

# The strategic response by travel agents in Kenya to opportunities and threats of ICT developments

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## Abstract

While the advent of ICT has produced mixed results for the travel agency businesses, one of the differentiating factors has been how different businesses have strategically responded to the new business environment. In view of the threats and opportunities presented by ICTs to the travel sector, this study sought to examine the different strategies adopted by the travel agents in Kenya in an effort to strategically reposition themselves. The survey was conducted among 55 travel agency operators in Nairobi, Kenya using a semi-structured questionnaire. The study found out that travel agents in Kenya have adopted a number of ICT innovations to stay afloat. Among the most significant strategic innovations has been the travel agent's increased client focus as opposed to focus on service providers. This has seen the travel agents forge close relationships with their clients through both online and offline approaches. It is imperative to note that investing in customers and developing a strong relationship marketing strategy to attract and retain them is the new area of competitiveness today. This study thus provides a new perspective to the strategic response of travel agencies to macro-environmental threats and opportunities presented by current developments in ICTs.

**Keywords:** Threats and Opportunities; ICTs; Dis-intermediation; Customer Relationship Marketing



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## Introduction

In the recent years, Kenya has witnessed increased advances in ICT including, telecommunications (mobile telephony, fax networks) and the internet (computers, software programs including databases). Within the travel and tourism sector, these technologies have provided avenues for sourcing for and dissemination of information, bookings, financial transactions and marketing among others advantages. In response, the Kenya government formulated the National ICT policy in 2006 (Njagih and Mwangi, 2012). This initiative presented a number of benefits including expanded ICT infrastructure through undersea cables such as TEAMS, EASSY, LION-2 and SEACOM that have facilitated wider internet accessibility in the country; regulation of the information and communication sector through empowering the Communication Commission of Kenya (CCK) to control issues related to unfair competition, universal access, tariffs, and interconnectivity, among others (Matiangi, 2012; Njagih and Mwangi, 2012).

From the travel and tourism sector, such ICT developments has triggered diverse responses among the travel agencies both reactive survival tactics and of strategic nature. Nonetheless, to date, research on travel agencies' use of ICTs and its implications upon their business has been limited. Accordingly, this study sought to determine how travel agencies in Kenya are responding strategically to the challenges posed by the ICT development on their business undertakings.

## Literature review

Since the 1980s, ICT has been changing the way business is being conducted in the travel and tourism industry (Buhalis and Law, 2008). First and foremost, ICT has dramatically transformed business structures, creating strategies and identifying resources that give firms a competitive advantage. It has turned the

globe into an increasingly interconnected network of individuals, firms, hotels and governments communicating and interacting with each other through a variety of channels and providing economic opportunities transcending borders, languages and cultures (EPZA, 2005). Information Technology (IT) has also enabled the creation of new strategies in firms, coupled with the internet has enhanced the provision of new ways of how to reach customers and has expanded markets amongst the stakeholders (Walsham, 2001; Henry and Lucas, 2005).

The use of the internet as a marketing tool is becoming a positive trend and an important core competency for tourism and travel businesses (Vanucci and Kerstetter, 2001). ICT can provide value chains within the organizations thus enhancing their core competencies and creating organizations capable of integrating multiple technologies and coordinating diverse production capabilities (Prahalad and Hamel, 1990; Henry & Lucas, 2005). This has also led to new forms of innovation in employment and production creating a demand for highly-skilled and empowered employees (Wilkin, 2001). The investment of information technology is also a cost saving device which results in reduction of staff, costs on paper and space, as bulky information is stored in the computer (Kasavana and Cahill, 2003; Rice, 2005; Law et al 2009), as well as to provide a platform for accessing the global market (Sahadev and Islam, 2005).

Technology has overcome the constraints of distance and geography, cutting across the geographic boundaries of the nation states, and enabling both buyers and sellers across the national borders to know the comparative advantage in the market economy. Within the travel sector, the advent of information and communication technologies (ICTs) has seen travel agencies (TAs) increasingly being repressed from the tourism market. The ICTs have accorded both the tourism

suppliers and customers advantages whose potential was unknown before, creating a shift from the 'traditional tourism sector' to a 'new tourism industry through reshaping the value chain in the industry (O'Conner, 2008). Airlines, hotels, car rental chains and tour operators are increasingly encouraging clients to make booking directly through the use of their own sales outlets, mobile telephony and the internet (ibid). The main reason for such changes is to cut on their distribution cost, which is an integral aspect of sustainability.

