOTES

- 1 Key Note Report, 1979, Travel Agents & Overseas Tour Operators.
- 2 Key Note Report, 1987, Travel Agents & Overseas Tour Operators.

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## CHAPTER 8

### COMPETITION AND STRUCTURE OF THE UK TRAVEL RETAILERS' SECTOR IN THE 1980'S

#### 8.1 INTRODUCTION.

The definition of a travel agent is still not properly agreed by the Association of British Travel Agents, but a proposed definition reported in the trade press is that a travel agent is:

"A person acting as an agent dealing direct with members of the public in the sale of travel and related services." (Travel Trade Gazette, April 1990)

The vast range of holidays on offer from a large number of tour operators, the array of airline travel schedules and pricing alternatives have enabled travel agents to consolidate their service role with the holidaying public. Travel retailer outlets are increasingly viewed not simply as a place to book the holiday of your choice but as a personal service to help with the choice of your holiday. Major multiples, regional and local specialists alike have developed and exploited this image, capitalising on the steady growth of demand for overseas travel from both holidaymaker and business traveller.

The extensive range of products and services provided

by most travel agents, with varying degrees of specialisation, can be divided into three main areas: inclusive tours abroad to a wide selection of locations; business travel and accommodation to any worldwide destination; flights, accommodation, ferries etc. for the independent traveller. In addition to these basic services almost any overseas holiday or business visit requirement, including car hire, travellers' cheques and conference bookings can now be handled through many travel agents.

An ITQ article <sup>1</sup> stated that the number of travel retail businesses increased between 1970 and 1984 by 3.6%. This growth is less than the percentage increase in the number of total ABTA outlets, which proves that the multiples are growing.

Travel retailers have three clear market segments - business travel, independent travel and package holidays. These segments are as important to the travel retailer as the long haul and short haul market segments are to the tour operators. To a majority of retailers, the package holiday market is vital for survival.

According to Euromonitor, <sup>2</sup> travel retailers in the UK have three main problems which are: space (only

a limited range of brochures can be stocked); knowledge (staff can only familiarise themselves with certain countries/resorts/hotels/booking systems); layout (prime space may be allocated to the most profitable products).

Retailers vary from company to company in the products they concentrate on. Lunn Poly concentrates on holiday travel, calling their outlets holiday shops. The company does not sell coach or rail tickets, other major multiples having a larger interest in the business market. Multiple retail outlets have a variable trade mix between holiday and business travel. Independent retailers tend to concentrate on holiday business, as the multiples can provide better facilities to business clients.

## 8.2 NUMBERS OF TRAVEL RETAILERS DURING THE 1980'S.

A major feature of the retail trade during the 1980's was the growth in the numbers of outlets. In 1980 there were just over 4,000 outlets and in 1990, just over 7,000, an increase of 75% in ten years.

The number of companies rose from 2,000 to 3,000, a 50% increase, whereas the branch number increased from 2,500 to 4,500, an 80% increase. Companies are

therefore getting larger.

Table 8.1 Total Number of ABTA Travel Retailers 1980's.

1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990

Companies

1950 2094 2211 2396 2537 2647 2794 2881 2928 2968 2971

Branches

2448 2687 2844 2903 3196 3372 3551 3988 4432 4538 4460

-----

Total

4398 4781 5055 5299 5733 6019 6345 6869 7360 7506 7431

-----

(Source: ABTA)

The retail travel trade is so fluid in terms of companies leaving and entering the industry, that the exact number of outlets is difficult to establish at any one period.

In 1990 there was a decline in the total number of outlets, the first time in the decade.

It is possible that the saturation point has been reached for the number of retailers. The Travel and Tourism Analyst in 1986 stated that saturation point would be 7,000, which would be attained in 1989. That number of outlets was reached in 1988, but the effects



of the recession and the Gulf war could be major factors in the reduction of retailers preventing an accurate assessment and evaluation of the figures.

The number of retailers would seem to mirror the increase and decrease in the number of inclusive tours. This indicates the reliance of the travel retailers on inclusive tours, indeed chapter 3 indicated that over 50% of retailers' revenue was earned from inclusive tours. In 1990 the Travel Trade Gazette reported that: <sup>3</sup>

"Almost 300 ABTA travel agencies have closed in the last year, according to figures released at World Travel Market. There were now 7,208 ABTA agencies compared with 7,492 in November 1989."

For the whole of 1990 the net loss to ABTA was forty two companies with 293 outlets, illustrating the seriousness of the problems to the travel trade of the recession and the Gulf War. According to ABTA, in December 1990, there were 7,148 travel retailers, a decline over 1989 of 358 retail outlets.

### 8.3 THE GROWTH OF THE MULTIPLE TRAVEL RETAILERS.

The next aspect to be looked at is how many of the above outlets are operated by the largest multiple travel retailers.

Table 8.2 Growth of The Multiples During the 1980's.

	<u>1980</u>	<u>1982</u>	<u>1983</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Lunn Poly	42	65	180	202	210	330	439	507	509
Pickfords	92	186	195	230	253	357	368	380	380
Thomas Cook	126	186	220	302	421	338	357	377	374
AT Mays	30	124	135	196	205	233	245	293	293
Hogg Robinson	34	143	150	194	246	238	247	244	254
WH Smith	17	88	90	99	110	126	194	198	151

-----  
 Total Top 6 341 792 970 1223 1445 1622 1850 1999 1961  
 -----

Total ABTA 4398 4983 5299 6019 6463 6996 7409 7513 7431  
 -----

% Top 6 To Total Of

ABTA Units 7.7 15.9 18.3 20.3 22.3 23.2 25.0 26.6 26.4  
 -----

(Sources: Travel Trade Directory 1980, 1984 ITQ Article on Travel Agents, 1985 Which Holiday? Magazine, Mintel May 1984, ABTA, Key Note Report 1985, Mintel Retail Intelligence 1986, Mintel April 1988, Monopolies and Mergers Commission report on Thomson/Horizon Takeover and various trade sources).

The top six multiples have gone from controlling only 7.7% of the total number of outlets in 1980 to having just over 26% in 1990. The concentration in the retail sector during the 1980's increased significantly. Mintel <sup>4</sup> estimated that by late

1986, the proportion had risen to 22-23%. This is a substantial increase in numbers of travel retail outlets. The increase in the proportion of outlets operated by the multiples is at the expense of the smaller retailers. The percentage of outlet ownership can be viewed in relation to the market shares.

The main aspect that can be noted is that at the beginning of the 1980's Thomas Cook was clearly the market leader in terms of the number of outlets. However, after 1987 Lunn Poly became the major force in travel retailing, as the company's parent, Thomson Travel, became the major force in tour operating. The rise in the numbers of Lunn Poly outlets from only forty two in 1980 to 509 in 1990 is unparalleled.

Table 8.3 Top Ten Multiples in the 1980's and 1990.

<u>1980</u>			<u>1985</u>		
1	Thomas Cook	126	1	Thomas Cook	302
2	Pickfords	92	2	Pickfords	230
3	Ellerman	53	3	Lunn Poly	202
4	Lunn Poly	42	4	AT Mays	196
5	Nairn Travel	41	5	Hogg Robinson	194
6	Frames Tours	36	6	National Travel	134
7	Renwicks Travel	35	7	WH Smith	99
8	AA Travel	34	8	AMEX	88
9	Blue Star Travel	34	9	Exchange Travel	58
10	Hogg Robinson	34	10	AA Travel	56
<u>1988</u>			<u>1990</u>		
1	Lunn Poly	439	1	Lunn Poly	509
2	Pickfords	368	2	Pickfords	380
3	Thomas Cook	357	3	Thomas Cook	374
4	Hogg Robinson	247	4	AT Mays	293
5	AT Mays	245	5	Hogg Robinson	254
6	WH Smith	194	6	WH Smith	151
7	Exchange Travel	89	7	Exchange Travel	126
8	AA Travel	82	8	Co-op Travel	111
9	Badger Travel	75	9	AA Travel	86
10	AMEX	61	10	AMEX	72

(Source: ABTA)

The change in the top ten retailers between 1980 and 1990 is not as great as in the case of the tour

operating sector.

A 1984 survey <sup>5</sup> stated that in 1984 the top ten multiples accounted for 25% of all the ABTA travel agency outlets in the travel agency sector. The multiples are not only growing by opening new units, but also by taking over smaller, medium sized units.

These are the only major changes in the 1980's that have affected the structure and competition of the top ten retailers. Medium sized chains such as Ellerman, Nairn Travel, Frames, Renwicks, Badger travel and National Travelworld have been absorbed, partially or wholly, by the majors and there is still room for more amalgamations of this sort.

In 1989 two more companies joined the major multiples with 100+ outlets, Co-op Travelcare (116 shops) and Exchange Travel (113 outlets, 71 franchised). However, Exchange Travel collapsed in 1990, with 126 outlets.

The ownership patterns of the top ten retailers show surprising features with four chains being linked to banks/financial institutions, Hogg Robinson Travel linked to Hogg Robinson Insurance, Co-op Travelcare linked to the Co-op bank, Thomas Cook owned by the Midland Bank and American Express owned by the American Express credit card company. In 1989 there were five

retail chains, with AT Mays being purchased by the Royal Bank of Scotland before being bought by the Carlson Travel Group in 1990.

#### 8.4 SMALLER RETAILERS AND REGIONALLY BASED RETAILERS.

Table 8.4 Outlet Numbers for a Sample of Retailers  
1989/1990.

##### Medium (20-99 outlets)

AA Travel	86 outlets
American Express	72 outlets
Bath Travel	42 outlets
Central Midlands Co-op	32 outlets
Intatravel	27 outlets
Bakers Dolphin	25 outlets
United Co-op Travel	25 outlets
Travelcentre	21 outlets
Travelwise (NE Co-op)	21 outlets

##### Small (10-19 Outlets)

Premier Travel	14 outlets
Land Sea Air Travel	10 outlets
Greater Notts Co-op	14 outlets
Yorkshire Co-op	10 outlets
North Yorks Co-op	10 outlets
York Bros	11 outlets
Norwest Co-op	11 outlets
Hourmont Travel	11 outlets

(Source: ABTA)

In total there are what could be described as four 'levels' of retailers: the major multiples with 100+ outlets; 20-99 outlets; 10-19 outlets; single retail outlets. By dividing the retailers up into these categories, the analysis of the sector is much easier to understand.

In November 1990 the Co-operative travel groups were considering joining forces with each other to negotiate with tour operators. The number of outlets would then be close to 220. This is an attempt to compete with the larger multiples to gain favourable terms from the tour operators. This would be a combination of Co-op Travelcare (CRS) and the Co-op (CWS) travel groups, some trading under the names of Forward Travel UK and Albion Travel Ltd.

Those companies with ten to fifty outlets are normally based in a particular geographical region. Those who are larger can be classified as national retailers. When looking at competition in this sector it is an important feature, as it is different between regional and national retailers. Regional outlets may have created a local customer base that is very loyal, whereas national retailers have a much more national identity.

Table 8.5 Regionally Based Travel Retailers 1990.

<u>Company</u>	<u>No of Outlets</u>	<u>Regional Base</u>
Bath Travel	42	Wessex
Althams Travel	29	West Yorks and Lancs
Don Everall	29	West Midlands
Intatravel	27	East Anglia
Bakers Dolphin	25	South West
Woodcock Travel	22	South Yorks and Notts
North East Co-op	21	North East
Travelcentre	21	Staffs and Cheshire
Callers-Pegasus	20	Tyne Tees
The Travel Centre	20	Stoke-on-Trent
Greater Notts Co-op	14	Nottinghamshire
Premier Travel	14	East Anglia
York Bros	11	Northampton
Norwest Co-op	11	North West
Hourmont Travel	11	Wales
Land Sea Air Travel	10	South West
Yorkshire Co-op	10	Yorkshire
North Yorks Co-op	10	North Yorkshire

(Source: Jordans Report 1990, Travel Agents and Overseas Tour Operators, Euromonitor 1990 UK Travel & Tourism).

The retailers most vulnerable to closure are those with only one or two outlets, and many of their number have ceased to be viable. This is because they do not have the economic power of the larger companies.



Those retailers with ten to fifty outlets are the most vulnerable to takeovers. This is because they are only very strong in particular geographical locations. This, in the main, is what the larger companies may be looking for.

#### 8.5 CONCENTRATION IN THE TRAVEL RETAILING SECTOR.

One of the main characteristics of the travel retail sector is the increasing trend, during the 1980's, towards concentration of the market into a very small number of companies.

The 1986 Mintel report <sup>6</sup> commented on the difficulty of giving accurate figures:

"Concentration has increased sharply over the last couple of years and the trend is still continuing. This makes the task of providing a snapshot of the main operators that much more difficult since it is entirely conceivable in a situation of such fluidity to find that figures have changed between compilation and publication. Statistics quoted in this section are, however, as up to date as Mintel has been able to make them."

The best way of demonstrating the concentration in the travel retail sector is to look at the different size classifications mentioned previously, and examine how they have grown during the 1980's. This should enable identification of which classification of retailers are growing and which are declining.

Table 8.6 Travel Retailers with Ten or More Branches  
1981-1985.

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Large (over 100 branches)	2	2	2	4	5
Medium (20-99 branches)	16	18	18	15	13
Small (10-19 branches)	11	10	12	10	7

(Source: Monopolies and Mergers Commission Report, 1985, Foreign Package Holidays).

In addition to the above, 1988 is shown below.

Table 8.7 Travel Retailers with Ten or More Branches  
1982-1988.

	<u>1982</u>	<u>1985</u>	<u>1988</u>
Large (100+)	2	5	6
Medium (20-99)	18	13	19
Small (10-19)	10	7	21

(Source: Mintel Leisure Intelligence, Volume 1, 1989)

It can be established that the number of large chains has increased whilst the medium and the small chains have decreased. In 1990 the number of the large companies had reached eight (until the demise of Exchange Travel) and in 1991 the figure may be seven. The trend during the 1980's therefore, is the large chains increasing at the expense of the small and medium chains.

Table 8.8 The Concentration in the Travel Agency Business in 1985.

	<u>% of outlets</u>	<u>% of package tour sales</u>
Top 5 Agencies	20	25
Next 5 Agencies	4	6
All Others	76	69
	---	---
Total	100	100
	---	---

(Source: Mintel Retail Intelligence, Autumn 1986, Travel Agents)

The dominance of the top five chains is shown, with 20% of the total number of outlets and 25% of the total number of package tour sales. A clearer picture of the concentration in 1987 is outlined below.

Table 8.9 ABTA Travel Agency Ownership as at November 1987.

<u>Outlets</u>	<u>Companies</u>	<u>Total outlets</u>	<u>% Outlets</u>
1	2,056	2,056	29.6
2-5	743	1,920	27.6
6-20	74	691	9.9
21-100	14	792	11.4
101+	5	1,496	21.5

(Source: Key Note Report, 1988, Travel Agents and Overseas Tour Operators)

Polarisation of the retail sector is clear from the figures: The largest numbers of outlets are those with fewer than six outlets and those with more than one hundred outlets. The lowest numbers of outlets, are between six and one hundred, as many of the small & medium chains have been taken over by large companies.

It is clear from the breakdown shown that the largest band of retailers in the industry are single unit companies.

#### 8.6 MARKET SHARES OF TRAVEL RETAILERS.

According to a Mintel article <sup>6</sup>, a general point that should be made concerns market share by level of business. Deriving precise market shares is very difficult because the figures emanating from the various leading groups are not comparable. Many groups such as Thomas Cook and Lunn Poly include own label holiday sales (as opposed to merely the commission gained from them) while others like the Hogg Robinson group include 'travel and transport' with other services, in this case, financial services.

Different agencies have different relative strengths and weaknesses. For example, whereas Hogg Robinson is strong in the business travel sector, the Scottish chain AT Mays is stronger proportionately in leisure

travel and comparatively weak in the business market. Not all travel agency outlets generate uniform levels of business, and so relative importance in terms of number of outlets is not necessarily a precise reflection of standing in terms of market share.

Table 8.10 Market Shares for Travel Retailers 1980's.

	<u>1980</u>	<u>1982</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Lunn Poly	0.5	2.0	5.5	9.0	5.0	11.0	14.0	15.0	25.0
Thomas Cook	2.5	5.0	9.0	10.0	11.0	12.0	12.0	12.0	13.0
Pickfords	2.0	4.5	5.5	5.5	6.0	7.0	9.0	10.0	12.0
Hogg									
Robinson	0.5	3.0	3.5	4.0	8.0	4.5	4.0	4.5	5.0
AT Mays	0.5	2.5	2.5	2.5	3.0	4.0	4.0	5.0	5.0
-----									
Total	6.0	17.0	26.0	31.0	33.0	38.5	43.0	46.5	60.0
-----									

(Source: James Capel, Mintel Retail Intelligence 1986, Mintel April 1988, Trade Press)

In 1980 the market share of the top five multiples was 6%, which had risen to 60% by the end of 1990. The early 1980's witnessed a large increase in the proportion of the total number of outlets being controlled by the multiple retailers. The concentration of market shares in the retail sector, is very similar to the tour operating sector, shown in the

previous chapter.

It can be seen that Lunn Poly's market share has rapidly increased, reflecting its increase in the number of outlets. Thomas Cook has remained static as its outlet numbers have changed very little. In 1990 Lunn Poly claimed to have 25% market share, 7 the top ten multiples claim to control 67% of all holidays booked and Thomas Cook claims to have 12% of the winter market share.

Lunn Poly is putting more operators brochures on its shelves 7 with an aim to diversify activities. These companies are specialist holiday operators, and the addition of 222 companies is a considerable increase. Lunn Poly state that this is due to what they call the "flagging fortunes" of the traditional package holiday. The smaller businesses are being given racking space, due to the fact that Lunn Poly has experienced a drop in business "by a few percent" for the major tour operators.

Lunn Poly has a great deal of power in the market place, and this could create serious problems for tour operating companies. In September 1990, Lunn Poly removed Airtours brochures from their shelves, as the company refused to pay higher commission rates. Lunn Poly accounted for 18% of Airtours sales, who intended

to sue Lunn Poly, but the matter was settled three weeks later. Lunn Poly stated it dropped Airtours because the product was substandard.

When looking at market share it is demonstrated that the most dramatic increase in the market share came during the late 1980's, from about 1986/1987 onwards. This was a time when the high street retailers started to advertise aggressively and undertake discounting, which was not allowed before 1986 under ABTA regulations.

One of the multiples has predicted that the top travel agency chains will control about 80% of the retail market by 1991. In 1988 it was estimated that they controlled about 30-40% of the market share. This has the result that they are controlling a larger market share than is proportionate to the number of outlets they control. In contrast, the independents have a smaller market share in proportion to the number of outlets they control. The implication of this is that the independents and small multiples will not be able to generate enough turnover and profits to survive.

In 1990 the top five multiples controlled 60% of the holiday business, therefore, the predicted 80% figure could materialise by the end of 1991. It can be seen that at the beginning of 1990 over half of the retail

travel trade was controlled by the top five multiples, but it remains to be seen if this can last, given the lack of profits and the choice of outlets that the consumer has in each town.

#### 8.7 RETAILERS WHO ALSO ACT AS OPERATORS.

Some companies do not only act as retailers, but also as operators. Examples of these are Lunn Poly, Thomas Cook and American Express.

Table 8.11 Number of Companies acting as Retailers & Operators 1980's.

<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
254	247	220	221	228	222	246	334	339	339	344

(Source: ABTA)

The number of retailers who also act as operators has increased during the 1980's but less than those who are retailers only. In the late 1980's the numbers had virtually stabilised. This could indicate that those retailers with small tour operations are finding it difficult as the large tour operators dominate the market so much.

As a general rule the tour operations of these companies are very small indeed, with the exception of



companies such as Lunn Poly, who are linked with Thor on Travel. Thomas Cook, in 1985, made a decision to sell their tour operating products through their own outlets only. This was aimed at protecting their tour operating branch from the large tour operators.

#### 8.8 TRAVEL RETAILERS TURNOVER AND PROFITABILITY.

One of the main areas of retailing that should be examined is turnover and profitability. Turnover and profitability for the major travel retail chains are shown at appendix 8.1.

Table 8.12 Total Travel Retailers Income 1980's £m.

<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1988</u>
275	320	375	450	450	510	635

(Source: Mintel Retail Intelligence, Autumn 1986, Travel Agents, Euromonitor, 1990, UK Travel & Tourism).

