The impact of the Internet on travel agencies

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Keywords

Leisure activities, International travel, Tourism, Internet, Online databases, Hong Kong

Abstract

This paper examines tourist perceptions of the potential for the elimination of travel agencies in the presence of the Internet. The opinions of 413 tourists on making transactions through both Internet-based (hereafter, online) and traditional distribution channels were analysed. Experimental results illustrated that tourists still used professional services and advice offered by travel agencies. Tourists also agreed that more information could be found through the Internet. Following the findings, the paper suggests that both online and traditional distributional channels can coexist in the future.

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www.emeraldinsight.com/0959-6119.htm

International Journal of Contemporary Hospitality Management
Volume 16 · Number 2 · 2004 · pp. 100-107
© Emerald Group Publishing Limited · ISSN 0959-6119
DOI 10.1108/09596110410519982

Introduction

The rapid growth of the travel industry requires sophisticated information technologies (ITs) for managing the increasing volume and quality of tourism traffic. Prior studies have indicated that modern travellers demand more high quality travel services, products, information, and value for their money (Christian, 2001; Lubetkin, 1999; Samenfink, 1999). The emergence of new tourism services and products, coupled with a rapid increase in tourism demand, have driven the wide-scale adoption of ITs in general, and in particular, the Internet as an electronic intermediary. In other words, the Internet serves as a new communication and distribution channel for e-travellers and suppliers of travel services and products. This new channel also enables tourism businesses to improve their competitiveness and performance.

Tourism researchers have emphasized the importance of the Internet on travel and tourism. For tourism suppliers, the Internet provides a way for them to sell their products globally to potential travellers at any time. These suppliers can remotely control their servers to display information on services/products at an electronic speed (Inkpen, 1998; Law, 2000). The successful factors for a travel Web site, from a supplier's perspective, are lower distribution costs, higher revenues, and a larger market share. For travellers, the Internet allows them to communicate directly with tourism suppliers to request information, and to purchase products/services at any time and any place (Olmeda and Sheldon, 2001).

To the extent that the Internet enables e-travellers to easily arrange and purchase their own services/products, the future of travel agencies ± the traditional intermediary ± becomes uncertain. In the travel and tourism context, the topic of disintermediation, i.e. the

All of the authors are faculty members at the School of Hotel and Tourism Management, The Hong Kong Polytechnic University. This project was part of the School of Hotel and Tourism Management's International Visitor Survey in 2001. An abridged version of this paper was published in the *Proceedings of the Fifth Biennial Conference on Tourism in Asia* in May 2002.

International Journal of Contemporary Hospitality Management
Volume 16 · Number 2 · 2004 · 100-107

elimination of the middleman by using the Internet in the traveller-agent-destination/ supplier network in the travel industry, has been debated by different tourism researchers. To some researchers, the accessibility of online travel Web sites reduces the importance of travel agencies, and might ultimately result in travellers bypassing travel agencies altogether (Buhalis, 1998; Barnett and Standing, 2001). However, Palmer and McCole (1999) and Walle (1996) argue that a key strength of travel agencies is their ability to provide personal information and advice to travellers continuously. The role of travel agencies would consequently remain secure if their advice-offering capability were strengthened by the presence of the Internet, rather than if they functioned according to the more negative image of being simply a "booking agency". While some tourism researchers have investigated the views of suppliers and travel agencies (Fong, 2001; Law *et al.*, 2001) and academics and consultants (Buhalis and Licata, 2002) on the issue of disintermediation, the views of travellers have largely not been investigated. In other words, it is generally unclear whether travellers judge travel agencies be less valuable with the presence of online travel Web sites. The absence of prior studies on travellers' views on the disintermediation of the traditional travel distribution channel is particularly true in the context of Hong Kong, a major travel destination in Asia.

In view of this, this study is an attempt to examine the views of travellers in general and those of short-haul and long-haul travellers in particular, on the potential for the disintermediation of travel agencies. That is, this research aims to get the opinions of travellers who have experience in using travel Web sites about the elimination of the middleman in making transactions for travel products and services. In addition, different studies have shown that tourist behaviour differs in terms of length of haul (Crouch, 1994; Murphy and Williams, 1999; Tideswell and Faulkner, 1999). The systematic difference which exists between long-haul and short-haul tourism also applies to the local tourism industry in Hong Kong. According to the annual *Statistical Review of Tourism* (Hong Kong Tourism Board, 2002), travellers from long-haul market regions exhibit different patterns of purchasing behaviours. The main objective of this research is, therefore, to investigate the question of how travellers perceive the impact of the Internet on travel agencies. Research outcomes should shed light on the understanding of the potential disintermediation of the traditional tourism distribution channel.

