

How Travel Agency Survive in e-Business World?

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Abstract

This paper provides certain degree of analysis on the benefits that leverage from the use of new technologies in the Travel Industry. Besides the concerns about what technology can do for travelers, we also address the pressures for changes, the potential impacts on different category of travel agencies and also the implications on leisure and corporate market segments. The paper also explains the three phases—intermediation, disintermediation and reintermediation that travel agencies may be facing when serving as the middleman between the product providers and the customers. In response to the electronic business impulse, travel agencies may react differently; the paper also elaborates on how the industry players reengineer their business in order to maintain the competitive position or at least to survive.

Keywords: Intermediation, Disintermediation, Reintermediation, Electronic Commerce, Travel Industry

1. Introduction

In the late 19th century, a British entrepreneur, Thomas Cook, began offering package tours to seaside resorts for middle class and working class citizens. Improvements in the comfort and price of train travel, and the development of large luxury liners and hotels offering a wide range of prices helped fuel the demand for pleasure travel. The invention of automobiles and airplanes in the early 20th century eventually brought more opportunities for personal travel.

During the Second World War, millions of young Americans were sent to Europe, Hawaii, Alaska, the Philippines, China, India, Australia, and the Islands of the Pacific. These young people were fascinated with what they saw and did in other lands. After the War, troop transport aircrafts were converted to serve the public as passenger aircrafts. Americans had an opportunity to travel abroad for a vacation. The demand for personal travel virtually exploded. Some scholars called this period as the “Golden Age” of travel [6].

There is a high potential for Electronic Commerce in the travel industry [7, 8, 9]. The travel industry, already one of the world's strongest electronic commerce markets, looks only exploiting the cost-saving convenience of the existing relationship between travel and the Internet. The importance of designing sites that mirror customers' need is cited as the primary factor that will stimulate online travel sales [8].

Travel is an extremely diverse and complex industry. The travel industry is comprised of over a dozen related industries: airlines, restaurants, hotels/motels, travel agencies, gift shops, auto rentals, and a host of other businesses that may not be even recognized their dependence on travel and tourism since travelers are usually indistinguishable from local customers.

Travel industry is a service-oriented industry. It provides people with services such as transportation, lodging, dining, amusements, recreation, travel planning and retail. According to the Travel Industry Association of America [11], the travel and tourism industry is the nation's third largest retail sales industry and one of the largest employers in US. The travel industry is the world's largest industry which has gross output at US\$4.2 trillion, and it is still growing. Travel industry provides employment for 192.2 million people worldwide. Approximately one in every 9 workers engaged in the industry and constituted 10.6% of the world's work force. In terms of the world's gross national product (GNP), tourism is the world's leading economic contributor producing an incredible 10.8% of GNP.

2. Travel Agency

2.1 Role of Travel Agency

Travel agencies exist primarily as intermediaries between suppliers of travel services [5], such as airlines and hotels, and customers. Unlike distributors in many industries, travel agencies do not deal with physical products but with information.

Travel agent is defined as a person who undertakes a job for another person, who is the 'principal'. The principal in such a relationship not only sets the goals of the job, such as selling tickets, but may also control the means and manner in which the job is done [12].

The fundamental role of a travel agency can be broadly summarized as: information, distribution, reservation and services. For a typical business day, a travel agency's functions include: [13]

1. Arranging transportation - air, sea cruises, bus, rail, car rentals locally and abroad;
2. Preparing individual itineraries, personally-escorted tours, group tours and selling prepared package tours;
3. Arranging hotels, motels, resort accommodations, meals, sightseeing, transfers of passengers and luggage between terminals and hotels, as well as special events such as music festivals and theatre tickets;
4. Handling and advising on the details pertaining to travel and baggage insurances, travelers' cheques, foreign currency exchanges, documentation requirements (visas, health certificates etc.);

5. Using professional know-how and experience in the provision of air, train and other transportation schedules, hotel rates and their standards as well as qualities;
6. Arranging reservations for special-interest activities such as religious pilgrimages, conventions and business travels, incentive and educational tours, eco-tourist and gourmet tours, sporting/adventure trips etc.

2.2 *Changing Role of Travel Agency*

Changes in the industry over the past ten years have dramatically altered the nature and value of information in the travel industry and, consequently, the role of travel agency.