The total income for retailers went up by 130% during the 1980's. Due to the pricing policies used in the industry this is unlikely to be a result of higher prices. The most likely reason is the increase in the number of customers.

In the cases of Hogg Robinson and AT Mays, the figures include transport, which is quoted together with travel, and are impossible to separate accurately. In the case of Thomas Cook the figures include its travellers cheque business, tour operation and a worldwide network of retailers, rather than a national network as in the case of other multiples. In 1985 Thomas Cook had 1350 retail outlets worldwide in 137 countries.

Pickford's figures included the tour operation Tradewinds, which has since been sold.

The figures for AT Mays include two small tour operations, motor garages and travel insurance. However, the company report states that the company's major activity is travel retailing, indicating that this is the source of the majority of turnover. In 1984 AT Mays merged with Nairn Travel, and in 1985 the company took over Hunting Lambert, adding over eighty outlets to the company's total, which accounts for the large increase in turnover in 1985.

It is clear that in comparison to turnover the profits are very small. In the latter half of the 1980's profits were reduced due to the practice of discounting. Offering discounts to customers diminishes the profits of the retailers, as they pay

the tour operators the brochure price. This is seen from 1987 onwards in the cases of Lunn Poly and Pickfords.

Pickfords Travel Service had severe financial problems in 1989 and 1990, with evident losses on their travel division. It is the only top retailer to show losses.

The high profit percentages of Hogg Robinson could be a result of the contribution by other components of the travel and transport division such as container shipping.

In 1982 there was a reduction in profits earned by the major retailers. This could be as a result of the Falklands War, but precise analysis is hampered by lack of information.

Mintel in 1986 estimated that Thomas Cook's turnover from retail travel sales alone was £60 million. This suggests that Thomas Cook's traveller's cheque business is also worth in the region of £60 million, as its UK business totalled £120 million. This helps to establish the value of the traveller's cheque business to the travel agents turnover.

ABTA undertook their own research in 1986 on income in the retail sector. The survey discovered that 13% of

travel agents had a turnover of less than £200,000, and 24% had sales of between £200,000 and £300,000. Only 3% of retailers had 51% of sales and 69% of retailers accounted for 17% of sales. Turnover for ABTA members with sales of less than £1 million per annum rose by 4%, but those with sales over £1 million rose by 45%.

This again illustrates the domination of the market, seen previously in terms of outlets and market shares, now shown in terms of turnover. This research indicates that, proportionally, the multiples have a greater turnover compared to the number of outlets and their market shares in 1986.

The income mix for the average travel retailer will now be examined. This is necessary to see how retailers gain the turnover previously looked at.

Table 8.13 Travel Retailers Income Mix 1980's (%)

	<u>1986</u>	<u>1987</u>	<u>1989</u>
Inclusive Tour Sales	40	42	43
Business Travel Arrangements	33	32	34
Personal Travel Arrangements	10	9	9
Insurance Commissions	6	6	5
Interest Receivable	3	3	5
Other Income*	8	8	4
	---	---	---
Total	100	100	100
	---	---	---

\* Includes gross profit on own package tour sales.

(Source: Mintel Retail Intelligence, Volume 5, 1988, Retail Intelligence, Volume 3, 1990, Retail Intelligence, Autumn 1986).

The breakdown of holiday income and other business is shown below for 1988.

Table 8.14 Travel Retailers Income 1988.

	<u>£m</u>
Holiday Commissions	260
Other Products & Services	375
	---
Total	635
	---

(Source: Euromonitor, 1990, UK Travel & Tourism).

It can be deduced that the majority of turnover comes from inclusive tour sales, accounting for just less than half of a retailer's turnover mix. Much, however, will depend on the mix between business travel and inclusive tours for particular retailers; the figures above are for an average business mix.

Some companies will experience a higher business travel mix than inclusive tours, depending on how the retailer is orientated, or a higher independent mix compared to package tours.

The interest receivable income is the interest earned from advance deposits. This it can be seen to be a small but significant contribution to the travel retailer's income at about 5% of the total.

As far as business travel is concerned, some companies have implants (retail outlets) within industrial companies and others have a section of some of their retail outlets acting for business customers. The income figures above indicate the importance to the retailer of business travel.

Companies such as Lunn Poly do not have any business travel activity at all, selling their business outlets to Pickfords Travel in 1986, which had 35 units.

Pickfords has a separate business travel section; AT

Mays and Hogg Robinson also have business travel outlets. In 1988 Hogg Robinson only had 47% of its turnover accounted for by holiday travel. Thomas Cook had an estimated 60% turnover accounted for by holiday travel.

In the middle of 1988 Hogg Robinson had forty eight business travel centres and fifty three implants. In January 1990 they had seventy one business travel implants. These business contracts include the contracts of Hewlett Packard, May and Baker and the British Airports Authority. Pickfords travel had twenty two implants in 1986, with a total of seventy seven dedicated business outlets and claimed to have the contracts of JCB, Property Services Agency, SPP Tyres, Tandem Computers, Goodyear and Iveco Foods in 1987.

AT Mays tend to have most of the business travel contracts in Scotland. In 1990 American Express had nine business travel outlets and thirty eight implants in major industrial companies. Therefore, in the business travel market, the multiples have most of the contracts as they are better prepared in terms of the quality of staff and the technology, also the backing of major parent companies is to their advantage. They are possibly able to afford more experienced staff than independent retailers.

## 8.9 RETAILERS OTHER TRAVEL INTERESTS.

Table 8.15 Top Travel Retailers Other Travel Interests  
1990.

<u>Retailer</u>	<u>Direct Sell Arm</u>	<u>Tour Operation</u>
Lunn Poly	Portland	Thomson Travel
Pickfords	Nil	Nil
Thomas Cook	Access Holiday Club, Travel by Phone,	Rankin Khun, Compass Travel, Thomas Cook Travel, Inter-Church Travel
Hogg Robinson	Nil	Nil
AT Mays	Nil	Alta Holidays, Brighter Holidays, Thistle Air Brokers Solair Tours,

(Source: Mintel Leisure Intelligence, Volume 1, 1990,  
Euromonitor, UK Travel & Tourism 1990).



Some of the major retailers have both direct sell arms and tour operation arms. The strongest link is between Lunn Poly and Thomson Travel. This again is an attempt to gain maximum amount of market share, by offering the consumer many different ways to book holidays.

Thomas Cook and Hogg Robinson also look to increase their market share by offering a total travel service; Thomas Cook with traveller's cheques and Hogg Robinson with insurance.

It should be noted that other smaller retailers have tour operations and other travel services. This includes such companies as American Express, which has a small tour operation and also offers traveller's cheques. The Automobile Association includes motoring holidays and also has a chain of retailers.

Of the other small retailers including tour operations, many have not been mentioned due to their small size in either sector. The main concentration has been on the top five travel retailers, in the same way as the last chapter concentrated on the top five tour operators.

## 8.10 TRAVEL RETAILER FAILURES.

The low profitability of retailers has been studied already; this chapter now looks at travel retail failures to try to demonstrate how difficult it is for travel retailers to survive in the market place. The number of cessations in the retail trade is very large each year and is only compensated for by the increase in new companies, or the outlet numbers of existing companies.

From August 1988 to August 1989 17 retailers closed down. From August 1989 to August 1990 the figure was 36 and from August 1990 57 companies have collapsed. In the financial year 1989/1990 233 retail outlets closed which was counter balanced by 237 new travel retail outlets obtaining ABTA membership, of which some were new multiple outlets opening. This resulted in a net increase in ABTA retailers of four.

In 1990, some of the losses have been due to multiples reducing outlet numbers. WH Smith have reduced their number by thirty three in 1990 to "concentrate on direct marketing activities". A majority of retail closures during 1990 were companies with single outlets. There have been some notable cessations such as Exchange Travel with 126 outlets, Neilson Travel with nineteen, Berkshire Travel (in-store ASDA travel

retail outlets) with twelve, Four Corners (British Airways) with thirty three and Lewis's Travel Bureau with thirteen. Many of the others have been companies with one to three outlets.

Berkshire Travel Service, which opened in 1988 and was based in ASDA superstores, offered discount schemes to ASDA customers. Some of the outlets of the larger companies that have failed have been bought by other companies. Co-op Travelcare bought nineteen of Exchange franchise branches, the Co-op group is keeping Lewis's Travel trading, Thomas Cook bought the Four Corners operation and then closed eighteen of the branches, AT Mays purchased some of the Berkshire Travel outlets.

There is an unusually high incidence of businesses opening and then closing shortly afterwards. One possible reason for this is the fact that it is reasonably easy to enter the industry if capital is available, but people who open travel retail outlets through interest do not necessarily have experience of running a business. People who work for large multiples see their chance to be their own boss. In some cases married couples set themselves up in business, especially where they both have experience of working in the industry.

Another reason for the lack of success for the travel retail business is that it is vulnerable to outside influences, such as acts of terrorism, wars, sterling exchange rates, high interest rates. High interest rates mean that fewer consumers can afford to travel, and in some cases retailers costs went up due to business loan repayments going up, increasing costs and reducing profits. Those companies that offer incentives and reduce profit levels risk pricing themselves out of business.

#### 8.11 ANALYSIS OF THE TRAVEL RETAIL SECTOR.

These individual aspects of the travel retail sector can now be collated to analyse the retail sector as a whole, incorporating market shares, concentration and cessations.

The figures above have illustrated that the large retail chains have grown throughout the 1980's. As the 1990's are entered, however, a decline in the number of outlets can be seen, which could suggest that the market has reached saturation point in terms of the numbers of retailers.

The decline in the number of package holidays, is reflected by a decline in the number of retailers, indicating that the travel retail market is heavily

dependent on package holidays. Independent travellers and business travellers only form a small percentage of travel retailers income as was outlined in chapter 3.

Companies increase in size for reasons of economies of scale and market domination via market share. The increased market share enables retailers to discount due to the volume, which increases their volume yet again. This is the same situation as was seen with the tour operators. The concentration in the retail sector has created an oligopoly, a market dominated by a few companies.

Costs of new technology can be spread throughout outlets making it more cost-effective, a demonstration of economy of scale. National television advertising is at its most cost effective with 400 outlets, as with that number they would be well represented throughout the country, according to Pickfords Travel (Source: Travel Trade Gazette 1989).

Another reason for takeovers/mergers in the retail sector is that if a retailer is short of representation in one particular geographical area, then it could take over a regionally based retailer with twenty or so outlets, giving it instant market coverage in the place where it was lacking.

Since 1986 retailers have been competing for market share on price. Discounting holiday prices to attract customers reduces profits substantially. Retailers offer discounts on holidays over a certain price and also offer other incentives such as free gifts, free travel insurance and so on.

Competition based on price does not normally work in oligopolies, however the retail sector like the tour operator sector is a mix of competitive models. At the top end of the market there is an oligopoly and at the bottom end of the market there is a more competitive nature in the industry. There are, in fact, three or four competitive models applicable to the retail sector, dependent on the number of outlets a company has. Those with 100+ outlets are in an oligopoly market, those with a progressively decreasing number of outlets operate in an accelerating competitive market, right down to single outlets which operate in the hardest competitive environment. This is why single unit failures are in the majority in the retail sector.

This would explain why price reductions gain market share for the major retailers, normally in an oligopoly this would not be so. The major retailers do not gain market share of each other but from the small retailers, which results in them going out of business.

The evidence for this is the fact that the larger multiples keep gaining market share, and the numbers of smaller multiples going out of business are growing fast. They can not compete with the large companies on discounting and so on. Single outlets can possibly succeed in places where there is a captive market of loyal customers, and it is not worth the large companies opening an outlet.

The 1984 ITQ article on travel retailers <sup>1</sup> supports this view:

"National chains become more efficient, they secure higher turnovers per outlet on reduced operating costs, thereby allowing them to occupy the more expensive prime high street locations, which gives a further boost to turnover potential. This growth of the multiples' market share concerns not only the independent travel agent but also the surplus of travel products/services (i.e. the tour operators, airlines, hotels) who fear that the multiples will soon gain sufficient power to dictate the terms of trade with their principals....  
....The independent agent is losing ground, both in respect of outlet numbers, growth and market share, to the multiples. One factor is, of course, that their operating costs are higher than those of the major multiples. The falling proportion of outlets that the independents comprise demonstrates their relative decline. However, this does not prevent new entrants from joining their ranks in quite substantial numbers."

In Mintel (1988) an article <sup>4</sup> stressed that the

independents could compete:

"The big travel agencies have taken over a proportionately bigger share of travel agency outlets in the last few years. Trade estimates put the five major companies, Thomas Cook, Lunn Poly, Pickfords, AT Mays and Hogg Robinson at jointly having a 32% share of the overseas holiday market in 1986, compared to 18.5% in 1982. The independent companies, in an effort to fight back, have collaborated in forming groups like the Guild of Business Travel Agents, and the National Association of Independent Travel Agents. Many are offering services which are more specialist than those of the major companies, for example, student travel. As such they have been able to continue undeterred by the mergers, takeovers and price wars going on around them."

In March 1989 a warning <sup>8</sup> that there were too many travel agents in the business, and particularly too many multiples, came from Falcon Leisure's boss, John Boyle. He said that the industry would not be profitable and customers would not be serviced properly until there were fewer travel retailers operating in the high street. He also predicted the UK's eight main multiple travel agency chains would shrink to "three serious players" within the next three years.

As an example of areas which had an excess of travel agents, the Scottish town of Ayr was cited where there were no fewer than 11 agents, seven of them multiples, serving a population of only 50,000 people. This, it was stated, was more than the number of shoe shops in



the town and three times the number of supermarkets.

John Boyle said:

"Too many multiples means battle for market share, reductions in prices and no real profit, just like the tour operating business five or six years ago."

He predicted that this would change because;

"No matter how big and how rich the holding companies are, they cannot and will not be allowed by their shareholders to pour money into a non-profitable market in order to gain a foothold or even a foothold."

In the next three years he said there would be three possibly four, serious multiples;

"The rest will have folded into one or other of their competitors. They will be the retail equivalent of tour operators like Blue Sky, Wings, Ellerman, OSL and Global. For some, the real cost of buying market share is going to be too hot to handle and it will be a rerun of the rationalisation of the tour operating business we have seen over the past few years."

He also stated that the abrupt downturn in 1989 in bookings should "concentrate our minds on where we have been lazy or have gone wrong". He went on to say that the trade should not think that this drop in bookings was a temporary phenomenon which would be rectified when mortgage rates came down. Many clients believed a

foreign holiday was probably unsafe, certainly uncomfortable and increasingly becoming unfashionable. The trade must act now to improve what it knew were unacceptable levels of service in what was now a mature business.

In April 1989 an article in the Travel News<sup>9</sup> suggested that:

"Some of the biggest names in the retail trade are likely to disappear within the next five years, according to Intasun's managing director Roger Heape. It would not be long before the travel agency side of the business went the same way as tour operating, with just two or three main players."

#### 8.12 CONCLUSION.

The total number of retailers almost doubled during the 1980's and has become increasingly polarised in the same manner as the tour operating sector. The major multiples are growing at the expense of the medium sized retailers. The evidence of polarisation is shown in the number of outlets owned by the top multiples in comparison to the industry total.

Market share followed the same pattern as the numbers of outlets, and during the late 1980's the market share of the top five multiple retailers increased to 60%.

The success of the multiples has occurred in conjunction with the increase in the number of package holidays taken. As the holiday market slowed down and started to decline the numbers of retailers followed the same pattern.

The retail sector had very low profitability compared to turnover, which rose by over 100% during the decade, as a result of the increase in the numbers of people taking holidays. About 50% of the income of travel retailers was accounted for by package tours. The low profitability has led to an increasing number of companies closing each year.

Appendix 8.1 Travel Retailers Turnover and Profit 1980's £m.

1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990

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Lunn Poly

Turnover	7.8	8.4	9.3	10.3	16.2	21.4	21.6	44.3	60.1	61.2	n/a
Profit	0.7	0.5	0.3	0.1	0.4	1.2	2.0	3.1	0.7	4.1	7.2
%	8.9	5.9	3.2	0.9	2.5	5.6	9.3	7.0	1.2	6.7	n/a

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Pickfords

Turnover	6.0	10.0	11.6	13.6	21.8	22.6	38.7	54.9	67.8	70.6	76.2
Profit	1.1	0.8	(0.2)	0.7	1.1	2.4	2.3	0.8	3.6	(3.5)	(2.7)
%	18.3	8.0	(1.7)	5.1	5.0	10.6	5.9	1.5	5.3	(4.9)	(3.5)

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Thomas Cook

Turnover	92.3	166.3	200.6	214.6	261.9	235.7	258.7	281.1	346.6	368.9	n/a
Profit	9.5	5.9	(0.4)	14.8	16.7	18.6	13.4	11.3	19.3	22.5	n/a
%	10.3	3.5	(0.2)	6.9	6.4	7.9	5.2	4.0	5.6	6.1	n/a

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Hogg Robinson

Turnover	5.0	8.6	13.0	16.9	17.7	27.2	32.1	41.3	51.4	29.7	31.8
Profit	0.8	1.0	1.7	1.2	2.0	2.5	3.4	5.1	6.7	3.3	3.5
%	16.0	11.6	13.1	7.1	11.3	9.2	10.6	12.3	13.0	11.1	11.0

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AT Mays

Turnover	40.5	47.4	52.9	53.2	102.7	128.5	216.7	263.1	288.0	361.0	n/a
Profit	1.2	1.1	0.7	0.8	1.1	0.9	1.6	1.9	3.0	2.6	n/a
%	3.0	2.3	1.3	1.5	1.1	0.7	0.7	0.7	1.0	0.7	n/a

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(Source: Jordans 1982, Jordans 1984, Mintel Retail Intelligence 1988, Mintel Retail Intelligence 1990, TTG, Company Reports).

## NOTES

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- 2 Euromonitor, 1990, UK Travel and Tourism.
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## CHAPTER 9

### INNOVATIONS IN THE UK TRAVEL

#### TRADE DURING THE 1980'S.

##### 9.1 INTRODUCTION.

In previous chapters price and integration were shown to have created the sector polarisation which exists at the present time in the travel trade. Innovations introduced in the travel trade during the 1980's and which may affect the trade in the 1990's are now looked at. Such innovations include technological developments, direct sell, involvement of financial institutions and consortia. Some involve both sectors, and some only one sector of the travel trade.

##### 9.2 TECHNOLOGICAL DEVELOPMENTS.

The aim of introducing new technology into retailing is to increase efficiency and the production of up to date information for clients, and to increase client satisfaction. Areas of technology which concern the travel trade are: information; reservations; ticketing; invoicing; itinerary production; accounting and management statistics; marketing services; forecasting models.



There appears to be a great increase in the number of companies marketing computer systems and advice to the travel trade. Companies are trying to sign up as many agents and operators as possible in order to increase their market share. This is going to have serious implications for the training of staff. One of the main ideas for retailers is to get a competitive edge over rivals by belonging to closed user groups of particular systems.

The 1980's was the era of viewdata and videotex; the 1990's will be the era of Electronic Data Interchange (EDI). Trade sources suggest many people are now used to Computerised Reservation Systems (CRS), the next evolution will be Global Distribution Systems (GDS).

Videotex is the generic name for screen based information systems which appear in two general forms. Broadcast teletext which is a one-way service, best illustrated by Ceefax and Oracle on television. The second form of videotex and which appears in travel retailers is viewdata which represents the marrying together of a television screen as the display advice and the public telephone network as a means of transmitting information from a central computer.

Viewdata offers a two way interactive service and gives access to information in a variety of computers using

'gateway' software. A gateway is a facility allowing a company to connect its reservations computer directly into the network. Since its introduction in 1979, 90% of all UK travel retailers now use videotex systems for checking latest availability, up-to-date prices and general travel information, 85% of all travel bookings are now made through videotex (Bruce 1987). The adoption by tour operators of CRS is the key factor that led to all other developments. This was done to improve efficiency.

Videotex was adopted due to the fact that up to the 1980's the main communication channel between carriers, principals and travel agents had been via telephone, post and telex, all of which were time consuming and costly. Interactive videotex offered advantages for improving the distribution of the travel product, in particular, information about the availability of airline seats, hotel accommodation etc., and the opportunity of making electronic confirmation of reservations.

Videotex includes Prestel, launched in 1979 by British Telecom and Istel, used by 80% of top ten tour operators and 95% of retailers who have local call access. This system also includes a mailbox, for information transfer between a closed user group, such as a large multiple. Another videotex is Fastrak (a

Midland Bank subsidiary), there is also TOP (Thomson Open-Line Programme) which is Thomson's own videotex.

