

Tour operation

Key concepts

The main concepts covered in the chapter are:

- The role of tour operators in the tourism system
- The highly interdependent nature of the tour operation product
- The price elasticity of the European mass FIT market
- The highly competitive nature of the European tour operation market
- Vertical and horizontal integration as growth strategies.

Introduction

Tour operators are often described as the wholesaler in the tourism system, operating between the producer and the primary product and the retailer. However, the tour operator can also be seen as a producer who takes raw materials, like hotel beds and airline seats, and processes them into a 'manufactured' product which it then sells. The tour operator, it could be argued, represents the only genuine tourist industry that is not simply a subset of another industry. They perform a unique function in the tourism system.

However, as we will see, there is nothing homogenous about tour operation, either in its nature or in its marketing function. Let us consider some of the factors that influence the approaches to marketing which are adopted by tour operators, together with some of the key issues in the practice of tour operation marketing.

The *size* of tour operators is an important factor. There are major differences in marketing between the major European mass-market large-scale tour operators, such as TUI and Thomsons who move literally millions of tourists around per annum, and the small, specialist operators, who may only handle a few hundred customers a year. This links to two other issues which relate to size and have implications for marketing, namely *ownership* and *marketing objectives*. The large tour operators are often part of big corporations with other business interests. On the other hand, the small ones are often owned by individuals or families and can often be run as a 'hobby' or part-time business. This is true, for example, of some special interest and activity holiday operators or some of the British tour operators who offer self-catering holidays in France. The two types of operator, therefore, tend to have different marketing objectives, whereas for the big operators profit maximisation is usually their main concern. These small operators are often willing to accept less than optimum profit levels, provided that the business gives them an opportunity to indulge in their hobbies or interests, whether these be cycling in Wales or enjoying the food and wine of France, for example.

There are a number of differences in the nature of the *product* offered by tour operators, including the following:

- (i) Some operators offer packages featuring destinations in their own country while others offer products based on foreign destinations.
- (ii) Operators can offer highly structured, all-inclusive packages where everything a holidaymaker will need is included in a single-priced package. This is the approach of Club Méditerranée. On the other hand, some companies are recognising that other customers are looking for more flexibility and they are offering much looser packages, such as fly-drive and travel-and-accommodation-only holidays, with no meals and transfers.
- (iii) Many tour operators offer the services of in-resort representatives as part of the product they offer. The quality of the representative is usually considered to be a major element in the holiday experience of the customer.
- (iv) Because the tour operator is a wholesaler, they are totally reliant on their suppliers for the quality of their final product and their marketing intermediaries for the messages about their product which are relayed to customers.
- (v) Some operators offer a broad portfolio of products, designed to service a range of markets, while others focus on either particular types of holidays (skiing or cycling for example), or specific countries.

Ultimately, perhaps, the most interesting aspect of the tour operation product is that it is a composite product, made up of a number of elements (destination, attractions, hotels, transport and so on). In some ways, it could be argued that it is not a finished product but rather a set of opportunities for consumers to create their own self-service holiday product. A plane load of tourists travelling on the same plane to the same hotel in Crete, for example, will all use the basic product in a different way. Some will stay around the hotel pool or the local beach while others will explore the island's archaeological sites, merely using the hotel as a base. Some will go to bed early while others will wake in the afternoon and dance through the night in the local clubs. The package tour offers customers an incredible variety of possible experiences, from which the tourist chooses those which they prefer.

Price has always been a key issue in the tour operator sector. For the mass market operators in most countries, their market is highly price-elastic. These operators specialise mainly in inexpensive holidays with low profit margins, where profits come from volume rather than the margins on individual sales. Smaller and specialist operators on the other hand tend to be able to offer prices that allow for more generous margins. This is important as they do not have the volume sales to make a profit unless they can generate higher margins.

In some countries, notably the UK, last-minute discounting is now an accepted part of the market. Consumers wait until near the departure time for a particular holiday and then look for bargains from operators who are keen to ensure that no capacity is left unsold when the holiday begins.

The existence of these last-minute bargains has changed the market so that many clients do not now book their holidays until a few days before they wish to travel. This phenomena affects profit margins and makes long-term capacity planning very difficult for tour operators.

The obsession with price, most notably in some North European markets, has implications for quality. Often the last-minute bargains are in unnamed accommodation so that clients do not know where they will be staying, which gives great scope for disappointment. Likewise, if people buy purely on price, they can find themselves in places they do not like or would not have otherwise chosen.

Likewise, for the operators and supplies, low prices and discounts give little opportunity for the enhancement of quality standards.

Traditionally, the *distribution* of this tour operation product was via travel agents. However, increasingly some operators are looking to sell directly to their customers, thus saving the commission they pay to the travel agents. Technological innovations, notably the Internet, are making it easier for tour operators to communicate directly with their customers.

