

The Changing World of Trade Buyers

THE IMPACT of globalisation on buyers in the travel industry was made more than clear at the Australian Tourism Exchange (ATE) 2002, held May 27-31 in Brisbane. An in-depth analysis of buyers' profiles clearly showed the polarisation taking place as they seek to survive in an increasingly uncertain and turbulent world.

On one hand were the global mega-groups and their linkages with airlines, credit-card companies, loyalty programmes, huge marketing clout, distribution systems, financial back-up, investment in technology and ability to attract quality manpower. All these groups are involved in a vicious internecine battle for market share, primarily in Europe and North America but gradually making itself felt in the Pacific Asia region and elsewhere.

On the other were the small niche-market operators who do not want to join the mega-groups but are clearly threatened by their formidable size. Their survival strategy relies on becoming specialists and tapping into low-volume but hopefully high-return FIT business.

There was no greater indication of this than the way the buyers described themselves in the ATE buyers' manual. While most mega-groups wrote brief two-liners describing their size and market reach, the small, niche-market buyers, hungry for business and eager to be taken seriously, stressed keywords such as creative, friendly, innovative, tailor-made, originality, reliability, customer service, pro-active and new product development in an attempt to define their attitude, strategies and positioning.

Issues Facing Buyers

By and large, buyers (comprising of travel agents, tour operators and wholesalers) are being affected by the following factors: 1) Consolidation among both buyers and sellers 2) Market-share battles by the mega-groups 3) Airline financial problems, commission- and other forms of cost-cutting, restructuring and development of loyalty programmes 4) Insurance costs 5) Consumer protection regulations 6) Changes in lifestyles, consumer travel habits, including concerns over safety, fickle loyalty, shorter booking periods and shifts to "stable"

destinations 7) Development of Internet booking systems and the growth of direct-sell, bypassing middlemen 8) Internal costs of restructuring, re-equipping, training and marketing, to name just a few challenges.

At the same time, this is impacting on both travel marts and sellers themselves. Buyers are becoming very selective about the marts they attend, and mart-organisers have to make sure that participating buyers will find the products they are looking for. Both have to ensure improved quality of contact.

Australia's Advantage

For the most part, Australia qualifies as a "good buy" for several reasons: It is a stable country, relatively free of personal safety fears and travel advisories; it has reversed seasonality; has a multi-cultural, environmentally-conscious infrastructure with a huge diversity of tourism products; and the industry is generally well-managed and responsive. It is, overall, a "desirable" destination with potential for generating high-yield business. The Australian Tourist Commission also spends an enormous amount of time researching market trends and customer profiles, constantly fine-tunes its product offerings in line with those trends and supports productive buyers with tools to improve their business performance.

These factors, among others, make the Australia Tourism Exchange an attractive show for buyers. At the same time, it yields a rich harvest of information about the changing profile of buyers.

The Globalisation Onslaught

The global consolidation and expansion onslaught by the major U.S. and European travel groups will have a significant impact on the future of the industry. They are seeking to cut unit costs and build market share by linking up with other companies with access to distribution networks and databases. This is being done via outright purchases, cross-equity links, franchises, etc. Their ability to use negotiating power to drive down prices and seize business is obvious. The borderline between wholesaler

and retailer is fudging. All are cross-pollinating. At the ATE, one major German wholesaler made this quite obvious by offering six different brochures and the potential to sell via 10,000 travel agencies.

Here are some of the emerging trends:

- All aspire to become one-stop shops to encourage the customer to buy everything from the one place, and keep buying from that place in the future.
- Many are now selling directly over the Internet and using their own magazines and direct mail systems to reach customers. The days of printed brochures are set to fade.
- They are broadening their choice of products and services, but narrowing the number of suppliers in key categories like hotels.
- Some are trying to get into niche-market territory by setting up specialist departments focussing on destinations or fast-selling niche-products like "wellness" and "ecotourism."

The Future of the Independents

For the independents, it has clearly become a matter of life and death. But their biggest asset is the value they place in their independence. With that comes a corresponding determination to avoid becoming part of a large, monolithic organisation with its constant restructuring, cost-cutting, staff transfers, internal politics, ego battles and other problems.

One clear opportunity lies in specialisation. In terms of products, huge opportunities are emerging for small and medium-sized independent operators to focus on market segments that are still beyond the return-on-investment targets of the mega-groups.

Such segments include senior travel, sports travel, travel by youth, students and backpackers, upmarket products, indigenous travel, wine tours, honeymoon packages, gay and lesbian travel.

