

Contracting considerations of a tour operator tourism essay



This report will consider the contracting considerations of a small to medium sized tour operator in relation to providing a report based holiday experience for a clientele from socio-economic bands A and B. The report will consider two key elements namely in the form of accommodation and other services in the resort and transportation of an appropriate type to and from the resort.

In considering a possible solution to providing accommodation for the company's guests there are a number of options open to the small to medium sized tour operator. At the one end of the spectrum the tour operator could consider an option of direct investment. Such an option would see the tour operator investing in hotels and accommodation facilities which at the end of the investment the company would own the facilities which could be used for both its own guests and for the purpose of renting out accommodation to other tour operators which capacity allows for such an options (Holloway et al 2009). However, such an option in the circumstances is an unlikely option for the specific company in question. In the first instance the option is an expensive one, investment in hotel and accommodation facilities can cost millions in there initial investment or more, this may be an unsuitable or even unrealisable option for a small to medium enterprise.

Secondly, the corporate objectives of the company are to minimise risks, direct investment however, may be seen as a considerably risky option for several reasons. In the first case once established, the company will have long term fixed costs to meet over a prolonged period of time, such a problem is not incurred where a contract based option is undertaken and thus the liability to meet expenses is limited to the agreed contract period

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which could be as short as a single season or less. Secondly, long term investment in an overseas location also implies taking on the national risks which are associated with international trade including exposure to currency fluctuations, interest rates and changes in demand from the consumer perspective (Griffin and Pustay 2010). Again, where a contracting option is considered such exposures whilst still present are limited to a much shorter period of time and thus to a large extent offset.

A more realistic option for the company in question may be to consider one of the many contracting options which are available, such contracting options are also wide and varied in nature and include both direct and indirect contracts with accommodation providers as well as a variety of options with regard to the length of contracts undertaken (Holloway et al 2009).

In the first instance, the company must select between contracting directly with accommodation providers or through the use of a third party agency (Cooper et al 2008). Negotiation directly may help the company to save money by excluding the fees of a third party however, the downside is that the company may have to deal with a large number of accommodation providers each with their own peculiarities and unique circumstances. On the other hand, the company could opt to use another intermediary who will undertake such sub-contracting on the behalf of the tour operator, for the tour operator this reduces complexity in the contracting process in that the tour operator now has only a single point of contact (Holloway et al 2009).

However, on the downside the tour operator will now incur additional costs from the fees levied from a third party, in addition the tour operator will also

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lose a degree of control over the accommodation which is to be provided and arranged by the third party. This may have an impact upon the tour operator who's clientele falls with the A and B social bands and so have very specific requirements in relation to their individual accommodation needs in comparison to other segments of the market.

The next consideration from a contracting point of view is to consider the length and level of commitment in contracting options. Again the tour operator is presented with a wide range of options, at the lowest level of commitment end of the spectrum the tour operator can simply book rooms with accommodation provider in reference to specific levels of demand experienced, such an option means that costs are kept to a minimum and risks from contractual obligations are virtually eliminated (Cooper et al 2008). There is however, an additional risk incurring in that whilst the tour operators liabilities are minimised so are those of the accommodation providers, in short should the tour operator experience a surge in demand and the accommodation providers be unable to meet such a demand do to market forces, the tour operator may be left either having to disappoint customers or have to pay premium prices in order to satisfy the demand.

At the other end of the spectrum the tour operator could contract to buy a set number of rooms or even entire hotels for a specific period of time (Holloway et al 2009). In such a case the advantage is that the tour operator has a guaranteed level of availability in a given hotel or resort and thus the risks of not being able to meet demand are off set given that the tour operator has a fixed capacity which it may use as it sees fit. The other major advantage is one of cost linked to economies of scale (Johnson et al 2008), <https://assignbuster.com/contracting-considerations-of-a-tour-operator-tourism-essay/>

by undertaking longer contracts that purchasing rooms at the spot rate, the tour operator stands to benefit from substantial bulk purchasing discounts as rooms and accommodations purchased over a long period come at a much reduced cost in comparison to shorter periods of hire.

However, in such a circumstance the company also incurs some additional risks. Now that the company has entered into a contract for a fixed amount of accommodation the tour operator also has the obligation to pay for the rooms and so needs to be able to fill the accommodation to as close to full capacity as possible throughout the year (Holloway et al 2009). In reality this may mean offering significant discounts at certain part of the year so as to attract enough custom to fill the accommodation, alternatively the tour operator could forego full utilisation however, the contract would see the tour operator still having to pay for the accommodation which has been rented in advance.

In addition to accommodation, there are other elements of the resort experience which the tour operator may wish to consider contracting out to third party providers. Key elements include the provision catering services, onsite entertainment and other forms of entertainment and added value services such as tours and excursions of sites of local interest to the clientele of the resort (Singh 2006).

From a transportation perspective, the use of scheduled flights has become one of the most important ways travel operators have been able to take advantage of both the flexibility and speed of air travel as part of the holiday package (Holloway et al 2009). Unfortunately due to the constraints of the

scenario the travel operator will have look at a number of alternative methods of getting guests to and from the proposed resort of which there are a wide number of options including alternative air transportation options as well as some more creative solutions making use of alternative modes of transport.