Table 9.1 Ownership of Operator Computer Reservation Systems 1990.

TOP	Thomson Travel
INTA	International Leisure Group
SPACE	Airtours
TOFS	Falcon Leisure Group
CIAO	Citalia
ZEUS	Aspro
PAL	Poundstretcher
QUDOS	Kuoni

(Source: Trade)

ISTEL, owned by AT&T was introduced in the mid 1980's. The ISTEL system has access to INTA (Intasun's reservation system) and also TOP (Thomson's reservation system). ISTEL also has access to Worldspan and the

PARS system, and is very widely used as a computer operating system, with access to many other operators' databases. In 1989 Unijet, a seat only tour operator, estimated that 85% of agents would be using the Istel system following an increase in the number of telephone lines.

The new types of computer systems introduced in the late 1980's are the mega reservation systems. These computer terminals enable sales staff to make reservations and issue tickets for all the major airlines providing that the travel retailer holds an IATA licence. Whichever carrier owns the system controls the booking process. It can make sure its own flights are displayed first, increasing the likelihood of them being purchased rather than a rival airline's (especially if all competing flights are not listed), as well as charging rival airlines for issuing tickets on their flights.

The airline earns revenue from space rented out to other airlines, hotels and car rental firms and from travel retailers who pay to lease the equipment. These mega reservation systems include Sabre, Amadeus, Galileo, Apollo and Pars. Some of these systems offer different services from each other. Sabre has 674 carriers, 30 car companies, 125 hotel chains, foreign currency, limousine service, gifts and flowers, theatre

and event tickets, travel guide, national weather service, rail service and tour finder listed as services available.

Travicom has fifty eight carriers, two car companies, hotel chains and British Rail service. Both systems have ticketing, invoicing, itineraries, management, and accountancy facilities. Travicom was introduced into retailers in the early/mid 1980's, whereas Sabre is being introduced in the 1990's in the UK although it has operated in the USA for some time during the 1980's.

The difference between the videotex systems and the mega reservation systems is the number of principals, tour operators and other services on the system. The new systems are more complex and sophisticated enabling the retailers to offer a better selection of services to the customer.

During the 1980's new airline Computerised Reservation Systems (CRS's) were introduced. In 1985 Sabre was introduced <sup>1</sup> into the UK, by 1990 this had been located in 300 outlets, and in June 1990 it had reached 375, and their back office system, ADS, had 28 locations.

Table 9.2 Ownership of Airline Computer Reservation  
Systems 1990.

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Apollo	United Airlines
<hr/>	
Sabre	American Airlines
<hr/>	
Pars	TWA/Northwest
<hr/>	
Galileo	BA, Swiss Air, KLM, Aer Lingus, Alitalia, Austrian Airlines, TAP/Air Portugal, Covia, The CRS subsidiary of United Airlines
<hr/>	
Amadeus	Air France, Iberia, Lufthansa, Texas Air, Finnair, SAS
<hr/>	
DATAS II	Delta Airlines
<hr/>	

(Source: Key Note Report, Travel Agents & Overseas Tour Operators 1990).

In 1987 Galileo was introduced, backed by British Airways. By 1990 this had been located in 1,800-2,000 outlets. The large number of outlets was a result of the fact that this system directly replaced Travicom, inheriting 1800 outlets, a sales service and training network which is greater than any of its rivals.

In 1987 Amadeus was founded, and is due to enter the UK market in 1991. In 1990 Worldspan was introduced which was formed from a merger of the Pars System (TWA/Northwest Airlines) and the DATAS II system (Delta Airlines). Worldspan has 300 users in the UK, through PARS (introduced into the UK in 1986), Worldspan will be used in UK retailers under its own name in 1993, by transforming the PARS terminals. In November 1990 AMADEUS and SABRE linked together.

In 1989 Sabre made a major breakthrough <sup>2</sup> into retailers worldwide with an agreement with an international consortium of retailers. The Rosenbluth International Alliance which includes Lep Travel in London and AT Mays is represented in 26 countries with 150 members in the US. It was set to use Galileo throughout its network. Rosenbluth already used the Apollo system in the US which was developed by Galileo partner Covia/United Airlines. The aim was to use Galileo as a secondary system for distribution.

The fundamental importance of the new technology was stated in the Travel Trade Gazette <sup>1</sup> :

"Leisure agents have plodded on with low-cost viewdata which has been the industry standard for most of the 1980's. But this will change in the 1990's, and even the small agent needs at least a nodding acquaintance with technology to anticipate the changes that could soon be forced upon them."

Deciding of what system was best for travel retailers requirements was also covered in the Travel Trade Gazette: 3

"One of the biggest decisions travel agents will have to face in the coming year is the choice between various computer reservation systems. But before agents get anywhere near to taking this major decision, it is important for them to take a look at their own business and its specific needs. Bearing in mind the chosen CRS will be a vital part of the agency for many years to come, it should meet their requirements today, but more importantly, it must also be capable of growing with the market in the future.

Amadeus' newly announced co-operation with Sabre emphasises the importance of being able to offer a global system. With the advance of 1992 and the disappearance of trade barriers, travel agents will be able to develop new business across the continent. Agents investing in terminal equipment for access to Amadeus, as it stands currently, are guaranteed compatibility with the system when the connection is made between Amadeus and Sabre.

Viewdata access will also be an important feature, ensuring that agents are able to access both business and leisure products via the one terminal."

Basically to survive the 1990's retailers are going to have to have a computer system with speed and accuracy.

Developments in technology in the industry have been designed to help the customer in two ways. One, by



making it possible for the customer to book a holiday in a wider variety of ways and two, by making it quicker, easier and cheaper for the agent to book the holiday.

Could technology do away with travel retailers completely? Holidays Now, a small independent retailer, has piloted a computerised system of sales terminals at supermarkets, motorway service areas and railway stations. This system allows customers to book, pay and receive travel documents for a holiday or a flight.

An article in the Travel Trade Gazette <sup>4</sup> illustrated the point very well, with the title "Sharpen your retail image, agents told". This article stated that responsibility for combating the technological onslaught and proving to airlines that agents are the most cost-effective distribution system must rest with retailers, but agents must also re-examine their market approach and adopt a retail attitude to stay competitive, urged the president of American Express Travel Related Services Company. He stated:

"The thing about technology is that the travelling public may no longer have to go to a travel agent, unless we continue to add value. It is up to us to prevent airlines and industry partners from being misdirected by the siren sounds of

automation, or from leaving their heads fogged by the seductiveness of the short-term gains they might realise through technology. Agents must segment their market, provide offices which reflect their market position and strengthen customer relationships. Our primary strength is that we travel agents are independent. Therefore, we are the only entity able to provide objective services to the travel customer."

However, the combination of technology, tumbling trade barriers and worldwide airline and hotel acquisitions meant agents were now competing in a single global market.

For tour operators, the case for technology is as large as the volume of traffic the operator has. The more holidays it offers, the more important a computer reservations system becomes. Once these are introduced by the tour operators then the companies need to keep their systems up to date as it becomes their main selling method to the tour operators. Mintel Retail Intelligence <sup>5</sup> in 1988 highlighted that computer systems are already embedded in the industry:

"Computerisation within the travel agency business has advanced considerably in the last few years, and looks set to continue. Travicom, owned by British Airways and primarily an airline booking system, was the first to be used extensively. In 1982, Thomson introduced TOP, an on-line booking system for Thomson holidays. In 1986, Thomson announced that all its bookings would have to be made on computer terminals. Thomas Cook has the Travel Information Bank (TIB),

containing 27,000 pages of data which is updated daily. Through the TIB system, staff can provide customers with comprehensive travel information, including passport, visas and inoculation requirements. Thomas Cook has also developed a back-up computer centre at Peterborough called Fastbak.

Prestel is also used extensively by travel agents and is planning to introduce a system for booking hotel space. Computerisation reduces costs as well as increasing efficiency, since telephone costs are estimated to account for 10% of travel agents' expenditure."

The major advantages of these computer systems are that they are very fast, adding to the efficiency of both the retailers and also the operators. Information and availability are up to date at the moment the enquiry is made. Tour operators can reduce staffing as they do not need people to answer telephones and the retailers save time as they do not have to wait for people to answer telephones.

Technological change is likely to increase market share as customers will want to go to retailers who can book separate components of holidays for them, or give a quick reply to availability, providing flexibility for travellers.

The problem as the single European market approaches is the decision on which system to use. There are many systems in use, and the big question will be whether

there will be a single European-wide system post 1992.

All the combinations are in preparation for 1992, the companies are trying to dominate the UK market. The Association of British Travel Agents (ABTA) set up the Link Initiative which is an advice system for retailers on technology, in June 1990.

In May 1989 Italian Tour Operator, Semi-Granturismo, purchased the ATOP viewdata system from Autofile. This was the second for Autofile in Europe following Greek Operator Manos purchasing a reservation system. Autofile's Director of sales stated:

"This will be increasingly important as we approach 1992 when cross-Europe viewdata links will revolutionise the way bookings are made."

The increase in technology has affected the shop design of retailers and it will enable retailers to sell more products more efficiently. The mega reservations systems will enable the UK travel retailers, in the 1990's to cater for the widest of tastes for complex independent travellers' requests to the standard package holiday product.

Technology is going to have a huge impact on travel retailers during the 1990's, and those that are ready and understand what is on offer will survive. The result of all this increase in technology results in

the fact that staff have to be better trained. Those who are not abreast of the new technology will be overtaken by competition from those who are familiar with the new systems.

### 9.3 DIRECT SELLING.

Although retailers account for the majority of package holiday sales, they are concerned about the increasing trend to direct selling. From the 10% (ITQ 1984) during the early 1980's it could now account for approximately 15% (Mintel 1990).

In January 1989 direct sell holidays <sup>7</sup> were continuing to eat into the air inclusive-tour market, according to market leader Portland Holidays. The company estimates total direct-sell carrying for 1988 totalled 1.65 million clients, about 15% of the overall air inclusive tour market, which compares with a share of only 5% in 1978 and 12% in 1983.

Direct sales are very much based on credit card sales as a method of payment therefore it is not surprising that credit card companies are encouraging direct sell. Non-ABTA members also use direct sell as they cannot sell through ABTA retailers, due to the Stabiliser rule.

From the tour operators point of view, direct selling is a cheaper means of distribution, as the elimination of the retailers' commission would indicate. On the other hand, companies need to hire more staff to deal with direct sell enquiries. Specialist companies may have to sell by direct methods, due to the low demand. It tends to be more of an effort for companies to sell by direct sell than distributing their brochures to the retailers, but sometimes it is the only way. Brochure conversion rates (the number of brochures issued divided by the number of holidays booked) is also higher, reducing costs for the operators even more.

From the client's point of view, if he/she cannot get time to go into retailers' this is the only option. It may also be that customers know exactly what holiday they want, possibly repeat customers, and opt for this method of buying it. Another factor may be that the client wants a specialist holiday such as golfing, bird watching, fishing, rowing, boating or camping holiday, where the brochures are not kept by retailers as the demand is so small. Direct sell holidays tend to be slightly cheaper than those booked through retailers as there is no commission factor or distribution costs involved in direct sell; reservation systems for direct sell are also uncomplicated.

Customers cannot get late booking holidays or cheap

bargains, as they may be able to through the travel retailers, by using direct sell. Tour operators cannot obtain a distribution point that is more convenient to customers than the retailers. Customers may prefer to go into retailers to discuss holiday choices, pick up brochures and browse. The "personal touch" seems to be what the customers require. Convenience is also a factor that should be considered, people who are shopping on the high street can just go into the nearest retailer who normally have a large variety of holidays on show.

Portland Holidays, owned by Thomson Travel, claims to be the largest direct sell company of its kind. The company had 300,000 passengers in 1988 <sup>8</sup> compared with 304,000 in 1987, but it now claims an 18% share of the market compared with 17% in 1983.

Portland puts its annual average growth rate between 1983 and 1988 at 15%, one-third faster than the total air inclusive tour market.

According to Mintel (1989) Page and Moy is the largest direct sales supplier of retail travel services. It specialises in reader holiday offers in magazines, such as the TV Times with sales at about 100,000 per year. TV Times provide an outlet for many direct sell companies, its coverage in terms of readership means

that it is a very important outlet.

In January 1989 Portland holidays estimated <sup>7</sup> that its leading competitors, Tjaereborg, Martin Rooks and Saga each carried about 100,000 passengers in 1988. Portland claimed prices in its summer 1989 programme were on average 17% lower than other major tour operators in shared properties and on similar departure dates. The company quote average price differentials of 18% against Cosmos on comparable holidays, 16% against Falcon, 23% against Global, 17% against Intasun, 16% against Enterprise, 18% against Lancaster and 14% against Airtours.

The revised importance of the upturn in this market can be seen in the fact that Thomas Cook, <sup>9</sup> in October 1988 launched its second direct-sell operation within a year. The lucrative link-up with the Royal Automobile Club to form the Royal Automobile Club Holiday Club gives Thomas Cook potentially the largest direct-sell travel operation in Britain, with more than 15 million people on its mailing list.

The Royal Automobile Club Holiday Club is for its 3.4 million motoring members. More than 300,000 of them are expected to take advantage of it in the first year. The move was condemned by the trade, saying that it was "Eroding the very fabric of an agents' economic



survival".

Royal Automobile Club Holiday Club members are invited to qualify for discounts of up to £250 off brochure prices by booking direct with Thomas Cook's Peterborough headquarters. They are told to choose a holiday from the brochures published by thirty eight top tour operators, but club literature does not say where brochures should come from, fuelling agents' fears that they will be used merely as unpaid brochure distribution outlets to increase Thomas Cook's profits.

As a Travel Trade Gazette report <sup>9</sup> commented:

"This sort of operation relegates High Street agents to little more than brochure racks. With profit margins down to 0.25% for agents, we can't afford to lose any more business to direct-sell operations. The RAC Club is bound to touch a nerve with Barclaycard and it'll respond with yet another scheme. I don't know what we can do about it, except forge closer links with our principals, it's a major threat to all of our futures."

The commercial relations manager of Thomas Cooks when denying that the schemes would take customers away from travel agents said:

"The market is large enough and is increasing. Companies often run such schemes themselves and call us in for expertise. People who wish to can still use other agents but we are catering for them both ways."

Thomas Cook admitted the success of the Access

operation had prompted Thomas Cook to expand its holiday club concept to the RAC and revealed that similar deals would follow if booking levels remained high. However, the company refused to release Access's first-year booking figures.

As well as Thomas Cook going into direct-sell, Hogg Robinson has also been attracted into it. In October 1988 another report <sup>10</sup> stated:

"Retail giant Hogg Robinson has taken a bold first step into the direct-sell market by joining forces with Barclaycard, one of the most controversial names in the travel industry."

This step came less than a week after Thomas Cook announced the tie up with the Royal Automobile Club. Hogg Robinson has set up Barclays Premier Travel offering a comprehensive travel booking service for Barclays' 100,000 Premier Card holders. Hogg Robinson say that this joint venture is an exciting new concept, they also say that it's a marriage of experiences, and that they are both leaders in their fields and they are both in the business to make money.

This new service will enable card holders to make both business and leisure travel arrangements with a single telephone call to travel clerks employed by Hogg Robinson at the Barclays Premier Travel base in Hounslow, Middlesex, which will be staffed 24 hours per

day. Card holders will benefit from discounted air tickets, hotel bookings and car hire and will also be able to order travellers' cheques and foreign currency.

Hogg Robinson admit that this service could take some business away from their own chain of retail shops, but that they expected to win new customers from among Premier card holders. The company foresee no problems from having such a close relationship with Barclays, an organisation roundly condemned by the trade following the launch of the first direct-sell holiday club with Page and Moy, in 1986.

The company say that the relationship problems did not concern them at all, and that the service is aimed at up-market business travellers who want the convenience of being able to make their travel arrangements at any time of the day or night. They are not the sort of people who normally use the high street travel shop.

Direct sell only accounts for 15% of the market although there is a lot of activity at present, it is only to catch the market that would otherwise be lost, so there is no serious threat to retailers. It is just an alternative for specialist companies to find their way to the consumer.

Another form of direct sell is where a tour operator sell through retailers owned by themselves. At present Thomson Travel is the only major operator to own a large multiple retailer. However, there is a large number of retailers that have small tour programmes.

In 1985 Thomas Cook started to sell its own tour products through its own outlets and it is also possible that some other retailers who have small tour operations may do the same.

In an article <sup>11</sup> in June 1988 Thomson stated that it has no intention to sell all or any of its products solely through Lunn Poly outlets. Due to this fact, it could be assumed that Thomson believes it could lose market share by undertaking this. Thomson would need to increase Lunn Poly's geographical coverage, and would have to reduce other multiples sizes. The company does not sufficiently dominate the retail market that it can restrict its products to its own outlets at present.

#### 9.4 INVOLVEMENT OF FINANCIAL INSTITUTIONS.

A major trend in the late 1980's is for financial institutions to be operating in the travel market. Financial institutions in terms of credit card companies, high street banks and insurance companies.

As far as the credit card companies are concerned Barclaycard operates through Page and Moy, Access operates through Thomas Cook and Girobank operates through Pickfords.

In 1986 Page and Moy introduced its controversial Holiday Club Scheme with leading tour operators. The link up with Barclaycard has hidden advantages in that any outstanding balance on a Barclaycard for a holiday would earn them a lot of interest so Page and Moy could offer cheaper holidays, knowing that any interest would more than pay for any losses in commission they would have otherwise made on the holiday.

In March 1989 Page and Moy launched <sup>12</sup> a new scheme likely to attract more business away from high street travel shops. It offered scheduled air tickets in a tie up with all the main international and domestic airlines. Barclaycard customers simply telephone Page and Moy and are promised air tickets the following day.

In 1989 Page and Moy was acquired by Barclaycard for £8 million and about 50,000 holidays are sold annually. These holidays are discounted package holidays. Access holiday sales are greater than Barclaycard, but that is because the client base is larger, and it expects 300,000 additional sales per year, after signing an

agreement with the Royal Automobile Club.

Table 9.3 Credit Card Total Market Shares 1986 and 1988.

	<u>1986</u>	<u>1988</u>
	<u>%</u>	<u>%</u>
Access	39	29
Store Cards	-	28
Barclaycard/Visa	49	21
Other Visa	12	12
Charge Cards	-	4
Debit Cards	-	4
Other	-	2
	---	---
Total	100	100
	---	---

(Sources: Euromonitor, 1987, UK Travel and Tourism, Euromonitor, 1990, UK Travel and Tourism)

Access, Barclaycard and store cards dominate the credit card market. Access are owned by Midland Bank, Lloyds and the National Westminster Bank. As mentioned already, Midland owns Thomas Cook, therefore there is a clear link from the financial institutions to the travel trade.

The importance of the travel product to credit card companies income is seen in the fact that in 1987

travel agents and tour operators accounted for the second highest trade turnover for Barclaycard with an average personal spend of £217, and a total turnover of £605 million. The importance of travel to credit card companies turnover during the 1980's, is shown below.

Table 9.4 Access Travel Revenue 1980's.

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Total Revenue (£m)	4024	5117	6396	8285	9600
Travel (£m)	766	1022	1300	1800	2200
%	19.0	20.0	20.3	21.7	22.9

(Source: Euromonitor, 1990, UK Travel and Tourism)

In the case of Access, travel in all forms accounted for almost a quarter of its total revenue during the 1980's, not surprising considering the link to Thomas Cook.

Table 9.5 Barclaycard Travel Revenue 1980's (£m).

	<u>1987</u>	<u>1988</u>
Tour Operators/Retailers	605	895
Airlines	95	134
British Rail	106	149
	---	----
Total	805	1178
	---	----

(Source: Euromonitor, 1990, UK Travel and Tourism)

There is a large spend by Barclaycard holders on travel products, the data above is divided down into the different forms of travel, and it can be seen that the tour operators and travel retailers earn a majority of the revenue, followed by British Rail and Airlines.

Where the high street banks are concerned, Thomas Cook is owned by the Midland Bank, AT Mays was owned by the Royal Bank of Scotland (who have now sold the retailer) and Hogg Robinson is owned by an Insurance company). The Co-op network has a banking involvement with the Co-op bank. American Express is an American banking institution with a retail network in the UK, which also has a credit card business. The Royal Bank of Scotland pulled out of AT Mays due to the Financial Services Act limiting the cross selling of financial services with its parent the Royal Bank of Scotland.