Here are some examples of new trends:

- One European company that specialised in group travel is "now changing more and more to upmarket and deluxe FITs."
- One Irish agency is run by a husband and wife team. Formerly a High Street retail travel agent, they now operate a Web-booking engine, business house travel section and wholesale arm specialising in Australia and New Zealand. Wanting to become a one-stop shop for Irish agents, they also hold GSAs for various Australian products.
- Some niche-market agents are establishing partnerships with other tour operators and wholesalers who can cross-sell their products. For example, a specialist in golf tours links up with a wine-tour specialist.
- One Italian operator began focusing on Australia after years of specialising only in the Caribbean.
- One U.S. tour operator specialising in gourmet tours now

works with wine-tasters and top chefs to develop cooking courses.

- Another U.S. agent focuses only on filling off-season beds and seats at "great prices."
- Travel Web sites are also buying directly. One invited Web site buyer, who was formerly an airline ticket consolidator, claims to be the leading online pan-European tour operator and is planning a significant expansion of its land product programme to give passengers "the widest range of accommodation and broadest choice of ancillary product across all regions of Australia."
- One South Pacific tour operator specialises in handling the French military traffic which it describes as having high amounts of disposable income and high yield.
- Some are specialising in accommodation only. In addition to offering some mainstream products, they offer boutique hotels, luxury resorts, private homes and apartments. This product range is being buttressed with luxury cruises and boat charters.
- One Belgium group says it only offers exclusive small-scale properties in unique locations.
- One buyer specialises in wildlife holidays to remote locations.
- One group has linked up with ticketing companies to sell only sports events like cricket matches, football, rugby, World Cup, Olympics, etc, calling itself a ticketing and tour operator. Others are also adding theatres and concerts, anything that involves tickets. There were two buyers from such companies, one of which is focussing not just on selling tickets but the entire management of visitors to sports events complete with logistics, transport schedules, accommodation, security and passes.

Trends in Asia

GROWING MATURITY OF THE CHINESE MARKET: After the initial chaos of the early days of outbound travel, the growing professionalism of the Chinese market is noticeable. Chinese buyers are part of huge conglomerates with huge economic strength and an extensive business network that gives them a good source of regular, corporate and incentive travel. Many are cross-linked with companies in Hong Kong SAR to access that market.

They are increasingly becoming members of international organisations such as IATA and PATA and seeking higher standards of certification and professionalism. Some of them are moving beyond groups and into individual travel, study tours or special interest travel. Many are spending time working on improving multi-language capabilities for their guides.

Chinese operators dominate the turf in their respective regions. All appear to be very conscious of their reputation, size, level of respect and the number of travellers they send overseas.

Buyers at the Australian Tourism Exchange 2002

Country	Total Buyers	New Buyers
Western Hemisphere		
Argentina	3	-
Australia	12	3
Austria	2	-
Bahrain	1	-
Belgium	3	1
Brazil	7	2
Canada	10	1
Columbia	2	1
Denmark	5	-
Fiji	1	-
Finland	2	-
France	12	2
Germany	34	3
Ireland	2	-
Italy	13	5
Kuwait	1	-
Mexico	3	2
Netherlands	15	1
New Caledonia	3	-
New Zealand	17	-
Saudi Arabia	1	-
South Africa	9	2
Sultanate of Oman	1	-
Sweden	8	4
Switzerland	11	1

Country	Total Buyers	New Buyers
United Arab Emirates	2	-
United Kingdom	44	3
United States of America	54	6
Uruguay	1	-
Total Western	279	37

Eastern Hemisphere		
Australia	11	2
Brunei	2	-
China (PRC)	34	10
Hong Kong SAR	14	3
Chinese Taipei	16	1
India	16	5
Indonesia	7	2
Japan	28	7
Malaysia	28	6
Philippines	9	1
Singapore	28	1
Korea (ROK)	24	7
Thailand	10	2
Vietnam	2	2
Total Eastern	229	49
Grand Total (Western + Eastern)	508	86

Source: Australian Tourist Commission

Some are setting up specialised departments to sell specific destinations such as Australia and New Zealand. Many are looking for new products to cater to the evolving taste of Chinese travellers. Most do both inbound and outbound. In future, they will soon be at the professional level of operators in Hong Kong SAR where FIT travel is the rage and payments can be made over the Internet.

Sellers wishing to tap the Chinese market will need people who can speak the language. Australia has many ethnic Chinese who are robustly capitalising on this asset.

