

TRAVEL AGENCIES: A SERVICE INDUSTRY IN TRANSITION IN THE NETWORKED ECONOMY

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The Internet, electronic commerce, increased competition and changing customer expectations are chipping away at the traditional ways of doing business in the travel services industry and threatening the survival of travel agencies. To avoid disintermediation (the elimination of the travel service intermediaries) agencies will need to reposition their businesses and provide greater value-added services for their customers. Marketing strategies are suggested for managing this new competitive environment.

INTRODUCTION

The Internet and e-commerce have altered business practices forever. Some industries have felt the impact more than others. One industry undergoing dramatic change as a result of the new technology is that of travel services (Gilbert and Bachelder 2000; Heartland 2001). This is because e-commerce has the potential of allowing travel service buyers to bypass travel agencies, thus reducing or eliminating agencies as intermediaries of travel services. Called disintermediation, this is a significant threat to the profitability and survival of travel agencies in the United States. This threat is strongly influenced by changes in technology (Internet capabilities), competition (e-commerce options formerly not available), and customer expectations and behaviors, as well as a deterioration of the travel agency-supplier (air carrier) relationship (Harrell Associates 2002; Rosen and Sweat 2000).

The Internet has the potential to bring together buyers and sellers, to offer customers easy access to greater information than ever, and to provide them with new choices that will enable them to bypass those intermediaries that add little value. Because the travel service industry is primarily information based (Gilbert and Bachelder 2000) and also because

the role of the travel agent traditionally has been that of order taker (Underwood 1995; Vigoroso 2001), this industry is particularly vulnerable to disintermediation. Given the new Internet-related technologies, the availability of alternative sources of information and ticketing, and the attempt by air carriers to bypass travel agents, travel agents are faced with new competition and threats to their survival. In short, e-commerce has altered the nature of the travel service industry and the manner in which travel services are distributed and marketed (Gilbert and Bachelder 2000; Harrell Associates 2002). This is prompting both retailers and suppliers in the travel service industry to rethink the manner in which they do business (Service Industries 2001).

This paper focuses on the nature of the travel service industry and the key trends and forces that have served to reshape the industry. Borrowing from the strategy and marketing literature, environmental management strategies that managers and owners of travel agencies may employ are suggested for managing change.

AN INDUSTRY IN TRANSITION

The travel industry is one of the largest sectors of U.S. retail trade. Though the number of agencies has fallen in recent years, tens of thousands remain in business. While some agencies are quite large and account for meaningful percentages of the

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industry's total sales, the greatest number of agencies are still small, independent operations with sales of under two million dollars. Indeed, "...the travel agency business has historically been a low entry barrier, highly competitive, low margin, low return business" (Pappas 2000, p. 50). Yet, for certain aspects of the travel business, especially cruises and package tours, agencies remain dominant, with shares of market in the 90-plus percent range.

Travel agents have traditionally played three roles: 1) acting as information brokers, passing information from suppliers to customers; 2) processing transactions (selling tickets); and 3) providing customers with value-added information (Bloch and Segev 1996). Recent trends have forced agents to focus on the third role (Service Industries 2001). These trends...deregulation, consolidation, commission caps and, then, the elimination of commissions, and Internet-related technology...have had well-publicized effects on the travel industry.

TRANSFORMATION OF THE TRAVEL INDUSTRY

Airlines Embrace the Internet

Clearly the travel service industry is undergoing major changes. The Internet is playing a fundamental role in this transformation (Harrell Associates 2002; Miller 1999; Rosen and Sweat 2000). Central to the airlines' new vision of customer relationship management is technology (Pappas 2001). That is, the Internet offers suppliers the opportunity to interact directly with millions of leisure and business travelers and to tailor special promotions on an individual basis. This was previously not affordable (Rosen and Sweat 2000). For example, in addition to the airline's web site, that facilitates direct interaction, there are wireless application devices (i.e., mobile phones, pagers, PDAs) that can be used to communicate with customers, providing them with last minute information or schedule changes (Pappas 2001). Superior customer service and personalization can serve to increase customer switching costs, thereby,

binding the customer to an airline. In addition, the new Internet-related technology may serve to speed customer transactions, lessen the airlines' dependence on travel agencies, improve the efficiency in marketing of special promotional tickets, give access to incremental traffic outside the traditional distribution channel (Miller 1999; Villano 2000), and enhance load factors--the percentage of seats filled on a given flight (Whyte 2000).

