

## IMPACT OF ONLINE TRAVEL AGENCIES ON INBOUND TRAVEL AGENT OPERATIONS IN SRI LANKA: A STUDY OF TRAVELLER BUYING BEHAVIOUR

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### Abstract

*Due to rapid advances in technology traditional travel agencies are facing the threat of disintermediation, where customers are connected directly with suppliers through online platforms. This has resulted in a loss of market share to Online Travel Agencies. The aim of this research study is to assess the impact of Online Travel Agencies on Traditional Travel Agencies in Sri Lanka, to find out the factors that affect traveller buying behaviour and to generate strategies that can be implemented by Traditional Travel Agencies in order to survive and remain competitive in the industry in the future. Data was gathered for this research study using a survey method. A survey questionnaire was developed using Google Forms and sent to three randomly selected online travel groups and 204 responses were recorded. The data was then analysed using SPSS software and manually as well. The results and findings showed a significant impact on TTA's in Sri Lanka when analysing the customer's current booking preferences. However, the factors that were identified as those that influence traveller decision making were not found to be very significant in this study. Furthermore, the suggested strategies were grouped into broad categories and were presented as possible steps a traditional agent can take in order to survive in the long run.*

**Key Words:** *Online Travel Agencies, Traditional Travel Agencies, Traveller Buying Behaviour, Brick and Mortar, OTA, Impact*

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## 1. Introduction

Travel in the 21st century isn't just a passing trend, it has become an integral part of our lives. Rest, relaxation and exploration are the building blocks of human nature. Today, Tourism is the world's largest civilian industry and accounts for nearly fourteen percent of the world's GDP (Saunders, 2002).

With the rapid improvements in technology in the last decade and the more frequent use of the internet, trends show that travellers are turning to online travel agencies for their holiday needs.

As a result of this growing trend, traditional travel agencies [TTA] who use traditional distribution channels and the 'brick and mortar' business model will soon become redundant and keeping up with the technological era is essential for survival and growth in the future.

### 1.1 Background of the Study

According to Ruzgar (2005), the use of information technologies has shown a very rapid growth during the last decade in almost every country in the world. He goes on to state that increasing computer ownership and access to the Internet have altered the lives of millions of people (Ruzgar, 2005).

With this growth in the usage of the internet and the world wide web, we can observe a change in the dynamics of the travel and tourism industry as travellers turn to online sources for inspiration, information, making their holiday plans, searching through alternatives and booking their hotels, tours and/or excursions.

Although it seems that travel agencies are becoming obsolete, research has found that there is still a strong demand for agents in certain segments of the market.

Law et al (2004) suggests that both online and traditional distributional channels can coexist in the future.

### 1.2 Problem Statement

Due to the change in dynamic of the industry that has originated from the phenomenon of disintermediation, the main problem faced by traditional travel agencies in present times is that they face extinction due to the loss of market share to online travel agencies.

### 1.3 Research Questions

The key research questions are as follows:

1) What is the current situation and the future trends of the global tourism industry? What is the impact of online travel agencies on traditional travel agencies in Sri Lanka?

2) What are the factors that influence traveller decision making when choosing between online travel agencies and traditional travel agencies?

a. What is the relationship between Demographic Factors and Traveller Buying Behavior?

b. What is the relationship between Product Oriented Factors and Traveller Buying Behavior?

c. What is the relationship between Service Oriented Factors and Traveller Buying Behavior?

d. What is the relationship between Trip Characteristic Factors and Traveller Buying Behavior?

e. What is the relationship between Traveller Characteristic Factors and Traveller Buying Behavior?

3) What are the strategies that can be implemented by traditional travel agencies to remain competitive in the industry the future?

#### 1.4 Main Research Objective

The main research objective of this study is to examine the impact of online travel agencies on traditional travel agencies and what factors affect traveller buying behavior.

Given that the existence of online travel agencies adversely affects traditional travel agencies, based on the traveller buying behavior findings, this study also sets out to suggest various steps and strategies that can be taken by travel agents to remain competitive.

This invaluable information would be a major contribution not only to travel agencies, but also to other researches, policy makers, the community as well as the economy.

#### 1.5 Specific Research Objectives

The specific research objectives of this research study are an expansion of the main research objective mentioned above. These are as follows:

1. To analyse the current situation and future trends in the travel industry along with the impact OTA's have on TTA's.
2. To analyse if the outlined factors have an effect on traveller buying behavior when choosing between online and traditional channels and to discover the relationship between demographic factors, product oriented

3. factors, service-oriented factors, trip characteristics and traveller characteristics and Traveller Buying Behaviour.
4. To determine what strategies can be implemented by traditional travel agencies to remain competitive in the industry the future.