By operating through travel retailers banks have an outlet for travellers cheques and foreign currencies, and by having financial institutions as backers travel companies can ease short term cash flow problems that occur in travel. Thomas Cook has a large section of its retail shops dedicated to financial transactions such as foreign exchange desks and so on. In August 1988 Barclays bank signed an agreement with Hogg Robinson to provide its travellers' cheques into their branches. Thomas Cook were the main suppliers of



travellers' cheques in 1988. American Express is close behind and yet it has fewer outlets.

The importance of the travellers' cheque market to the financial institutions is illustrated by the fact that the market was worth £30 billion in 1985, three times more than 1984. In 1990 Thomas Cook had a turnover of £81 million in travellers' cheques, and £31 million in foreign exchange. The size of this financial market makes it vital for many retailers' business survival.

Table 9.6 Travellers' Cheque Market 1988.

	<u>%</u>
Thomas Cook	38
American Express	33
Barclays/Visa	19
Others	10
	---
Total	100
	---

(Source: Euromonitor, 1990, UK Travel and Tourism)

In 1988 Mintel commented on the financial institutions having links to the travel industry: <sup>13</sup>

"There appears to be a definite trend towards travel agents offering financial services. Thomas Cook is, of course, owned by a major bank. Hogg Robinson has financial links through its insurance brokers arm, and even Pickfords, part of a large

distribution business, offers personal and home insurance as well as the holiday variety. Among the smaller agencies, Co-Op Travelcare is also benefiting from its connection with the Co-operative Bank. It seems as if travel agents, like banks, building societies and estate agents, are becoming a new breed of 'service supermarkets'."

The deals between credit card companies and tour operators were seen as a potential threat to independent travel agents by the Travel Trade Gazette in 1989: 14

"A potential threat to travel agents, particularly the independent operators, is the growth of exclusive deals between credit card companies and tour operators; Barclaycard has such an arrangement with Page and Moy. Access has gone into partnership with the Thomas Cook subsidiary Retail Travel, Access of course being part owned by Thomas Cook's parent company, Midland Bank. This development has met with a great deal of acrimony; smaller agencies see the credit card companies treating them badly on two counts, by the commission they charge on holidays booked through agents, and now from the business they are seen to be actively taking away from agents. The large companies view this development with more equilibrium. Thomas Cook, for example, sees its direct system existing quite happily side by side with its retail agencies and hopes to expand both."

At the beginning of the 1990's trade credit cards are being discussed, with Thomas Cook trying to introduce their own, and ABTA talking about introducing one, for use not only on travel but also for other goods as well. Whether this will take the form of retail store

cards that is seen in many of the high street retailers, no-one seems sure as yet. The aim of this credit card is to save the estimated £13 million (Mintel 1989) paid by travel agents on the 1% commission for use of credit cards. It is also aimed at ensuring a high level of customer loyalty and to enhance the quality of service.

The involvement of financial institutions could possibly result in new ideas coming in the travel retail sector, such as new selling techniques and having the financial backing to increase the number of outlets. They also give travel companies a solid backing from financially sound institutions.

#### 9.5 RETAIL TRAVEL SHOP DESIGN.

Another feature that has occurred over the last few years, which has been very noticeable, is more professionally designed outlets such as Lunn Poly. Companies such as Lunn Poly and Thomas Cook have spent a great deal of money in standardising their outlets, in order to attract customers.

In other retail sectors such as clothing shops, design of the outlets has been a major factor to attract customers. In some travel outlets design is not a major consideration; the shops are badly designed,

small and this causes problems for staff and customers. Although this is being looked at by the largest companies, there is a long way to go before the travel retailer is at the same standard of outlet design as retailers for other products:

"A number of travel agencies are revamping their travel offices in order to make them more attractive to customers. Travel offices have been criticised for poor housekeeping, with interiors being badly lit and lacking in atmosphere. Often the new inside from the high street is obscured by posters etc. What travel agents are attempting to do now is to create well lit, brighter branch offices which capture the excitement of travel easily visible from the high street, with flat frontage, unobscured windows."  
(Mintel Retail Intelligence. 5 )

The more customers a retailer attracts the more bookings that a particular retailer is likely to make. There have been a couple of notable attempts by companies to introduce new designs into their retail outlets. This is another very important factor, as the better and more appealing the design of the retailer, then the more people are going to be attracted in and the greater the number of bookings, the greater the market share.

Thomas Cook is introducing a store within a store concept to be introduced in the early 1990's. Customers will have a receptionist, travel consultants (at individual desks) and a foreign exchange desk.

Thomas Cook also introduced in 1990 a system for their business traveller called Thomas Cook Express. The customers are issued with their own special code to Access the computer network by telephone. The customers answer a set of questions put to them and from the answers a facsimile (fax) is prepared in two minutes and despatched to the client indicating the best available flights for the clients requirements.

In 1989 Trailfinders, in London, followed the retail trend set by Next and built a travel department store. Design is an integral part of the store and the desks arranged on an axis to look like the rays of the sun. The shop is built over two floors, and there are a number of add-on services such as photograph booth, foreign exchange desk, inoculation unit, travel library and luggage shops. The success of this store is not known at present.

The future structure of the travel retailer will have to be changed due to the immense problems that travel retailing has in terms of low profitability, high rents and rates. Other retailers in the high street do not only sell one type of product they sell many types of products that are varied to try to keep the customer under one roof. This is now more likely to happen in the case of the travel retailer.

This has been one of the major developments of the 1980's, and although the British Airways chain called Four Corners failed in 1990, shop design will continue to be very important during the 1990's.

#### 9.6 NEW SELLING TECHNIQUES.

A new marketing tool that is starting to be used by travel retailers is the video. This, as yet, is not having a large impact on the travel retailers. It is a marketing tool that has yet to be embraced by the travel trade as being useful. It is possible that in the future travel retailers would have videos as well as brochures and in many aspects they are more efficient in providing information to the travelling public. This can be seen in the popularity of the travel shows on the television, giving exact prices, saving customers having to try to read them in the brochures, which are not always easy to understand, even on the part of the travel retail staff. WH Smith have started to use videos in travel retailing and they are likely to become more widely used as retailers try to capture more market share. The crucial factor is that using videos is different and it is the novelty that could attract more customers:

"Agents have been developing a laser system in tandem with electronics companies which will fit into shop windows. At the touch of a button, the customer can see a video of any one of 410 different resorts. The customer can even pay for the

holiday using a credit card."  
(Mintel, 1990, 15 )

The reason for introducing new selling techniques is to increase market share, and therefore the companies must be fairly confident of this happening before engaging them.

During the 1980's some multiples and operators have introduced such services as resort guides, hotel guides and ski advice. Some retailers have introduced health advice to customers going to certain destinations. The more customer service a company can provide then the more successful it is going to be in terms of economic survival.

Hogg Robinson issued a recommended resorts and hotel guide and in 1989 that contained 3,000 hotels in 300 resorts. Hogg Robinson also has a package holiday price guide giving a survey of the prices of package holidays and in 1988, issued a guide for airlines looking at the services of first class and business class including in-flight and ground facilities, check in facilities, secretarial services and many other comparisons between airlines.

Customers are starting to ask for different kinds of holidays (specifying the flight, hotel and destination) moving away from the traditional package holiday. Customers now are experienced in going abroad and know

what they want. They are travelling more independently of tour operators and to different destinations, i.e. away from the Spanish resorts. As this move has happened in the last couple of years the retailers' importance in the market place has increased moving into more consultancy type operations as opposed to mass package holiday sellers.

Another article <sup>16</sup> approached the future of travel agents from the service to the customer angle. In the article a Thomas Cook chief warned that travel agencies failing to improve over-the-counter service face financial disaster as customers' expectations from retailers soar. He said that a dramatic change on the retail front is not just speculation but a necessity. He added:

"And there will be a shift of power from operators to retailers as outlets become more pro-active in specifying the needs of the holidaymaker."

He predicted that the multiples would boast 80% of retail business by 1992:

"Smaller multiples and independents will find themselves eliminated or in a more successful niche with longer hours and more personalised services. The industry suffered from a lack of skills and poor wages which had to be tackled. Operators were already squeezing poorer agencies by restricting brochure supplies or axing them."

The director of the UK consumer sector drew his



conclusions from a Thomas Cook poll of 30,000 customers soon to be published:

"If we don't get the calibre of people providing information and services, we are dead. Far too frequently a client is allowed to buy a product because of price, a situation which led to complaints. We have to take responsibility as well as the operator and there are signs the operator recognises the dangers. It is not just profit. Quality is now the watchword of the consumer and has to be the watchword of the industry."

Another indication of the way the future of travel agency operations are heading was illustrated in an article <sup>17</sup> in January 1989. This report stated that a revolutionary scheme aimed at attracting holiday bookings direct from customers' homes was unveiled by Thomas Cook in January 1989.

The home shopping project involves a direct free telephone service operating every day of the year. 'Travel by Phone' allows customers throughout the UK to book holidays, flights, cruises, ferries, car hire and foreign exchange from their homes. It went live in January 1989 after nine months of planning. Telephone calls are routed to one of five regional phone centres in London, Glasgow, Manchester, Birmingham and Southampton which are manned by 140 staff.

A spokesman explained that the service would take

bookings for other holiday companies, it was not confined exclusively to Thomas Cook products. The regional manager for Thomas Cook's UK telephone centres, Martin Thomas, claimed the reaction from operators has been "stupendous". The regional manager goes on to claim that:

"We have been backed by Thomson, International Leisure Group and Horizon. We are not worried about the trade reaction. We have reacted to the marketplace by providing a quality and convenient service."

He continues to say that the travel by phone service was part of the company's long-term strategy and claimed that other companies could follow. Together with the introduction of the service a newspaper and radio advertising campaign started also in January 1989.

It can be established that customer service is very important to the economic survival of the operators but more so the retail sector as there is so much more competition. Retailers, having attracted customers into the shop with something different, will have to improve customer service, in order to maintain or even increase market share.

## 9.7 LONGER AND NEW OPENING TIMES.

This aspect is applicable to both retailers and operators, as retailers who are open will require tour operators to be able to take bookings at those times. The independent retailers have led this longer and new opening times strategy in an effort to compete with the multiples.

An area where independents can compete with the multiples with little extra cost, is by using longer opening hours which has been successfully undertaken in other retail outlets, such as small independent shops who open late every day in an attempt to take turnover away from the large stores, most of whom close at 5.30pm. This has now forced some of the large stores, such as Debenhams, to open late one or two days per week, as they realise there is a large market available outside normal opening hours. Ilkeston Co-op Travel are already experimenting with this idea.

It was suggested in the Travel News <sup>18</sup> that:

"Independent retailers should open all hours if they are to win their battle with the multiples. When the consumer demands you be open at a certain time, you're crazy if you don't fulfil that demand. This is an area where independents can score over multiples because they can just turn up and open their shop. The multiples have to hold staff union negotiations."

Of a recent survey of supermarket customers which probed their reasons for choosing certain stores, the article went on:

"Surprisingly price came fifth on the list of customer priorities. The key reason why people chose a particular store was convenience."

In an article <sup>19</sup> retailers were told that they were committing a "dreadful error" by not opening all day on Saturday. Retailers were missing out on bookings by shutting up shop on Saturday afternoons. It was claimed that 40% of all consumer buying was done on Saturdays. Retailers were also called upon to open late some days to catch early evening trade. The article stated;

"Most smaller travel retailers could do a much better job promoting themselves in their local catchment area, it need not cost a fortune.

The public was becoming more self-indulgent in shopping trends, people were becoming less price-sensitive yet the industry was forcing them to buy cheap packages by a constant harping on pricing."

Sunday is one of the days where both husbands and wives are together, and an ideal day for booking holidays.

Sunday trading has been brought to the fore by Ilkeston Co-op Travel's win in the High Court over Sunday opening. <sup>20</sup> It said that no product was being sold, only a service was being performed. This could result in the doors being opened for all travel

agencies able to open on Sundays.

To date there are very few travel retailers who open on Sunday, and yet is quite legal for them, like estate agents, to do so. If it was legal in other retail sectors the outlets would open, they even open when it is illegal for them to do so, for example the do-it-yourself (D.I.Y.) stores. Therefore this is one area in which travel retailers might experiment.

Longer opening hours and Sunday trading are specifically aimed at increasing market share. This is how independents can try to take market share away from the multiples. It is a very important aspect as far as the retailers are concerned.

#### 9.8 FRANCHISING.

Franchising is a new idea in travel retailing introduced in the 1980's. A franchise agreement is where the franchisor provides all the marketing, training of staff and merchandising and the franchisee provides the money to purchase the outlet. Each year the franchisee pays an amount of money to the franchisor for the services required. This is a new method in the travel industry but has been present in other retail sectors for many years, examples of franchising are fast food outlets and some newsagents.

Exchange Travel have shown that this can prove to be a successful formula for battling against the multiples. Indeed they had described themselves as a multiple of independent agents. In May 1988 the company had sixty three franchised units and twenty eight owned units; in March 1989 the company had seventy one franchised units and forty two owned units; by 1990 the figures had increased to sixty five owned outlets and sixty four franchised.

Despite opening all these franchised outlets they went out of business in 1990; nineteen of their franchises were taken over by the Co-op. The company went out of business due to many factors, one of which was the downturn in the package holiday business during 1990.

Another form of franchising is being developed by Thomas Cook in Canada. In 1988 Thomas Cook signed a deal for a travel partnership with T Eaton of Canada to merge with branches in Canada. T Eaton had a network of about ninety outlets, and under the deal these would be managed by Thomas Cook under the Thomas Cook name. This is a form of franchising that is slightly different from the previous type. This management franchising is found more in catering where management contracts are used frequently in industrial catering.

In 1990 Uniglobe Travel (A Canadian franchising company) was aiming to launch their own franchised outlets in the form of a retail chain. It opened its first outlet in London in 1990.

Franchising was becoming more and more popular during the late 1980's and is a trend that is set to continue, albeit slowly. The effect that franchising could have on the market is to make it easier for people to enter the industry. These new entrants could bring welcome new ideas and skills into the retail industry.

#### 9.9 CONSORTIA.

As well as franchising there is also a move into marketing consortia. The National Association of Independent Travel Agents (NAITA) have created their own brand called "Liberty". Similar to the franchising of Exchange Travel, this "Liberty" logo has been formed to combat the threat of the multiples. The Sun group is another marketing consortium for travel retailers.

Another consortium introduced during the 1980's is the Association of Retail Travel Agents Consortia (ARTAC), this is similar to NAITA (these associations are looked at in detail in Chapter 2).

The consortia are an important development in that they

are starting to help independents combat multiples, but at the end of the 1980's their impact on the travel trade competition has been very limited.

The impact of marketing consortia is very limited at the present time in increasing market share. With a more corporate image, readily recognisable by customers, they could improve their impact on the high street in their battle with the major multiples for market share.

#### 9.10 NEW TRAVEL MARKETS.

New travel markets appear to be opening up in areas of captive markets, such as hospitals, military bases (American Express is present in US military bases) and student campuses (Pickfords and Campus Travel).

Ilkeston Co-operative society started to put brochures in hospitals in 1989. The NHS, Europe's largest employer, in February 1989 unveiled a revolutionary holiday club scheme offering discounts of up to 17% off brochure prices to more than a million staff. <sup>21</sup>

The holiday club was to be operated by London based travel agency, Harry Weeks, on behalf of the Department of Health. The retailer claimed there was no other scheme of its size between any retailer or government



department. The aim was that health service employees should receive a monthly bulletin from the retailer of holiday offers available. These would include Star Buys offering between 12%-17% reductions and last-minute holidays. It was claimed the discounts would come from the retailer's own commission. They felt that they could absorb this due to the amount of business the scheme would generate.

There is a possibility that surgeries and waiting rooms would be ideal display areas for travel brochures along with the many magazines already present.

#### 9.11 BRANDING.

In the retail sector branding has become an issue as outlets try to maintain a corporate identity, trying to associate this identity with quality, or cheap holidays, or professionalism. The aim of branding is to obtain a maximum market share and then to try to maintain it through brand loyalty by getting repeat customers.

Some customers deliberately choose Thomson Travel products or other well known branded products from the large companies as they may consider it a sign of stability. That is to say, the large companies would not cease trading overnight and leave them stranded

abroad.

The multiples need a corporate image as they advertise nationally therefore they need potential customers to recognise their outlets at a glance. No matter which major retailer is selected they are all readily recognisable, whether they are in the South of England or the North of Scotland.

Retailers have also started to stock brochures of other companies under their own brand name to try to enhance their image to customers. In April 1988 Pickfords had twenty such products. <sup>22</sup> In the late 1980's Pickfords made a deal with Lancaster agreeing to market Lancaster Accommodation under Pickford's brand name. WH Smith and AT Mays also introduced own branded brochures in 1988. AT Mays started with brochures to India and a French Ski Train package. The company aims to have up to eighteen others to build a full shelf of in-house products.

Independent agents who are members of the National Association of Independent Travel Agents (NAITA) have own branded products. In 1989 the Panorama Holiday group teamed up with NAITA to put together an exclusive Mediterranean programme. This brochure is branded with the NAITA Liberty logo.

## 9.12 CONCLUSION.

The increase in technology is the major innovation in the travel trade. The other innovations are Direct sell, the involvement of financial institutions, new shop design, new sales techniques, franchising and consortia.

The large companies benefited from the technological and other innovations due to their size. Economies of scale means that the large companies could take full advantage of the technology and branding, it is cheaper per unit to install. The smaller companies are concentrating on Sunday opening and longer hours, as these are easily affordable for the smaller companies.

All the innovations are aimed at increasing consumer usage of retailers and operators, through a better atmosphere, service and more efficiency. The long term aim is to increase market shares.

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- 2 Travel Trade Gazette, 1989.
- 3 Travel Trade Gazette, November 22nd, 1990, P95.
- 4 Travel Trade Gazette November 1988.
- 5 Mintel Retail Intelligence, Volume 5, 1988.
- 6 Travel Trade Gazette, May 11th, 1989, P83.
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- 11 Travel Trade Gazette June 16th 1988.
- 12 Travel Trade Gazette March 1989.
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## CHAPTER 10

### THE UK TRAVEL INDUSTRY AND THE 1990'S

#### 10.1 INTRODUCTION

During the 1990's there are going to be some notable events which are likely to have effects on the whole travel trade: in 1992 the European single market is to come into force; in January 1993 the European Commission directive on package holidays will become law in the UK; June 1993 the Channel Tunnel is planned to open; between 1995-2000 European air liberalisation is to take effect.

The 1990's is going to be a decade of change for the travel trade. Both tour operators and travel retailers are going to have to meet the challenges of the 1990's.

#### 10.2 EUROPEAN INFLUENCE ON THE UK TRAVEL TRADE.

The European Parliament makes recommendations to the Council for Tourism which then reports to the Council of Ministers for Tourism. There is already a European travel trade association, so the mechanism for travel and tourism regulations and control is already in place and is beginning to pass directives on certain aspects of the trade.

In 1992 the single European market is expected to come into effect. Its aim is the removal of all restrictions and differences between E.E.C. countries in the area of trade. This will have the effect that all laws and practices in industry will have to be unified between the countries.

This change is likely to have a far-reaching effect on the travel industry, both on the side of the tour operators and also the travel retailers. The largest impact when 1992 arrives will be the removal of all trade barriers, thereby enabling other companies to come into the UK market and vice versa. A substantial number of takeovers and mergers are likely to result. There could be two basic reasons for takeovers and mergers dominating this period; self protection against takeover bids and increasing market share.

Opportunities will be created for UK companies to increase market share in Europe, which could be difficult to gain in the home market, as it may already be saturated.

Cross-border tour operations will be made easier when restrictions on the movement of capital and labour are relaxed with the advent of the single European market. The top national companies could all open up in other countries.

The more liberal conditions operating after 1992 would give the cross-border operator a better competitive stance against the sort of restrictive distribution systems encountered by ILG in its attempt to enter the German market (German retailers are contracted to certain tour operators to sell their products only)

In the UK, Stabiliser is likely to be abolished, and in Germany the ruling on retailers who are contracted to sell operator's products is also likely to disappear. As a result of being 'in Europe' there is likely to be statutory licensing of tour operators and travel retailers by a government body such as the Department of Trade and Industry. This could be combined with Air Travel Organisers Licensing by the Civil Aviation Authority. The licence would state the qualifications of the staff, facilities of the premises, degree of service and many other factors could be incorporated into a licensing system. This would replace the present system of Stabiliser.