2.2.1 *Commission Caps and Cuts*

The travel agency business has experienced a transformation over the past years as a result of a drastic reduction in their income. The airline fare commissions have been on the decline since 1995 when the airlines imposed a cap of \$50 or 10% (whichever is lower) on commissions for round trip domestic flights. The previous rate of commission was 10% with no cap. Commission on international flights remained unchanged at 10%. However, travel agencies took another hit in the Fall of 1998, the airlines imposed yet another cap. This one was \$100 on round-trip international flights that had not had a limit on commission in the past. The commissions dropped to 8% for both domestic and international flights [14].

To make matters worse for the travel agencies, most large airlines began to encourage travelers to bypass travel agencies and book their flights with the airlines directly. The airlines claimed that they are not trying to run out travel agencies, but they have to cut costs. They also saw a potential to cut cost dramatically by selling tickets over the web. There are currently many campaigns underway to sell super-discounted tickets over the web with the sole interest of drawing customers to the airline's webpage.

Historically, travel agencies made their profits by selling tickets. However, due to the reduction in the commissions that airlines are willing to pay for ticket sales, many agencies have resorted to charging fees for their services and broadening their scope of services. The key process to success with regard to the trend of reduction of commissions is to find a way to provide a self-service site where customers can book their own flights, and while on the website have the opportunity to utilize other services which could render a profit. Customers are looking for one-stop shopping that is intuitive and convenient to use. For traditional travel agencies, this means giving up business they familiar with, and moving online by partnering with a company that has technological expertise. Moving their business online should result in a reduction in overhead, and by partnering with a company with

the technical abilities, the agencies should not see an increase in overhead due to their new online business.

2.2.2 *The Internet and the Travel Industry*

Traditionally, the travel industry focused on the travel agency sales channel. Customers used to visit their local travel agencies, and purchase travel tickets or gather vacation information through the agencies. The birth of the Internet and electronic commerce has caused this to change. Customers discovered that they can search travel destinations and even purchase airline, train, and cruise ship tickets online. When one realizes just how easy it is to use the Internet for travel arrangements, it's hard to justify using a traditional agency. Popular sites such as Expedia, Travelocity, and Preview Travel offer point and click results to the customer's home or office.

Traditional travel agencies appear to be losing the battle against its online counterpart and the airlines. In addition, many traditional travel agencies are afraid to enter the online market because the commissions are nearly obsolete and they are so far behind the curve at this point in time. The airlines also appear to be winning out over traditional channels by cutting, and in some cases, eliminating commissions. Several airline sites even offer reduced costs and extra incentives for customers ordering tickets online.

Agencies that are focused on major corporate clients are emerging as they have the power to negotiate compensation structures with airlines. Agencies are becoming specialized in certain types of travel, offering expertise on senior citizen services, family packages, adventure programs and disabled facilities. Travel agencies that leverage information technology are also providing services such as travel cost management for corporations while ensuring compliance with corporate policies for employee travel.

For example, Rosenbluth Travel [10], a large Philadelphia based agency, provides Wal-Mart employees with desktop access through the Wal-Mart Local Area Network (LAN) to arrange air, hotel, and car rental reservations. The Rosenbluth system is programmed to ensure compliance with Wal-Mart travel policies, and links directly to the Wal-Mart financial system. Smaller companies that do not require LAN access can use Rosenbluth's website, accessible through the Internet or direct dial-up.

3. *Deregulation and the Automation Era*

Looking at the history of the travel agency business in the US, ones can easily find that the airline deregulation has changed the travel industry dramatically in both the business structure as a whole and the role of the travel agency as individual player.

Prior to the deregulation of airlines and travel agencies, airlines were regulated under strict policies and guidelines set by authorized bodies like Civil Aeronautics Board. By that time, airlines appointed

travel agencies to sell air tickets, the air carriers maintained from the beginning that corporate travel was the sole domain of the airlines. In other words, travel agencies handled leisure travel only, leaving the air carriers to handle business travel.

As the market redefined itself and draw line explicitly to distinguish leisure market and the corporate market that we nowadays called the leisure & group and the corporate market respectively. Another structural change came from the globalization that helps travel agencies to gain competitive advantage among those local players. The role of the information systems was increasing when travel agencies started aware of the importance of accessing and manipulating information of the travel market including major carriers' reservation details and price structure, customer profiles and destination information etc.

Most travel websites provide electronic reservation booking capabilities on the Internet. Many are owned by travel management firms, but countless others are owned by the airlines, the central reservations system and even Internet technology companies. In reality, only the travel management firms which have travelers' interests at heart whilst the rest do not represent the traveler's best interests.