### 1.6 Research Hypotheses

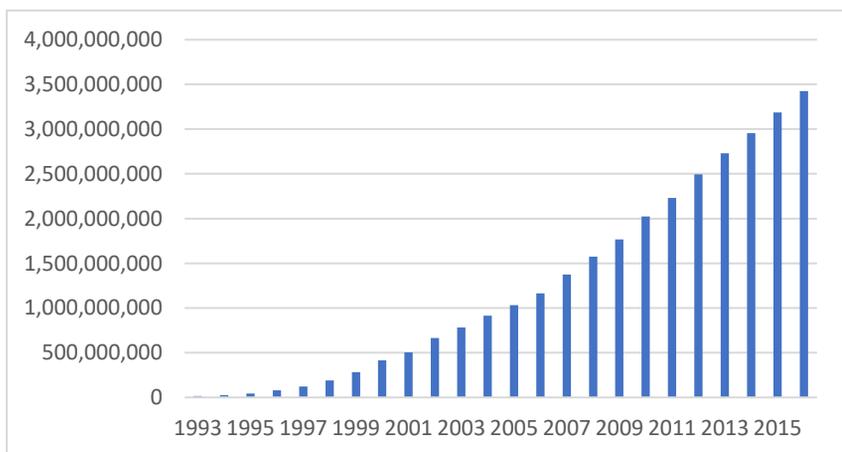
When addressing the second research question, we can raise the question of what the extent of the relationship is between the dependent variable, the respondent choosing OTA's as a booking preference and the independent variables, which are the degree of influence that each of the five categories of factors had on the respondents.

The prediction for the outcome of this research study expects a causal hypothesis where a change in one of the independent variables would result in a change in the Traveller's decision when choosing OTA's or not.

## 2. Literature Review

### 2.1 Introduction to the Internet

The history of the Internet starts with the development of electronic computers in the 1950s. Todd (1999) explains that the internet expanded rapidly and in the 1970s and 1980s other networks joined and protocols were developed to transfer files over the Internet. In 1991, the World Wide Web (WWW) was developed and just a year later, the first Internet Service Provider (ISP), Delphi, offered Internet access on a subscription basis.



**Figure 2.1 – Internet users**

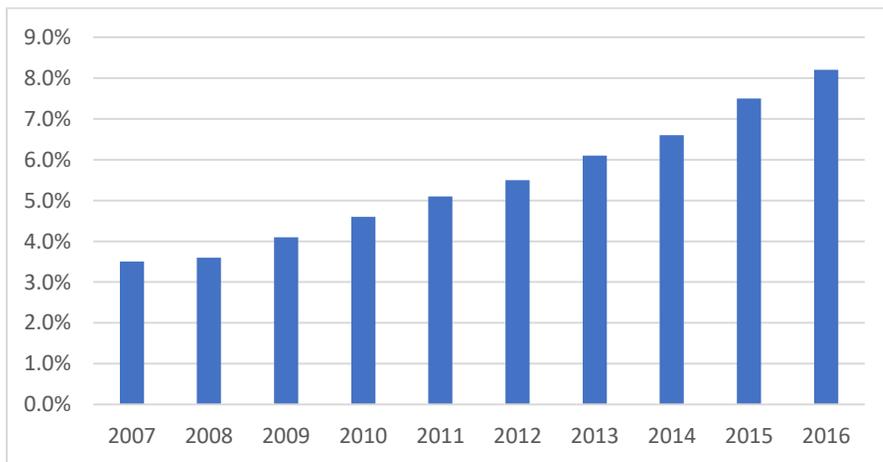
Source: <http://www.internetlivestats.com/internet-users/>

According to Internet Live Stats, around 40% of the world population has an internet connection today, whereas in 1995, this number was less than 1%. Figure 2.1 below shows the increase in the number of internet users over the years.

## 2.2 Rise of E-Commerce

As the Internet gained popularity, Internet uses have in recent years started purchasing things online. The World Trade Organization defines Electronic Commerce or “e-commerce” as the production, distribution, marketing, sales or delivery of goods and services by electronic means.

