The effect of E-Commerce travel agencies in East London, South Africa

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Abstract

This study investigates the impact of e-commerce on travel agencies in East London (EL). While there is a general belief that e-commerce provides many opportunities to travel agencies, the reality is that traditional travel agencies face competition from several newcomers. Beside pressure from new mega travel agencies, the traditional travel agency also faces challenges from other innovative organisations as well as direct sales from tour operators. Furthermore, major threats stem from airlines and wholesale travel companies offering their products and services directly to the customer by replacing the travel agency as an intermediary, operating from physical offices, with online services. Competition coming from different fields will destroy the conventional marketing and distribution channels in future. It is in this context that the current study aims to determine the awareness and impact of e-commerce on travel agencies in EL, a small city in the province of the Eastern Cape (EC) in South Africa (SA). The survey population of this case study includes retail travel agencies in East London. A total number of 21 questionnaires were administered to travel agencies in EL, using the convenience sampling method. The findings explain that travel agencies generally are experiencing both the opportunities and the challenges of e-commerce adoption. The results indicated a high percentage of e-commerce use amongst travel agencies in EL. This means that the travel agency have adapted to technology in doing business and this is good as guests have developed into becoming digital natives.

Keywords: E-commerce, travel agency, East London, effect, Eastern Cape, South Africa

Background to the research problem

Traditionally travel agencies have always played a big role as intermediaries between the consumer and the suppliers (Lioa & Par, 2006). Travel agents not only sell products, but also provide expertise to advise and make recommendation on trips. However, as the internet has become a favourite tool for planning, exploring and arranging trips, it offers itself as platform for convenience and specialised sales (Lioa & Par, 2006). O’Connor (2008) states that the highly perishable nature of travel products makes effective distribution particularly important, as any unsold item cannot be stored and subsequently consumed at a later stage. For this reason, travel businesses have traditionally made extensive use of distribution systems to help sell their products. These were initially composed of intermediaries (travel agencies), but as technology developed, increasing use was made of electronic systems such as Global Distribution Systems (GDS) and this resulted in electric distribution becoming a key characteristic of the travel and tourism industry.
Mcbbrey (1999 in Lioa & Par 2006) explains that as a result of commission difficulties and reductions, many travel agencies began charging their customers to help make up for the lost commission from airlines and major hotels. To make matters worse for travel agencies, most large airlines began to encourage travellers to bypass travel agencies and book their flights directly with the airlines. Based on the above citations, there is clear evidence that the profit-earning structure and distribution structure of the travel industry has been reshaped either directly or indirectly due to the presence of e-commerce.

E-commerce is helpful in accessing global markets and in developing the ability of travel agencies to enhance their market share (Lioa & Par, 2006). They further state that the internet also allows agencies to develop specialised sites for their distinctive markets. However, these two researchers further argue that, while there is a general belief amongst researchers about e-commerce providing many opportunities to travel agencies, the reality is that traditional travel agencies face competition from several newcomers. Beside pressure from new mega travel agencies, the traditional travel agency also faces challenges from other innovative organisations and direct sales from tour operators (Liao & Par, 2006). Barnett and Standing also cite that a major threat stems from airlines and wholesale travel companies offering their products and services directly to the customer by replacing the travel agency as intermediary operating from physical offices with online services (Barnett & Standing, 2001). Competition coming from different fields will destroy the conventional marketing distribution channels in future. The major effect of this change is that customer bargaining power has changed significantly and loyalty is gradually being eroded (Lioa & Par, 2006). South African Airways’ spokesperson Vimla Maistry pointed out that the majority of point-to-point travellers make use of direct methods, but a large percentage of customers whose travel includes more detailed arrangements, like transfers, visas, and accommodation, prefer the interaction of an agent who can handle all the questions. Several horror stories have also been received from customers who have tried booking online; topping the list are stories of world journeys, honeymoons, anniversaries, exotic travel and unusual destinations.

This implies that it is safe to predict that, provided travel agencies deliver on service and continue to adapt technological changes to their advantage, the web is not going to win the race anytime soon (TIR MARCH: 2010). This study involved travel agencies located in East London, Eastern Cape. In South Africa, the travel and tourism industry dates back to 1906, when South African Railways established its publicity department, which opened an office in London for attracting tourists to the Cape Colony. Later, in 1947, the South African Tourist Corporation was established by an Act of parliament with the task of promoting the flow of money to the Union of South Africa by increasing foreign visitors (Elliot, 2005). The 1994 elections introduced a Government of National Unity that would implement economic and social policies away from those of the previous apartheid government to more equal distribution of benefits among all South Africans. Private- and public-sector tourism businesses are expected to play their part in ensuring that tourism, as a major potential growth sector, contributes towards this goal (Bennett, 1995). In June 1996, the government of the new SA published the White Paper on Development and Promotion of Tourism. This programme aimed at developing the travel and tourism sector at a national level. The 1996 White Paper states that tourism development in SA had largely been a missed opportunity and until then tourism had been just “a white man’s thing” (Stoentchev, Ramchander, Foggin & Clements, 2001).