Other European countries with restrictive practices are likely to see them declared illegal. The practice of some multiples of only racking certain operators brochures would be deemed a restrictive practice and outlawed under E.E.C. legislation. This should result in equal opportunities for companies to enter each other's market without any restrictive practices being



present.

An article in the Travel Trade Gazette <sup>1</sup> in 1989 stated that:

"The travel industry must take stock of itself to assess how vulnerable it will be to competition after 1992."

Eric Forth the Consumer Affairs Minister is optimistic <sup>2</sup> about the onset of 1992 which he claims will bring great opportunity for the industry:

"1992 may well mean that the British package industry is going to storm Europe and give continental customers benefits we have enjoyed for years. I doubt whether it will work the other way because European operators have not as good an act to sell."

Mr Forth hopes companies are gearing up for 1992 by getting together with their European counterparts to work out solutions to common problems. He points particularly to liaison between the European Community's largest travelling nations, Britain, Germany and Holland. But the minister feels the impact of 1992 will be felt less in the travel sector than in other UK industries because of its large-scale involvement in trans-national business over the years. He suggests that the UK tour operators and travel retailers are much better than those of Europe. Doubt must be expressed about the validity of these comments due to the large companies present in Europe who are capable of entering the UK market.

As 1992 approaches preparations are being made in all sectors of industry; in the travel trade, preparations are well under way both in terms of companies, and also in relation to the trade associations that are at the forefront of the UK travel trade. The Association of British Travel Agents has set up a European Commission Liaison Committee. In May 1989 it changed status from being a joint tour operators and travel agents committee to a national one.

In January 1993 the European Commission Directive on Package Travel will become law in the UK. This is likely to have a far reaching effect on the travel retailer/tour operator/customer relationship. The main thrust of the directive is consumer protection. Its introduction should result in the 1990's being a time of quality products. It has many specific areas that will affect the travel industry such as retailers and operators being held jointly liable for aspects such as dirty hotels, double bookings, misleading brochures and so on. It will outlaw last minute changes to holidays, last minute cancellations, consolidations and discounting. As a result higher prices are likely for package holidays and also a restriction in consumer choice.

The increased costs to be absorbed may have the greatest negative effects on the smaller, independent

agents and travel wholesalers who are already having difficulty with an increasingly complex travel market.

Some companies are already looking at consumer protection; Travelwise offers £10,000 for legal advice to pursue holiday claims, an idea which is backed by thirty four operators.

The introduction of joint liability could lead to a further move in the UK for tour operators to own their own retail chains. This would mean that the operators could train the staff and generally make retailers more in line with the operators' practices. However, there is no sign of this yet in the UK, apart from the Lunn Poly/Thomsons connection.

In 1990 ABTA started to produce a more efficient conciliation service, a consumer affairs department, and a travel industry Ombudsman. ABTA will appoint the Ombudsman who will in turn appoint two others. The Institute of Arbitrators is taking a bigger role in the handling of holiday complaints. The Ombudsman monitors the complaints and the performance of ABTA's legal department and produces a report which is published annually.

ABTA have also issued new, stricter codes of conduct,

which came into effect in the summer 1990. Most complaints received by holiday companies are about the quality of holidays, dirty rooms, poor food and missing facilities such as balconies or entertainment. This is where the ABTA code of conduct comes in to play as they force operators to accept liability for their products, and for the actions of their suppliers. Some of the regulations do not come into force until 1st March 1991, to affect holidays taken after November 1991.

An article <sup>3</sup> in December 1988 revealed that the House of Lords was fully in favour of most of the changes in the European Commission Directive on Package Travel, especially as far as hotel accommodation and brochures were concerned. The House of Lords committee approved of full legal protection for the customer when things go wrong, including acceptance of responsibility by tour operators for hoteliers and other suppliers. Written contracts were approved of to make it easier for the dissatisfied travellers to sue.

When the new directive is in force, it would seem that on the basis of a clear contract, an arbitration scheme will have to be created to be used before full legal action was implemented. The House of Lords was sure that holidaymakers would be prepared to pay for the increased cost of holidays. The House of Lords report

states that it accepted the need to consolidate flights, but described customers as vulnerable to changes because they pay their money in advance.

It is possible that during the 1990's there will be more European Commission tourism directives or ones that will affect tourism. In March 1990 the European Commission looked <sup>4</sup> at proposals to give airline passengers who were denied their booking, as a result of over-booked flights, automatic compensation of up to £1,000. Airlines stated that the scaled levels of compensation will raise airline costs considerably and result in higher fares i.e. the cost will be passed on to the consumer. The European Commission recommends that passengers who have to wait between half an hour and two hours for the next flight should be made a minimum of 25% of the economy price ticket, longer delays should give 50% compensation and if no replacement flight is available, as often occurs with long-haul flights, compensation equal to the full economy price should be paid. The handicapped, elderly and very young should not be off-loaded at all, according to the European Commission.

Under current European Commission proposals any company or group which does not rely on travel as its main money earner will be barred from the travel business. The Co-op's booming travel agency business, which in

1988 earned £173 million, could be outlawed. A former Ilkeston Co-op chief said that if the proposals became a directive it would devastate the Co-op network.

These controversial proposals are aimed at tightening up travel retailing and keeping out amateur travel organisers. They specify that the Co-op, as a non profit-making society selling travel in addition to mainstream retailing, will be able to sell holidays only through internal magazines sent out to people who have been Co-op members for at least a year.

Other possible interventions from the European Commission include aspects such as staff training, with unified qualifications. There is likely to be a European Commission directive on qualifications and training for retail and operator staff, and there is also likely to be an European Commission directive on the licensing of travel retailers and tour operators.

The largest impact of the European single market is likely to be on the Association of British Travel Agents (ABTA), as Stabiliser and other restrictive practices will be outlawed by the Single European Market proposals. An article published in 1988 <sup>5</sup> highlights the danger to the existence of ABTA in its

present form:

"The consequences of 1992 will be truly significant for travel agents and tour operators. The future of ABTA as a self-regulatory body is seriously threatened. The reforms being suggested would sweep away immunity it has enjoyed from restrictive practices legislation and Stabiliser would bite the dust. The European Commission wants to see the distortion of competition between tour operators in different member countries eliminated."

The future of ABTA and Stabiliser was still uncertain in 1990: 6

"ABTA could revert to a trade body only after 1992 if its public protection role is taken away. With the introduction of legislation at the end of 1992 or the beginning of 1993 making it compulsory for tour organisers to provide financial protection, the benefits under Stabiliser no longer exists. Which may then become illegal."

The scrapping of Stabiliser would have a major effect on retailers and operators. The effect on membership, if retailers and operators no longer needed to abide by Stabiliser to trade with other major companies, could be a massive reduction in the number of members, to the same level that exists under some of the European associations.

The ABTA National Training Board is likely to keep its function of the training of staff and designing educational courses to comply with any European

Commission Directive on training that may be introduced in the 1990's. A more European outlook by ABTA will be very important. It has already shown this by becoming a member of the European Consortium of Travel Agency Associations (ECTAA) to which ABTA's counterparts in Europe are also becoming members.

### 10.3 TRANSPORT.

Air liberalisation will make many changes once it is introduced. The aim of air liberalisation is "effective safeguards against unfair competition" to give the customers maximum choice of fares and services.

It is expected to be effective by 1995, with total European radar coverage and a central air traffic control by 1998. The result that it is having is that airlines are trying to takeover each other to create giant European companies. American companies are trying to buy into European airlines.

KLM (the Dutch airline) have taken over Netherlines a Dutch short haul commuter airline, and it has a 40% stake in Transavia a charter/short haul scheduled carrier. Some Spanish charter airlines already have foreign shareholders (limited by law to 25%) which are, Viva (Lufthansa), LTE(LTU), Spanair (Vingressor) and



Universe Air (Belgium).

Lufthansa (West Germany) are set to merge with Intaflug (East Germany) to create a united German airline, which is expected to be the largest in Europe. Air France purchased UTA (another French airline) in September 1990 and they also had links with Lufthansa (Germany). Airline interests are starting to get very complex; in fact, so complex that there are now difficulties in establishing the division between charter airlines and scheduled airlines. Some charter airlines are offering scheduled services and some scheduled airline companies are offering charter services.

The reason for the lack of difference between the charter airlines and the scheduled airlines is the fact that the traditional market for the charter airlines is declining with the decline in the inclusive tour market. Modern charter aircraft are capable of competing for airline routes with the scheduled carriers.

As a result of the liberalisation of air transport policies there are likely to be considerable changes in the air transport industry. The future of the charter airlines, especially those belonging to tour operators, is in doubt. *When the liberalisation process happens,* it would possibly be cheaper to purchase seats on other

companies' aircraft. There has also been some thought put into the removal of passport and customs controls at airports after liberalisation. An article quoted in the Travel and Tourism Analyst on the impact of Europe on airlines <sup>7</sup> stated:

"The abolition of the last constraints on intra-European competition will amplify an effect already being seen - the blurring of divisions between scheduled and charter airlines. Freed from government constraints, scheduled carriers have begun to move into servicing routes which have traditionally been the preserve of charter carriers; in return, the charterers have sought to pre-empt such moves by launching scheduled operations, or developing seat only charter services on quasi-scheduled lines. One such carrier is Air Europe, the airline subsidiary of the UK based International Leisure Group, which has successfully moved into scheduled services between the UK and Spanish regional points and into servicing major European business routes."

It is expected that the increase in the number of passengers, after air liberalisation, will be minimal, but it is likely to have its greatest impact on package holidays: <sup>8</sup>

"Deregulation, meanwhile, will have a two-pronged impact. Even if it won't create quite the droves of extra passengers its fondest protagonists expect, it certainly won't do anything to stunt growth. In the United States, spiritual home of all would-be litigants and cradle of Deregulation, the package holiday as we know it has never really existed. That more than anything should serve as a reminder the business has no divine right to survive."

Takeovers and mergers are likely to occur as air liberalisation approaches: 7

"Airline mergers and takeovers are emerging as a key part in the survival strategies of many carriers. Major European carriers preparing for the step into competition on what will be potentially the world's biggest domestic air travel market have the advantage of observing the US airlines' experience since deregulation in the late 1970's. There, absorption of smaller airlines by larger ones has led to the creation of giant airline conglomerates which are seen as better able to survive in such a large market; many European carriers would dearly like to adopt a similar strategy and to have it in place by 1992, rather than having to react after the event as the Americans did."

In June 1993 the Channel Tunnel should be opening to allow rail links with the rest of Europe. This will be a major factor affecting travel to the continent, leading to greater numbers of people travelling to Europe for short breaks, with travelling time of four to five hours from terminal to terminal. In 1988 the Tourism Minister John Lee predicted that the Channel tunnel would be used by 15 million people in the first year after opening.

There was another article <sup>9</sup> which stated that the Channel Tunnel will ultimately have more impact on leisure travel patterns than the European Single Market. This was a report on the impact of 1992 on the

travel industry by Peat, Marwick, McLintock, a firm of accountants, which said that the tunnel will speed up the effect of the single market changes on the UK economy, and goes on to say that;

"The leisure and tourism sectors most affected by the single European market will be those that operate in an international sphere, such as tour operations, hotels and travel or industrial catering."

Some people will prefer to use the tunnel and others will prefer the relaxed atmosphere of the ferries. This is the reasoning behind the new introduction of the super ferries with excellent facilities.

The market is likely to increase to such an extent that there will be enough traffic going across the Channel for both the ferries and the tunnel. The cost of the tunnel may be prohibitive for many people. It appears that the ferry companies have decided that travelling by ship will be positively welcomed by the thousands of those unhappy about the prospect of using a new rail system and the Channel Tunnel.

Early estimates are that there will be about an hour's difference in travelling time between the tunnel and the ferry. Luxury is the ferry companies' answer to the speed of the tunnel.

The confidence of the ferry companies is demonstrated

by Sealink's investment in the two super ferries, Fiesta and Fantasia; Sally Line's investment stretching the Sally Sky to give more comfort and capacity; Olau Line's introduction of new super ferries; Hoverspeed's investment in a new generation of Catamaran, the Seacat and P&O's operation of its two new jumbo ferries. Clearly there is very heavy investment in ferry operations from the large companies.

The Swedish shipping company Stena purchased Sealink ferries in 1990 and invested in two new super car ferries. Cabins are planned to go alongside the shops and discotheques so that up-market travellers will be catered for as well as the families en-route to the continent. Brittany ferries are also very confident about their future as they ordered two more ferries in October 1990.

Weather conditions are one problem and the demise of duty free goods after 1992 are facts that the ferry operators cannot do anything about. The companies may be able to persuade the Office of Fair Trading that the co-ordinating of timetables with P&O, Stena and others would not be a restrictive practice but the basis of true competition with the tunnel. If this happens then the ferry companies may compete extremely well with the tunnel.

If the tunnel opens on time and takes as much as 45% of the business by 1995, Eurotunnel forecasts the total number of crossings that year twice the size it was in 1985. A trip to Eurodisney (a new theme park thirty two kilometres outside Paris opening in the Spring of 1992), would be as viable as a trip to Alton Towers to the inhabitants of the south east of England.

The main argument in favour of the Channel Tunnel is that it is much quicker. Hovercraft are quicker than ferries and yet they have not taken business away from the ferries. The use of the Channel Tunnel will also be linked to the geographical origins of travellers. Those people living in and around London and the South East are likely to use the tunnel the most. Those people living in Scotland and the North of England, are least likely to use the tunnel, due to the time factor, taking ten or more hours to get there.

It is most likely that the ferries will not be affected as much as the air travel market by the opening of the Channel Tunnel. The cost of air travel to Europe is very high and the tunnel is likely to be cheaper and faster, when checking in times and the distances from airports are taken into account.

A problem at the moment appears to be that there will be no high speed link this side of the Channel until

1998/1999. This is likely to delay mass use of the tunnel until this time and gives the ferries more time to compete with the tunnel and, maybe capable of beating the tunnel in the short term.

The impact of the Channel Tunnel on the travel trade is likely to be in the short break market, weekends to Paris and so on. This is a market that could easily outstrip the package tour market. During 1990 Travelscene had a 31% increase in the short break market, Cresta had a 59-65% increase and other companies have said that they have had increases by 23% up to April 1990.

#### 10.4 CHANGING DOMESTIC TRENDS.

In the 1990's there is a possibility that the school terms will be changed which could create new holiday trends for the 1990's, boosting the case for an increase in short break holidays. One company estimated that the short break holiday market would increase by 20% per year for the next few years, and cited all-weather Centerparcs as helping this trend, as does the likely increase in leisure time.

In the UK the population as a whole is getting older. The number of younger people is declining. One effect, is the increase in more sophisticated holidaymakers

looking for more quality holidays, which was a view expressed in the Travel Trade Gazette: 10

"An aging population will make the pursuit of higher quality even more imperative. The pursuit will erode price differentials is inevitable, but so is the need for it."

Disposable income is expected to rise in the 1990's. This will enable people to take more expensive holidays than they have in the past. This could have an effect on the destination and types of holidays that people will take, more long haul destinations, more cruising holidays and so on.

During the 1980's there was a large increase in the number of people going on holiday which created a population in the UK, familiar with planning and going on holiday. This makes people more discerning in their future choices of holiday which could lead to more independent holidays in the 1990's.

#### 10.5 THE TRAVEL MARKET OF THE 1990'S.

An important aspect of the 1990's will be new destinations and changes in the numbers of people taking package holidays. Companies will have to identify new trends in the types of holidays being taken and the destinations of holidays for the 1990's in order to succeed. The 1980's was the great holiday



abroad experiment with people going abroad for the first time to the cheapest destinations, just to look at things foreign. However, in the 1990's the market is becoming more discerning and sophisticated and expects a different product to that offered during the 1980's with more quality.

Independent travel has increased, as has business travel. Many people have now had the experience of package holidays therefore independent travel is likely to be a growth area in travel as well as the short break market to Europe. The package holiday market declined to 9.5 million in 1990, a drop of 3 million from 1989. Retailers will have to be geared up for the increase in independent travel by offering themselves as information points and their staff as counsellors to advise people on visas, medical aspects, etc.

The possible increases in price during the 1990's could result in Spain not being the "in" destination during the 1990's, as people may demand a higher quality. In 1990 (to August) Spain was 18% down on visits from the British, a substantial drop indeed, after dropping in 1989. Short haul growth is likely to be for the Greek Islands, Portugal and other similar destinations, and for quality the Scandanavian countries, which are largely unspoilt by mass tourism.

In the 1990's there could also be an increase in major Eastern European destinations such as Czechoslovakia, Poland and Hungary. There is to be a high speed rail link built to Hungary from Austria, which is going to increase access and speed to get to the Eastern European destinations. Black sea resorts are likely to become the cheap beach destination of the mid 1990's, replacing Spain. Eastern Europe may try to attract tourism as it is one of the major ways to earn income. Any increase the number of people going to Eastern Europe is likely to depend on the political stability in these countries.

There is a definite increase in long haul holidays at the end of the 1980's to places such as North America and Australia. In the 1990's people may go to long haul destinations that are fairly stable such as North America, New Zealand, Australia, and Japan. After the problems in the Gulf, and also in some African countries, the stability of all areas is likely to be a major factor in destination choice.

During the 1990's, especially after 1992, it would be expected that business trips to Europe are likely to rise dramatically due to the increased business contact after the introduction of the single market. Business trips to Europe have increased during the 1980's due to membership of the E.E.C..

The Travel Trade Gazette examined <sup>10</sup> the problems of the travel industry for the 1990's and concluded:

"Nobody should lose sight of the fascinating truth that even though money is tight it is the better quality holidays which have been selling most easily. Unless operators are able to offer consistent quality, the British fear of things foreign will be slowly overtaken by greater nervousness that the tour operators will not deliver. Congestion and delays at airports have to be solved. Unless congestion is tackled in sweeping and innovative fashion, the price differential will be eroded to an extent which no amount of innovative marketing can overcome. Whilst it may be possible to survive if the product is cheaper, survival will be difficult if the product is lousy."

The 1990's could be the boom decade for the domestic tourist market as was the late 1950's. All the resorts are cleaning up their image and the beaches now have to fall in line with European Commission standards. The holiday camps that Butlin's had have now all been rebuilt into theme type parks such as Summer West World, away from the "hi-de-hi" image. Resorts such as Blackpool, Torquay and Bournemouth are creating a more modern image to try to attract tourists and have clubbed together to produce brochures and packages, such as Waves. Tour operators could package products similar to this, which would provide adequate commission rates to interest retailers in actively selling UK holidays.

During the late 1980's and the early 1990's, the weather in the UK has become much warmer. The temperatures have been better than in many Mediterranean resorts and people have stayed at home to go on holiday. This is likely to be a trend that will increase during the 1990's. The temperature is likely to be good during the summers which will encourage more tourists to stay in the UK for their holidays. The English Tourist Board is undertaking a promotion saying "better holidays are made in Britain", and Pickfords Travel has published a British Holidays guide book.

In 1990 a certificate to qualify to sell UK holidays was introduced by the British Tourist Authority. As well as UK tourism, there are training schools being set up in many places to provide better quality and better trained staff who are more professional in selling holidays.

The problem for the travel trade with domestic holidays is the fact that most holiday makers go independently. In 1989 there were 109.5 million domestic trips of which 86% were independent. Of the total trips 73% were made by car, 10% by train and 9% by coach, leaving a very large market for retailers to try to get into. The task of retailers will be to try to re-educate the holiday market into using retailers for their domestic holiday requirements. The large number going by car

also shows the fact that the commission from this sort of holiday could only be small.

#### 10.6 TOUR OPERATING IN THE 1990'S.

Tour operating during the 1990's is going to be very different from the 1980's. During the 1980's tour operating companies were more concerned with gaining the maximum market share at all costs, mostly based on competing on low prices, sometimes so low that companies were making losses. During the 1990's the key is likely to be quality and not quantity, and moves away from the traditional destinations and types of holidays. The sun, sea and sand holidays are becoming less and less popular.

With the European influence on tour operating size is still going to be the key to survival, larger companies having the economic power to withstand takeovers, and are able to expand by purchasing other companies. One of the major ways to expand over borders is likely to be through acquiring, merging or forming a joint venture with other foreign tour operators.