Online sales accounted for more than a third of total U.S. retail sales growth in 2015, according to data from the U.S. Commerce Department. Web sales amounted to \$341.7 billion in 2015, a 14.6% increase over 2014 (Tech Target, 2016). Figure 2.2 below shows the E-commerce Retail Sales as a percentage of total sales annually according to the statistics obtained from the United States Bureau of the Census.



**Figure 2.2 - E-commerce Retail Sales as a percentage of total sales**

Source: <https://fred.stlouisfed.org/series/ECOMPCTSA>

We can observe from Figure 2.2 above that the percentage of total retail sales in relation to total sales has been consistently increasing over the years from 3.5% in 2007, more than doubling to 8.2% in just 9 years. According to the forecasts, this number is set for a steady growth in the coming years.

It is also important to examine the effects of e-commerce on businesses. Electronic commerce is progressively and irreversibly changing the face of many businesses because of its three dominant phenomena:

(1) Disintermediation: whereby intermediaries in the transaction are eliminated

(2) Re-intermediation: whereby a new electronic intermediary comes between the seller and the buyer

(3) Cannibalization: whereby businesses progressively give up their traditional ventures system for the superior electronic model.

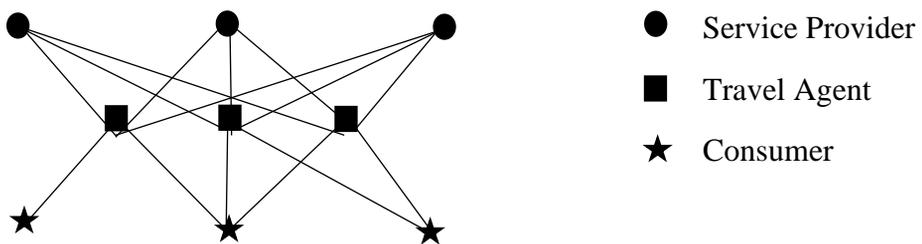
Source: Dinodia & Tiwari (2003)

### 2.3 Disintermediation, the current situation and the future for travel agents

The term “disintermediation” is commonly used to refer to the partial or complete replacement of an intermediary or the roles it performs (Kracht & Wang, 2010).

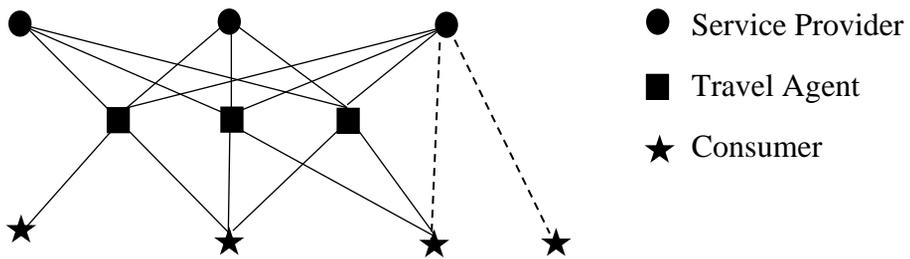
It’s not just books and clothing that are purchased online, travel services are now increasingly being purchased as well. The World Travel and Tourism Council, in their World Travel and Tourism Report in 2011 stated that “Thanks to the growth and spread of internet penetration and usage, the last ten years have seen an unprecedented rise in online travel – from ‘looking’ (research into travel and destination options) to booking” (WTTC, 2011).

The advent of the internet has not only provided tourism and travel agencies a novel channel for the promotion and distribution of their products thereby increasing their competitive positions; it has also given rise to the development of tourism and travel agencies who operate wholly online, while giving customers of tourism and travel products the opportunity to conveniently search for, compare and purchase travel products online (Law, Law, & Wai, 2004).



**Figure 2.3 – Travel industry as a centralized market**

Source: Lewis, Semeijn, & Talalayevsky (1998)



**Figure 2.4 – Decentralization in the travel industry**

Source: Lewis, Semeijn, & Talalayevsky (1998)

Online Travel Agents are often preferred by travellers as they are easier and more convenient to use. The ‘Travels in virtuality’ website mentions that the ultimate reason for travellers to go for online booking rather than travel agents would be the choice of freedom. They go on to say that it is much more elaborate, and you can your travel as your need. Most of the travel agents come up with the run of the mill travel packages and is not preferred by many people. Selective places, lot of time, quality travel and money saver are the apt reasons for the rise of online booking.

Also, even though OTA’s are increasing in popularity, regular travel companies are still preferred by some. This is generally those who don’t have the time to spend researching and looking for the best deals on the internet.