The growth of the Internet and disintermediation in the travel industry

The Internet originated from the military network ARPANet, which was introduced by the US Department of Defense in 1969 (Law, 2000). Ever since the removal in 1990 of the requirement that official support be obtained to join the Internet, the number of computer servers and users from private firms and individuals has been growing at an exponential rate. The Angus Reid Group (2000) forecasted that, at the current rate of growth, there would be 1 billion Internet users by the year 2005. Similarly, Poon (2001) stated that the amount of online direct sales by travel suppliers will grow from 22 per cent in 1997 to 30 per cent in 2002.

Various studies have shown the direct fit of the Internet and travel and tourism products (Buhalis and Licata, 2002; Christian, 2001; Poon, 2001). With the emergence of the Internet, the process of fast information transmission can be addressed effectively at a low cost. In other words, tourists can now receive comprehensive, timely and relevant information in a virtual environment to assist their decision-making process. This, in turn, necessitates the balancing of perishable tourism products and changeable tourist demand. Furthermore, the tourism industry is diversified, with a plethora of different suppliers that operate independently, even as tourists expect travelling to be a complete experience. To resolve this mismatch, the Internet offers an effective means for developing a single and sustainable electronic infrastructure for information gathering and business transactions for both travellers and suppliers. A natural outcome of this is that the suppliers can carry out one-to-one marketing and mass customization. In other words, travel suppliers can now understand each customer's needs, and therefore target each customer individually and deliver tailor-made products. More importantly, travel suppliers can understand how to deliver information and sell their products and services to customers directly through their Web sites.

As a consequence of the online travel developments, business competition for traditional travel agencies has increased. Poon (2001) argues that relying more heavily on the Internet gives suppliers a new independence that will gradually decrease their dependence on, and their commission payable to, travel agencies. Similarly, travellers may buy more directly from suppliers, thus bypassing travel agencies. Inevitably, the travel agencies' traditional intermediary role as a distribution channel has changed (Buhalis, 1998), leading to the possible ultimate disintermediation of travel agencies. As previously discussed, the existing travel and tourism literature has few, if any, published articles that examine travellers' views on the impact of the Internet on travel agencies and the potential disintermediation of travel agencies in their arrangements. This paper makes an attempt to bridge this gap by investigating the views of travellers to Hong Kong on the subject.

Methodology and findings

This research is a major component of a large-scale Omnibus Survey performed by the School of Hotel and Tourism Management of the Hong Kong Polytechnic University in the period October to November 2001. The survey used a convenient sampling method, and 780 non-transit international visitors coming from seven major tourist-generating markets were interviewed at the departure lounge of the Hong Kong International Airport. These markets included Mainland China, Taiwan, Singapore, Malaysia, USA, Australia, and Western Europe. The questionnaire of this component contained ten primary questions, selected based on background studies, secondary research, and pilot interviews with a number of selected travellers. Since only experienced online travellers can offer meaningful insights into online travel (Law and Wong, 2003), all contacted visitors had to answer a qualifying question which related to their experience in using travel Web sites. A total of 416 qualified respondents who had visited at least one travel Web site were asked to complete the questionnaire of this project. Three of these qualified respondents did not follow the instructions and their questionnaires were discarded, leaving 413 usable questionnaires. Among the qualified respondents, 158 had previously purchased travel services/products online. Empirical results showed that the number of people who had visited at least one travel Web site ($n = 416$) was slightly more than the corresponding number of respondents who had not visited any travel Web site previously ($n = 364$). Table I shows an analysis of demographic characteristics of qualified respondents and their online purchasing behaviour.

