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TRAVEL
SYSTEMS

No Turning Back: Tour Operators and E-commerce

An Anite Travel Systems Survey



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INTRODUCTION: ON THE BRINK

UK tour operators are on the brink of a business revolution made possible by e-commerce. The revolution promises increased revenues and profits in an industry now worth around £8bn a year, but it also threatens the livelihoods of established players by opening the market to new entrants.

Although many existing tour operators are large, with the biggest in the survey turning over in excess of £1.2 billion a year, they operate on slender margins. After flights, accommodation, marketing and distribution costs have been deducted, most operators expect to retain no more than around 3-5% of the retail price of a holiday. In many cases, there will be no profit at all on the sale of a package holiday unless the operator manages to sell a value-added service, such as insurance or car hire as well.

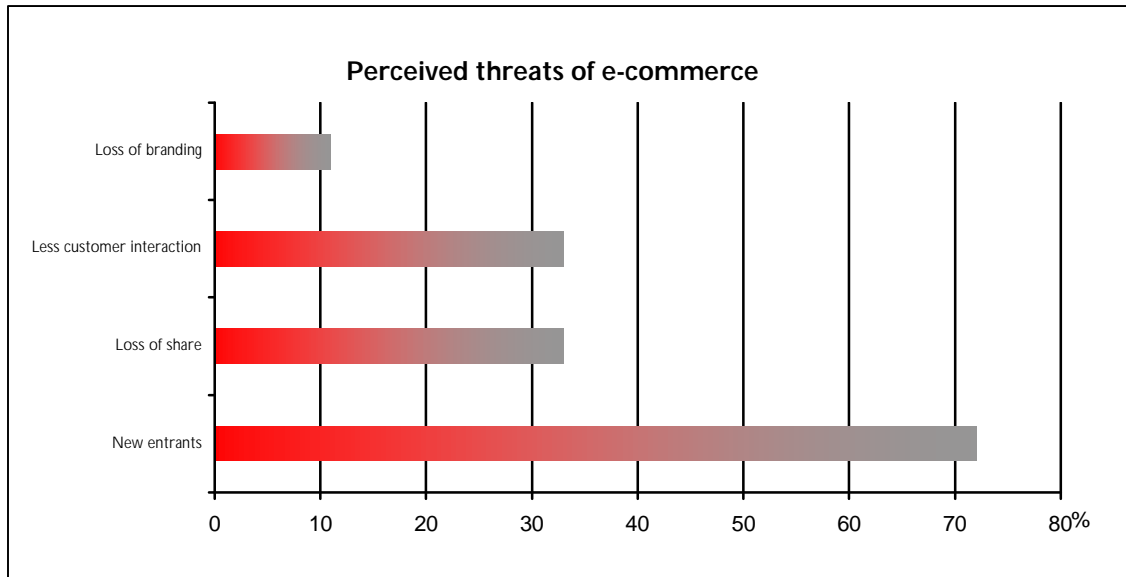
Cost breakdown for a £500 package holiday		
		Potential cost-saving from e-commerce = ✓
Flights, ferries, other transportation	45%	
Accommodation including transfers	33%	✓
Marketing including brochures	3%	✓
Distribution including agent's commission	15%	✓
Overheads, e.g. admin., IT infrastructure	4%	
Total costs as a percentage of retail value	100%	
Tour operator's gross margin	3%	

Note: although costs appear to completely absorb potential margins, operators expect to generate additional revenue and margin from sales of tours and other added-value services.

By moving booking systems out of agents premises in favour of Web-based on-line systems of their own, tour operators stand to reduce their overheads, eliminate commissions and cut marketing and fulfilment costs. The survey findings suggest that these savings could amount to a three- or even four-fold improvement in gross margins.

The survey also shows that for most tour operators these benefits remain theoretical. Most are struggling with a number of issues surrounding the choice and deployment of suitable technology. Among the thorniest is how to integrate Web-based selling systems with back-office systems handling everything from airline reservations to order processing. Tour operators do not know where to turn for technological solutions, they lack the expertise to deploy e-commerce systems, and they do not know how much they will need to invest in technology to join the game.