Tania Lang states in her research study that many experienced internet users still prefer to book their travel arrangements via traditional distribution channels and believe there will be a need for travel agents in the future (Lang, 2000).

#### 2.4 Factors that affect travel consumer buying behaviour

This research study revolves around traveller buying behaviour and why travellers would choose an online travel agency over a traditional travel agency or vice versa. This section of the literature review looks at the different factors that affect traveller buying behaviour. Cheyne et al found that the five most important dimensions for people when planning, arranging and booking their overseas holidays were reliability, handling complexity, assurance, good deals, and security (Cheyne, Downes, & Legg, 2006).

Other factors included demographic, prices and deals available, variety, responsiveness, trust, information availability and quality, the amount of free time available, familiarity with ICT, human touch, knowledge and expertise, handling complexity, destination, purpose of visit, website design quality, service quality and value addition.

### **3. Methodology**

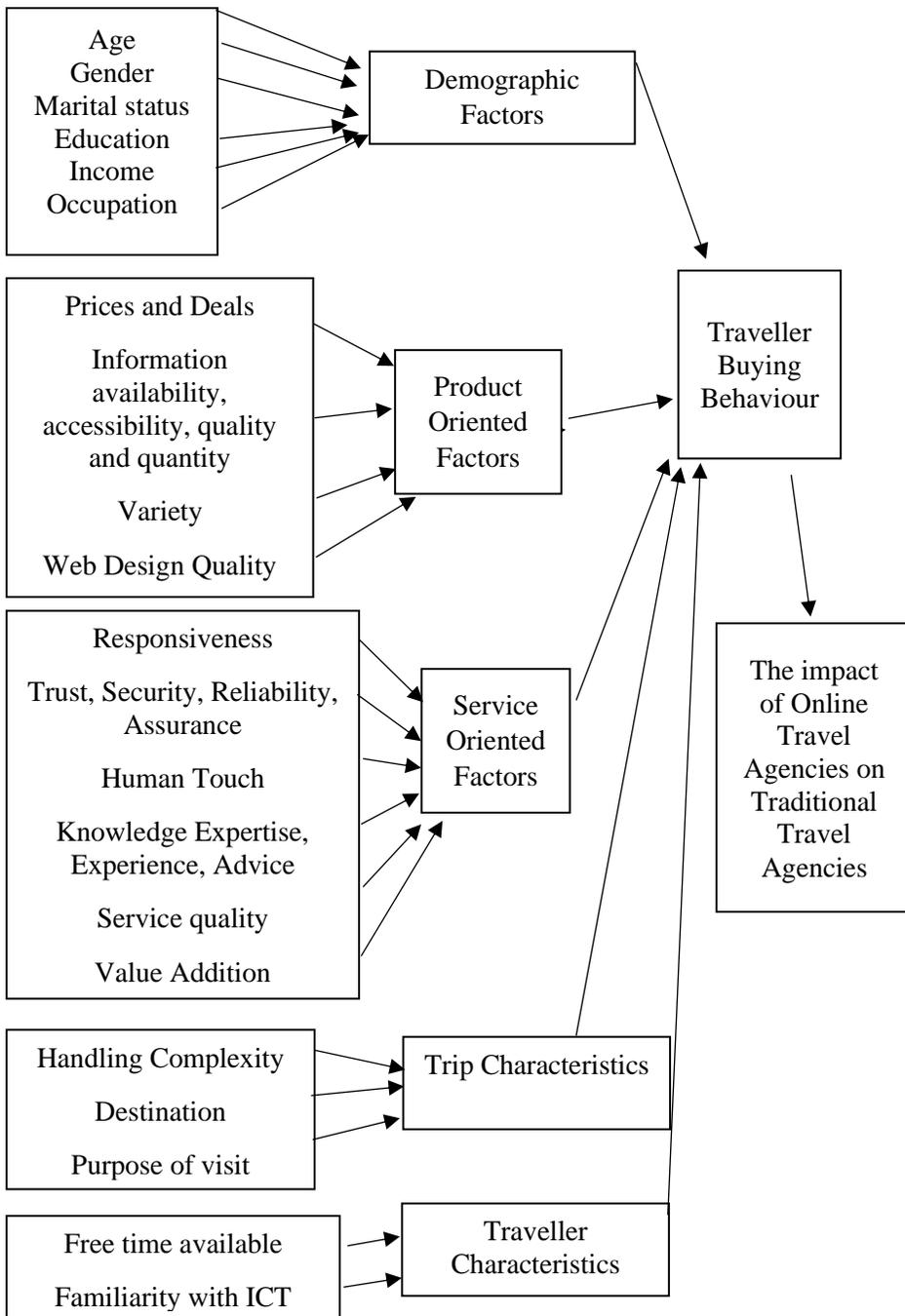
The research type followed in this study is Inductive, where conceptualisation plays an important role in making sense of the observations, and Descriptive, where the relationship between factors are examined. The research conducted was Cross Sectional, where the data was gathered at one point in time instead of Longitudinal or Time Series, where it is gathered over a longer period.

