

# Integration or disintegration structure of the tourism industry marketing essay



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## **Overview of the UK tour operating industry**

### **WHERE DOES THE TOUR OPERATOR FIT IN?**

Using a 'Chain of Distribution' example: Producer farmer with the corn.

Intermediaries Mr Kellogg's who takes the corn, processes it and sends it to the shop then retailer Mr Tesco puts it on his shelf

Consumer Mrs Shopper buys it

Can store this product but with travel and tourism there are strict times in place. Seat on the plane only goes on specific dates.

Need a Tourism Chain Of Distribution

Principal's transport & accommodation

Tour operators buys them in bulk to put together. Mixes a package.

Brochures it

Travel agent sells it to make commission

Consumer buys it

### **Role Of The Tour Operator**

Remember the process of a package. Nowadays there is a trend is more towards direct sell.

### **What is a travel distribution channel?**

It is the communication's process that a company uses to distribute its products/service to the market.

## **Can be done in 2 ways:**

DIRECT - from the principal to the consumer e. g. Direct Holidays, British Airways

THROUGH INTERMEDIARIES - dealers who act as a link in the chain of distribution

E. g. Principal to the tour operator to the customer

Principal to the tour operator to the travel agent to the customer

Principal to the travel agent to the consumer

## **Integration – What is it?**

Over the years there has been a steady process of integration between the sectors of the tourism industry. (Often referred to as the ' March of the Multiples')

We can identify this integration as being either Horizontal or Vertical.

Airtours (My Travel group) have integrated vertically - both forward and backward, and horizontally - acquiring ASPRO to increase its tour operating brands.

## **Horizontal Integration**

When 2 companies merge - such as Holiday Break buying Explore Worldwide

When 2 companies merge equally or the bigger one takes over the smaller one

Can be applied to 2 airlines

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2 hotels - Consortia - small hotels under one advert

Occasionally they merge or work together e. g. Virgin Atlantic code sharing with Air India on some routes, KLM code sharing with China Southern Airlines.

## **Advantages of Horizontal Integration**

Main purpose of HI is that economies of scale can be achieved by producing and selling more of a product/service if the supplier reduces the unit cost of each product, since the fixed costs incurred over a large number of units e. g. aircraft seats of hotel bedrooms. This enables customers to purchase services at lower prices, which in turn attracts more customers/consumers and increases profitability. It also enables a company to gain a greater market power reducing competition and strengthening buying power.

With pax carriage and travel services HI brings more efficient use of fleets, by sharing where fleets have different usage peaks or can be jointly maintained.

It also allows greatly increased travel-route combinations to be offered to the market and the exploitation of large computer reservation services in distribution.

## **Vertical Integration**

When a company buys at one level in the chain that unites with another.

Backward Integration - away from the customer

Forward Integration - to the customer

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Tour operator buying Transport is backward integration.

Cheaper to go forward than backward.

## **Using TUI as an example of Vertical Integration**

As competition has increased in the tour operating market, tour operators have sought alliances and mergers to increase market share and maximise profitability

TUI - Own Britannia - AIRLINE

Own Thomson Holidays (among many more) - TOUR OPERATOR

Own Lunn Poly - TRAVEL AGENCY

## **Advantages of Vertical Integration**

Provides economies of scale through the linking of complementary activities, investment in new technology and improved management expertise is say foreign exchange transactions, forecasting and marketing. By expanding the number of units they operate the multiples benefit from economies of scale. The opening of a new branch or the takeover of an existing chain will add little to the overhead costs of central administration and accounting. Only a few extra staff may be required to cope with the extra paperwork. The bigger you are the less your costs.

Increase in assets - when a takeover takes place, the newly expanded company needs only one head office and so it can close the head office of the company which has been taken over. This benefits the company

financially in 2 ways - sale of the premises raises cash for investment and by employing fewer head office staff, overheads are reduced.

Addition of expertise - when a takeover or merger takes place the buyer acquires the existing expertise of the company which is taken over. May benefit the buying company if they are weak in a particular market segment. Takeover should also enable strengthening of senior and regional management. E. g., merged company having 2 regional managers in each region - as only one is required; the new owners can then select the best person on merit.