Although flights and holidays are now widely advertised on the Internet, very few sites can take real-time bookings or process transactions, and nothing is available to match the range and depth of services offered by travel agents. This will change.



The question is not whether e-commerce will come to the travel industry but who will get there first. What established tour operators fear most is new entrants: it may be easier for technology suppliers to move into travel than for travel firms to move into the technology business. The early signs are that these fears are grounded: it is significant that the most prominent players in the emerging on-line travel business are not established players but start-ups like lastminute.com and deckchair.com. These companies have joined the market with no legacy systems to worry about and no intellectual baggage about the way the industry works.

Behind the first wave of new market entrants there is a second, potentially far more threatening force: companies with industrial-strength technology, deep pockets and considerable expertise in the design and deployment of e-commerce systems. Asked to identify the company leading the way in travel industry e-commerce, half the respondents named Expedia, the Microsoft-owned travel company that operates exclusively on the Web.

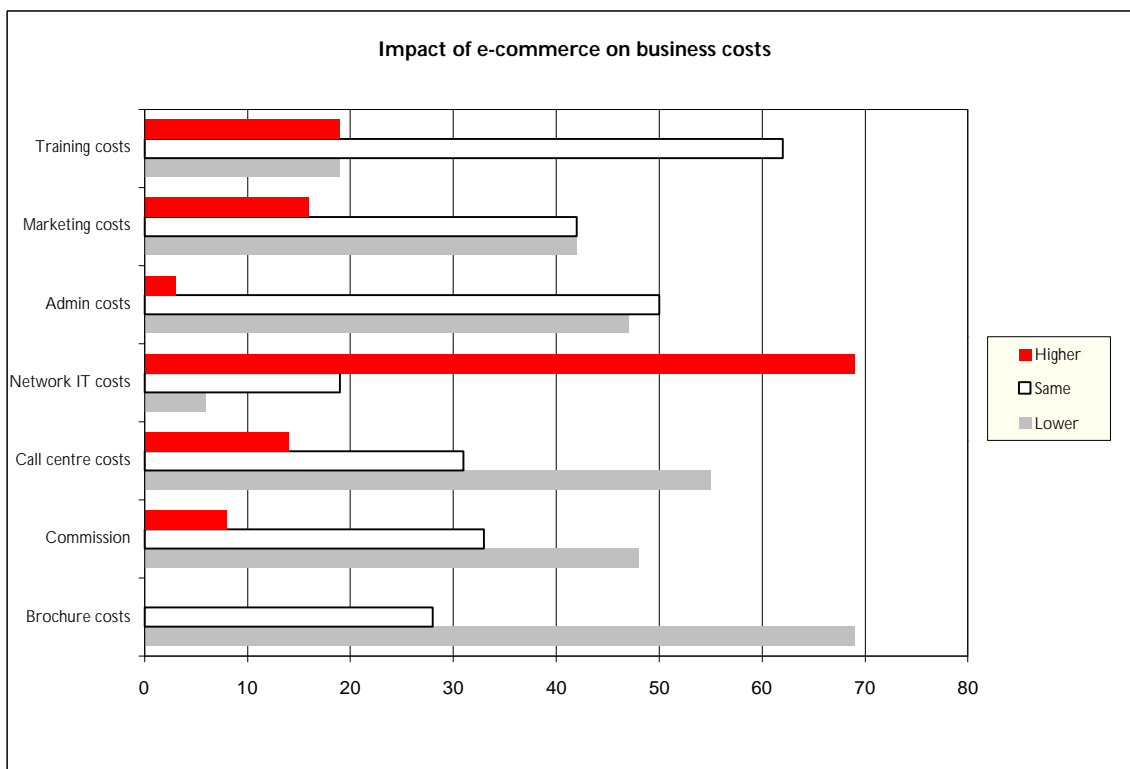
Established tour operators know that companies like Expedia will be the competitors of the future. They also know that if they fail to address themselves squarely to the e-commerce question their own companies could soon be booked on a one-way ticket to nowhere.