The first and possibly most feasible option for a tour operator who can not take advantage of scheduled flights to a destination may be to consider using a charter service. Charter services offer to schedule an aircraft for the specific use of a client on a given route, charter options may include a single trip rental but more likely a charter provider will agree with a company such as a tour operator a regular schedule of flights for a season or more (Holloway et al 2009, Cooper et al 2008). There are several advantages for the tour operator if such an option is engaged in. From the passengers perspective, there is almost no difference to if the tour operator had made use of a scheduled flight, the guest will be transported to their destination on an aircraft which functions in all but the same way as one operating on a scheduled route. Secondly, a charter service operates with more flexibility than that of the scheduled flight, the tour operator can choose deviate from the time table which would not be an option which scheduled options and there is also flexibility of destination which may include local changes such as using an alternative airport or more radical changes changing the route of the aircraft altogether.

There are however, still some drawback of the charter flight option, the main problem would be one of capacity. In the case the scheduled flight the responsibility for filling seats lies with the airline provider and the liability of <https://assignbuster.com/contracting-considerations-of-a-tour-operator-tourism-essay/>

the tour operator is limited to the number of seats for which they have purchased on any given flight. However, when an aircraft is chartered the cost of the charter becomes a fixed cost and the responsibility for filling seats then becomes the responsibility of the charterer, in this case the tour operator (Holloway et al 2009).

The charter option has been a relatively successful option in recent years for tour operators, in some circumstances the model has become so successful that there has become a blur in the boundaries between scheduled and chartered flights. This has been exhibited in both operational elements in that some charter flights are so regular as to almost form a scheduled service including the sale of spare capacity to additional passengers.

Secondly many travel operators have sought to consolidate their positions by buying charter aircraft providers and integrating these businesses into the main business unit (Monarch 2010).

If the tour operator still wishes to investigate the scheduled flight option further, there is the consideration that a multi-modal transport operation may be considered. In such a case the tour operator may consider purchasing seats to the nearest airport served by a scheduled flight and then arrange onward transport via road rail or water. In many cases this may be an unattractive option, especially where distances are significant. Such an option may become an annoyance for guests and add unnecessary costs for the tour operator. There are however, times when the option may be an appropriate one especially for the upmarket segment. Such circumstances may exist where the tour operator can incorporate the onward transport into the holiday package, this may be possible where the route from airport to <https://assignbuster.com/contracting-considerations-of-a-tour-operator-tourism-essay/>

resort passes through an area of outstanding natural beauty or a luxury transport option can be added such as a river cruise which serves a dual function as transport and entertainment.

Air transport however, is not the only option available to a tour operator one other major option to consider is transportation via water. Water transport has largely declined in recent decades due to the rise of faster and cheaper air transport which also allows access to a wider number of destinations than water based or land routes (Holloway et al 2009). Despite the decline of the standard ocean liner as a mode of transport which is now largely confined to summer transatlantic crossings the market for other water based forms of transport has both stabilised and began to grow again in recent years. The most important development has been a rebranding of the cruise, in past times the cruise as a form of holiday had declined as a function of both poor branding and the rise of alternatives. However, significant investment on the behalf of the industry has seen the holiday rising again in popularity amongst consumers.

In selecting a transportation mode suitable for a market segment in socio economic groups A and B one option may be to consider providing a hybrid holiday which takes advantage of the rise in popularity of the cruise linked to the facilities present at the destination. From a pragmatic perspective the tour operator could in effect make use of a cruise ship to transport its guests too the resort making the transport via water an essential part of the holiday package as opposed to being a way of getting to the product in the form of the resort. Once at the destination, the tour operator would have the option of providing a return journey for guests either via the same method or via an <https://assignbuster.com/contracting-considerations-of-a-tour-operator-tourism-essay/>

alternative such as a charter flight. The major benefit of such an option is that the tour operator would be able to offer a high value added product in which all elements of the package including transportation are considered a part of the holiday. On the downside, the small to medium size of the tour operator would necessitate the use of a third party to provide a suitable vessel for use. This in turn would add complexity to the operation and there would naturally be a greater limitation on destinations based upon the schedules and services of third party providers as well as the natural constraints imposed by limiting transport options to water based transport.

There is also a rail option open to the travel operator, this has become an option with an increased level of feasibility from the UK since the opening on the channel tunnel back in the 1990's. Whilst, rail transport provides fast and efficient transport from the UK to the major cities in Europe, the real problem with this option is one of flexibility. To a large extent destinations will be limited to the major cities within Europe and it may be considered to access to more remote destinations and resorts becomes infeasible and impractical for users of the service. In addition, the large distances and nature of the rail network means that intercontinental options will be largely off limits to a tour operator if looking to use rail as a transportation option.

Given the objectives of the company which are largely to reduce risk and the consideration of flexibility the recommendation of this report are that the travel operator opts to convey its guests the resort via a chartered air service model. Such a model would see that the company does not have to risks associated with investing in expensive capital items such as aircraft or ships which would increase the risk profile of the company significantly. In <https://assignbuster.com/contracting-considerations-of-a-tour-operator-tourism-essay/>

addition, by using an air service the company would also maintain the element of flexibility and speed opening up a wider number of destinations than would be available through land or water based forms of transport. These are both key benefits for the company's target client group in socio economic groups A and B. There are however, still some risks associated with the charter route, whilst the company would not own any specific assets associated with the transport of passengers, the company would still have a fixed capacity of seat for which it would need to fill on each flight so as to keep the cost per passenger for a minimum. The risk here is that during periods of low demand the company may have to offer significant discounts in order to fill flights, this may also create a conflict with the company's generic strategy of focusing on the premium end of the market (Porter 2004, Jobber 2007).