3.1 Driving Factors for Changes

As mentioned above, the factors driving travel agencies for changes include:

- The increased competition through globalization and deregulation;
- Increasing customer demands and expectations;
- Customers are becoming more knowledgeable and growing accustomed to automated technologies.

In recent years, travel agencies made use of a specialized technology infrastructure and specific knowledge to justify their cost. Technology is therefore seen as a critical factor in measuring, controlling and reducing these costs. New technologies also provide additional value to customers as new products, new processes and new strategies. Some of these can be seen in the marketing area; for example, one-to-one marketing and mass customization, suppliers now have ability to understand each customer's needs, target them individually and deliver custom-made product. This type of changes will profoundly affect the landscape of the industry, and as a result, some players will disappear, new players will emerge and all of the current actors will have to change in order to survive [1, 15].

3.2 Impact on the Industry

Technologies have deep impacts on some generic strategies, which include:

1. Cost advantage – Technology can be used to promote products in a cheaper and more interactive way. Through the use of multimedia,

- customers are able to understand the products better without the need for specialized personnel on the service provider side;
2. Product leadership strategy - Technology can enhance some product attributes. For example, electronic commerce can add to the convenience of getting information about travel and purchasing;
3. Customer focus strategies – Technology can help to maintain and enhance relationships with their customers, and targeting them with specific offers and mass-customization.

New technologies improve the diffusion of information to everyone, thereby reducing the importance of intermediaries. Although disintermediation will happen in the travel industry, reintermediation will also be seen. This means that customers won't always find it desirable to go directly to different providers to get information and compare, but they will sometimes pay an intermediary to do it for them.

3.3 Impact on Company Level

Electronic commerce could generate tangible business benefits for corporations. Companies will need to choose which components to incorporate in their own strategy based on their specific situation.

3.4 Impact on Travel Agency

Travel agencies are one of the most endangered organizations as their jobs are increasingly being seen as replaceable by technologies. In order to add values to themselves, travel agencies play multi-roles, which include:

1. Information brokers to pass information from product suppliers to customers;
2. Transactions processors to print ticket or forward money;
3. Advisors to provide value-added information to their customers, assisting them in their choices of specific products and destinations.

The above first two roles will increasingly be replaced by technology which can directly provide information and process transaction needs for customers. For the third role, travel agencies need to differentiate it according to their target markets (see Table 1).

Table 1: Market segments for Travel Industry

Leisure Travel Segment	Leisure Travel	•Independent Travels	• Traditional holidays, family visits
	Tours & Groups	•Leisure •Business	• Cruises, tours aboard, etc. •Incentive travels, business meetings, conventions, etc.
Corporate Travel Segment	Business Travel	•Independent Travels •Corporate Travels	• Those people who make travel arrangement themselves, and usually pay for their travels. • Travelers who are assisted by corporate department or governed by policies, and reimburse for travel expenses.

3.4.1 Leisure Market Segment

Travel agencies can cater the needs of leisure travelers, and technologies can help to enhance the shopping experience. Some shortcomings like long waiting times before being served; shuffling through paper catalogs and waiting for phone calls from suppliers could be eliminated through kiosks, supporting multimedia clips, database of relevant travel, visa and destination information.

3.4.2 Corporate Travel Segment

Corporate travel spending in the U.S. represents more than \$150 billion US dollars a year [11], reflecting the sustained growth in the third largest controllable expense in an organization—travel and entertainment. Corporate travel industry has already started to change due to the new emerging technologies for electronic commerce [12]. More and more corporations are trying to exploit these new electronic commerce technologies to incorporate into their travel policies, and thus to save their travel costs.

When considering corporate travel agencies in this context, their main objective should be to position themselves as travel process management consultants that make use of their professional skills to help travelers to make travel arrangements. Since corporations are increasingly being targeted directly by product suppliers, more professional advices from corporate travel agencies are needed in order to maintain their relationships with their corporate customers.

4. The Model of Intermediation-

Disintermediation-Reintermediation Cycle

People try to use different models to describe the interaction between buyers and sellers in electronic commerce market. The intermediation-disintermediation-reintermediation (IDR) cycle [2] is one of these models that proposed recently. Before our discussion, we need to make some definitions:

Traditional intermediaries - A type of middlemen that provides the matching services for buyers and sellers in traditional market. Technology can keep the relationship between buyers and sellers, such as using the technology of computerized reservations systems (CRSs) in the travel industry.