The propensity to purchase travel products and services online significantly increases with increasing income and education levels as indicated in Table I. This finding is consistent with prior studies on the demographic characteristics of e-travellers in the travel and tourism literature (Bonn *et al.*, 1998; Weber and Roehl, 1999). Another important finding is that the long-haul travellers purchased more than the short-haul travellers, and travellers from Mainland China made the least online purchases. Further analysis on these two types of travellers will be carried out in order to identify their opinions towards disintermediation. Lastly, those whose purpose for travelling was "visiting relatives" purchased less online than those who travelled for vacation/leisure, business/meeting, and to "visit friends". In an earlier study, Lo *et al.* (2003) found that the Internet is one of the major sources of information for Hong Kong's inbound business and leisure travellers.

All respondents agreed that travel agencies perform better than travel Web sites in terms of the human touch and personal services. Respondents, however, realized that travel agencies are business-oriented, and, therefore, the interests of travel agencies will be placed before that of the customers. Furthermore, respondents felt that online travel agencies have a good potential to be a popular channel for

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Volume 16 · Number 2 · 2004 · 100-107

Table I An analysis of the demographic characteristics of qualified respondents and their online purchasing behaviour

	Have you ever purchased any products/services from travel Web sites?			
	Yes		No	
Variable	**Number**	**%**	**Number**	**%**
Gender (n = 413)				
Male	101	42.1	139	57.9
Female	57	32.9	116	67.1
Age (n = 413)				
25 or below	21	31.8	45	68.2
26-45	106	40.5	156	59.5
46-65	30	37.5	50	62.5
66 or above	1	20.0	4	80.0
Education (n = 413)				
Secondary or below	6	15.8	32	84.2
University undergraduate or below	111	37.9	182	62.1
University postgraduate or above	41	50.0	41	50.0
Marital status (n = 413)				
Single	57	40.4	84	59.6
Married	80	35.4	164	64.6
Divorced/separated/widow	11	61.1	7	38.9
Income (n = 318)[a] (US$)				
Less than 10,000	5	21.7	18	78.3
10,000-29,999	12	15.2	67	84.8
30,000-49,999	33	42.3	45	57.7
50,000-69,999	25	33.8	49	66.2
70,000-99,999	30	56.6	23	43.4
100,000 or more	40	54.8	33	45.2
Employment status (n = 412)				
Employed	143	39.9	215	60.1
Unemployed	8	21.1	30	78.9
Retired	5	38.5	8	61.5
Not applicable	2	66.7	1	33.3
Country of origin (n = 413)				
Mainland China	11	15.3	61	84.7
Taiwan	17	32.7	35	67.3
Singapore	22	44.9	27	55.1
Malaysia	13	41.9	18	58.2
USA	34	47.2	38	52.8
Australia	18	34.0	35	66.0
Western Europe	43	51.2	41	48.8
Travel distance (n = 413)				
Short-haul[b]	63	30.9	141	69.1
Long-haul[c]	95	45.5	114	54.5
Travel purpose (n = 411)				
Vacation/leisure	44	40.4	65	59.6
Business/meeting	97	39.9	146	60.1
Visiting friends	12	54.5	10	45.5
Visiting relatives	1	4.5	21	95.5
Others	3	20.0	12	80.0

(continued)

Table I

	Have you ever purchased any products/services from travel Web sites?			
	Yes		No	
Variable	Number	%	Number	%
Mode of travel (n = 406)				
Fully packaged tour	11	55.0	9	45.0
Partially packaged tour	16	32.0	34	68.0
Non-packaged/independent	128	38.1	208	61.9

Notes: [a] Some respondents did not provide information for certain variables, leading to an unequal number of respondents in the variables; [b] Short-haul: Mainland China, Taiwan, Singapore and Malaysia; [c] Long-haul: USA, Australia, and Western Europe

providing travel services. Table II presents the results of all travellers' views on traditional and online travel intermediaries ($n = 413$).

As previously stated, another major objective of this study is to determine whether there are any differences in the perceptions of long-haul and short-haul travellers on issues relating to disintermediation. Table III illustrates the results for the respondents who had online purchase experiences ($n = 158$) and Table IV presents the results for all travellers ($n = 413$).

Two questions (numbers 5 and 7) in Table III show that there is a significant difference in the mean values of perception between the short-haul and long-haul travellers. The short-haul travellers perceived that travel agents could be biased because they are commissions-oriented. Also, short-haul travellers believed that online travel agencies are more flexible and can offer more choices than travel agents. Their perception of the online channel was much more positive. It was very clear that the short-haul travellers' fundamental purposes for using the online channel were information acquisition and transactions. These customers' Web behaviour patterns will enhance the future transaction volume of online channel use.