The internet for instance, has presented the public with the possibility of accessing any country in the world just by 'a click' allowing access to numerous offers of touristic destinations, attractions, transport, hotels and other accommodations, food and other products within the respective destinations. In addition, it has empowered travel consumers through making possible personal, purchase of preferred products directly from suppliers. This has resulted in increased independency of tourism suppliers from intermediaries, mainly the travel agents, thereby reducing their payment of fees to travel agents. As a consequence, this cost saving has also resulted in reduction of prices to the travel consumer as the suppliers pass on the cost benefits realised from the disintermediation of the travel agents.

Generally, the internet has resulted in the overall transformation of the structure of the tourism industry. Several new developments have resulted into this transformation including: increased direct selling to the customer; increase in new intermediaries such as internet portals specialized in selling tourism products; increased customers access to the distribution channels traditionally used by tour operators; increased interaction between travel suppliers and clients that has resulted in the ease of customised products; Increase in the transparency and the efficient relationship between customer and management; and change in the consumer

behaviour that has seen consumers becoming more knowledgeable, assertive, demanding, and more importantly, cost conscious as they are now able to make comparisons between different offers (Cooper, et al, 2008; Wang et al, 2007; Bamford and West, 2010).

A number of specific ICT-engineered changes have been experienced in the last few decades and whose impacts continue to unfold. Airlines, previously the mainstay of travel agency business, have adopted disintermediation as a major driver towards change in an endeavour to link themselves directly to their customers (Doganis, 2006). The introduction of e-ticketing, commission caps and cuts and increased use of the ICTs by the airlines are major changes intended to substitute travel intermediaries with digital technology, hence reducing the distribution cost (Frew, 2004; Page, 2009). Other ICT innovations, such as the emergence of virtual travel agencies, the social media and e-commerce which have seen the emergence of new sophisticated customers who bypass the travel agents through the use of these resources. Further, the emergence of the major online travel agencies has provided a new form of competition for the travel agencies. The new players have demonstrated a spectacular growth and rapid market place penetration, thus gaining a significant market share. As a result, traditional travel agencies are losing their market share, as consumers

The advent of ICT has shaped the travel agencies business practice fundamentally, causing various survival and strategic responses. Cheung and Lam (2009) in their study, "How Travel Agency survive in the e-Business World" pointed out that travel agents have evolved through three phases of intermediation, disintermediation and reintermediation. Intermediation involves TAs acting as middlemen between tourism service providers and the customers. In this phase, the traditional TAs dominate the market. Disintermediation is the second phase whereby the TAs are by passed-by

the service providers and face competition by the online TAs. Finally, the re-intermediation phase, whereby the TAs reposition and re-define their role in the distribution chain. Despite the disintermediation threats, most travel agencies are still thriving in their businesses. However, despite of such a threat, TAs have devised a number of survival tactics, both offline and online-based. Lube (2005) identifies such strategies as including consolidation of travel companies through franchising, consortiums, and restructuring of their revenue model from commission-base to service fee-base, increased use of technology and transformation of their business into niche markets.

While the foregoing threats to the business model of TAs remain, it is important to note that ICTs developments have also led to a number of innovations within the travel agency business. For example, though historically, travel bookings were made via telephone or through travel agents, over the last decade, electronic bookings have become the norm rather than the exception, becoming a major source of revenue for travel companies (Natasha et al, 2010). Further, the internet has turned into a useful medium that has created business opportunities for travel e-mediaries through which TAs have reinvented themselves online (Middleton, et al, 2009). This study thus sought to examine the different

strategies adopted by the travel agencies in Kenya in an effort to reposition themselves in the travel sector with respect to the threats and opportunities being presented by ICTs.

## Methodology

The aim of this study was to examine the different strategies adopted by travel agencies in Kenya in an effort to reposition themselves in the travel sector with respect to the threats and opportunities being presented by ICTs. The study adopted an exploratory cross-sectional survey design involving managers drawn from 55 travel agencies operating in Nairobi, Kenya. The surveyed firms included 21 independently-owned TAs, 15 family-owned businesses, eight network TAs, six chain-owned, one franchised TA, and four belonging to other categories. Data were collected by use of questionnaires and analyzed using quantitative methods.