E IS FOR COST CUTTING

Of the 36 companies in the survey, only three said e-commerce would not figure in their businesses within the next three years. Nearly two-thirds of respondents (64%) thought Internet based distribution would account for up to a quarter of turnover in the same period, and 11% expect their entire business to be conducted on-line by 2002.

Asked to rate the importance of e-commerce to their business, 64% thought it was "crucial" and the remainder thought it "somewhat important".

There was broad agreement about why e-commerce is so important. The main driver is the desire to reduce costs – the single biggest motivating factor in embracing the technology for 44% of the respondents. It is also clear that most of the savings are expected to come from cutting commission paid to agents by cutting out agents. Companies in the survey that already rely heavily on direct distribution also expect e-commerce to save them money on booking, administration and customer service. Self-service applications promise to reduce the need for call centres, for instance.



Big savings are also expected to come from putting brochures on-line, another development likely to nail the coffin lid shut on agents. Once the brochure moves out of their premises and on to the Web, there is less to get the consumer through the agent's door. Wherever the brochure is delivered is the point of sale.

Brochure costs are high. Unit costs range from under 50p to around £3. Cost per brochure per holiday sold is higher still. On this scale, costs vary from £3 to £30.

More than half the companies that took part in a recent survey by trade magazine Travel Weekly reported brochure costs per holiday at between £3 and £12. Some of the larger tour operators admit to spending £15 million or more each year on brochure production.

Despite some of the current limitations of on-line media, e-commerce may lead to improvements to the quality of brochures. In the medium term, on-line brochures can be expected to include high-quality images and sophisticated search facilities to reduce the time taken to match the consumer's requirements. Probably the most significant improvement, though, will be in the ability to change brochure content immediately to reflect price changes or special offers.

The ideal on-line medium for electronic brochures may well not be the Web at all but digital TV. Digital TV has the bandwidth for high-quality images and multimedia. Just as importantly, TV is a group activity where the Web is solitary one. It is easier to imagine the family choosing the annual holiday gathered round the television set than crowded around a home computer.

The generally perceived enthusiasm among retailers for digital TV does not appear to be shared by tour operators. Asked to name the future distribution channel likely to be of most importance, 81% named the Web compared to only 19% for digital TV. This perception may change as digital TV becomes commercially established. For now, tour operators are pinning their e-commerce hopes firmly on the Internet.

DON'T-CALL CENTRES

Among other areas where e-commerce is expected to reduce costs is in customer support, particularly call centres. After brochures the call centre is the main target for cost cutting, mentioned by 55%. A further 31% thought that costs would remain about the same while several companies (14%) thought they would actually rise. These differences may signify that the issues around call centres are more complex than they appear. Even the most comprehensive and well-designed e-commerce systems may require telephone back up. And if tour operators dispose of their agent networks, they will need to manage all aspects of the customer relationship for themselves. Not all this interaction will be possible via the Internet.

Administration and marketing costs are also widely expected to fall as a result of e-commerce. Lower administration costs will come from the reduction in paper-based transactions.

