

Vertical integration and the effect on the travel and tourism



Vertical Integration and the Effect on the Travel and Tourism Industry When two scalar companies such as two hotels, are offering very similar products and are in a strong competing situation, integration is a popular move. It can be a voluntary decision by both companies or it can be the take-over of one company by another. Benefits include greater sales, which result in larger revenue and expansion opportunities.

Complimentary reasons tend to be the realization that one hotel offers something that the other hotel doesn't and vice versa.

If the two combined it would create one stronger hotel. The vertical in the supply structure represent examples of vertical integration. This the merging of two companies up or down the chain as opposed to across the same level of the chain.

Moving down the chain is known as forward vertical integration. An example of this would be a tour operator buying a chain of travel agents. Backward integration is moving up the chain. An example of backward integration would be a tour operator buying a principal, such as an airline.

It is understood that as you go up the chain each level costs more to buy. This is why forward vertical integration is more commonly found because a travel agency would rarely have enough capital to buy a principal, which is at the top of the chain. Company expansion is the major reason for this type of merging. A tour operator with its own airline will be much higher in the chain than a tour operator without its own airline. It is also thought that in the tourists eyes a company combining all aspects of the tourism experience will be of more use and more popular with tourists.

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This is because it would mean that a tourist could buy all the aspects of their holiday from the one company.

Some strong vertical integration has taken place in the travel and tourism industry since the 1980s. The largest travel groups such as Thomson, Riordan (now known as Moderately) and Thomas Cook own the tour operators who are responsible for putting together the package holidays. The travel agencies who sell these package holidays to customers are also owned by these travel groups, as are the airlines which take the tourists to their destinations.

This means that the travel agent at places like Thomas Cook or Lunn Poly will prefer to sell their own tour operators' holiday rather than those of others. These companies may also have links with car hire companies and hotel chains. So they can get these holidays at the cheapest prices possible and make a large profit from the customer.

The four largest tour operators in the UK dominate the holiday market. Together they sell about 80% of the package holidays bought in the UK. This makes it difficult for other tour operators to compete.

The recent takeover of Thomson by the German travel giant Preussag for almost £6 billion (US\$2.9 billion) shows that takeovers will carry on and the larger companies will continue to grow.

This means that there will be less competition in the market. Questions: .
What is integration? Explain the difference between vertical and horizontal

integration. 2. Explain the difference between forward vertical and backward vertical integration.