Airlines' distribution cost is the third highest cost after labor and fuel. The direct-sales model can lower the airlines' distribution cost from 15 to 10 percent, thereby lifting profitability (Heartland 2001; Miller 1999). Estimates are that Internet travel sales will grow significantly. Presently, Southwest Airlines generates over 40 percent of its bookings online (Grant 2002). In addition to Southwest, top online airline brands include American, United, Continental and JetBlue (CyberAtlas 2002). Branded online airline sites are currently the fastest growing segment of online travel providers (Harrell Associates 2002) and are expected to generate direct sales, surpassing the total sales of non-airline online operations, including Expedia and Travelocity (Heartland 2001).

Airline Web Alliances

As an alternative to existing computer reservations systems and in response to the mega online agencies, Travelocity and Expedia, the five domestic major carriers (American, Continental, Delta, Northwest and United) launched a new online consumer site, Orbitz, in June 2001 (Carroll 2001; Harrell Associates 2002). The site generated over 1.9 million unique visitors during the launch month, making it the largest e-commerce launch since 1999, according to the Nielsen/NetRatings (Pastore 2001c). The site quickly became number two in terms of unique visitors. Only Expedia topped it in number of unique visitors (Carroll 2001; Rice 2001; Pastore 2002b).

Orbitz allows users to search fares and buy services from 450 airlines, 22 car rental firms and 22,000 hotel sites (Rosen and Sweat 2000). The site has a competitive advantage in that the founding members control 90 percent of the domestic air travel seats and, unlike alternative online travel agency sites, this site enables travelers to buy tickets using their frequent-flier miles (Maroney 2000). It also provides airlines the opportunity to bypass existing computer reservation systems (CRS), thereby placing greater downward pressure on their distribution costs (CRS fees) (Rosen and Sweat 2000).

These trends and changes have altered the service channel relationship between retail travel agents and air carriers. The balance of power in the service channel has shifted from the travel agent to the larger air carriers (Harrell Associates 2002). Competition has intensified as traditional travel agencies now compete not only among themselves for bookings and increasingly smaller rewards, but also against the airlines, the airlines' websites, and the large online agencies, such as Travelocity and Expedia (Harrell Associates 2002; Heartland 2001; Rosen and Sweat 2000).

MARKET BEHAVIOR AND THE INTERNET

The Online Travel Market

The Internet and the World Wide Web are having a profound impact on people's lives and are revolutionizing the way that consumers plan and purchase travel products and services. According to Nielsen/Netrations, there are 165.7 million Internet users in the U.S. (CyberAtlas 2003). The Travel Industry Association of America estimates that approximately 45 percent of all travelers and 67 percent of travelers with online access use the Internet to search for and/or buy travel-related products or services online (Pfenning 2002).

Travel typically is the top selling category on the Internet, and is projected to generate online revenues of \$64 billion in 2007, or 22 percent of total travel

sales, according to Jupiter Media Metrix (Greenspan 2002). Presently, online travel accounts for approximately \$24 billion, or 11 percent of all travel purchases in the U.S. (Greenspan 2002). However, the impact of online travel activities should not be judged just by the level of Web sales alone. Online activities have an impact on offline revenues as well. Because while many consumers prefer to interact with and buy from an actual agent, a significant portion also use the Internet to gather information and make price comparisons before going offline to complete their purchase transaction (Pastore 2001a).

A number of factors have contributed to the growth of online travel. Unlike the traditional offline travel planning experience, the Internet empowers consumers by enabling them to research, compare and book travel options more conveniently, efficiently and often at a savings. Consequently, online travel sites have become an important source of travel-related information for many consumers. Furthermore, online travel products, such as e-tickets, require less costly delivery services than traditional means (Heartland 2001; eMarketer 2000).