Overview of E-Commerce and its Impact on the Retail Travel Sector

Graduate Institute of International Trade (2008) contend that e-commerce is not only about transactional activities but also retention of customers. E-commerce offers opportunities for tourism
organisations to expand their customer base, and build communication with customers and related partners in a more cost-effective way. For customers, e-commerce helps them access more information about tourist destinations and services, communicate with tourism organisations, and make bookings at relatively low cost. Given the many advantages of e-commerce in the tourism industry, building e-commerce is still never easy, especially for tourism organisations in less developed countries. This chapter looks at how SMMEs in the tourism industry have dealt with e-commerce globally and especially in South Africa. Page (2004) suggests that historically tourism has witnessed technological development, in computing terms, in stages. In the 1960s, mainframe computers provided data-processing capabilities. The 1970s saw the emergence of more sophisticated Management Information Systems. With the 1980s came the Personal Computer (PC), ushering in a new era of widespread adoption of technology in business, given the more user-friendly software interface. This led to greater use in the 1990s of PCs in homes, with the growth of the internet and email providing 24-hour communication access, easy information retrieval and an introduction to e-commerce. It is further noted that e-commerce is the secure trading of products, services and information via computer networks and online, which has led to global growth in e-tourism in three domains: business-to-business (B2B), business to consumers (B2C) and business to government (B2G).

Liao and Par (2006) concur that in the past, travel agencies have always played an important role in the tourism industry as a leading intermediary between the consumer and supplier. They not only sell products but also provide expertise to clients by providing advice on trips. Seemingly, the internet has now become popular for clients to plan, explore, and arrange for almost any packaged tours. Furthermore, the internet also offers itself as a platform for convenience and for specialised sales. Travel agencies today encounter challenges from different directions. Not only has consumer behaviour changed, but they now also face competition from new mega-travel agencies, which has resulted in price wars. Furthermore, some competitors from third-party online stores are competing with them as well. Nevertheless, e-commerce has positive sides. It allows for direct and automatic transactions between the supplier and its customer in a cost-effective way. Liao and Par (2006) further explain that the internet is a vital channel to enable travel agencies to sell their flight tickets at the last minute and at discounted prices thus attracting even more customers. The tourism industry is an immense conglomeration of different suppliers, including airlines, hotels and restaurants, tour operators and travel agencies, as well as millions of travellers. The advantage of information technology is not only in helping to reduce distance and barriers but also in maintaining the trend towards a global economy, which is also reshaping the whole industry. There has been a lot of fear mongering around the future of jobs, and how the Fourth Industrial Revolution is threatening jobs. Tourism employers must embrace the Fourth Industrial Revolution, instead of fearing it.

The Fourth Industrial Revolution (4IR) presents humans with immense opportunities for growth, connecting more people, and reducing the global challenges of poverty, and underdevelopment. The costs of development will be greatly reduced when the full benefits are derived from technological innovation, heralded by the Fourth Industrial Revolution. Accenture (2018) noted that occupations that allocated more time to human-like activities have a lower probability to automation, while workers involved in occupations such as production, office administration, farming, food processing, construction, mining, transportation, installation and maintenance are at the highest risk. This means that tourism jobs will remain important and the tourism industry would be a buffer for other industries, whose jobs would be destroyed by automation. Increases in leisure might actually benefit the tourism industry as it might lead to more tourism consumption because of increased leisure time. Technology has also facilitated the lowering of costs associated with tourism consumption, which has led to growth in those that seek to consume tourism. The purpose
of this study was, therefore, to discover how travel agencies in East London face this new situation and how they can react to it in the future.