Out of all the 55 TAs surveyed, only about 7% had used ICTs for less than five years. Majority of the TAs served individual clients, corporates and groups. The most common services offered by the TAs were tour packages (100%), air ticketing services (98%), hotel booking (94.5%) visa processing (82.4%), airport transfers (82.4%), and car rental services (83.6 %). Table 1 summarises the profile of the TAs surveyed.

Table 1: Profile of travel agencies surveyed

Variable	Number of TAs	Percentage (%)	
Number of Years of Firm has used ICT	Less than 5 Years	4	7.3%
	6-10 Years	18	32.7%
	11-15 Years	15	27.3%
	Over 15 Years	18	32.7%
		49	98.1%
Kinds of Services offered	Air Ticketing		
	Visa Processing	42	82.4%
	Tour Packages	55	100%
	Airport Transfers	42	82.4%
	Hotel Booking	52	94.5%
	Car Rental	46	83.6%
	21	38.9%	

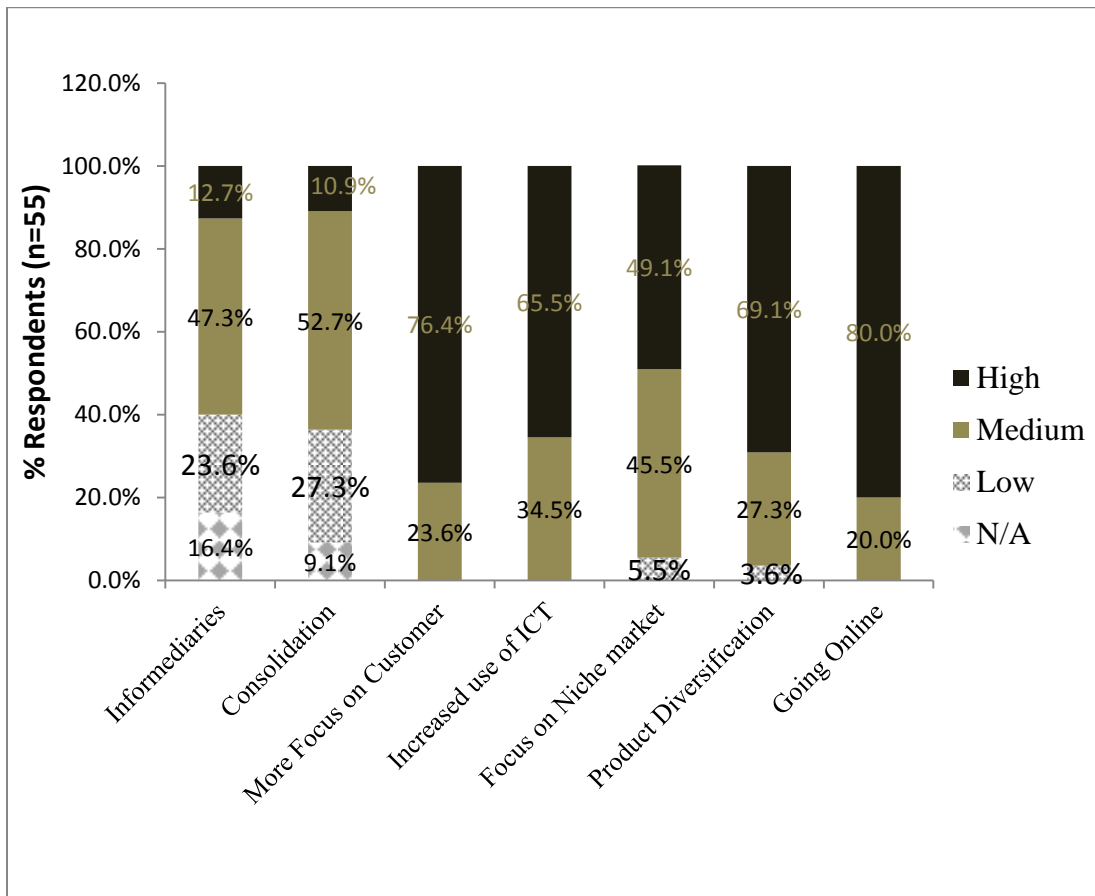
Ownership Structure	Independent		
	Family Business	15	27.8%
	Chain	6	11.1%
	Franchise	1	1.9%
	Network	8	14.8%
	Others	4	7.3%
Clientele Served	Individuals	54	98.2%
	Groups	52	94.5%
	Corporate	54	98.2%
	Others	13	23.6%