In the UK, Thomson's takeover of Horizon must be seen as preparation for 1992. This made Thomson Travel only slightly larger than the other companies in Europe, but they have more subsidiary companies in the travel

trade, with their airline and travel retailing company. This makes Thomson Travel a much larger travel company overall than their European counterparts.

A report <sup>11</sup> stated that Thomson is tipped to be the leading UK operator with a foothold in Europe when trade barriers are dropped. The tour operator giant is understood to have applied to ABTA's French counterpart SNAV for membership in anticipation of 1992. This move means Thomson's cheap flight operations could enter into direct competition with Europe's largest companies including Nouvelles Frontieres, a firm that has already moved into the UK.

The same report also stated that four European tour operators to the Caribbean joined forces in July 1988 in a marketing consortium led by Britain's Caribbean Connections. The organisation is called Carisma-Europe aims to capitalise on new business opportunities arising when Europe becomes a single market.

It was reported <sup>12</sup> that the German tour operating giant TUI was believed to be ready to be in the forefront of its European rivals by stepping up its British presence ahead of 1992. The company was reported to be looking at consolidating with a UK operator. TUI claimed that it has probably reached

saturation point in Germany with 2.5 million customers. TUI already has a framework for UK expansion with its ownership of Touropa Britain. The company said that:

"How can any of the smaller tour operators begin to compete with these giants of the European circuit? The lure of the British market with its high concentration of package holiday bookers is undeniable."

TUI said that everybody was looking towards 1992, but it also said that it had no immediate plans to enlarge its UK activities. The article went on to say that:

"While companies are officially waiting until 1992 to expand across borders there is strong evidence that foreign firms are ready to pounce."

This would affect competition in the market in that it would change the present structure of the industry. It is possible that with a large European tour operator behind a smaller UK tour operator they may be able to build it up to challenge the present large tour operators.

In February 1989 a report <sup>13</sup> stated that two of France's largest tour operators joined forces to fight off an expected Thomson's bid. Leading French tour operator Fram, which was believed to have been the target of the buy out, teamed up with state-run Framtour to fend off the challenge. In the same report Thomson was also said to have started merger talks with continental operators ITS and Sun International, which

is the owner of UK-based short breaks operator Bridge Travel Group.

In November 1990 Airtours was expected to use its Eurosites camping section to try out tour operations in continental Europe. They were looking at expanding in Holland, Germany, France, Italy and Spain. Airtours is the UK's fourth largest tour operator as the industry enters the 1990's.

It is unlikely that UK operators will be able to sell the same product in Europe as they sell in the UK. The most likely move is for UK operators to take over current European tour operators and building them up to a larger size. The same applies to European operators attempting to enter the UK market, the top tour operators are unlikely to be a target. The targets will be the second league tour operators, those offering about 70,000 seats. In the present economic climate these companies will be fairly easy for a German or French company to take over.

Takeovers are not likely to happen overnight and it will take a fair amount of time for the changes rendered by 1992 to come into effect, but cross European ownership will become a fact of the 1990's. It should be mentioned, however, that there are some foreign tour operators already doing business in the



UK: Citalia (Italy); Kuoni (Swiss); Manos (Greek) and German Tourist Facilities.

The Travel Trade Gazette expressed reservations about the likely success of operators working in foreign countries: 7

"The unification of European markets will make it increasingly feasible and attractive for operators to extend beyond their indigenous markets into neighbouring countries. Economies of scale will give a natural advantage to those tour operators based in Europe's biggest generator of outbound markets, particularly those in West Germany, now the world's biggest generator of outbound travel. However it is difficult for operators to create a product of more than national appeal. Problems include the cost of printing foreign language brochures, differences in disposable income and available leisure time, demographic factors such as family size and different school and public holiday dates and patterns. Rather than moving into other markets under their own name astute operators may prefer to strike alliances with already established companies whose name is familiar to consumer and travel agent."

One of the greatest effects on tour operators in the 1990's is going to be consumer protection, which will be introduced by the European Commission directive on package travel.

In the past operators have not been held liable to pay compensation for unexpected problems such as a sudden

invasion of cockroaches at a luxury hotel, over booking by an otherwise reliable hotelier or luggage lost by a transfer coach operator. Holidaymakers have, however, been compensated where a brochure is wrong, such as a swimming pool described where non ever existed or a problem was chronic or well known such as filthy conditions.

Consumer protection is going to be a key area for tour operators during the 1990's. Some tour operators are already aware of the potential problems of consumer protection and certain companies are already making preparations.

In 1989 Thomson Travel appointed a former customer relations chief to a new post of head of consumer affairs. This person will in fact, act as a consumer ombudsman responsible for monitoring quality and safety standards.

Operators, from the summer 1990, were liable to pay damages to their customers where the holiday is not of a reasonable standard. The test is no longer whether the company has taken care in arranging the package, it is whether the quality lives up to the reasonable expectations of the customer, an objective test. Tour operators will be liable whether the problem was foreseen or not.

From November 1990 operators are also liable if death, injury or illness is caused to a customer by the negligence of a supplier with the exception of air or sea carriers. If a customer gets salmonella food poisoning in the hotel then the operator is liable. As damages could be massive then operators must be insured. If an injury is unconnected with the package holiday, tour operators must still look after their customers and offer financial assistance and perhaps legal expenses insurance. In the case of an accident with a customer crossing the road, whilst on holiday, the operator must give help and point the customer to a local lawyer giving up to £5,000 to claim against the driver responsible. If the operators help was deemed inadequate or inappropriate then it is possible that the operator could be sued by the injured person.

ILG, Thomsons and Citalia accepted these liabilities without waiting for November, which is possibly a mixture of marketing sense and genuine customer care. The results of the new changes will include; improved training for overseas representatives (where the burden will fall) on spotting health and safety risks, there will be an upward drift in quality and price, end to hazardous excursions due to the cost of insurance premiums, quality standards will be imposed by contract with the operators/ principals, leading to a quality product at a higher price. An example of this was

given in the Travel News: 14

"A winter sports operator incorporated brochure rental packs using a ski hire shop which set a faulty binding, the outcome could be a costly suit for damages by the client against the tour operator."

Consumer protection therefore will be an important aspect in the 1990's for tour operators. Tour operators will have to take a great deal of care in the preparation and quality of their products.

During the 1980's tour operators have not involved themselves to a great deal with introducing new product ranges, concentrating on the Spanish and other Mediterranean resorts, catering for sun, sea and sand holidaymakers. However, they will have to introduce new products for the 1990's. The market, thus far, has been product led i.e. designing products and pricing so low that the demand is created, but during the 1990's the market is likely to be market led, i.e. tour operators responding to market demand which could include short haul packages to Europe, in terms of mini-breaks by using the tunnel mentioned previously, long haul travel, packages to Eastern Europe and domestic packages. There is a lot of scope for operators during the 1990's.

The competition between the tour operators will become based on quality during the 1990's, with those offering

the best quality holidays surviving. The small tour operators offering specialist countries and holidays are likely to do well during the 1990's. The larger companies are more likely to expand in Europe rather than in the UK.

An article <sup>15</sup> in the Travel Trade Gazette supports the view that the smaller tour operators may be able to have a resurgence during the 1990's, but it also points out that the large companies may purchase small companies and maintain them in their original format:

"The Nineties are being heralded as the age of the quality holiday. The days of the "pile it high, sell it cheap" have gone, to be replaced by a new kinder age where companies will no longer be governed by market share and thus the cheapest on the market to achieve this aim. Some of the larger operators may follow Falcon's lead by acquiring a range of specialist operators to run alongside the mainstream brand. This enables the specialist operations to enjoy some of the benefits of belonging to a larger group, such as the pooling of operational skills and financial resources, and for the mainstream brands to adopt more easily some of the methods of the smaller operators, such as giving more balanced information so that clients know what to expect from their holiday. Small operators pay much more attention to detail in their brochures, accurate descriptions give bad news as well as good news. Descriptions are amplified by booking staff who know the product intimately."

In terms of competition, the major companies most likely to be present during the 1990's are, Thomsons

leading the way, with The Falcon Leisure Group and Airtours following on. However, there is likely to be a reduction in their size in terms of market share, with a growth in the smaller more specialised tour operators. It is possible that one or two of the major tour operators at present will not survive the 1990's if the package holiday market possibly declines.

In the 1990's there could be increases in direct sell reaching something in the region of 30% of the market share as the credit card companies increase their activity in this market, together with the small tour operators who offer quality holidays and who are unable to get their brochures on retailers shelves.

#### 10.7 TRAVEL RETAILING IN THE 1990'S.

As far as the travel retailers are concerned a report <sup>16</sup> said that in 1992 with the coming together of the European market travel retailers are going to face a changed environment. According to an Economic Intelligence Unit (EIU) report <sup>7</sup> into travel and tourism, retail travel will be the hardest hit in terms of change in 1992 when the free Europe era begins. This report predicted that agency business will be profoundly affected by the new single European market, and says there is little agents can do to prepare themselves for the impact of 1992 until there

is a clearer idea of how governments, airlines and tour operators will react.

The EIU report claims the key to high street survival will be the computer and staying ahead in the high-tech race. Concern already expressed by tour operators and agents over free Europe trading policies is shared by the airlines who have branded the proposals as overly ideological and ill thought out, the report adds. The EIU stresses the difficulties faced by the travel industry in trying to plan tactics for 1992 with very little firm information to go on. Only a third of the legislation needed to establish a free Europe marketplace has been passed.

Smaller retail travel agents would be badly affected by the European single market, according to the marketing director of Thomas Cook. She went on to say that some independents would be swallowed up by the multiples while others would be asked to trade unprofitably as traditional client loyalty was whittled away. Hogg Robinson Travel's leisure marketing director said that the loss of some independent travel agents is very sad but possible, with many companies going for the same business cake.

During 1990 there was a lot of movement towards trade agreements, mergers etc. Thomas Cook has linked up

with Via Voyages (a French eighty five branch network), Voyages Wirtz Air (Belgium), VIG (Spanish retailer with forty five branches) with reciprocal trade agreements, this will give Thomas Cook representation in Luxemburg, France, Italy, Spain and Belgium. As of March 1990, it had eighteen reciprocal agreements <sup>17</sup> in Europe. These agreements include consultancy, training, computer network access and rate directories (Thomas Cook support services) in response the European companies will represent Thomas Cook in their respective countries.

Pickfords has been linked with Wagon-Lits Tourisme (France) who took over Viajes Ecuador (Spain) in 1990.

Business Travel International was formed with Hogg Robinson, Hapag-Lloyd (Germany), Holland International (Dutch) and IVR (USA) which will be based in the Hague. Hogg Robinson and Hapag Lloyd left the Woodside Consortium in the USA to enhance their European links.

A European tour operator with a UK retail chain could compete very readily with UK tour operators. This would provide them with their own distribution network on the high streets of the UK, forming a wedge between UK tour operators and their clients. It could also be that these travel retailers will sell to the countries of origin of the tour operator, staffed with nationals



from that country creating a retailer with expertise in the product they are selling.

Retailers themselves are in a very much weaker position to take over European companies than are tour operators. Their general poor financial position makes it very difficult for them. The exception to this is Lunn Poly, which is owned by Thomsons.

As in tour operating there is likely to be a worldwide network in the 1990's of retailers. This trend has already been seen with Thomas Cook signing deals with Japanese companies. The linkages will be in the USA, Asia and also Australasia. Trading agreements with some of these places have already been made, not only by Thomas Cook but also by other companies in the retail sector, which is already creating a worldwide network.

With the increase in consumer protection the further development of complex technology and the increase of the sophistication of the consumers, staff are going to have to be better trained than ever. With better trained staff, companies will have to increase wages in order to attract better qualified staff and to be able to keep them. With retailers being liable for misinformation, the training of staff is going to have to be very high, as is the calibre of the staff that is

recruited and retained. The retail staff at the moment are often young staff, staff in the 1990's are likely to have to be older in order to deal with more independent travel arrangements and the increasingly sophisticated technology, rather than selling the simpler, cheap standard packages to the Spain.

In 1990 British Rail stated that all retailers selling British Rail products must have two staff holding a Quality of Service certificate by the start of 1991. They have said that they will meet half the cost of the training. Those people who were already selling British Rail products may not have to be trained. The course will cost travel agents £80 per trainee and will cost British Rail £50,000 in total.

British Rail is only one organisation that has made this sort of announcement; the major tour operators are likely to introduce training programmes for retail staff in the products that they offer. They will expect retailers to give out the correct information about their holidays to the public and so will organise training for retail staff.

In 1989 part three of the 1987 Consumer Protection Act which came into force tightened up the regulations on prices offered to clients by agents and operators. Companies that do not comply face heavy fines because

the Act makes it an offence for anyone in business to put forward any prices that could be misleading.

Brochures are to make it clear what the basic cost is and what it covers. The trade claims that this will increase the cost of producing brochures by 5% and would mean more space was taken up with the pricing of the product. The penalty for a breach of the Act is a maximum of £2,000 fine in the magistrates courts. The Act, however is open to different interpretations, to determine when an operator or retailer misleads a customer. The point about difficulty of giving accurate holiday prices when the brochures are printed so far in advance has already been made.

ABTA estimated <sup>18</sup> in April 1989 that European proposals to make travel agents and tour operators liable for virtually every aspect of a package holiday would add between £16 and £26 to the cost of the average package price.

As far as the retailers are concerned they do not themselves have products to sell in terms of holidays but in the 1990's the provision of products including guide books, maps, resort guides and local tourist information will enable the retailers to provide a total travel and related service. There will also be scope for the retailing of consumer goods such as

suitcases, passport covers and so on.

The British Tourist Authority's BRAVO system contains a database of information for booking hotels etc. This is soon to be made available to travel retailers to enable them to widen their booking capabilities in the domestic market. They are going to have to provide a full travel service, selling coach and rail tickets.

Multiple retailers are in a position to provide good service, information and are also in a position to offer better wages for better staff, therefore they are likely to dominate the 1990's. Their number of outlets may grow more slowly or even decline to some extent, but the independent will go out of business apart from those which offer something different such as opening longer hours, opening on Sunday and so on. Which is one of the only way in which they can compete with the multiples, as is seen in other retail sector with the local corner shops open on Sunday and in the evening.

Tour operators may decide to own their own distribution network if the decision is to control the quality of product all the way from constructing the holiday to selling it and flying the people to their holiday. This is possible, as a way of controlling the quality which will be one of the key aspects of holidays from the 1990's. This would also protect the operators'

products to some extent from retailers who would rather sell smaller operators products to discerning clients.

#### 10.8 CONCLUSION.

The largest impact on the structure and competition of the travel trade in the 1990's will be the demise of Stabiliser. This could lead to compulsory licensing of retailers and operators.

The European Commission directive on package travel will result in better quality products because of the consumer protection clauses within the directive. This could lead to an increase in the market shares of the smaller tour operators.

Retailers are going to have to change into consultancy type operations offering a total travel service as the travel market changes. These changes are likely to be an increase in more independent travel, short breaks to Europe and domestic holidays.

The change in the travel market will be influenced by the opening of the Channel Tunnel and changing domestic trends, such as an older population.

The future for the structure and competition on the UK travel trade is, however, very much uncertain.

## NOTES

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- 2 Travel Trade Gazette, February, 1989.
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- 4 Travel Trade Gazette, March, 1990.
- 5 Travel Trade Gazette, July 7th, 1988.
- 6 Travel Trade Gazette, September 13th, 1990, P15.
- 7 Travel and Tourism Analyst, 1992 and The European Travel Trade, July 1988, P71.
- 8 Travel News, March 24th, 1989, P7.
- 9 Travel Trade Gazette, May 18th, 1989, P79.
- 10 Travel Trade Gazette, March 24th, 1990.
- 11 Travel Trade Gazette, July 14th, 1988.
- 12 Travel Trade Gazette, July 28th, 1988.
- 13 Travel Trade Gazette, February 23rd, 1989, P1.
- 14 Travel News, March 24th, 1989, P7.
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- 16 Travel Trade Gazette, July, 1988.
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## CHAPTER 11

### THE EUROPEAN TRAVEL TRADE

#### 11.1 INTRODUCTION.

The influence of European companies on the UK travel trade could change its structure and competitive nature. The impact of this influence is studied in this chapter which will look at each European country explaining the structure of the tour operators, and travel retailers.

A grim outlook is predicted by the Travel and Tourism Analyst: <sup>1</sup>

"Of all the sectors of the travel industry, Europe's retail agents probably have the gloomiest view of conditions after 1992. The impact, direct and indirect, on their businesses will be profound. However, there is little the agency sector can do to prepare itself until there is a clearer idea of how governments and principals are likely to react. One effect is likely to be the demise of the undercapitalised, understaffed and smaller independent agent in favour of competitors which will be better able to cope with an increasingly complex market."

It is likely that the impact of 1992 will be neither as immediate nor as drastic as some in the industry fear. This is due to the fact that companies are likely to wait until the legal and economic situation is clearer



before acting. With only a fraction of the legislation passed, many pieces of legislation may only have an indirect impact on the travel trade.

The largest generators of tourism such as Germany and France are likely to contain the most advanced travel trade. The other countries are mostly tourism destinations, with less advanced tour operators and travel retailers. Therefore in this chapter only Germany, France and The Netherlands will be examined.

## 11.2 GERMANY.

Germany has the largest outbound market in Europe, and also has one of the most sophisticated travel company organisations. The tour operator domination of the market is very similar to that of the UK. The German travel trade has a similar trade association to those in other European countries, called Deutsche Reisebüro Verband.

Touristik Union International (TUI) had 25.6% of the market share of packages sold, NUR Touristic (Neckerman) had 11% and International Tourist Services (ITS) had 4.8% in 1986. Fourteen other major German operators had 20% and small specialist operators accounted for 38.6% of the market share. Although this

represents the same pattern as in the UK, the market domination is not as pronounced.

The E.I.U. estimated that there are about 700 tour operators in Germany, which is very close to the number of tour operators present in the UK. The E.I.U. estimated that the top seventeen tour operators control 60-63% of the market.

The German tour operating market is characterised by medium sized companies and a fragmented sales market. Many of these companies are purely regional operators and market mainly in large cities such as Hetzel-Reisen in Stuttgart, Kreutzer-Reisen in Munich and Alltours in Dusseldorf.

Some German tour operators are specialists e.g. offering a certain mode of transport such as ADAC (Private Car) and Ameropa (Rail). Other German tour operators offer types of accommodation such as Dr Wulfs which offer holiday apartments. Studiosus offers study tours and Jet Reisen offers city travel.

The ownership of German tour operators and travel agents is very complex involving departmental stores and banks etc, shown in appendix 11.1.

TUI, the largest tour operator does not own any travel

retailers unlike Thomson Travel in the UK. There are retailers that are owned by tour operators such as NUR and ITS, the second and third largest tour operators.

There is also a situation where retailers contract with certain operators to sell only that operator's products. These are classified as booking agents for the tour operators. This was how ILG failed to operate in the German market, as they could not get a retail network to sell their product. The largest tour operator has 2,556 retailers selling its products to the German public. These booking agents can be contracted to more than one tour operator, but can only sell the products of the contracted tour operators.

Table 11.1 Sales and Market Shares of German Tour Operators 1980's.

	<u>1985/1986</u>		<u>1986/1987</u>		<u>1987/1988</u>	
	<u>Sales</u> <u>(000's)</u>	<u>Market</u> <u>Share %</u>	<u>Sales</u> <u>(000's)</u>	<u>Market</u> <u>Share %</u>	<u>Sales</u> <u>(000's)</u>	<u>Market</u> <u>Share %</u>
TUI	2,352	34.4	2,680	34.0	2,830	33.2
NUR	1,082	15.8	1,271	16.1	1,415	16.6
LTT	805	11.8	917	11.6	1,071	12.5
ITS	596	8.7	683	8.7	750	8.8
Total	4,835	70.7	5,551	70.4	6,066	71.1

(Source: Travel & Tourism Analyst, No 4, 1989)

The main companies that are large enough to enter other

European markets are TUI, NUR and ITS. A member of the TUI board stated that: 2

"The disappearance of EC internal frontiers from 1993 will open up tremendous opportunities for German tour operators, who already account for 40% of the country's leisure travel market. The TUI concept of being in national markets with independent operators and management, with both product and marketing adapted to national tastes has proved itself."