MEGA-GROUPS EXPANDING: In Hong Kong SAR, Singapore, India and many other parts of Asia, mega-groups are making inroads and finding no shortage of local partners anxious to get global coverage, bring in a number of business travel accounts, and secure access to training, automation and

distribution. Travel companies affiliated to charge-card companies are also growing their distribution networks.

One Hong Kong SAR agency, focusing on niche markets such as special interest tours, study programmes, events management and deluxe FIT travel, has set up another company to take care of conferences and incentives.

INDIA, ANOTHER BIG GROWTH MARKET: Like China (PRC), India is another big potential growth market, but one with a much less structured industry. The sheer size and diversity of the market means infinite opportunity for operators to tap into niche segments: conferences, honeymooners, students, adventure, incentives, cruises, etc. Buyers are also Internet-savvy and anxious to establish new destinations. However, culinary requirements are very specific. Operators also have to provide services like visas and foreign exchange handling. They are

spreading their offices nationwide and acquiring GSAs. While the widespread use of English is an advantage, they are very sharp negotiators due to the size of the market.

JAPAN, MORE SPECIALISATION: The mass-market tour operators are expanding their distribution networks into more cities and becoming more specialised, leading the specialist tour operators to burrow even deeper. One operator linked to a major airline has now opened a division focusing only on the silver market. Another buyer who specialises in hotels has begun to sell direct to customers. In addition to hotel vouchers, it is now adding vouchers of other travel components to FIT trips. For example: sightseeing, optional tours, golf packages, weddings, cruises, rent a car.

KOREA (ROK), STRONGER INDUSTRY EMERGING: Since the 1997 economic crisis, Koreans have won plaudits for the way they have restructured many of their companies. Before 1997, Korean tour operators were considered mostly tour-group oriented and interested mainly in shopping commissions. Today, one of the invited buyers at the ATE described his company thus: "We've made our multidisciplinary focus and integrated approach the foundation of building strategy, marketing segmentation, sales promotion, online strategy, enterprise systems and processes for our clients' competitive advantage." Several are expanding into specialist niches such as honeymooners, backpackers, young adventurers, etc, all of which indicates the growing sophistication of the market.

To Join or Not to Join?

Because Pacific Asia provides a rich hunting ground for the mega-groups' expansion strategies, many independent tour operators and travel agents in the PATA region are facing the dilemma of whether to join them, if they cannot beat them.

The financial, managerial and technical resources of the mega-groups are formidable and virtually unmatchable by smaller players. Their presence creates an uneven playing field and could lead to the demise of many small- and medium-sized enterprises in the PATA region.

This does not mean that it is a lost cause. The help and support of governments will be critical in giving small and medium-sized operators access to better credit, powerful training programmes across the board and expanded marketing support. Industry associations in the PATA region need to make this a priority on their agendas.

Gaining assurances of payment is a big issue for both SME (small- and medium-sized enterprise) buyers and sellers, especially as there is no guarantee as to who will survive in a turbulent world. Checks of credit ratings are important. Several

buyers at the ATE went out of their way to stress that sellers would find them trustworthy and reliable to deal with. They pointed out how long they have been in business and how big they are. Some cited their links with IATA, whose Billing and Settlement Plan does provide some assurance of credit-worthiness and ability to settle outstanding payments.

The most important reason for ensuring the continued survival of SMEs is in order not to put all the eggs into the basket of the mega-groups. As indicated by the collapse of many conglomerates, no company today is invincible. And the collapse of one travel mega-group could cost destinations dearly in terms of arrivals, jobs, legal problems and unpaid bills to hotels and other suppliers. It would also concentrate more control of national economic power in the hands of the conglomerates. Over the long-term, it would also mean more capital flight and economic leakage in the form of payments for licensing fees, copyrights, management and marketing expertise, technical support and so on.

Having experienced the collapse of airlines such as Ansett, one thing that Australia is doing well is ensuring a balance in its market mix, both in terms of source markets from regions and countries, source companies, customer segments, new and repeat buyers. Hence, it is avoiding the most cardinal mistake one can make in the travel and tourism industry today: becoming over-exposed to any one source of business.

Being big has its advantages, but so does being small and nimble. Being big can also mean being fat, bulky, heavy and slow-moving. Being small can mean being flexible, fast-moving and enterprising. As long they can produce business and pay punctually, PATA destinations need buyers from both groups. The trick, as always, is finding the right balance.

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