A Conceptual Framework was designed to simplify the process and map out the existing relationships between the Independent Variables and the Dependent Variables. Once that was completed, the research design was conceptualised in order to get a better understanding on how best to conduct the research in order to reach the heart of the research problem.

A mixed-method research design was used for this study, with both quantitative and qualitative components. A survey method was the most suitable form of gathering data for this research study. The survey was conducted using a questionnaire which had twenty quantitative, close ended questions and one qualitative open-ended question. The combination of both quantitative and qualitative data was essential to ensure that the research conducted was more insightful and informative.

A simple random sampling method was used for this research study. The Sample therefore, were the members of three online travel groups that were chosen at random. These group are The Travelling foodie (5,854 members), Women in Travel (8,273 members) and Travel Talk (72,867 members). The total sample size was 86,994 travellers over the age of 18 who are not based in Sri Lanka.

The data from the respondents in these groups were collected, analysed and arranged in a way that addressed the research problem and answered the research questions of this study. Furthermore, the reliability and validity of the data was also considered.



**Figure 3.1 – Conceptual Framework**

#### 4. Data Analysis and Findings

The current situation was assessed by asking the respondents what their current booking preferences were, either Traditional Travel Agencies, Online Travel Agencies, a combination of both, or neither. A majority of the respondents (42%) chose OTA's while only 3% chose TTA's.

Respondents were then given the 15 factors developed in the conceptual framework of this study and asked to choose, out of the four options above, who best met their needs when considering the influencing factors. Once again, OTA's were chosen 41.1% of the time. These two findings show that there already is a strong preference for OTA's.

When assessing the future trends, respondents were asked if they believed that there was a future for Traditional Travel Agents. Despite the fact that a vast majority of the respondents preferred OTA's, 35% said that yes, there is a need for TTA's in the future while a further 33% stated that there may be a need. Only 18% of the respondents had answered no to this question. This indicates that although the OTA platforms are the most popular option, there is still hope for the two channels to coexist in the future.

In order to analyse the impact of OTA's on TTA's in Sri Lanka, the respondents were asked if they were planning to visit Sri Lanka in the future, and if yes, what their booking preference would be. 79% of the respondents answered 'yes' or 'maybe'. Of these, 44% opted to make their holiday arrangements using OTA's while only 8% opted for TTA's. Both options increased in portion when compared to the initial booking preference results, however, the TTA portion still remained a very insignificant amount, indicating a possible downward trend in the use of TTA's in the future.

The second research question ventured into investigating what the relationship between the influencing factors identified in the conceptual framework and the traveller's buying behaviour. For convenience and clarity, these factors were grouped into five categories; demographic factors, product-oriented factors, service oriented factors, trip characteristics and traveller characteristics. The association between the degree of influence that these grouped factors had on the respondent and their likelihood to select OTA's as a booking preference were computed.

The results for all five categories, computed using multiple linear regression, were very insignificant, proving that there is no relationship, either positive or negative, between the degree of influence of these factors and the traveller's decision to choose OTA's. This finding is contradictory to the results of previous research that found strong associations between these variables.

Finally, the third research question was to explore possible strategies that Traditional Travel Agencies could implement to not only survive, but also to remain competitive in the travel and tourism industry in the future. This information was gathered through two questions on the survey.