Electronic commerce-able intermediaries (EC-able intermediaries) - A type of middlemen that conducts their business not only using the traditional way, but also using electronic commerce way like online services and some interactive electronic commerce applications. These kinds of middlemen can maximize their profits by using both their powers in traditional business power and technology capabilities.

Electronic commerce-only intermediaries (EC-only intermediaries) - In general, this kind of middlemen started their business in the electronic environment of the Internet. They are usually reached by their customers through the Internet, and develop their electronic commerce capabilities to support their customers.

Intermediation - A company that interjects itself among buyers and sellers. Sometimes, it may be interjected among other intermediaries.

Disintermediation - An established middleman is forced to be pushed out from the market.

Reintermediation - A company that was forced to disintermediate is now able to re-establish itself as an intermediary.

In order to identify the pattern of interactions among the players in electronic commerce activities, there are different cases [3] that were described by using the model of IDR cycles. They are:

Case 1: No traditional intermediaries

Case 2: Single traditional intermediary

Case 3: Multiple traditional intermediaries

Case 1: No Traditional Intermediaries

When there are no traditional intermediaries being involved in a transaction, EC-only intermediaries will have the chance to capture benefits from those parts of transactions by providing the value-added services to customers (see Figure 1) [2].

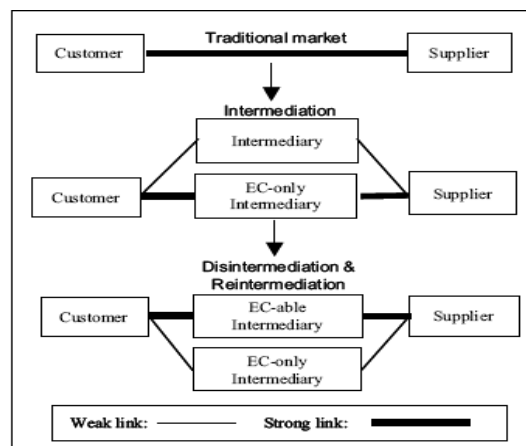


Fig 1. "No Traditional Intermediary" Case

During the intermediation phase, the EC-only intermediaries will build up a very strong relationship with their customers and, in this phase, there are also possible for other industrial players who already have traditional intermediation roles to emerge as EC-able intermediaries, however, their relationships with online customers will still be weak in the short run due to their newness in technology applications. Nevertheless, in the long run, the EC-able intermediaries will replace the position of EC-only

intermediaries to have stronger relationships with their customers because they not only serve as traditional intermediaries but also provide the technology to the customers (Reintermediation). In this phase, EC-only intermediaries will be less important (Disintermediation).

Case 2: Single Traditional Intermediary

When a single traditional intermediary provides aggregation of physical products and matching of customers and suppliers, it may reduce the operational cost by providing the same intermediation services electronically [2] (see Figure 2).

In the intermediation phase, EC-only intermediaries will offer products and services similar to those available in the traditional market. In this phase, the EC-only intermediaries probably may have weak relationships with customers because of the newness of their product and service offerings, and approach. When EC-only intermediaries draw more customers, the traditional players face the disintermediation.

However, some powerful traditional intermediaries will be able to replicate the technological innovation of an EC-only intermediary. In this case, the traditional middleman can re-enter itself (reintermediation) into the market.

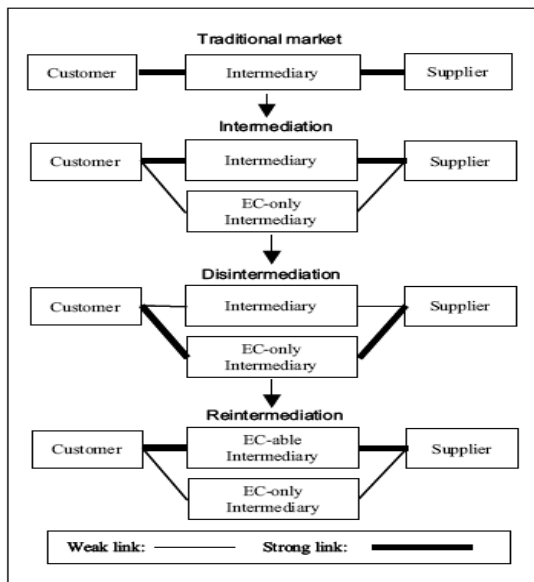


Fig 2. "Single Traditional Intermediary" Case

Case 3: Multiple Traditional Intermediaries

The IDR cycle will become more complicated when multiple traditional intermediaries are involved in the transaction. In usual case, the first IDR cycle starts with the intermediary positioned close to the customers. Each middleman can be disintermediated by some other intermediaries or new players who take advantage of the technology innovations for electronic commerce on the Internet. Each IDR cycle involved in the multiple traditional

intermediaries is very similar to what happens in the case of single traditional intermediary. The traditional middleman will be disintermediated by the EC-only intermediaries who enter into the market, but will be reintermediated [2] by enhancing their electronic commerce capabilities and utilizing their traditional business power (see Figure 3).