In 1985 there were 19,000 travel outlets, in 1986, 20,600 of which there were estimated to be 5,600 commercial travel retailers, with a further 15,000 selling travel either on a non profit basis or for which travel forms a minority proportion of turnover. In West Germany there is a huge amount of direct selling accounting for just under 40% of business. Many retailers are either independent retailers or are members of small chains.

Of the total number of travel retailers about 750 are owned or directly franchised by the German tour operators. The seventeen largest chains account for 35% of the of the total German travel agency turnover.

### 11.3 FRANCE.

France is one of the community countries that is best prepared to meet the challenge of the single market. In the mid 1980's, only 5% of the French took a package holiday and only 2% used a travel agent.

The country has a very sound structure of travel agents with their own travel agency organisation called the Syndicat National Des Agents De Voyages (SNAV). In 1990 40% of the travel agency business and 75% of the tour operating business was concentrated in the Paris region. This suggests that the demand, in terms of business travel and holiday travel for travel companies is concentrated in the Paris area.

Tour operators in France include companies such as Nouvelles Frontieres, Club Mediterranee and Wagon Lits, which are the largest in France. There are about 260 (1988) tour operators in France, although the concentration is not as severe as it is in the UK with the top fifteen companies having an 80% share of the market and the top six companies accounting for 3.5 million sales. Concentration in France is occurring as it is in the UK, with 3.5 million sales accounted for by ten companies in 1986.

Table 11.2 Top 5 French Tour Operators Rated by  
Turnover and Number of Tours 1988.

	<u>No of Passenger</u>	<u>Turnover (FFMn)</u>
Club Mediterranee	1,663,000	6,386
Nouvelles Frontieres	1,012,000	3,280
Framtour (Groupe)	525,567	827
Sotair	481,089	2,035
Fram	381,347	1,732

(Source: Travel & Tourism Analyst, No 6, 1990)

Club Mediterranee and Nouvelles Frontieres dominate the French market as Thomson Travel and the International Leisure Group do the UK market.

In 1989 Club Mediterranee accommodated 1.8 million clients in 234 holiday facilities, and carried 640,000 other passengers. The French tour operators are very conscious of 1992 with a great deal of movement in the industry in preparation. Some European countries regarded the deal between Club Mediterranee and Nouvelles Frontieres as a potential threat. This failed to materialise. Nouvelles Frontieres, however, made an agreement with Group A (a combination of the Aquarius Group and an insurance group called Garantie Mutuelle des Fonctionnaire (GMF)). Club Mediterranee acquired 50% of the French charter airline company Minerve in 1990.

GMF owns 54% of the French tour operator Go Voyages, and the Aquarius group own the tour operator Loin Voyages and 34% of the charter airline Air Liberte. Group A also owns charter airline Corse Air. The mergers and takeovers between travel companies is very similar to those in the UK. This shows the complexity of the tour operating industry in France as in the UK. In 1991 Club Mediterranee gained control of Aquarius and Air Liberte will be added to Minerve (already owned by Club Mediterranee). This has the result of making Club Mediterranee Europe's third largest tour operating conglomerate.

The airline industry is linked to tour operators in France as it is in the UK. Air France took over control of 70.95% of UTA (the main French charter airline Unions de Transports Aeriens) in 1990, and they also own 70% of the tour operator Sotair and they have purchased two other French tour operators, Fram and Framtour, Fram from the French Railways. This makes Air France a large company in the French tour operating sector.

Air France also has a 71.9% control of Air Inter, 80% of Air Charter (of which 20% is owned by Air Inter). It also controls 100% of La Societe des Hotels Meridien, a hotel chain, and 51% of Euroberlin France, another airline. Air France, 99.38% state owned, is

very much a major force in the travel industry in France.

Table 11.3 Major French Multiple Retail Chains & Turnover (FFbn) 1985-1989.

	<u>1985</u>	<u>1986</u>	<u>1988</u>	<u>1988</u>	<u>1989</u>
				<u>Turnover</u>	<u>Turnover</u>
Havas Tourisme	245	275	328	3,400	4,000
Selectour	n/a	n/a	325	4,200	4,400
Wagons-Lits	230	n/a	285	3,500	4,000
SCAC/Diners	n/a	n/a	125	3,600	2,200
Via Voyages	n/a	n/a	69	1,300	1,400
Nouvelles					
Frontieres	n/a	n/a	48	n/a	n/a
Framtour					
Tourisme	n/a	n/a	47	950	n/a
American Express	n/a	n/a	42	1,200	1,300

(Source: Travel & Tourism Analyst, No 4, 1990)

The top three retailers each earned FF4bn in 1988 and this had increased to FF4.1bn in 1989. The total revenue of travel retailers in France was FF42bn in 1989. In the whole retail trade, each outlet earned FF13.4mn on average, with a gross profit of FF1.1mn.

In April 1990 Havas Tourisme and Diners/SCAC merged, to form a chain of about 450 outlets. The top three retail chains account for 20-21% of the market share in



1989, in 1986 the top twelve retailers accounted for 75% of the total agency turnover. Wagons-Lits took over Viajes Ecuador, a Spanish retailer from Banco Bilbao Vizcaya (BBV) also in 1990. This indicates a move in France for retailers to try to span country borders in advance of the single European market.

The total number of retailers in France in 1986 was 2,500 licensed with 3,109 points of sale and in 1989 3,200. These retailers are not small, Via Voyages for example, has eighty five outlets, which is comparable to a UK multiple retailer in fifth largest position. This position was achieved by taking over Destination Voyages, Idetour and Pacific Holidays. Via Voyages is a subsidiary of Via Generale de Transport et d'Industrie.

Most retailers tend to have a base from which they operate, e.g. Havas based in Paris, which is very different to the UK. Of the total holiday sales in France overall, 8% is accounted for by retailers. Of holidays abroad 44% use retailers for inclusive tours, transport, accommodation etc.

#### 11.4 THE NETHERLANDS.

In the Netherlands there is an advanced travel trade, with established tour operators and travel retailers. There is a travel retailers' association called the Dutch National Association of Travel Agents (ANVR).

The members of the ANVR can be either retailers or operators or both, as in the case of membership of ABTA in the UK. The ANVR had 420 members with 1,100 outlets in 1986 which accounted for 70-75% of the package tour market. The membership included four banks, with Rabobank having an additional 4,000 outlets of its own, and a supermarket chain. There were 100 non-members in 1986 which were small specialist operators and there were 150-200 non-member outlets offering ticketing services only. The Dutch tour operators are dominated by one company, Holland International.

Holland International is 50% owned by KLM, the Dutch airline; 25% is owned by Dutch Railways and 25% is controlled by Nedlloyd Shipping. The charter airline business is also interlinked with Dutch tour operators as the charter airlines are in the UK. Nedlloyd owns 100% of Transavia and 49% of Martinair, the other 51% is owned by KLM.

11.5 EUROPEAN COMPANY TRADING AGREEMENTS.

Table 11.4 Current European Co-operation Agreements  
With UK Companies.

---

<u>UK Company</u>	<u>Co-operation Agreement With;</u>
<u>Hogg Robinson</u>	Havas Voyages (France) (October 1990) Hapag Lloyd (German) Holland International (Dutch) IVR (USA)
<u>Pickfords Travel</u>	Wagon Lits Tourisme (France) Viajes Ecuador (Spain)
<u>Thomas Cook</u>	Via Voyages (France - 85 outlets) Voyages Wirtz Air (Belgium) VIG (Spain - 45 outlets) Wagon Lits Tourisme (France)
<u>American Express</u>	Club Mediterranee (France) Wagon Lits Tourisme (France) (Both In October 1990)
<u>Thomson Travel</u>	Member of the SNAV (Trade Association of France).

---

(Source: Travel Trade Gazette)

There is a Guild of European Travel Associations (GETA) which has nine members including the countries of UK, Denmark, France, Holland, Ireland, Spain and Italy. The aim of the GETA will be to lobby the European Parliament and the European Commission, for the interests of the European travel industry as a whole. Deals are also being made between individual countries.

There are several British retailers that in 1989/1990 started to enter into co-operation agreements with some European companies. The Hogg Robinson co-operation agreement is made by the formation of Business Travel International (BTI) in 1990. This organisation is based in the Hague, and is comprised of retailers who specialise in business travel. As of March 1990 Thomas Cook had eighteen reciprocal arrangements throughout Europe.

In 1991 American Express Travel purchased a 2% shareholding in Club Mediterranee. This deal results in that American Express cards will be acceptable in Club Med villages and Amex will sell Club Med products through its 1,600 world travel retail network.

## 11.6 IMPACT ON THE BRITISH TRAVEL INDUSTRY.

In the short term there will be very little impact on the British travel industry. Companies will continue to concentrate on co-operation agreements and as 1992 arrives there are likely to be many more.

Due to the national nature of the travel product, the most likely option for companies will be to take over foreign companies and keep them in their original identity, with the same types of products. This would solve the problem of the travel product being very much associated with national tastes.

## 11.7 CONCLUSION.

The most advanced travel industries are contained in France and Germany, where the threats to the UK companies are going to come from, and where the opportunities for British companies exist.

It is going to be very difficult for travel companies in the main generating countries to enter each others' markets, in the short term. There are likely to be more trading agreements between main European travel companies, followed later in the 1990's by takeovers and mergers, beginning with the smaller companies.

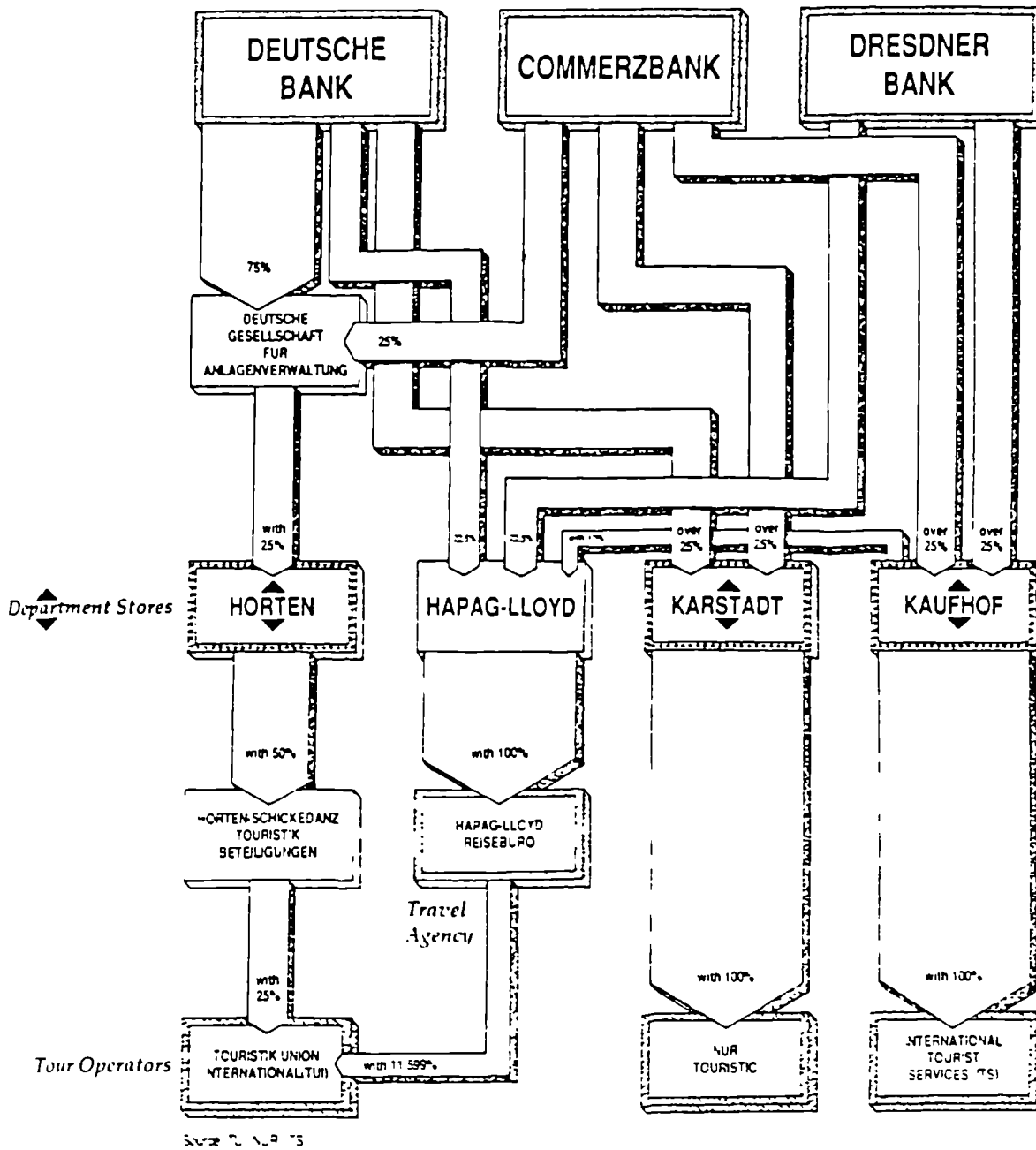
As the legislation for the single European market is completed and put into operation, companies will be able to plan further and may well attempt to penetrate each others' markets.

The other countries in the E.E.C. contain a very fragmented industry, where retailers act as operators. They tend to be very localised companies with powerful local population support, especially in countries such as Spain, Italy and Greece. The lack of size and influence suggests that companies from these countries are in no position to enter the UK, and compete with the larger UK tour operators.

UK companies will have little opportunity to enter these markets as the outbound demand is very small and so fragmented, and is mostly independent type travel, mainly by car.

In the final analysis, the most profound effect of Europe, may well be to reinforce trends which are already well established.

Appendix 11.1 Structure and Ownership of  
Major German Tour Operators



(Source: Travel and Tourism Analyst, 1987)

## NOTES

- 1 Travel & Tourism Analyst, Issue No 3, 1988.
- 2 Travel Trade Gazette, September 13th 1990, P91.



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Travel Trade Gazette.

## CHAPTER 12

### INDUSTRY SURVEY ON THE IMPACT OF EUROPE

#### 12.1 INTRODUCTION

This chapter reviews the results of a questionnaire survey, to get the industry's views on the impact of Europe on the travel trade. The covering letter, questionnaire and destination addresses are included at appendix 12.1, 12.2 and 12.3 respectively.

#### 12.2 QUESTIONNAIRE RESPONSE.

The breakdown of the distribution and replies of questionnaires is as follows;

	<u>Surveyed</u>		<u>Replied</u>	
	<u>No</u>	<u>%</u>	<u>No</u>	<u>%</u>
Travel Agents	27	34	8	30
Tour Operators	23	29	5	22
UK Associations	5	6	1	20
Foreign Associations	15	19	0	0
Colleges	7	9	1	14
Individuals	3	3	1	33
	--	---	--	--
Total	80	100	16	20
	--	---	--	--

The largest response was from retailers and operators.

### 12.3 QUESTIONNAIRE QUESTIONS AND RESPONSES.

Question 1 - Do you think that the situation of the UK travel agent will change significantly before 1992? If so, how?

	<u>%</u>
No	19
Developing contacts in Europe	12
Move to a more quality product (reduction of market share/less retailers/ E.E.C. impact)	44
There will be a general recovery of profits	13
Competition from abroad	6
Can't say/Don't know	6
	---
Total	100
	---

When asked if the situation of the UK travel trade would change significantly before 1992, there seemed to be a general consensus of opinion that there would be a move from the quantity aspects that have been seen during the 1980's, in terms of the number of travel agent outlets and also the numbers of people going abroad, i.e. the mass travel market. There would be a

move towards quality, a reduction in the number of travel agent outlets and a return to profitability.

This seems to be as a result of the implications of the European Commission Package Holidays directive which would make tour operators liable for problems with the holiday. A majority spoke of fewer retailers and an emphasis being placed on more profitability. This gives a clear indication of what the 1990's may hold for the travel industry.

Question 2 - What effect do you think the Channel Tunnel will have on out-going tourism from the UK?

	<u>%</u>
No idea	6
Increase the speed of moving people and freight	6
Marginal	13
Independent holidays/short breaks/self drive holidays	69
Innovative effect, initially high use, lower later	6
	---
Total	100
	---

There was, again, a very mixed response to this question, the majority of which was that there would be

a new market segment created, which will be self drive holidays to Europe. Areas such as Paris and other attractions in France are only two to three hours drive from the tunnel and therefore weekend breaks to Paris, although they exist at the moment, are likely to dramatically increase. Another response also brought up the point that the tunnel will give more independence to people and therefore an increase independent holidays is likely. Most of Europe, such as Spain is possibly too far to drive from the tunnel. There may also be an increase in business travel through the tunnel.

It was suggested on one questionnaire that the tunnel will create a market segment in terms of more second holidays to France. The likelihood based on current holiday trends during the 1980's, with France already being a major second holiday and day trip destination. *The effect of the tunnel will be that it will not create a new segment, but is more likely to enlarge an existing one, possibly making it one of the largest during the 1990's.*

Question 3 - By 1992, who do you think will be the three largest tour operators in the UK.

	%
Thomson in 1st position	94
International Leisure Group in 1st position	6
	---
Total	100
	---
International Leisure Group in 2nd position	94
Thomson in 2nd position	6
	---
Total	100
	---
<i>Redwing in 3rd position</i>	19
Airtours in 3rd position	31
Falcon Leisure Group in 3rd position	31
A European operator in 3rd position	6
Don't know who will be in 3rd position	13
	---
Total	100
	---

International Leisure was placed in second place by 94% of the trade, and yet after the survey, went bankrupt, this shows the total unpredictability of the travel trade. Only four replies placed the Falcon Leisure Group third, and yet only months after the survey, they took over Redwing (19% of respondents placed Redwing third), they are now second, after the demise of ILG.

Question 4 - By 1992, which multiple travel retail companies will be the largest in the UK?

	%
Lunn Poly in 1st position	69
AT Mays in 1st position	6
Pickfords in 1st position	6
Thomas Cook in 1st position	6
Don't know	13
	---
Total	100
	---
Thomas Cook in 2nd position	56
<i>Hogg Robinson</i> in 2nd position	6
Lunn Poly in 2nd position	13
AT Mays in 2nd position	6
Pickfords in 2nd position	6
Don't know	13
	---
Total	100
	---
Pickfords in 3rd position	19
AT Mays in 3rd position	19
Thomas Cook in 3rd Position	12
Don't know	50
	---
Total	100
	---



Lunn Poly came out on top with all the respondents thinking they would be the largest, with Thomas Cook second. Once again, after the two leaders were established, there was no positive decision on third place; half of those questioned not making a choice.

In the case of the above questions respondents do not see the polarity of the industry, with two companies dominating the tour operators and two companies dominating the travel agencies, as changing. This together with the fact that a majority of respondents thought that there would be a reduction in the number of outlets, could mean that some of the multiples presently in the market place could be facing closure.

As far as competition is concerned this could change from competing on price to competing more on customer service and quality. The reduction in the number of outlets will mean that the low price discounting domination of the market will cease to be as important. This is because the drop in outlets is likely to be at the cost of the independents, demonstrated in the chapter on travel retailers. This will result in the multiples competing equally with each other on price, consumers will find a difference between the retail outlets in consumer service and quality.

The responses clearly show the absolute domination of the travel industry in the fact that no respondent thought any other company would become the major company in the travel industry. The difference in the second and third positions shows the fluidity of the trade.

Question 5 - By 1992 do you foresee any advances in direct sell activity? If so, what form do you think this will take?

	%
No advances	31
Yes it will advance	38
There will be marginal advances	31
	---
Total	100
	---

When asked if the respondent saw any advances in direct sell activity, there were some interesting answers....

"....Primarily more effective use of present methods, particularly better segmentation and use of data bases. Could be further introduction of direct tele-booking facility. Doubtful if direct sell market share will increase by more than 3-4% in the time scale...."

"....Marginal. The so called revolution in fire side television buying and selling has been a flop! The direct sell operator can never expect to cover the country and the very nature of the product we sell demands, in most instances, personal contact especially in times of stress and when things go wrong...."

"....Yes - increased direct marketing awareness. Activities: more effective/impressive direct mail/credit card offers/home base purchasing via personal computers/TV sales...."

"....None, except in specialist niche markets...."

"....Yes especially in specialist travel (culture, sport, health, religion and by institutions and specialist operators also social tourism, senior citizens etc) but this will take longer than 1992 to develop fully...."

"....Yes a) Travel clubs of various types.  
b) More direct booking operators  
c) Home electronic booking...."