Similar to the results listed in Table III, Table IV shows the differences between the short-haul and long-haul travellers in terms of perceptions that travel agents give potentially biased recommendations and that online travel agencies show more flexibility. Additionally, short-haul travellers had shown more positive views toward the Internet's ability to allow customers to conveniently search and purchase, as well as the ability of travel agents to reduce the insecurity of travel. This finding matches Sterne's (1999) argument, which states that

Table II Respondents' views on disintermediation

Question	Mean[a] (n = 413)	SD
1. Travel agents offer a human touch and a human interface with the industry	4.09	0.83
2. Technology, particularly the Internet, allows customers to perform most travel searching and purchasing functions conveniently	4.07	0.92
3. Travel agents are professional counsellors and offer valuable services and advice	3.83	0.91
4. Travellers ultimately have to bear the cost of commissions to travel agents	3.68	1.09
5. Travel agents are usually in favour of principals who offer more attractive commissions or in-house partners, and are thus making biased recommendations	3.56	1.10
6. Travel agents reduce the insecurity of travel, as they are responsible for all arrangements	3.55	1.10
7. Online travel agencies (electronic travel intermediaries) are much more flexible and can offer many more choices than travel agents	3.47	1.10
8. It is more convenient to seek advice from travel agents than from technology	3.29	1.08
9. Travel agents mainly serve bookings and reservations, and they add little value to tourism products/services	2.98	1.25
10. Technology assisted travel counselling will not be popular because many travellers are computer illiterate	2.83	1.16

Notes: [a] 1 = strongly disagree; 2 = agree; 3 = neutral/no opinion; 4 = agree; 5 = strongly agree

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Volume 16 · Number 2 · 2004 · 100-107

Table III Views of disintermediation from travellers who have online purchase experience ($n = 158$)

	Market source			
	Short-haul (n = 63)		Long-haul (n = 95)	
Question	Mean	SD	Mean	SD
1. Travel agents offer a human touch and a human interface with the industry	4.02	0.85	3.98	0.95
2. Technology, particularly the Internet, allows customers to perform most travel searching and purchasing functions conveniently	4.32	0.76	4.12	0.97
3. Travel agents are professional counsellors and offer valuable services and advice	3.73	1.07	3.80	0.90
4. Travellers ultimately have to bear the cost of commissions to travel agents	3.70	1.10	3.78	1.10
5. Travel agents are usually in favour of principals who offer more attractive commissions or in-house partners, and are thus making biased recommendations	**3.82**	1.09	**3.41**	1.10
6. Travel agents reduce the insecurity of travel, as they are responsible for all arrangements	3.59	1.15	3.51	1.10
7. Online travel agencies (electronic travel intermediaries) are much more flexible and can offer many more choices than travel agents	**3.81**	1.01	**3.44**	1.17
8. It is more convenient to seek advice from travel agents than from technology	3.30	0.97	3.04	1.13
9. Travel agents mainly serve bookings and reservations, and they add little value to tourism products/services	3.02	1.18	2.95	1.32
10. Technology assisted travel counselling will not be popular because many travellers are computer illiterate	2.82	1.22	2.80	1.14

Table IV Views of disintermediation from all travellers ($n = 413$)

	Market source			
	Short-haul (n = 204)		Long-haul (n = 209)	
Question	Mean	SD	Mean	SD
1. Travel agents offer a human touch and a human interface with the industry	4.07	0.81	4.10	0.85
2. Technology, particularly the Internet, allows customers to perform most travel searching and purchasing functions conveniently	4.18	0.82	3.96	1.00
3. Travel agents are professional counsellors and offer valuable services and advice	3.77	0.94	3.88	0.88
4. Travellers ultimately have to bear the cost of commissions to travel agents	3.59	1.15	3.77	1.02
5. Travel agents are usually in favour of principals who offer more attractive commissions or in-house partners, and are thus making biased recommendations	3.67	1.09	3.46	1.11
6. Travel agents reduce the insecurity of travel, as they are responsible for all arrangements	3.66	1.04	3.44	1.15
7. Online travel agencies (electronic travel intermediaries) are much more flexible and can offer many more choices than travel agents	3.65	0.99	3.29	1.16
8. It is more convenient to seek advice from travel agents than from technology	3.29	1.10	3.29	1.10
9. Travel agents mainly serve bookings and reservations, and they add little value to tourism products/services	2.99	1.23	2.98	1.28
10. Technology assisted travel counselling will not be popular because many travellers are computer illiterate	2.92	1.21	2.74	1.11

Web security is a major limitation in Internet sales.