Impact of Changing Customer Expectations and Behavior

As consumers become more sophisticated and comfortable with shopping online, this too will place greater pressures on traditional agencies to redefine their role and reposition their businesses to better serve the changing needs of the marketplace (Heartland 2001). Agents will need to build on their expertise and differentiate themselves from online competition by providing value-added benefits that are better tailored to the needs of their customers.

Both leisure and corporate clients desire better access to information that will enable them to research and evaluate alternative travel options more effectively and efficiently (Greenspan 2002). Instead of stacks of travel brochures, consumers desire specific recommendations that will satisfy

their needs. For instance, consumers planning a family vacation may need information and recommendations regarding the prime hotels and resorts that are family-oriented and cater to the needs of children.

Change is also evident in the business travel sector. Rising travel-related fees and the inability of some traditional agencies to automate the fulfillment process may cause business travelers to bypass corporate travel agents and go online in search of better deals (Limone 2002; Rosato and Khan 2000). Businesses demand more from the travel agent than just the ability to provide reservations. Corporate travel costs represent a significant portion of corporate personnel expenses. In an attempt to control these costs, corporate clients increasingly are demanding management reports and services that will enable them to monitor and better manage their travel spending patterns (Greenspan 2002). Equipped with this information, corporate travel buyers can then negotiate better terms with travel suppliers. To effectively satisfy this new role, travel agencies will need to redefine who the customer is, thereby, forcing them to focus on the buyer of their services and not on the supplier as has traditionally been the case.

MANAGING IN THE NEW ECONOMY

Business Not As Usual

These trends are reshaping the travel industry (Heartland 2001; Rosen and Sweat 2000; Service Industries 2001). Yet many agencies are ill-prepared to change. Many are viewed simply as order takers, and they typically have given little attention to marketing (Vigoroso 2001). Survival will require that they give greater attention to customer needs and provide greater value-added benefits that will help to differentiate them from competing sources of travel-related products and services.

It is apparent that disintermediation (i.e., the bypassing or elimination of the travel intermediary) is happening and will continue to happen within the industry. But re-intermediation (i.e., the redefinition

of roles involving the creation of new values between buyer and seller) will also be seen (Heartland 2001). In their study of the impact of the Internet and e-commerce on the travel industry, Bloch and Segev (1996, p. 9) discuss how travel agencies may need to modify their roles.

Today, travel agencies play multiple roles: information brokers to pass information from product suppliers to customers, transaction processors to print ticket or forward money, and advisors to provide added-value information to their customers, assisting them in their choice of specific products and destinations. The first two of these roles will increasingly be played by technology, going directly to the customers to provide them with information and process their transaction needs. Therefore, agencies will have to focus on the third role, and differentiate it according to their target market.

Hybrid "Click and Mortar" Solution

Instead of viewing these market changes as threats, agencies may view them as opportunities to re-engineer their businesses. E-business has the potential to create unprecedented opportunities to learn what consumers want and to become more responsive to them, thus enhancing revenue streams. No longer will their traditional role as order takers be sufficient. Agencies will need to understand customer needs and bring to bear their expertise and resources in providing value added services to satisfy those needs.

Given that many consumers use the Internet as their primary source for travel-related information and then go offline to finish their transactions, some agencies might better serve their clientele by integrating technology into their existing operations. By modifying their business model and transforming their traditional "bricks and mortar" service into a hybrid "click and mortar" operation, agencies may be able to enhance the services that they provide (Service Industries 2001). As a key to

future success, the leadership of the American Society of Travel Agents (ASTA) has strongly encouraged its 26,000 member agencies to adopt and integrate technology into their operations.

An ASTA study indicates that 60 percent of its member agencies have a Web site (Holly 2003). These sites vary in their level of sophistication, with a number of them being little more than glorified electronic billboards with e-mail access. Of those agencies having a home page, approximately a third offer the ability to book transactions directly through those sites (Holly 2003).

