

# Interrelationships



An interrelationship is where different brands or companies get owned or become a part of the same organisation. This occurs with larger tour operators that generally own their own hotels, airlines and travel agencies.

Benefits of this include:

- Ability to control the quality of all different products in the package.
- Offering a good value for money holiday packages in a price competitive market.
- Giving customers a seamless holiday package.

This happens in two ways which are horizontal integration and vertical integration.

Main Horizontal integration: This is when an organisation owns two or more companies on the same level of the buying chain. For example: Thomas cook owns several tour operators all on the same level. Thomas cook owns Sunset, Airtours, Manos holidays, Club 1830 and Direct holidays.

Why businesses use it: horizontal integration would be used by businesses because it is an effective way to own the biggest share of the market. Once you have bought up all the competitors on the same level of your business, you will capture the whole market.

Advantages of this are: 1) prices can be increased as there are few competitors selling the same product, allowing you to earn more money. This would make smaller businesses struggle to make a profit as customers are going to the company with the market share. 2) If you buy up competitors on the same level this means that customers can be offered a wider choice of product to choose from. If you have a wider range of choice more customers are willing to come to you as it appeals to them, the outcome would be

making a higher profit. For example Thomas Cook own Club 1830 which appeals to the younger generation who want to have fun. 3) When a large company has a good name to themselves customers would trust other companies owned by them.

Disadvantages of this are:

1) If someone has a bad experience with one company they may choose not to use other companies linked with it, as they may feel that they might get the same poor service. Fewer customers means less profit.

2) If there aren't enough customers, large companies can easily get into debt, as they have invested money into other areas of their company. They also cost a lot to run, and sometimes it's hard to save money.

Vertical integration: When an organisation owns companies in two or more levels of the buying chain. For example: Thomas cook, they own an airline, tour operators and travel agency.

Why businesses use it: It enables them to have more control and a better chance for them to keep hold of the profits. It allows the company to negotiate better rates with its own airline, these savings can be passed to the customer.

Advantages of this are: 1) the company can control all areas of the sale. For example you can go into a Thomas Cook shop, use one of their sale assistants to buy a Thomas Cook holiday, then would use a Thomas Cook owned airline to travel to your holiday using Thomas Cook coaches to be transferred to your destination which is a hotel owned by Thomas cook. 2) Lower transaction for customers because the company is in control of all

areas of the holiday, they can bargain with subsidiary companies for a cheaper rate. For example hotels at a cheaper price. 3) Assurance of getting good quality as the company controls everything about the holiday which means it would be set to their standards. The customers would feel at ease.

Disadvantages of this are:

- 1) Higher organisational costs, this means when a company has a lot of staff and products to keep running it costs more and to manage all areas of the business would also be very expensive.
- 2) Although a company's package can be seen as good, it can take away the customer's choice as they own so much of the market there is little variation.
- 3) If a customer is not happy with the standards set by one part of the company then they wouldn't use the others, leading to loss of profit and customers.

Common ownership: Owns something more than just themselves. Common ownerships are horizontal and vertical integration.

Working together: - Provides a better service to their customers - Receive greater protection for smaller, independent organisations - Influence government policy on important issues affecting the sector - Arrange discount packages and deals that will appeal to their customers For example: Lots of transport companies work together with visitor attractions to offer discounts and incentives to plan a visit. Lots of accommodation providers work with Enjoy England or the AA.

Although... if you all do not share the same vision it could lead to a breakdown in relationships between the different companies.

<https://assignbuster.com/interrelationships/>

Conclusion Overall I think that all of the relationships listed above have good and bad points, but work to the companies favour as it maximises profits.