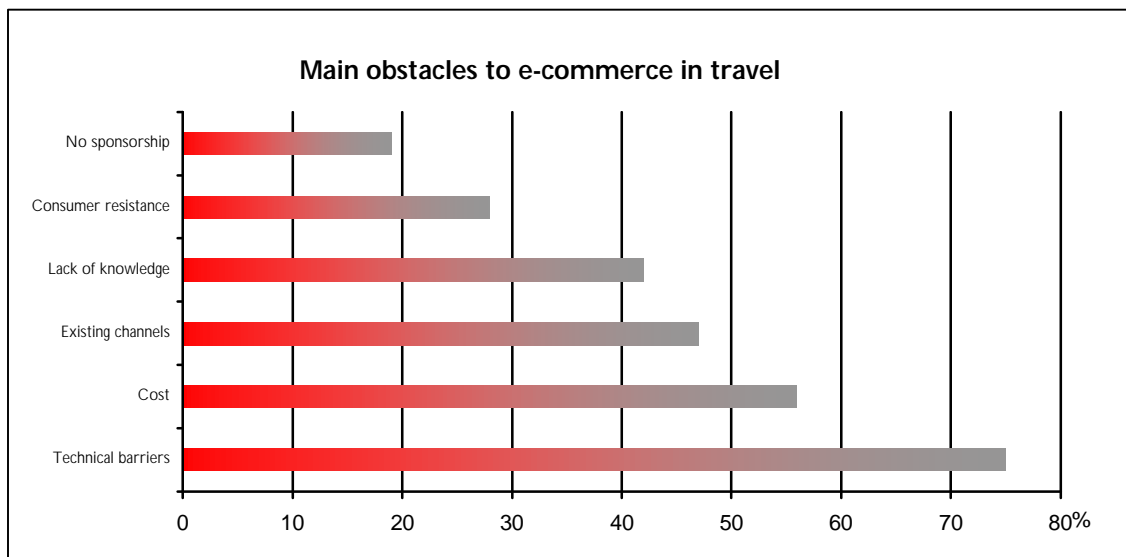
Few respondents are prepared to guess at the level of cost reductions made possible by e-commerce, but even the "don't knows" expect costs to be lower. Around three-quarters of their costs are fixed, but the remainder are within the scope of e-commerce systems. If as little as 20% of these costs could be eradicated, tour operators' profits would double overnight.

TECHNOLOGY ISSUES

But if technology is the solution it is also the problem. The survey reveals a wide gap between the potential and the reality of e-commerce in travel. Most companies today have a Web site, the majority of which offer little more than a company profile, some marketing information and on-line brochures. These sites are technically undemanding to build and draw on readily available skills in HTML, perl, Unix and web server administration.

Full-service e-commerce systems capable of handling real-time reservations and end-to-end transactions are at the pre-planning stage. One reason is that the skills required are an order of magnitude higher than for a simple marketing-oriented Web site. They include TCP/IP and other networking, database administration, transaction processing, security, user interface design, and system integration skills.

The latter are particularly important because the only viable e-commerce systems are those in which the front end is fully integrated with the back end, and all the back end systems are interconnected. Tour operators use a variety of different and incompatible systems that were never designed to communicate with one another. The opportunities to rationalise these systems are limited. To complicate things further, many of the systems involved in a typical booking don't belong to the tour operator but to a third party – an insurance company or airline, for instance.



Asked to rank the obstacles to e-commerce, tour operators put “technical barriers” top of the list. They were also asked to rank the most important characteristics of a successful e-commerce solution. The verdicts on the importance of systems integration and transaction-processing capability were virtually unanimous, with 86% identifying systems integration as a major consideration in the design of e-commerce solution.

BUSINESS ISSUES

There is no doubt that tour operators want to embrace e-commerce. Many see it simply as another step down the road to direct distribution. 39% of the companies in the survey rely on agents for three-quarters or more of their revenues. Within three years less than half that number expect to do most of their business through agents.

There is an underlying trend to increase direct distribution that e-commerce is only serving to accelerate. Operators that already deal directly with the customer are planning to move a significant proportion of their business to e-channels. Companies with mixed distribution are moving in the same direction, but more slowly.

Tour operators that own their own agent networks are apparently no less enthusiastic about the potential benefits of e-commerce than those that rely on third parties. The figures point to a reduction in volumes of business through agents of all kinds of around 15% within three years.

The survey shows that while most operators are keen to use e-commerce to push the direct distribution model they fear it will not be easy. "Pre-eminence of existing distribution channels" is a serious obstacle, according to nearly half (47%) of respondents.