As far as *promotion* is concerned, tour operators still rely very heavily on their brochure, which is often a thick, glossy, full-colour catalogue, designed to persuade people to purchase the product. One trend in recent years has been the replacement of the brochure which included every product offered by a company with several brochures featuring different products, such as activity holidays, city breaks or different countries.

Advertising is also heavily used, particularly at the start of the year when consumers are deciding on their holiday plans.

Substantial use is also made of other promotion techniques, including:

- (i) Press and public relations, with many operators trying to encourage travel journalists to take one of their holidays free of charge, in the hope that they will then promote them via their television programmes and newspaper articles, in a positive way, to potential customers. This relationship clearly raises some interesting ethical dilemmas.
- (ii) Direct selling, largely in terms of tour operators sales staff encouraging travel-agency counter staff to sell more of their company's holidays. This activity involves giving travel-agency staff gifts and financial rewards for selling particular products.

The promotional activities of some tour operators have drawn criticism because of their apparent lack of honesty. This ranges from the inducements to travel-agency staff and the fake statements that have been found in some brochures, for example. The European Package Travel Directive was introduced, largely, to curb some of the more dubious practices in tour operation promotional activities.

There are also a number of aspects of the tour operation *market* that influence the way in which package holidays are marketed. These include:

- (i) Whether the operator offers their products primarily within the domestic market or whether they also sell their holidays to people resident in other countries. In the latter case, operators have to take into account national differences in terms of consumer behaviour, business culture and statutory controls on tourism.

- (ii) Consumers are not consistent in their behaviour patterns, for their decision-making has to take into account a range of factors that are always changing, such as their income, time availability, health, responsibility for caring for others, people they will be travelling with and so on. These behaviours can then change dramatically from one holiday to another. This year, a British consumer goes on holiday with their friend to Spain's Costa del Sol and has a 'hedonistic' holiday.
- Next year, the same consumer goes on an educational field trip to the archaeological remains of Greece, as part of their university course. The following year, this person gets married and goes on honeymoon to Paris, with the partner. By the following year, they have a baby and stay in their own country as they are concerned that the food and sun in another country will make the baby ill.
- (iii) There are a number of ways of segmenting the tour operation market, including:
- Geographical methods in terms of where people live, which helps determine which departure airports operators should offer their clients and the preferences of customers for different geographical areas. For example, some people like mountains while others prefer particular countries. Some from Northern Europe are drawn to Southern Europe because of the sun, while others from Southern Europe travel North to escape from the hot summer sun.
 - Much tour operation marketing is based on demographic segmentation. For example, holidays are labelled as family holidays and singles holidays, or they are aimed at young people or retired people, for example, Club 18–30 and Saga, in the UK. Likewise, holiday advertisements can be linked to stereotypes relating to sex, such as men playing golf and women shopping.
 - Psychographic segmentation is becoming increasingly important, as we recognise that people often buy holidays that relate to their everyday lifestyles. Thus we are beginning to recognise holidaymakers who are interested in healthy holidays or green holidays.
 - The purpose of travel which can include religious pilgrimage, health, education, business, making friends, enjoying new experiences and relaxing, for example.
- (iv) Consumers often have unreasonable expectations of what they expect a holiday to do for them. For some people, a holiday is used to recover from a bereavement or a broken relationship or to put new life into a failing marriage.
- (v) It is difficult for the operator to guarantee the quality of the consumer's experience as many of the factors that shape this experience are outside the control of the operator. These include strikes and civil disorder, bad weather and the behaviour of other people who are in the resort at the same time as the operator's clients. The consumer, therefore, may hold the operator at least partially responsible for weaknesses in the product which are outside the operator's control.
- (vi) The behaviour of tourists can be contradictory because they may intend to behave in a way that is socially not considered very fashionable or acceptable. They may therefore say they intend to do something which is more fashionably acceptable while in reality they will do something else. This can make it difficult for tour operation marketers to anticipate the needs and desires of their clients.

In many countries, *competition* is intense in the tour operation sector. This was not always the case, as we know in Eastern Europe, for example, where state monopolies in the past prevented any real competition developing. However, now, competition is present in almost all aspects of tour operation globally.

Tour operators, therefore, are always looking to find ways of achieving competitive advantage, including:

- Having lower prices than their competitors or offering their customers more services or benefits for the same price.
- Opening up new destinations that are not offered by their competitors. For European operators this has, in recent years, largely meant offering new long-haul destinations in Asia, Africa, the Middle East and the Caribbean.
- Pioneering new types of holidays such as particular special-interest activities that are not available from other companies.
- Seeking to become a market leader in terms of the market for particular countries.

However, it is not always easy to identify who one's competitors are in the tour operation field. For a major European operator such as TUI, who are its competitors? Perhaps they are all the other German tour operators. However it could be argued that a small operator in Bavaria offering short break domestic holidays is no real competition for a major mass-market tour operator, which focuses on outbound holidays. Perhaps its competitors are the other mass-market operators in Germany like LTU, who are targeting smaller markets with similar products.