Although the Internet has the potential to place the smaller agencies on a more equal footing with larger ones, this is not without cost and tribulation. Smaller agencies may lack the skill sets and financial resources to develop the right strategies on their own (Heartland 2001). However, by partnering with other organizations, such as consortia or cooperative marketing organizations within the industry, agencies may be able to obtain the mentoring and support that are needed to compete effectively in the new e-marketplace. Service Industries (2001), suggests:

Entry into e-commerce is best achieved through the mentoring and support of a consortium, franchise, or a chain affiliation. These large organizations have their own strategies to assist their members to incrementally integrate e-commerce into daily business functions. These solutions can be either from end solutions independently developed or through other application service providers.

For instance, Giants is a 33 year-old cooperative, with over 2,000 member agencies. Benefits of affiliating with such an organization include management, marketing and technology support that may be prohibitively expensive or unavailable to individual members on their own.

Agencies interested in developing or increasing their Web presence might also consider joining forces with other sites to create a portal-like entity that would

serve to increase their visibility online. For instance, TravelHub.com is an online mall for travelers and an online community for travel retailers. By affiliating themselves with online communities, such as the TravelHub.com, agencies may be able to attract new customers. TravelHub.com receives significant "hits" or page views per month. Site visitors are able to search for agencies by travel category (e.g., family, cruises, singles) or by area of specialization. Repeat visits to the site and interaction with member agencies are encouraged through the use of frequent e-newsletters that keep travelers posted as to the latest specials.

There are many marketing opportunities that smaller agencies may wish to consider (Heartland 2001). Some of the more interesting e-marketing initiatives need not involve online bookings. Although not every business may need or benefit from a transaction capability online, many may still find the Internet to be a helpful and significant tool for customer service and communications (Butler 2002). For instance, by using a customer database, an agency may contact their clientele using e-mail as an inexpensive communications tool. This may serve to drive customers to the agency's Web site, where relevant, value-added travel-related information may be found, such as weather or foreign exchange Web sites, video clips of popular travel destinations and answers to frequently asked travel-related questions. The availability of virtual destination e-postcards or popular travel topics and stories, which Web users could e-mail their friends, might serve to capitalize on word-of-mouth and extend the visibility of the agency and its site to others. Furthermore, the use of e-mail, which allows the recipient to opt-in for continuing delivery, may allow the introduction of new agency programs or services and enable the agency to survey and deliver relevant travel information tailored to customer preferences (Fredericks 2001). In short, the use of the new technology may serve to create a greater marketing presence and enhance customer relations through a continuing dialogue.

Although travel agencies are heavily dependent upon repeat customers, few agencies have established functioning customer databases so needed to enable them to develop effective long-term customer relationships. This is surprising, since it may be more cost-efficient to maintain an existing customer than to attract a new one (Oppermann 1999; Reichheld and Schefter 2000). According to Rosenbloom (1999, p. 468), on-line marketing and data-based management should enable firms (travel agents) to achieve greater results and impact in the marketplace.

...the Internet allows firms to interact with customers and develop customized offerings that precisely target specialized customer needs. Still a further potential advantage of the Internet is the ability to track customers visits to the firm's Web site and develop a continuing dialogue and relationship over time. Such electronic tagging of customers' visits to Websites, sometimes referred to as Cookies in Internet parlance, can be a powerful marketing tool if linked to demographic and psychographic data that customers have provided through prior purchases, registration, or on-line surveys to which they have responded. By using E-mail addresses to reach carefully targeted customers who have expressed interest in a firm's products or services, a continuing electronic dialogue or relationship can be built.

The use of Internet technologies, including the use of the Intranet (i.e., private computer network internal to an organization) and the Extranet (i.e., a commercial computer network linking clients and suppliers) will enable the larger agencies to personalize their services and to compete more effectively against the major online travel sites and suppliers (Hibbard 1998; Villano 2000). For example, Carlson Leisure Group developed an Extranet application that links and provides its 1,300 agencies with timely updated company news and marketing information, as well as special deals from travel suppliers that may be of interest to their

customers. Data is drawn from computer reservation systems, including Worldspan LP and Galileo International, and other specialized databases. As soon as an event occurs (e.g., last minute specials from travel suppliers), selected information is electronically delivered to the member agents' desktops, allowing them quickly to notify their customers (Fellman 1999; Hibbard 1998; Villano 2000). Value-added services such as this may serve to enhance the customer relationship.