## 1. Findings and Discussion

The aim of this study was to investigate on the how the travel agencies in Kenya were responding to such threats in an effort to sustain their business. The TAs were asked

Figure 1: Strategies adopted by TAs

to indicate the strategies they were currently using to cope with the challenges brought about by ICT developments and innovations. These are summarized in figure 1



### Factor analysis of strategies adopted by TAs in response to ICTs

Factor analysis was carried out on items measuring strategies adopted by TAs in response to ICTs. Kaiser's rule of retaining factors with eigenvalues larger than 1.00 was used in this analysis as the default.

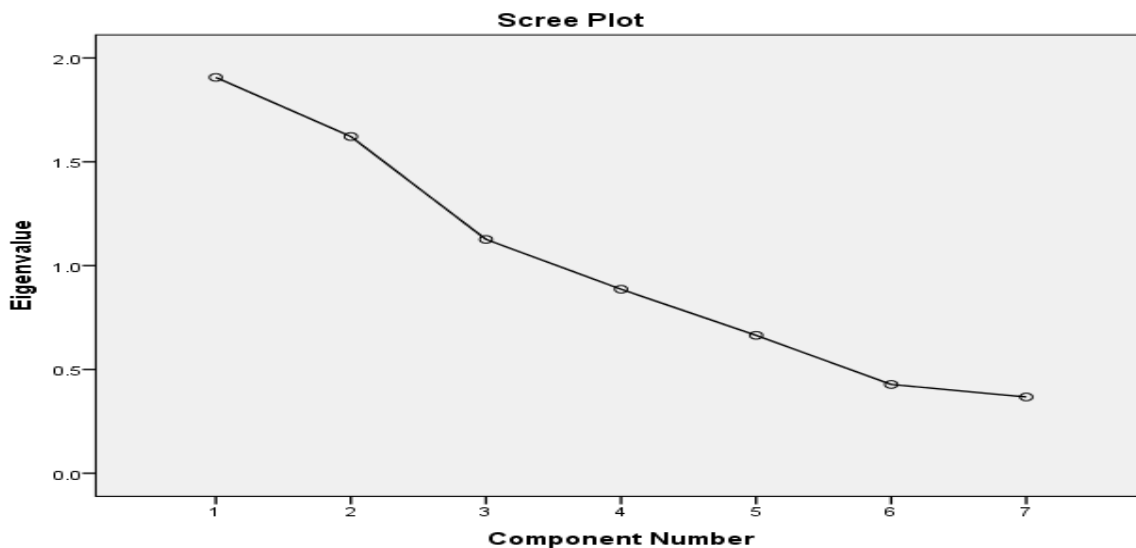
Three factors were extracted from the factor analysis of Strategies adopted by TAs in response to ICTs, which accounted for Table 21: Strategies adopted by TAs in response to ICTs

cumulative variance of 66.9% as shown in Table 2 below.

Component	Initial Eigenvalues			Extraction Sums of Squared Loading		
	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %
1	1.906	27.235	27.235	1.906	27.235	27.235
2	1.622	23.167	50.402	1.622	23.167	50.402
3	1.126	16.088	66.490	1.126	16.088	66.490
4	.886	12.662	79.152			
5	.664	9.489	88.641			
6	.428	6.111	94.753			
7	.367	5.247	100.000			

Kaiser Rule opting for a three dimensional factor solution is also fairly well-supported by Catell’s Scree test (Scree Plot) as shown in Figure 2 below.

Figure 2: Strategies adopted by TAs scree plot



The component matrix below (Table 3) shows the loadings of the six variables on each of the three factors extracted after rotation. Table 4.16 below show that, more focus on consumer than service providers,

increased use of ICT and Focus on niche market are substantially loaded on Factor (Component) 1 while product diversification and Going- online are substantially loaded on Factor 2. Informediaries (intelligent software) and consolidation are substantially loaded on factor 3.