Tour operators with mixed distribution			
Channel	Today	3 years	Change
Trade/travel agents	71%	57%	-14%
Direct	28%	31%	+3%
E-commerce	1%	12%	+11%

Base: 20 respondents

Tour operators with direct distribution			
Channel	Today	3 years	Change
Direct	98%	82%	- 16%
E-commerce	2%	18%	+16%

Base: 8 respondents

A majority of respondents believe that e-commerce will open new and lucrative distribution channels, reduce the cost of doing business and help them win market share. They can't all be right. Loss of market share is also one of the tour operators' big fears. And they expect the most aggressive predators to appear not from the ranks of existing rivals but in the shape of new entrants.

This view is backed up by other findings of the survey. "Loss of interaction with customers" and "loss of share" both figure strongly under the heading of e-commerce threats. The lack of a direct relationship with the customer and the greater opportunities for shopping around offered by e-commerce may make it more important than ever to invest in marketing.

The other prominent cost reduction target is commission. The commissions paid to agents represent 10-18% of booking revenues. It would be simplistic to say all of this "lost" revenue could be added to the bottom line, however. Already half or more of commission represents discount on the price of the holiday passed on to the customer via the agent. These discounts would still have to be offered even if the agent disappeared. The real level of commission and therefore the maximum potential saving to the tour operator is nearer 6-8%.

Against the projected cost savings tour operators have to weigh a number of potential factors that could swallow them up:

- Increased IT investment in buying and running e-commerce systems
- Increased competition resulting in aggressive discounting and pressure on margins
- Increased traffic to call centres as the human interface to customers disappears
- Lower brand loyalty as on-line shopping encourages consumer promiscuity

THE COST OF E-COMMERCE

E-commerce is expected to reduce costs in most areas. In one area, though, they are likely to rise. This is, not surprisingly, the need for investment in IT networking and infrastructure. Agents currently share the costs of running the networks that deliver booking information and reservations. With agents out of the picture, tour operators will need to shoulder these costs for themselves. The networks underpinning e-commerce systems will almost certainly be more cost-effective to run than today's over-priced travel industry networks. But that remains to be seen. Meanwhile, most tour operators expect network costs to be higher in the short term with e-commerce.

There is much less certainty about the cost of building e-commerce systems. Asked what they would expect to pay for an e-commerce system, respondents provided a wide spread of answers from around £20,000 to £5 million. No doubt this reflects in part the diversity of views about what constitutes an e-commerce system, from the fairly simple marketing-oriented Web site at the bottom end of the scale, to full-service booking and customer management systems at the top of the scale. The explanation may be simpler still: tour operators don't know what it will cost to build an e-commerce system because they've never had to do it before.

The greatest density of responses to the question about system costs was in the £100,000 to £500,000 bracket, indicated by 39% of companies in the survey. Compared to the savings available, these costs appear modest. Nevertheless, the cost of building systems was mentioned as an obstacle to e-commerce by 56%.