STRATEGIC OPTIONS FOR IMPROVING COMPETITIVENESS

Industry observers suggest that travel agents will have to significantly modify the manner in which they do business (Heartland 2001). The business strategy and marketing literature provides travel agency managers some help in their efforts to better manage the dramatic changes. Several writers (e.g., Clark, Varadarajan and Pride 1994; Zeithaml and Zeithaml 1984) suggest a typology of environmental management strategies that managers and owners of travel agencies may wish to consider. Based on the typology developed by Galbraith (1977), and extended and applied to the discipline of marketing by Zeithaml and Zeithaml (1984), managers may attempt to manage change by using one of three strategies: (1) Independent Strategies; (2) Cooperative Strategies; and (3) Strategic Maneuvering. These are discussed below, and specific illustrations relevant to the travel service industry are provided.

Independent Strategies

This category of marketing strategies is designed to reduce a manager's level of uncertainty and dependence on others, yet allow the manager to maintain autonomy and independence (Galbraith 1977). Possible choices for travel agents might include the use of competitive aggression (the exploitation of a distinctive competence or the improvement of operational efficiency to achieve a competitive advantage), public relations (the promotion of the travel agent's role in serving the public and the establishment and maintenance of a

favorable organizational image), demarketing (the discouragement of price shoppers of unprofitable or marginal products or services by selectively charging fees), and dependence development (the establishment of special relationships with a few preferred suppliers that value the agency's efforts and provide value-added marketing support in return for the agency's business).

Marketing will be needed for traditional agencies to differentiate themselves meaningfully and aggressively from their competition, both off and on-line. According to Schwartz and O'Neill (2001, p. 21):

Brand strategy is an important area of opportunity and risk for players in the travel space, as the competitive landscape shifts, choices proliferate, and new, very powerful channels come to the fore. Today, more than ever, travel companies that want to stand out from the crowd must focus on developing brands that support the business design, differentiate a company from its competitors, and provide a source of leverage in new opportunity spaces.

As consumers are bombarded with volumes of travel-related information and alternatives, it will become imperative that an agency establish a strong, positive brand image, an identity that will enable the agency to penetrate the consumer's evoked set (a mental set of more familiar travel solutions or brands considered to be desirable by the consumer, and from which a travel choice is often selected). Here, communications, including both traditional promotional means and the Internet, may be used to establish and enhance a recognizable brand identity in the e-market place.

For example, recognizing the importance of the family leisure travel market, Carlson Wagonlit's program, "Family Smart," attempts to position its agents as family and kid-travel experts. By being able to provide advice regarding family-oriented vacation packages and identify hotel properties that cater to the needs of young families, the agency is

attempting to establish a strong and differentiated brand identity.

Cooperative Strategies

In part because of these trends and the rate of change in the environment, travel agents face high degrees of uncertainty in planning. As uncertainty increases, managers may respond by increasing their cooperation with other organizations using strategies involving coalitions and contracting (Zeithaml and Zeithaml 1984). Coalitions (joint actions on a set of issues) might involve independent travel agents participating in political action groups or trade associations such as the American Society of Travel Agents. Contracting may be viewed as formal or structured agreements between cooperating firms that involve either a vertical (e.g., supplier-dealer or franchisor-franchisee arrangement) or horizontal (e.g., an arrangement among similar firms within the industry) exchange relationship (Reijnders and Verhallen 1996).

By acting jointly, individual firms can achieve mutual benefits and enhance competitive leverage (Pratt 2002), while spreading the expense and risks of their actions across members of the group. However, this is not without a cost, as coordinated actions and contractual commitments lessen one's autonomy. Still, over 80 percent of travel agencies belong to some form of cooperative alliance, consortium, franchise or joint marketing arrangement (Holly 2000).