Kew and Herrington (2009) argue in line with the previous researchers that the internet is an important source of business information as well as a source of potential business ideas. Access to technology is important both in accessing business information prior to starting a business and in allowing existing businesses to remain competitive in the market. Similarly, Tsaia, Hung, and Lin (2003) underscore that rapid growth of on-line travel agencies has caused traditional indirect channels through tourism intermediaries to decline. The retail business premise involves wholesalers, suppliers, and other intermediaries in the travel distribution system, reducing costs at all levels in the distribution system through disintermediation, direct compensation or commission cuts, where these cuts can be rationalised. This has led to increasing intermediary elimination at all levels. Lubbe (2000) underscores that there are two levels of distribution, namely direct and indirect distribution. Direct distribution has three levels, the first being ‘principal to customer’ where the principal sells to the customers on his own premises; secondly, where the principal sells to the customer at home (internet); and the third being where the principal owns a retail outlet. Indirect distribution has three levels as well. The first level is ‘principal to independent retail outlet (travel agency) to customer’; the second is ‘principal to tour wholesaler (tour operator) to independent retail outlet (travel agency) to customer’, and the third is ‘principal to speciality channeller (incentive house) to tour wholesaler (tour operator) to independent retail outlet (travel agency) to customer’.

According to Buhalis (2003), e-tourism reflects the digitalisation of all processes and value chains in the tourism, travel and hospitality industries, it includes e-commerce and applies Information Communication Technologies (ICTs) that enable organisations to maximise their efficiency and effectiveness. Buhalis (2003), Ancor and Walden (2007), Liao and Par (2006), and Barnet and Standing (2001) have a consensus on the fact that technology has changed the face of the travel and tourism industry in two ways. The first is the introduction of new technology such as Global Distribution Systems such as Galileo and, the second is developing new devices, thereby providing new opportunities for distribution. Online sales for tourism products have been facilitated by the use of smartphone devices, whilst taking of photos and posting them on social media platforms enhances the online presence of a destination. It has also transformed how travel companies communicate with their clients and how businesses communicate with each other. This has also led to many industry players responding to the new challenges posed by technology and the internet, by developing strategic alliances and collaborations (e-Travel in Europe, 2004).

Overview of the retail travel sector and e-commerce

Electronic commerce (e-commerce) has been defined by many researchers in recent times, resulting in different definitions. According to the European commission (2010), the Office of Economic Co-operation and Development proposed two definitions of e-commerce, one narrow and one broad, and both remain useful today. While the narrow definition focuses on “internet transactions” alone, the broad definition defines e-commerce as the sales or purchases of goods and services, either between businesses, households, individuals, governments, and other public or private organisations, conducted over computer-mediated networks. This includes processes during the pre-sale or pre-purchase phase, and the after-sale phase.

Definition of retail travel industry (sector)
Abrahams (2001) shows that the travel industry is split into three distinct sectors, namely the principal, wholesaler and the retailer. The principal is regarded as the producer of the travel industry. Examples of principals include airlines, hotels, car rental companies etc. The wholesaler is referred to as the tour operator. The tour operator packages the products produced by the principals and sells to the retailer or directly to the passenger with a mark-up. The retailer is the travel agent, who purchases products from the principals and sells directly to passengers for commission or service fees.

O’Connor (2008) highlights that the travel agent acts as both a ‘search and book’ service and an adviser for the customer, relieving them of much of the burden of searching for suitable products and also using their knowledge and experience to help match customers with travel experiences. Figure 1.1 below demonstrates the travel industry chain, showing how and where travel agencies fit into the industry chain, and how they link customers to suppliers.

![The travel industry chain](https://www.ajhtl.com)

**Product suppliers (Airline, Hotels)**

**Process facilitators (Travel Agencies)**

**Distributors**

**Customers**

**Source: Lio and Par (2006)**

According to Standing and Vasudavan (1999), travel agencies are no strangers to ICTs and are highly dependent on up-to-date, accurate information. Information technology has been widely used within travel agencies for reservations, accounting and inventory management functions. Examples are GDS and organisational information systems. The World Tourism Organisation (WTO) acknowledges that computerised networks, in particular airline computer reservation systems (CRSs), have been leading dramatic structural changes since the early 1970s. The WTO further reports that larger tourism organisations have been utilising CRSs to manage and distribute their capacity since the 1960s. CRSs were first developed for airlines in order to manage their reservations and set availability, before expanding to GDSs such as Galileo, Sabre and Amadeus (WTO, 1995).

Buhalis (2003) explains that although GDSs, as earlier extranets, could not take advantage of the World Wide Web technologies, they were still effective enough in allowing the partners to share operational data and to exchange information, orders and funds. CRSs and GDSs enabled tourism providers to control, promote and sell their products through the entire range of partners and suppliers in the international market. They also helped them to increase occupancy and reduce seasonality by managing their demand and supply better. GDSs also serve the travel trade (intermediaries) as they allow quick and firm responses to customers’ enquiries by making tourism
products instantly accessible. Therefore, they contribute directly to the ability of tourism organisations to distribute their products widely and ultimately to their profitability.