WINNERS AND LOSERS

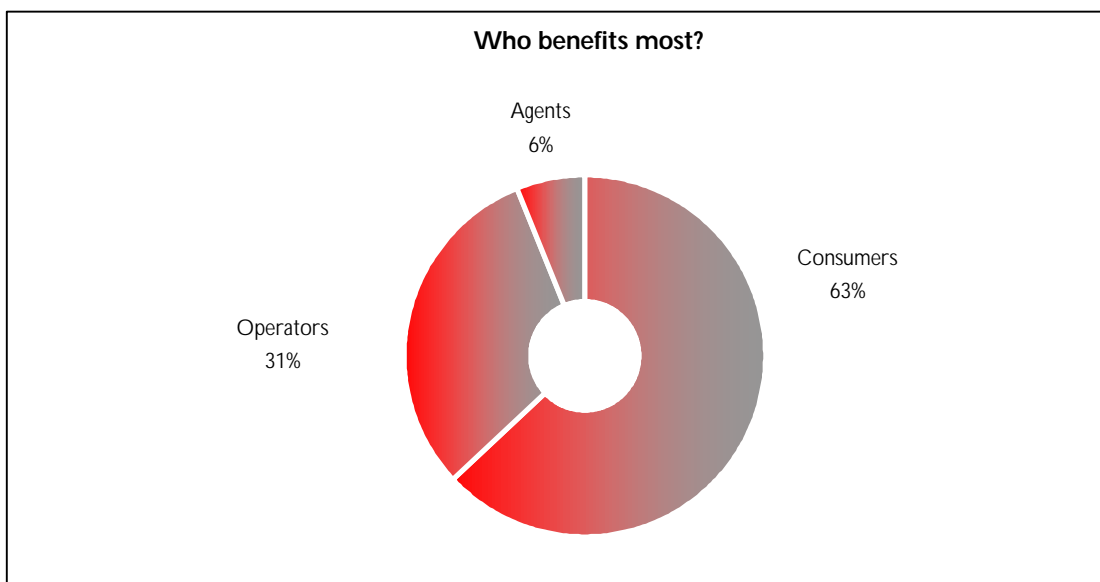
There is no doubt that e-commerce is set to become a major distribution channel for the travel industry, but the e-commerce revolution brings as many challenges and threats to existing tour operators as it offers opportunities.

The main challenge is to embrace the technology and put it to work. Other challenges concern the ease or otherwise with which tour operators are able to manage the transition from third-party to direct distribution.

The biggest threat is that posed by new market entrants – companies coming to the market with skills the tour operators don't have, and able to move faster because they are unencumbered by agent networks and outmoded business models.

A senior executive at one company recently quoted predictions that travel would "account for a third of all transactions on the Internet by 2002". Significantly, perhaps, he is employed by Worldspan, one of the new generation of technology-led travel firms.

Some of the assumptions tour operators are making about the long-term benefits of e-commerce will turn out to be wrong. As competition moves on-line and intensifies, cost savings will have to be handed straight back to the consumer in the form of discounted holidays and more competitively priced value-added services. Or they will need to be invested in better e-commerce systems for the sake of competitive differentiation. Also, while self-service applications will ultimately be cheaper for the tour operator, they also make the consumer more independent. The Internet makes it easier to shop around to get the best deal on each component of the holiday package. Shopping around is something conventional travel agents are there to prevent.



The survey suggests that tour operators are embracing e-commerce not because they want to but because they feel they have to. If they don't do it to themselves someone else will do it to them.

Despite their firm belief that e-commerce will lower the cost of doing business in some areas, it is not at all clear that tour operators can realise these savings in improved profit margins. As with other sectors of industry, the question arises: what happens when everyone is doing it? As e-commerce systems mature, not only will the playing field be levelled, it also looks likely to be more crowded.

The winner will be the consumer – at least according to the respondents in this survey. Asked who would benefit most from e-commerce in the travel industry, 63% said consumers and only 31% said tour operators. Only 6% of respondents identified agents as the main beneficiaries.

Tour operators are embarking on a perilous journey with little idea what sort of industry they will be working in when they arrive. However uncertain the route and the destination, internal or shareholder pressure to improve margins and external pressure from new players means that staying put is simply not an option.