"....No - not consumer friendly...."

"....Not a lot, more selling by mail."

There is a very mixed response which does not seem to be linked in any way. Some responses are saying one thing and some are saying completely the opposite. It seems to be a personal opinion rather than a factual reason for establishing a future for direct sell. Travel agents may become a place where people go for advice and then book through direct means. The word travel consultants may become just that, consultants for holidays and not travel agents in terms of booking holidays.

Although there were some positive notes about direct selling most respondents seemed to agree that the market share would only increase marginally, with advances in the type and use of technology, the direct sell companies would be utilising their present market share to their advantage.

Question 6 - After 1992 what do you think will be the most significant changes facing UK tour operators?

	%
Increasing segmentation	6
Improved standards of service by the tour operator	12
Competition from abroad	13
Legal liability	50
Air deregulation	13
Consumer protection/increased profitability	6
	---
Total	100
	---

The most significant change for tour operators was thought to be legal liability, which will be introduced by the European Commission Directive on package holidays, highlighted in Chapter 10.

Air deregulation brought some vague comments, respondents stated that deregulation was going to happen and did not expand on the comment, which

illustrates that it is being thought about in the industry. The sheer number of different answers not only to this question but also on the next question shows very clearly that the 1990's will be a period of transition for the travel industry; there will not only be one factor that is going to affect the industry but many.

Interestingly only 6% thought increased segmentation would be a significant change and yet it could be during the 1990's the tour operators may have to find different niche markets to solve the problems of the reduction in the 'sun-sand' market. Only 6% thought there would be a change in profitability, although it has been seen in previous chapters that the 1990's would see a return to increased profitability for tour operators, as tour operators offer better quality holidays in the 1990's.

Question 7 - After 1992 what do you think will be the most significant changes facing UK travel retailers?

	<u>%</u>
Competition from abroad	19
Improved standards of service from the retailer	19
Expansion into Europe	13
Direct Booking	13
Legal Liability	12
Pan European buying power	6
Increasing segmentation	12
<i>New booking technology</i>	6
	---
Total	100
	---

When asked what would be the major changes facing travel retailers there were no consistent single changes. The answers ranged from more consumers going towards direct booking, using travel agents as an information bureau to competition from European travel agents to include such aspects as new legal problems with the European Commission Directive, more direct selling and the fact that agents will have to broaden their products away from the mass package holiday market that they concentrate on at the moment and look at more domestic holidays, business travel, Channel Tunnel business and so on.

The legal liability and the improved standards are all concerned with the European Commission directive on package holidays and really can therefore be treated as one figure which would make this the largest single concern at 31%.

The above answers augment the fact that outlets are going to decrease in size and that profitability is going to be a major factor in the 1990's.

Question 8 - How will 1992 affect the customer - travel retailer - tour operator relationship?

	%
Higher standards will be required from retailers and operators together	37
Possibility of direct booking	19
Increased consumer protection	19
Retailers will become the agents of the customer	6
It will not affect the relationship	19
	---
Total	100
	---

When asked how 1992 would effect the customer - travel retailer - tour operator relationship, the replies were once again varied. It was suggested that there may be flexible opening hours on the part of retailers and higher standards for consumers, which is a reference

possibly to the European Commission Package Holiday Directive. Some said continental tour operators would not offer as many cheap flights but offer more self drive holidays. Increased protection was mentioned as was the factor of more home electronic booking. There was a suggestion that the retailer will become the agent of the customer rather than the operator. Due to the higher standards that may be required in the future, this will create better training/calibre of older staff, and will increase the overheads of the retailer.

The effect of this could be a new charter of business relations between the operators and their suppliers, an increase in remuneration will be a prerequisite. There was the conclusion that due to the European Commission Directive on Package Holidays, the fact that the retailer and the operator will be jointly liable, could result in the retailer and the operator working more closely together in an aim to deliver a satisfactory product to the consumer.

The benefit to the retailers, operators and the clients, would be that the companies would not offer incorrect information to the consumers on products, or poor quality products. This would reduce the legal risks of the consumer protection incorporated in the European Commission directive on package holidays. The



other main advantage to retailers and operators would be repeat business, with satisfied customers coming back to the same retailers and using the same operators year after year.

The linkage here is the delivery of a successful product to the consumer due to the joint liability whether through better training or other means. This will result in major changes in the relationship between the retailer-operator-customer. In fact, the impending legislation could result in more tour operators taking over retailers and leading towards only selling their own products.

Question 9 - Do you foresee non-British tour operators starting operating in the UK after 1992? If so, who and how?

	<u>%</u>
Yes	44
No	44
Possibly	12
	---
Total	100
	---

When asked if the respondents foresaw non-British tour operators starting operating in the UK after 1992, there was a clear division of opinion. Some respondents actually named them in terms of Nouvelles

Frontieres and Neckerman, these being two of the main European tour operators who are capable of competing with Thomson and International Leisure Group.

There were various suggestions as to how these European operators may enter the British market; from being a cold start, i.e. opening completely new operations, to either taking over an existing operator or forming partnerships. The costs of starting up new outlets plus the lack of profits, led some respondents to say that this would prevent European competitors from entering the market. However, by forming partnerships or taking over existing tour operators, the costs would be minimised.

Question 10 - Please add any further comments which you would consider might be relevant to this study.

	<u>%</u>
No further comments	81
Further comments	19
	---
Total	100
	---

The further comments that were written were mainly about the factor of European partnerships in terms of franchises and other forms of partnership and expansion into Europe.

Three comments that were made were:....

"....Joint venture and franchise agreements will be formed across Europe to maintain local management expertise whilst enjoying bulk buying benefits and union of technology...."

"....UK retailer and tour operators are likely to broaden business base by expanding into Europe...."

"....critical question is whether stabiliser or something like it will be retained and restrict entry into the industry on grounds of consumer security. All the signs are that this will be the case. Should this not be the case then retail sector in particular will be in turmoil for three or four years with many other high street retailers offering a travel service. Ultimately because of slimness of margins, trade will settle down into something like its present shape, but with even greater polarisation between large multiples and significantly fewer specialist independents. Removal of stabiliser could also open doors to direct involvement of European retailers in UK but the effect of such an invasion is likely to be limited to vertically integrated businesses - Neckerman, Nouvelles Frontieres. Most obvious impact of single market may be pan European development of holiday centre operators - Centre Parcs, Alton Tower consortium, Rank etc - possibly in conjunction with air lines &/or ferries & Eurotunnel."

All the above comments that were placed in the section for question 10 were very much on the European theme and highlight the industry's concern about the 1990's, when no-one really has any idea about what is going to happen to the industry.

#### 12.4 CONCLUSION.

There appeared to be generally a lack of vision on the part of the trade. Most respondents could not see any changes to the present structure of the industry, and yet the International Leisure Group and Redwing tour operators both disappeared within 18 months of the survey taking place.

According to respondents the threat of competition from abroad, was not going to be a significant change facing UK tour operators after 1992. The last chapter showed that there were a number of companies in the major European countries, that were clearly strong enough to challenge the large tour companies in the UK.

Only 13% of respondents thought that expansion into Europe was a significant change facing travel retailers, and yet, in the last chapter there were a number of co-operation agreements between retailers of different countries.

There was a "ground swell" of opinion that thought there would be higher standards and a move to a better quality product during the 1990's. These changes were a response to an increase in legal liability and a return to profitability by the large travel companies.

There seemed to be a great deal of naivety on the part of the trade in terms of the threats and opportunities that will occur with the advent of the single European market.



UNIVERSITY • OF  
STRATHCLYDE

The Scottish Hotel School

Curran Building  
94 Cathedral Street, Glasgow G4 0LG  
Tel: 041-552 4400

17th June 1989

Dear Sir/Madam

COMPETITION AND STRUCTURAL CHANGE  
IN THE BRITISH TRAVEL INDUSTRY

I am currently undertaking a study of the above topic in the University of Strathclyde. With the introduction of a Single European Market in 1992, I would welcome your views on how this market may affect the British Travel Industry. I have enclosed a very short questionnaire which seeks your views on what changes might follow from 1992. If you are able to find time to write comments to the questions, I would be most grateful. Your views would be regarded as confidential, and no individual or company would be identified in my thesis.

I enclose a stamped address envelope for your use.

Yours faithfully

Mark Critchley

encl.

Appendix 12.2 Questionnaire for Industry Survey

Number.....

1. Do you think that the situation of the UK travel trade will change significantly before 1992? If so, how?

.....  
.....  
.....  
.....

2. What effect do you think the Channel Tunnel will have on out-going tourism from the UK?

.....  
.....  
.....  
.....

3. By 1992, who do you think will be the three largest tour operators in the UK?

.....  
.....  
.....  
.....

4. By 1992, which multiple travel retail companies will be the largest in the UK?

.....  
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.....  
.....

5. By 1992 do you foresee any advances in direct sell activity? If so, what form do you think this will take?

.....  
.....  
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6. After 1992 what do you think will be the most significant changes facing UK tour operators?

.....  
.....  
.....  
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7. After 1992 what do you think will be the most significant changes facing UK travel retailers?

.....  
.....  
.....  
.....

8. How will 1992 affect the customer - travel retailer - tour operator relationship?

.....  
.....  
.....  
.....

9. Do you foresee non-British tour operators starting operating in the UK after 1992?, If so, who and how?

.....  
.....  
.....  
.....

10. Please add any further comments which you consider might be relevant to this study.

.....  
.....  
.....  
.....



Appendix 12.3 Addresses for Industry Survey Questionnaires

Mr S FENTON  
SALES & MARKETING EXECUTIVE  
TRAVELCENTRE  
51 CHURCH STREET  
STOKE-ON-TRENT  
ST4 1DQ

Mr S BATH  
SALES & MARKETING DIRECTOR  
RE BATH TRAVEL SERVICE LTD  
SPACE HOUSE  
2 ALBERT ROAD  
BOURNEMOUTH  
BH1 1BZ

NATIONAL ASSOCIATION OF INDEPENDENT  
TRAVEL AGENTS  
46 OXFORD STREET  
LONDON  
W1N 9FJ

Mr C JONES  
C & V JONES TRAVEL  
ADLINGTON  
Nr CHORLEY  
LANCASHIRE

INTASUN TRAVEL Ltd  
INTASUN HOUSE  
CROMWELL AVENUE  
BROMLEY  
KENT  
BR2 9AQ

AMERICAN EXPRESS EUROPE Ltd  
PORTLAND HOUSE  
STAG PLACE  
LONDON  
SW1E 5BZ

HOGG ROBINSON TRAVEL  
AFRICA HOUSE  
64-78 KINGSWAY  
LONDON  
WC2B 6AH

LUNN POLY TRAVEL Ltd  
YORK HOUSE  
CLARENDON AVENUE  
LEAMINGTON SPA  
WARWICK  
CV32 5PS

CO-OPERATIVE TRAVELCARE  
CO-OPERATIVE WHOLESALE SOCIETY Ltd  
PO BOX 53  
NEW CENTURY HOUSE  
MANCHESTER  
M60 4ES

EXCHANGE TRAVEL Ltd  
EXCHANGE HOUSE  
PARKER ROAD  
HASTINGS  
EAST SUSSEX  
TN34 3UB

THOMAS COOK GROUP Ltd  
PO BOX 36  
THORPE WOOD  
PETERBOROUGH  
PE3 6SB

PICKFORDS TRAVEL SERVICE Ltd  
400 GREAT CAMBRIDGE ROAD  
ENFIELD  
MIDDLESEX  
EN1 3RZ

AT MAYS Ltd  
MOFFAT HOUSE  
NINEYARD STREET  
SALTCOATS  
AYRESHIRE  
SCOTLAND  
KA21 5HS

ASSOCIATION OF INDEPENDENT TOUR OPERATORS  
THE KNOLL HOUSE  
PURSERS LANE  
PEASLAKE  
SURREY  
GU5 9SJ

GUILD OF BUSINESS TRAVEL AGENTS  
60-61 TRAFALGAR SQUARE  
LONDON  
WC2N 5DS

ASSOCIATION OF BRITISH TRAVEL AGENTS Ltd  
55-57 NEWMAN STREET  
LONDON  
W1P 4AH

MARK ALLEN TRAVEL  
130 MOUNT STREET  
LONDON  
W1Y 6AE

BROOKLANDS COLLEGE  
HEATH ROAD  
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## NOTES

- 1 Travel Trade Gazette March 3rd 1990, P6.
- 2 Travel Trade Gazette September 13th 1990, P6.
- 3 Travel Trade Gazette September 13th 1990, P6.

## CHAPTER 13

### CONCLUSION

This conclusion is aimed at establishing whether the objectives laid down for this thesis have been accomplished. With that in view, each objective will be looked at separately, and established whether each has been achieved.

The conclusion is also required to test the hypothesis, and this will be undertaken in the later part of this chapter.

The first objective of this study was to examine the travel trade in terms of how tour operators and travel retailers interact with each other.

The interaction was seen to be the fact that 90% of package holidays created by the tour operators are sold through travel retailers. These types of holidays accounted for 50-60% of retailers turnover.

Package holidays were further examined, to highlight that this was the most popular type holiday abroad, accounting for 50-60% of all holidays abroad. This interaction was underpinned by the practise of "Stabiliser" and the trade body, the Association of

British Travel Agents.

The second objective of this study was to examine the structure and growth of the tour operators and travel retail sectors during the 1980's.

The study clearly illustrated that the major tour operators have dominated the market. The sector has become polarised with the very large companies at the top and the very small at the bottom, in terms of market shares. There are very few companies in the middle, and the chapter showed how those "middle ground" companies had been taken over by the major companies.

The evidence showed that during the 1980's the top five tour operators had 35% of the market share in 1980 and in 1990 had about 80% of the market share. The structure of this sector was also examined in financial terms and the profit levels were shown to be very low indeed, by all the major companies.

The travel retail sector was clearly characterised by the "March of the Multiples" during the 1980's. Once again, as in the previous sector, it was established that the larger retailers were beginning to dominate the market. They were doing this by their numbers of outlets, although the market shares of the top

retailers only accounted for approximately 35%.

The financial aspects of these retailers were also looked at, and once again, it was established that the profit levels were very low.

The objective of the nature of competition was looked at throughout the thesis. The chapter on the theory of competition combined with the chapters on price and integration, created a theory base on which the chapters on tour operators and travel retailers built, showing how the theory was transformed into reality. In the later chapter on innovations, another facet of competition was demonstrated.

In general the nature of the competition in the travel trade was based on the battle for market shares, and the methods the companies used by which to achieve the maximisation of market shares.

The next objective was to look at how price was used as a major competitive weapon. The thesis looked at price in detail. It was clearly established that the major tour operators priced their products very low, in order to expand the total travel market. The chapter examined market demand which was looked at in terms of economic, social/cultural, demographic and geographic determinants.

The chapter established that there was an increase in disposable income during the 1980's, which could have had a direct effect on the increase in the number of holidays being taken. The chapter outlined that the prices of package holidays were established 18 months in advance, and that the air component of the package was the most expensive in percentage terms.

The pricing strategies were looked at, in particular, penetration pricing and competitive pricing. There were many examples given in the chapter about price reductions during the 1980's. The increase in the late booking market was also outlined as was the strategic and tactical pricing techniques.

Thomson Travel had clearly used penetration pricing during the 1980's, with a view to increasing the total market size. This was a strategic plan, and as they contracted more and more air seats and hotel beds, many holidays were being left unsold, this led to tactical pricing techniques in the late booking market. The late booking market increased and increased during the 1980's as the major tour operators over estimated the size of the market place, and as each major tour operator tried to conquer the market share.

The tour operators behind Thomson Travel in the league used competitive pricing methods to try to obtain as

much of the available market share as possible. The evidence is overwhelming, in that the competitive method of pricing worked very well for the larger tour operators. The market increased dramatically, as did the top tour operators market shares, leading to the domination of the sector by four or five very large tour operators.

The next objective was to look at integration in the travel trade and its consequences. Vertical and horizontal integration were looked at in great detail. In the case of vertical integration, tour operators were seen to have taken over airlines and Thomson Travel established their own travel retailer. .

In the case of horizontal integration, retailers were the main players, but tour operators had also used this method. The chapter showed the dramatic effect on outlet numbers for retailers, when they took over other companies. The advantages for the retailers were clear to see in terms of rapid geographical coverage. In the case of tour operators they could gain certain types of holidays that their portfolio's lacked such as youth holidays brands or holiday destinations.

The chapter demonstrated that the reasons for growing large were economies of scale. Technical economies and marketing economies were the major advantages

in the travel sector. However the chapter also highlighted that there were some diseconomies of scale as well, that the large companies have to deal with.

The final objective was to examine market changes and relate these to possible developments in the 1990's. This was achieved by collating data for two chapters, one on innovations and the other dedicated to the 1990's.

There were a great number of innovations during the 1980's such as technological developments, direct selling techniques, shop design, new selling techniques and many other innovations. This chapter highlighted that there were many moves in the travel trade to gain market shares, even opening in the evenings and on Sundays.

During the 1990's, it is clear that the main influence will be the European aspect. Increased consumer protection, the abolition of "stabiliser" and the possibility of direct competition from large European tour operators and travel retailers.

Air liberalisation, the Channel tunnel, changing domestic trends and the travel market in the 1990's were all looked at in this chapter. The data collated showed that there were going to be some dramatic



changes in the travel industry during the 1990's, the main influence being the abolition of "stabiliser", which as mentioned at the beginning of this conclusion, underpins the interaction between the retailers and operators in the UK.

The one other major influence on the travel industry is going to be increased consumer protection. the evidence is that this must lead to a better quality product, possibly at a more expensive price for the 1990's.

A chapter was included on the European travel trade to identify where possible European competitors could originate from. It was established that the main competitors were located in Germany and France, where the travel industry was as advanced, as that of the UK.

This chapter also indicated possible opportunities for the UK tour operators to enter European markets. The feature of the European competitors is covered, as it could change the current market, that the UK tour operators and travel retailers operate within.

Entry into the European market will clearly alter the UK tour operators available market, with Germany having the largest outbound market and France the third largest. Entry into the UK of European tour

operators/travel retailers will have a profound effect on the travel trade competition within the UK, the vulnerability of travel companies was proved in terms of their low profitability and the number of companies going bankrupt each year.

All the objectives have clearly been covered in this thesis. They have all been expanded to provide a study into how the travel trade in the UK has expanded during the 1980's, and the projection for the trade during the 1990's.

The hypothesis stated that the travel market will continue to be concentrated in the way it has become in the 1980's with large tour operators and travel retailers dominating in terms of market share.

The evidence gathered in this thesis indicates that this will be the case. On entering the 1990's there is no change indicated in the market shares of the large tour operators and retailers. They have made themselves so large during the 1980's, that their domination is most likely going to be continued.

The hypothesis further went on to say, at the other end of the scale the specialist tour operators will improve their market share as the demand for this type of holiday increases with consumers making direct

arrangements.

The smaller tour operators have begun to play a more important part in the industry as a whole being able to offer specialist holidays to a market more at ease with buying holidays and who do not want a prepackaged holiday destination that they are over-familiar with.

On entering the 1990's there is no real evidence pointing towards the smaller tour operators increasing their market share. This is more likely to happen with the advent of the abolition of the "stabiliser", when many smaller tour operators who are not members of ABTA will be able to sell through all travel retailers.

The final part of the hypothesis states, structural changes in the industry will occur following the single European market and the European Commission directive on package holidays. The thesis looked at the European influence on the UK travel trade and established that the major structural change will be as a result of the abolition of "stabiliser".

The European commission and the increase in consumer protection that will occur following the introduction of the single European market, is likely to have a profound effect on the UK travel trade.

The trade survey clearly shows that the trade is well aware of the implications of the consumer protection changes, with many respondents saying that there will be a return to a better quality product and that legal liability was a major concern. They did, however, show a great deal of naivety with the regards to the structure of their own industry.

The hypothesis for this thesis has been clearly tested by the evidence within this study. During the 1990's the hypothesis will be proved and tested even more than it is at present.

This thesis has clearly highlighted that the travel industry in the UK is very unpredictable. The demise of the International Leisure Group clearly demonstrates this.

This thesis has contributed to knowledge in that it has looked at the travel industry over a whole decade and projected it over another decade. The industry has not been looked at in other literature, for more than a few years, at a time. When the whole decade is looked at the profound changes over the 1980's is very clear to see, and there is a lot of evidence pointing towards the changes that are going to happen during the 1990's.

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