Reduction in competition - takeovers reduce competition, increase the market share, raise turnover, and may help to increase profits. New owner may have more than one office in a town and is therefore faced with the option of retaining all the properties or else of selling one or more of them so reducing competition.

Greater bargaining power with principals - large organisations tend to have more buying and negotiating power than the small organisations. In the retail travel trade, principals such as airlines and tour operators are more willing to discuss deals such as commission overrides or 50/50 advertising campaigns, if the larger organisation is able to meet higher sales targets. Principals eager to make their products available through large branch networks and are therefore willing to accept terms which are more favourable to the multiples.

Enhanced public awareness of the company - heightened public awareness of the multiple companies, and strengthened their respective brand images.  
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Travel multiples such as Thomas Cook, First Choice and Lunn Poly are now household names. Their brand image is reflected in their shop design and advertising campaign leading to higher sales, greater turnover and increased profit.

Geographical spread - essential for a multiple to operate retail units in as many trading centres as possible, so helping to spread its overhead costs. Being able to spread out throughout the country is therefore another explanatory factor behind the 'march of the multiples'. When it took over Callers Pegasus Travel Service, Lunn Poly strengthened its presence in the north east of England where it had previously been weak.

Quality - there is control at every stage of production thus standards can be maintained at a high level.

Brand reinforcement - constantly letting known the name of the provider

Priority racking at the travel agent - predominant positioning of in-house tours/holidays

Differentiation - have such buying power that they are able to produce products for each part of the market, from the young to the old

New technology - investment in CRS systems - Sabre, Amadeus and Galileo.

New reservations systems often designed specifically for the company

Consultants - can choose consultants with specialist knowledge able to sell the holidays. They can protect market position by guaranteeing retail outlets

on prime high street sites, customer feedback is quicker and product knowledge by assistants serving customers should be better.

Marketing and distribution advantages are main reason for the travel and tourism industry for vertical integration.

Airlines or tour operators may buy or become associated with hotels in cities which it serves in order to ensure that customers/tourists have accommodation available to reinforce their flight purchasing decision.

They may also acquire a bus company in order to control ground transfers and provide excursions and develop tourism attractions to reinforce the tourists need to travel e. g., Walt Disney Company operates hotels, ground transportation in Florida; Thomson's are highly integrated - almost 'total tourism' operators.

Vertical integration also helps to secure sources of supply and outlets in the market place - this is especially advantageous e. g., when demand for air seats is high - control of transport supply ensures operators can satisfy demand.

By being able to control costs and quality of standards under the umbrella of one organisation, can cut out the middleman.

Although sales are down in one channel they can be pulled through by another giving an overall profit.

As with all Horizontal Integration, Vertical Integration secures suppliers and increases buying power.



Central driving force behind the 'march of the multiples' has been the desire to maximise the profitability of travel companies and their parent organisations. Businesses exist to make a profit and a successful business will seek to grow hoping to improve its profitability.

Despite the expansion of the multiples, increased profits have not always followed. While parent companies may have expected good profits each year, intense competition between the multiples (involving the introduction of low deposits and the practice of discounting) and the costs involved in a rapid expansion of the number of branches, has in fact, reduced profits for some of the multiples.

## **Disadvantages of Integration**

### **Restricts consumers choice by**

Dictating the market - switch sales to destinations that are more profitable.

Less choice for clients

They have an unfair advantage in negotiations with suppliers and distributors and the small independents are being squeezed out - the multiples are allowed credit agreements whereas the independents have to pay cash for transactions.

Control distribution - controls prices which means that the customers may have to pay inflated prices - duopoly

Creates open warfare producing competitive activities that could be against public interest e. g., Pickfords in 1993 introduced £3 per holiday incentive

bonus for staff to sell packages of its Airtours parent. Lunn Poly followed suit giving incentive bonuses on sales of Thomson's.

Integration is a means growth, enabling a company to increase its market share and simultaneously reduce the level of competition it faces by forcing less efficient companies out of business.

However, a mass market focuses on low price which in turn usually means low quality and therefore a lower class of people, the small independents must therefore specialise in quality, top end of the market where there will be a growth in long haul, tailor made travel arrangements. There is scope for niche markets and the only way the small independents will survive is to form a consortium or join a franchise operation by offering all the benefits of an integrated multiple operation.