Table 3: Rotated component matrix- strategies adopted by TAs in response to ICTs

	Component		
	1	2	3
Informediaries (intelligent software)	-.140	.047	.834
Consolidation	.206	-.195	.845
More focus on consumer than service providers	.610	.094	-.245
Increased use of ICT	.753	-.106	.211
Focus on niche market	.686	.224	.054
Product diversification	-.063	.890	-.034
Going- online	.305	.809	-.102

The following section discusses the different strategies.

*Going online:* The study established that that since the advent of the ICTs, many TAs have positioned themselves and invested in the ICTs. Respondents indicated 80% high level of adoption and 20% medium level adoption respectively on this item as shown in (Figure 4.19). Although there is increase of the internet usage, given that it is a vital factor which brings competitive advantage for TAs and drastically changes the mode of TAs business, there are also problems related with increase.

The study found that additional ICT in organizations does not always mean acquisition of knowledge, as there are problems such as technophobia and sophisticated machinery as well as lack of coherent training procedures. Earlier studies showed that the development of the internet applications, for example, has changed buying habits of tourism products (Álvarez et al., 2007). According to Abou-shouk et al. (2012), travel and tourism have become the single largest category of products/services sold over the internet hence, the development of the internet as a marketing channel for tourism products and services have affected retail travel agencies as SMEs. Wholesale travel agencies can create portals (e-dreams) and traditional travel agencies can obtain many

advantages from using the internet to offer complementary services to their customers, but this can only yield results when there is corresponding capacity in the firms to handle.

*More focus on clients:* More focus on clients than on service providers is another strategy that is highly adopted by the TAs in Nairobi with 76.4% of the respondents confirming this status. This is an indication of a shift which concurs with Gharavi and Sor (2006). The TAs traditionally focused more on the service providers but this trend is changing drastically as a result of emergence of the internet. The trend is facilitated by TAs capability to forge into close relationships with the clients. According to Bédard (2005), competitiveness for the new millennium will be improved by investing in and by developing a strong relationship marketing strategy, so as to attract and retain them.

*Increased use of ICT:* In addition, 65.5% of the respondents stated that increasing use of ICT is an effective way to respond to new technology. This is countering the threat posed by ICT and turning it into an opportunity. The ICT is a crosscutting perspective used as a re-intermediation strategy, which cushions them from the dis-intermediation threats and ensures that they remain in the markets.

**Product diversification:** Other preferred strategies include product diversification as confirmed by 69.1% of the respondents, product diversification offers a variety of services which increase choice and more important, translated into a “one stop shop”. The study found that, intermediaries, consolidation and focuses on niche market, are moderately adopted by TAs in Nairobi. While these strategies are popular in the global market, they are very scarcely adopted as forms of response to ICT in the Kenyan context.

**Business differentiation from online travel agencies:** Majority of TAs differentiate themselves from online travel agencies by offering credit services to clients, Face-to-face communication, product diversification-professionalized customer care, relationship marketing, follow ups on clients, personalized services, sustainable services, strategic location and strong marketing technique. Other efforts include; strong management team, personal touch, technological competitiveness and qualified staff.

## Conclusion

While the advent of ICT has produced mixed results for the travel agency businesses, one of the differentiating factor has been how different businesses have strategically responded to the new business environment. As demonstrated in this study, travel agents (TAs) in Kenya have adopted a number of ICT innovations to stay afloat. Among the most significant strategic innovations has been the TAs' increased client focus as opposed to focus on service providers. This has seen the TAs forge close relationships with their clients through both online and offline approaches including offering credit services to clients, face-to-face communication, product diversification-professionalized customer care, relationship marketing, follow ups on clients, personalized services, sustainable services, strategic location and strong marketing techniques. It is imperative to note that

investing in customers and developing a strong relationship marketing strategy so as to attract and retain them is the new area of competitiveness today. This thus serves to signify a strategic re-orientation of TAs in Kenya that implies long term success. Nevertheless, additional ICT in organizations has not always meant acquisition of knowledge. The study noted that there are problems such as technophobia and sophisticated machinery as well as lack of coherent training procedures. As such therefore, while the TAs pursue further ICT-based strategic re-orientations, these challenges should also be addressed.

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