**Figure 1.2 below summarises the relationships between role players in the travel industry supply chain**

- Suppliers have always acted as aggregators of product supply;
- The travel agency traditionally has been the main customer of the GDS, using it to access products for customers;
- Travel portals and online providers also access the GDS in order to position themselves as comprehensive travel portals; and
- Tour operators are a more recent development, as GDSs enter the leisure market.

![Figure 1.2 The key role of the GDS as content aggregator and distributor (industry supply chain)](source)

The changes in the global travel industry, and especially the growth of the internet, have now led some to suggest that travel agencies must radically change their business practices if they are to survive at current numbers. Airlines, for example, have begun to market directly to consumers via the Web, bypassing traditional travel agencies. Organisations that operate primarily in an online environment are often termed as virtual organisations. Virtual organisations such as Microsoft’s Expedia, Yahoo Travel and Travelocity have the potential to pass economies of scale on to the consumer. They offer reduced fares coupled with the convenience of making reservations from home after office hours. These online agencies are challenging the traditional retail travel agency that is operating on a small profit margin (Standing & Vasudavan, 1999).

**Problem Statement**

Page (2004) states that the e-commerce revolution is being felt by the travel industry in the way in which travel products and services are being retailed. This has also transformed how travel companies communicate with their clients and with each other. At the same time, it has led to
industry players responding to the new challenges posed by technology and the internet in particular. Liao and Par (2006) mention that globally, travel agencies today encounter challenges from different directions. Not only has consumer behaviour changed, but they now also face fierce competition from new mega-travel agencies, which has resulted in intense competition and price wars. Furthermore, third-party online travel stores are competing with agencies as well. Nevertheless, e-commerce has many positive sides. It allows for direct and automatic transactions between the supplier and its customers in a cost-effective way. The internet is a vital channel to enable travel agencies to sell their flight tickets at the last minute and at a discounted price, thus attracting even more customers.

Research Objectives

- To identify the challenges that travel agencies face in EL as a result of advancement of e-commerce;
- To identify opportunities that the development of e-commerce presents to travel agencies in East London; and
- To determine the level of e-commerce awareness in retail travel agencies in East London.

Research methodology

Research design

A research design is the plan according to which the researcher obtains research participants and collects information from them. The researcher describes what is to be done with the participants, with a view to reaching conclusions about the research problem (Welman, Kruger & Mitchell 2005). The research design for the proposed study involved both qualitative and quantitative methods of collecting data. Quantitative research evaluates objective data consisting of numbers, while qualitative research deals with subjective data that is produced by the interviewees and presented in language instead of numbers (Welman, Kruger & Mitchell, 1998).

Survey population

A survey population is the full set of cases from which a sample is taken. In sampling, the term population is not used in its normal sense, as the full set of cases need not necessarily be people (Welman, Kruger and Mitchell 2005). According to Vermeulen (1998), a sample is a portion of elements in a population and the primary goal of any sampling procedure is to obtain a representative sample, which represents the elements of the population within an acceptable margin of error. A sample is the element of the population considered for actual inclusion in the study, or it can be viewed as a subset of measurements drawn from a population in which the researcher is interested. The survey population of this study included retail travel agencies in East London, a small town in the province of the Eastern Cape in South Africa. According to the Green Paper on Electronic Commerce for South Africa 2000, it was evident that faster adoption of e-commerce by SMMEs could potentially create employment in South Africa. This paper further cites that a study that was conducted around 2000 by BMI-Tech Knowledge group stated that of the 600,000 registered SMMEs in SA, only 16% of them were conducting e-commerce. What was worse was that 31% believed that they would never use the internet for business (GPECUSA, 2000).
In light of the above statement, it is important to carry out this study on travel agencies in East London, as most travel agency businesses fall under the SMMEs sector.

Sampling Method

For the purpose of this study a non-probability sampling technique called purposive sampling was used. Non-probability sampling refers to any procedure in which elements have unequal chances of being included. The challenge of non-probability sampling is the fact that the researcher is not able to estimate the unrepresentativeness of “sampling error”. Non-probability sampling is frequently used for reasons of convenience and economy (Welman, Kruger and Mitchell, 2005). Purposive sampling involves selecting specific units of interest. This type of sampling is based entirely on the judgement of the researcher, in that a sample is composed of elements that contain the most characteristics, representative or typical attributes of the population (Vermeulen, 1998).

Methods and tools of collecting data

Primary data sources

Primary data was collected by means of as self-administered survey questionnaires distributed amongst the target research population, on their sites of operation, within the travel agencies. This allowed the respondents to complete the questionnaires at their own pace and at a convenient time as the researcher would drop them off, and arrange for collection.