We could also ask if some of its competitors are perhaps foreign tour operators. At first the answer might seem to be no, as relatively few foreign operators sell holidays to German clients. However, such an answer assumes that the only competitor a tour operator faces is for customers. This is not the case, as competition also exists for the supply of the raw materials that make up the package holiday. In other words, TUI will find itself competing with foreign tour operators for hotel rooms in its destinations. If it fails to win this battle, it has no product, or a lesser-quality product, with which to compete for clients in the German market.

In the most extreme cases, competition for TUI will not come from other people who offer package holidays. Instead it will come from 'substitution'; in other words, people choosing to buy a nontourism product rather than a holiday.

This phenomenon is very common in tour operation, with people in certain years, substituting something else in place of a holiday, such as the following:

- the purchase of a new car
- buying a new home
- decorating a house or carrying out some repairs or renovation work on their home.

People may also substitute several short breaks or trips to friends and relatives for a main annual holiday because of a range of reasons including lack of money, lack of time or their responsibilities and careers.

These forms of substitution are genuine competition for a tour operator, but they are forms of competition with which it is virtually impossible for tour operators to compete.

When they wish to expand, European tour operators have used a number of *growth strategies* of which the three most popular are as follows:

- (i) Vertical and horizontal integration, in other words, taking over suppliers and marketing intermediaries on the one hand and competitors on the other. The leading UK tour operator, Thomson, for example, developed its own airline, Britannia, and owns its own travel chain, Lunn Poly. In addition, it has taken over a number of competitors over the years.

- (ii) Buying existing well-established brands in markets which are new ones for the operator, which is seeking to grow. To take the Thomson example again, the company has purchased, in recent years, several leading brands in the market for self-catering cottages in Britain, including Blakes and English Country Cottages.
- (iii) Beginning to sell one's product to people who live in other countries. While this has happened relatively little to date in the European tour operation sector, there are signs that it is beginning to happen more and more. This is a logical consequence of a situation where some national markets are becoming saturated so that international market developments may be the only realistic prospect of large-scale future expansion.

Finally, there are a number of other issues that are worth discussing briefly because of their influence on tour operation marketing. These include the following two:

1. The marketing activities of *consortia* of tour operators, of which one of the best European examples is AITO, the Association of Independent Tour Operators in the UK. This organisation represents many smaller specialist tour operators based in the UK. This consortium was set up to counter the marketing power of the major mass-market operators. By pooling resources, its members can afford joint campaigns which they could not afford to undertake alone. They claim their AITO members offer:

- a unique range of holidays
- financial protection
- personal service
- value for money
- high standards
- tailor-made holidays
- a dispute settlement service.

They also have a quality charter which emphasises that companies have to meet strict membership criteria before they can join AITO. They also ensure that their brochures are accurate and that they listen to, and take action on, feedback from their customers. Briefly, the charter says that AITO is 'committed to raising the level of environmental awareness within the industry'.

2. AITO also encourages its prospective customers to book their holiday through an independent travel agent rather than an agency owned by one of the large British tour operators. This way, AITO claims customers receive more choice, personal service and impartial advice.

Tour operators often have to respond, at short notice, to *political and economic changes* which can affect either their market dramatically almost overnight, or their ability to deliver their product as advertised. Several examples will illustrate this point as follows:

- The Gulf War in 1991 reduced the demand from Americans to visit Europe and of Europeans to visit places in the Eastern Mediterranean which were near to the conflict, such as Israel and Cyprus.
- The terrorist attacks in the USA in September 2001 which decimated the demand for air travel all over the world.
- Dramatic changes in currency-exchange rates like the devaluation of the British Pound Sterling in September 1992. Interestingly, this made visits to Britain cheaper for many foreign tourists while it made traditionally popular destinations with British visitors, like France, much more expensive, literally overnight.

Conclusion

In this chapter, we have briefly explored the key issues in the rapidly changing field of tour operation marketing and outbound tour operations in particular. It is clear that there are major differences between large mass-market tour operators and the smaller niche market operators.

Discussion points and essay questions

1. Evaluate the suggestion that the only basis of competition in the tour operation sector is price.
2. Discuss the value of the four classic methods of market segmentation to marketers within the tour-operation sector.
3. Critically evaluate the range of growth strategies which have been adopted by tour operators.

Exercise

Choose a mass-market tour operator *and* a specialist tour operator. Obtain the main brochure of each operator. For each brochure, answer the following questions, based purely on the contents of the brochure:

- (i) Who is the brochure aimed at?
- (ii) What major selling points does the operator claim for their product or products?
- (iii) What pricing approaches is the operator using?
- (iv) What is the balance between subjective comments and factual information?

Compare the two operators in terms of the answers to these four questions. Finally, you should identify weaknesses in either brochure in relation to their role as promotional tools.

The results of this project can be presented in a report and/or through an oral presentation.