The Vancouver-based Uniglobe Travel represents a successful example of a franchising operation in the travel industry. Uniglobe has been described as the world's largest single-brand travel agency, with 1,100 locations in 20 countries (Diba 2000; Holly 2000). As a franchise operation, it offers potential and existing independent agencies a strong brand identity, technical and management support, a preferred supplier program, extensive training and other value-added resources that will enable its franchisees to compete more effectively. In return, franchisees are expected to adhere to strict standards, including the use of a common logo in all

of their promotions and communications, and a common set of standard operational practices. All of this is done to provide uniformity of service and to maintain the brand's overall quality image (Holly 2000).

Uniglobe Travel has been able to achieve a unique marketing niche by providing "big company" travel management services to small and medium sized business operations--services previously unavailable to this sector of the market. And given the growth in the leisure market, it has established a very strong presence in the cruise line market. In terms of Internet-related technologies, Uniglobe has developed a user friendly commercial Web site that has been rated high in overall quality (Diba 2000). Online, consumers may use the unique chat function to quickly get answers to their questions without having to search through the "Frequently Asked Questions" that are typical of other sites. In addition, there is an on-demand, twenty-four hour service that allows customers to change or check on the status of their travel plans (Diba 2000). These marketing and technical strengths enable the member franchisees to achieve and maintain a competitive edge, one that they otherwise might not be able to achieve alone.

Strategic Maneuvering

Instead of attempting to manage their existing environment, managers may become more aggressive and attempt to alter it by using strategic maneuvering strategies. These may involve the use of diversification (expansion into different types of products/services or markets); mergers or acquisitions (combining two or more organizations into a single enterprise so as to increase the bargaining power); or domain selection (entry into new and more attractive markets) (Zeithaml and Zeithaml 1984). Some agencies have chosen to alter the markets that they serve by becoming cruise only agencies, thereby eliminating or lessening their dependence upon the increasingly less profitable revenue stream previously generated by air ticket sales.

Additionally, agencies may benefit by focusing on specialty market niches that reflect their core competence (Heartland 2001). A study, examining the impact of e-commerce on the retail travel service industry, states the importance of target marketing (Service Industries 2001):

Niche focus will become an important business style and revenue-earning component particularly for the smaller retail travel services with web sites reflecting the look and feel as well as core competencies of their businesses. "These sites will create marginally profitable businesses by marketing selectively, applying general-store familiarity to their customer base, and creating unique products not subject to price or service competition."

Rosenbluth International represents a more extensive example of domain selection strategy. Threatened with disintermediation, the agency deliberately divested itself of the leisure travel segment that it had long served. With commission caps reducing profit margins, and with the airlines and online agencies skimming the more attractive frequent traveler segment, traditional agencies such as Rosenbluth faced serving only the less profitable, service-intensive consumer segment. Instead, Rosenbluth chose to focus primarily on the business sector, offering business travelers a range of value-added management services on a fee basis (Villano 2000). And, instead of relying on the commissions for revenues, these commissions are now passed on to the business clients. This has served to reduce any appearance of conflict of interest, since the transaction fee is not tied to the cost of the ticket. As a result, Rosenbluth, in an otherwise hostile environment, has been able to gain greater control over its destiny by dramatically altering its focus and providing the new market with a clear value proposition. (Clemons and Hann 1999).

CONCLUSION

E-commerce and Internet-related technology are bringing about rapid change in the new, networked economy, prompting both retailers and suppliers in the travel industry to rethink the manner in which they do business. Although the Internet offers the ability to threaten or bypass travel agents, it may serve more to redefine the role that agents play in the travel industry. As long as consumers view off-line shopping as a source of enjoyment and social interaction and place value on the need for personalized attention and value-added services, the Internet will not become the sole source of travel products or services. Savvy agents, those that are able to combine their knowledge of the travel industry with the resources of the Internet, should not only continue as a valuable source of travel expertise but also prosper. However, conducting business in the dot.com realm will force changes in the supply chain, and travel intermediaries will need to think creatively outside of the box, identifying and adopting more novel and entrepreneurial strategies as opportunities present themselves. Business definitely will not be as usual.

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