One was through a qualitative, open ended question that asked respondents to give their suggestions on what strategies they thought could be implemented. Similar responses were grouped together, and the most common strategy suggestions were:

- 1) To match the prices and deals available online
- 2) To have a high level of expertise on the travel requirements
- 3) To have a prominent online presence
- 4) To offer good customer services
- 5) To be very quick with responses
- 6) To offer more added value
- 7) To build relationships with clients and offer the human touch
- 8) To offer unique experiences that can't be found online
- 9) To target groups of individuals who are not able to book online
- 10) To do more promotional activities
- 11) To offer tailor made holidays
- 12) To cater to niche markets such as special interest groups
- 13) To offer more variety to customers

The other question in the survey asked the respondents to choose the top five most important factors to them from the list of the 15 influential factors identified in the literature review section of this study that were used to develop the conceptual framework. The five factors with the most number of selections were 'prices and deals available', 'destination', 'trust, security, reliability and assurance', 'information availability, access, quality and quantity' and 'knowledge, expertise, experience and advice provided'. Of these factors, prices and deals available, along with knowledge, expertise, experience and advice provided are already reflected in the strategies listed above. Also, the destination as a factor cannot be developed into a strategy by inbound travel agencies as their destination can't be changed. Therefore, the following two factors could be added to the list of suggested strategies:

- 14) Improve the level of trust, security, reliability and assurance provided to the customer
- 15) Provide high quality relevant and interesting content and information to the customers

Although there may be certain limitations involved with the scope and the scale of the research conducted, these findings appear to sufficiently address and answer the research questions raised in this study. Although the research answers these questions, it raises more queries and brings to light more possible topics for research under this particular subject area. The conclusion, along with the recommendations for future research will be addressed in the next chapter.

### **5. Conclusion and Recommendations**

When considering the valuable insights that this study gave rise to, we can note that the current situation reflects the work of previous researchers, where Online Travel Agencies are gaining popularity and the market share of Traditional Agents are growing at a slower rate than the growth of the market as a whole. When examining the relationships of the influential factors and the traveller buying behaviour, this study found that the relationships were very insignificant. This was contradictory to the results from previous studies that showed strong patterns of association between these factors and the buying behaviour. Furthermore, the suggested strategies, such as matching the online prices, offering unique products and added value, that were found through the research were consistent with the strategies that were suggested by previous researchers, and more strategies were included in the proposed list as well.

One interesting and unexpected finding that resulted from the research was the respondent's perception on if there was a need for Traditional Travel Agents in the future. Despite the fact that 42% of the respondents preferred to make their travel arrangements using only Online Travel Agencies, 68% claimed that they believed that there either is, or might be a future for Traditional Agents. This gives hope to traditional agents as it implies that there may be hope for co-existence of the two channels in the future.

However, although there is hope of coexistence, the research and results that were presented in this study imply that there is still a downward trend for TTA's and the future coexistence will most likely be between the larger Traditional Travel Agents and Online Travel Agents. This means that SME's will most likely not survive the change in dynamic even if they suggested strategies were implemented.

### 5.1 Limitations of the study

Like most studies, there were limitations in the research that was conducted due to time constraints and the limited scope. The chosen sample consisted of individuals in online travel groups, this could mean that they are already frequent travellers who are already technologically savvy which could have yielded bias results. Also, there were only 204 respondents which isn't a large enough pool of data to represent the entire travelling population of the world. The analysis that was conducted was narrowed down for clarity and convenience, this too limits the results that were found in the study. It was also assumed that both OTA's and TTA's were catering to the same market of travellers, this is most often not the case in reality. Furthermore, the 15 influential factors considered were those that were derived from the existing research in the area and other factors such as type of family unit were not considered.

### 5.2 Recommendations for future research

These limitations give rise to several other areas for future researchers to explore. The impact of OTA's on TTA's in Sri Lanka could be more accurately measured if booking data from the accommodation providers in Sri Lanka were analysed over a period of time. This would show the portion of rooms nights that were sold through Online Travel Agencies and which portion was sold through Traditional Travel Agents over the years and the results would give rise to more informative and accurate trends and patterns concerning the impact over time.

The influence that factors such as the frequency of travel, the amount of travel experience an individual has, their type of family unit etc on traveller buying behaviour were not considered in this study. This could be included in future research as well.

The study only looked at the associations between the degree of influence that the categories of influencing factors had on their decision of choosing Online Travel Agents. The association between the degree of influence that the categories of influencing factors had on their decision of choosing Traditional Travel Agents, the combination of both OTA's and TTA's and neither OTA or TTA were not analysed due to time restraints and the narrow focus of the study. Future researchers can use these other choices as a basis for their studies as well.

The study could have also been more valid if the sample was based in certain areas, so as to determine the specific preferences and associations with those groups and their travel buying behaviours.

In conclusion, the objectives of this study were met to a satisfactory level despite the limited time and scope. The gaps in the research allows for further analysis by future researchers pursuing answers to their research questions in the same area of the study.

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