Conclusions

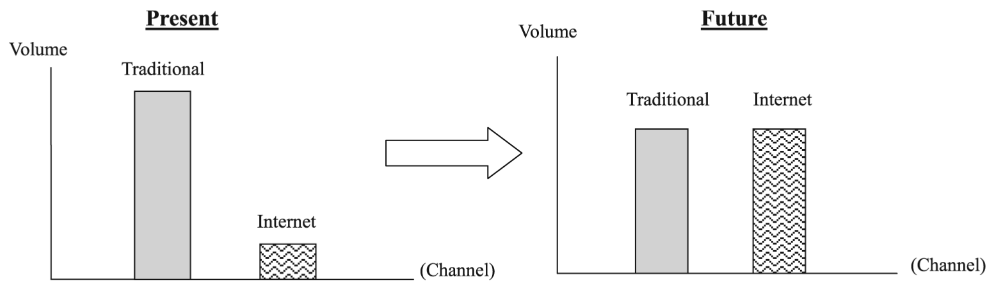
This research makes an initial attempt to investigate the perceptions of travellers on disintermediation in the context of Hong Kong. Empirical results reveal that travellers in Hong Kong generally do not have a clear-cut preference for purchasing in either distribution channel, namely travel Web sites or travel agents. Specifically, the short-haul travellers were less willing to purchase online from travel Web sites than long-haul travellers. The reason for such a difference between the short-haul and long-haul travellers could be due to the differences in travelling cost, information need, and processing time. In addition, short-haul travellers, especially those from Mainland China who have had a relatively short history of using the Internet, tended to have a lower Internet purchasing acceptance level compared to their long-haul counterparts.

Considering the limited scope in timescale and sample size, this research is far from being able to come to any generalizations about travellers' views on the impact of the Internet on travel agencies and on the potential disintermediation of the traditional distribution channel. Despite such a limitation, this study offers several implications for practitioners in the travel and tourism industry. First, since travellers generally perceive the services provided by travel agencies as important, travel consultants do not seem to worry about their future employment and the future of the travel agency sector. Second, travel agents should be aware of, and be positive towards, the fast-changing distribution environment. Although there does not appear to have been a massive loss of customers because of the presence of the Internet, the impact of the technology on the entire industry is very large. Hence, travel agents have to prepare for some major changes in the industry. For instance, it is likely that there will be a large-scale merging of small travel agencies by large agencies to gain economies of scale. Lastly, and most importantly, travel agencies should not treat the Internet as a threat. Instead, travel agencies should take advantage of the Internet as a new opportunity for offering additional value-added services that could not be done in the past. For example, travel agencies should show their presence on the Internet and integrate to form large networks to extend their market penetration. Another example to show such a positive movement is to develop new proprietary applications and partnering with Internet-based businesses to secure more sophisticated booking systems. Eventually, all travel agencies should make a commitment to online marketing and information distribution.

Future development of the electronic distribution channel

Some tourism researchers have argued that the traditional distribution systems could be threatened or even replaced by electronic distribution systems (Sheldon, 1997; Buhalis, 1998) and that the Internet could be the primary force for disintermediation (Inkpen, 1998). Others, such as Palmer and McCole (1999) and the Travel Industry Association of America (1998), however, have stated that although the volume of online travel sales and marketing keeps increasing, travellers still rely on travel agents for providing the human touch and professional services. Taking both views into consideration, this paper argues that both online and traditional travel agencies will eventually remain equally important in the travel and tourism industry, and both channels will supplement each other to serve travellers to their greatest satisfaction. Figure 1 presents such a future scenario. In the future, it would be useful to perform a longitudinal study to measure the percentage change in business for traditional travel intermediaries and the newly emerged Internet-based travel business. It would also be useful to study the perceptions of non-Internet users on the impact of the Internet on travel agencies.

Figure 1 A comparion of the volume of travel reservations in the present and future



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