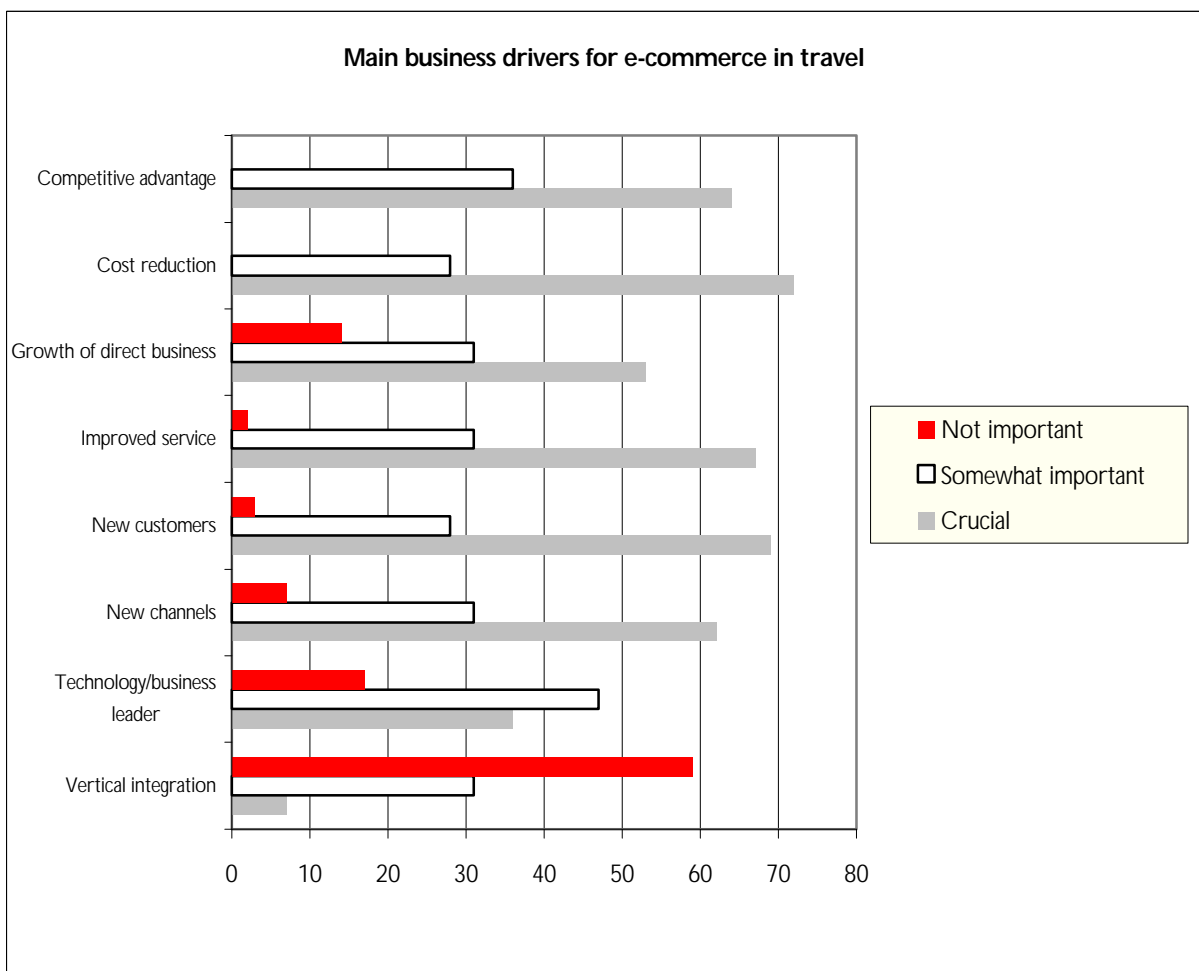
APPENDICES

1. Scope of the Report & Methodology

This report is the product of research done in September 1999 to discover attitudes to and plans for e-commerce in the travel industry. The research was conducted among 36 of the biggest tour operators in the UK. A full list of respondents appears in an appendix. Together these companies account for revenues of £6.5 billion in a UK travel market estimated to be worth around £8 billion.

Respondents were typically marketing directors, but answers were also provided by IT directors, managing directors or other senior managers directly involved in the planning and implementation of technology-based business programmes. All were asked to complete a detailed telephone questionnaire. No inducement or incentive was offered other than access to the survey results.

The research was commissioned by iE. It was conducted independently by ByLine Research. Anite purchased the travel division of iE in January 2000. Every effort has been made to accurately represent the views of tour operators.



2. Companies in the Survey

ByLine Research would like to thank the following companies, who agreed to take part in the survey. One of the 36 companies that took part requested anonymity and is not listed.