Secondary data sources

Literature sources such as conference proceedings that deal with e-commerce related topics, examples are: Conceptualising and Contextualising Social Informatics and a Critical Review of SMMTEs Organisational Barriers in Tourism. E-tourism newsletters on e-commerce, research reports like one on the effects of e-commerce on travel agencies in Taiwan, journal articles such as from News Digest, tourism-related books on e-commerce and tourism, amongst others, were used to complement the primary data.

Ethical considerations

Bryman and Bell (2007) noted that ten important principles related to ethical considerations in research:

- Research participants should not be subjected to harm in any ways whatsoever.
- Respect for the dignity of research participants should be prioritised.
- Full consent should be obtained from the participants prior to the study.
- The protection of the privacy of research participants has to be ensured.
- An adequate level of confidentiality of the research data should be ensured.
- Any deception or exaggeration about the aims and objectives of the research must be avoided.
- Affiliations in any forms, sourcing of funding, as well as any possible conflicts of interest have to be declared.
- Any type of communication in relation to the research should be done with honesty and transparency.
Any type of misleading information, as well as the presentation of primary data findings in a biased way must be avoided.

Limitations of the study

The limitations to this study could be limited research data due to a lack of empirical data on the research topic within South Africa. The choice of sampling is purposive sampling, a technique of non-probability sampling. The limitation with this type of sampling is the fact that the researcher is not able to estimate sampling error (Vermeulen, 1998).

Research findings

A sample of 14 travel agencies was drawn from East London. Nine travel agencies were available for the study and total number of 21 consultants from those available agencies responded to the questionnaires.

The Figure above shows that the travel agencies involved in the study are located in various suburbs of East London. Furthermore, it is clearly depicted that the majority of travel agencies are located in Vincent, at 45%, compared to all the other locations at 11% each. This suggests that Vincent is the popular business centre of East London. This location is motivated by the availability of other services like restaurants and banks, which makes for a one-stop shop.
Figure 2 above depicts the respondents’ awareness of e-commerce. The results show that 62% of respondents think e-commerce has to do with the internet, while 24% think it is technology. This information suggests that at least the majority of travel consultants have an idea that e-commerce is operated through the internet. Whereas, 24% think e-commerce is technology, which is not incorrect, but the respondents’ understanding of technology stands to be questioned. Furthermore, a figure of 14% that did not know what e-commerce is concurs with results of previous research by Matjolopane (2006) which explains that there is no clear indication of how many SMMTEs have adopted e-commerce in South Africa. While, some have adopted it, some have not.

Table 1: Usage of e-commerce

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<th>Table 1: Does your agency make use of any form of e-commerce? (n = 21, %)</th>
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<tr>
<td>Those who are using e-commerce</td>
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<tr>
<td>Those who are not using e-commerce</td>
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<td>Those who are not sure of using</td>
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Table 1 above explains the adoption of e-commerce amongst the travel agencies. According to the findings, 76% of the respondents were using some form of e-commerce in their travel agencies. In the same vein, 5% does not use any form of e-commerce and 19% are not sure if they are using e-commerce or not. The fact that 5% do not use e-commerce and 19% are not sure of what it is suggests that the findings are in line with the secondary data by Warden and Tunzelana with regard to e-commerce adoption in South Africa.

Significance of the study

The study will contribute towards a growing body of knowledge in the travel sector. The results will be relevant to travel agencies already in business as well as those potential newcomers in the study area. It will be a source of knowledge to travel agencies and thus will contribute towards improving strategies that travel agencies need to apply in order to survive in the digital world.

Recommendations and future research direction

The study provides a basic understanding of the impact of e-commerce on travel agencies in East London. It was evident that strategic behaviour around e-commerce adoption by travel agencies is
worth researching. The study is in line with the development objectives of South Africa that advocate the development of creativity and innovation, and the building of human capacity and full participation of all stakeholders in dealing with developing sustainable growth of SMMTEs in the country. The existing literature seems to concentrate more on the barriers to e-commerce adoption within SMMTEs. However, there is a lack of research on strategies for SMMTEs in developing countries to overcome the barriers and successfully e-transform their organisations. The next step, therefore, will be to develop a practical framework, efficient in use, for SMMTEs to e-transform their organisations.

Conclusion

Travel agencies must take action to ensure that they continue to facilitate the adoption of e-commerce. Additionally, the introduction of rewards as incentives leading to the improvement of online activities, the involvement of senior management in the e-commerce project, and the creation of a climate of co-operation are a few of the elements that may reinforce positive attitudes towards the changes created by e-commerce within travel agencies.

References