Abercrombie & Kent

Airline Network/Gold Medal Travel

Airtours

Avro

Ayscough Travel

Brittanic Travel

Cosmos

Cresta Holidays

Direct Holidays

First Choice Holidays

Gullivers Travel Agency

Hayes & Jarvis

Hillgate Travel

Kuoni Travel

Magic Travel Group

Magnet World Travel

Manos

Omega World Travel

Page & Moy

Port Philip Group

Portman Travel

Saga

STA Travel

Style Holidays

Superbreak Mini-holidays

The Travel Company

Thomas Cook

Travelbag

Travelpack

Tropical Places

Unijet Travel

USAirtours

Usit Campus

Virgin Atlantic

Wexas International

3. Anite Travel Systems

Leading Travel Industry E-Commerce Pioneer And Web-Enabler

For nearly 20 years Anite Travel Systems has led the way in developing, installing and managing automated reservations systems for leading travel providers worldwide.

The company's commitment to innovative research and development produces leading-edge technologies that respond to customers' changing needs.

Anite Travel Systems is the only company in the travel industry with the technical capability to web-enable any reservation system – regardless of the provider or platform.

Websites powered by Anite Travel Systems include:

www.direct-holidays.co.uk
www.virgin-holidays.co.uk
www.bornholmstrafikken.dk
www.travelchest.com
www.globespan.com
www.superbreaks.com
www.hoverspeed.com

Leading The Way In Development Of Multi-Channel Distribution Solutions

Anite Travel Systems' entire range of reservation platforms are all based on internet technology. In addition, the company's portfolio of end-to-end (e2e) reservations and e-commerce solutions is unique in enabling industry providers to sell through new distribution channels including digital TV and WAP mobile phones.

With its high level of IT expertise and pioneering approach, Anite Travel Systems is the market's most progressive force. The company's customer list reads like a travel industry 'Who's Who', underlining its position as a secure and reliable technology partner.

Vision

Anite Travel Systems' vision is to extend its position as a leading Application Service Provider (ASP) and e-commerce enabler to the worldwide travel industry and gain majority market share.

Parentage

Anite Travel Systems is a wholly-owned subsidiary of Anite Group plc, the £160m turnover systems integrator and service giant. Anite has offices in Germany, Austria, Holland, Belgium, France, Italy and the UK. In 1999 Anite Travel Systems acquired Opentur, the leading Italian tour operator reservations system supplier.

Core Product Set

- Managed Services – Anite Travel Systems is the world leader in providing systems on a managed service basis, remote or in-house with support 24 hours a day, 365 days a year
- Tour Operator System - Anite Travel Systems offers the world's leading tour operator reservation system generating over 15 million bookings annually
- Ferry Operator System - Anite Travel Systems offers the world's leading ferry booking system accounting for 60 million passenger and 12 million vehicle bookings each year
- Ferry Cruise System - Anite Travel Systems offers the market's most advanced reservation and check-in system
- Cruise System - Anite Travel Systems offers one of the most sophisticated cruise and fly/cruise booking systems

Anite Travel Systems' reservations platforms also offer optional linked solutions providing additional functionality including Customer Relationship Management (CRM) and Management Information (MIS).

Customer Base

Over 100 travel providers worldwide use Anite Travel Systems' pioneering platforms and e-commerce solutions.

Customers include First Choice Holidays, Virgin Holidays, P & O Cruises, Superfast Ferries, Globespan, P&O Ferries, Hoverspeed, Scandlines, Direct Holidays and Mile Hi Tours.

Unique Pricing Proposition

Anite Travel Systems' unique pricing breakthrough Pay as You Pax means thousands of travel industry providers can develop a genuine e-commerce presence from as little as £1 a booking.

Under the new model, customers do not pay for hardware, products or support but instead pay a fixed fee for each passenger booked. The system also delivers a working capital advantage to travel providers, as customers will be invoiced a month after a booking is taken, meaning they will receive either a deposit or full payment before paying Anite Travel Systems. Pay as You Pax is available across the company's entire product portfolio.

4. Further Information

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