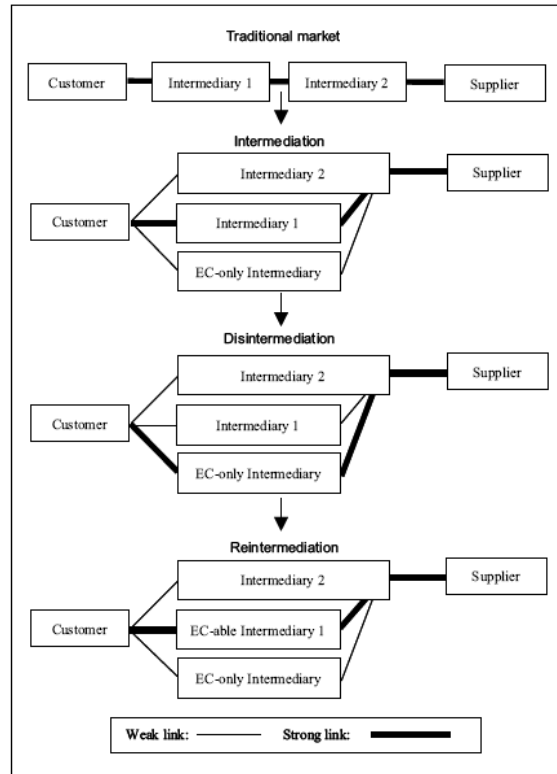


Fig 3. Multiple Traditional Intermediaries Case

5. IDR Cycle in Travel Industry

In this paper, we are focusing on how traditional travel agency will react and change their firm strategies to survive and sustain their competitive power. In the travel industry, three types of intermediaries can be identified:

- Traditional – They are the traditional travel agencies, which provide services to customers in an offline mode.
- EC-only – They are the new entrants to travel industry. They provide online booking services on Internet by using various advanced technologies.
- EC-able – They provide services in both offline and online mode in order to capture the best market position in the travel industry.

In the current environment, traditional travel agencies need to evolve themselves from a traditional intermediary to an EC-able intermediary in order to compete with EC-only intermediaries. The following sub-section shows what problems that traditional travel agencies would face in different phases of IDR cycle, and what reactions they should take to reintermediate.

5.1 In Intermediation Phase

As described in previous section, traditional travel agencies act as a middleman between customers and various suppliers such as hotels, airlines, car rentals, restaurants etc. The main income received is derived from the commissions paid by various suppliers.

The popularity of Internet gives the birth of EC-only travel agencies. They provide services, such as online reservation, price comparison etc. through technology innovation. By eliminating human intervention, they charge their customers at a lower fee on different services comparing with traditional travel agencies. Most corporate travelers welcome these changes in the travel industry.

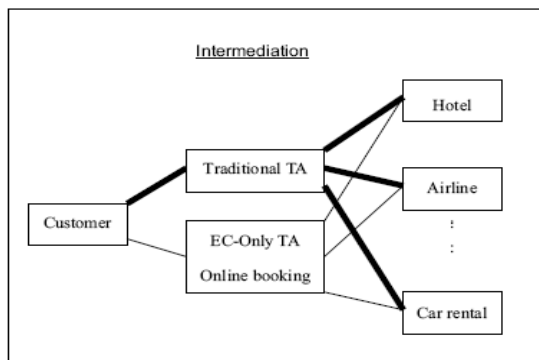


Fig 4. Intermediation Phase

There are number of reasons to explain why traditional travel agencies are not proactive enough when comparing with EC-only travel agencies. They include lack of technology background, management resistance on changes, not proven to be succeeded in this mode of business etc. However, part of the market is shifting to EC-only travel agencies at this phase [3]. The next logical strategic step for these EC-only travel agencies is to disintermediate traditional travel agencies to broaden their market shares.

5.2 In Disintermediation Phase

With continued innovation and growth in the scale size, EC-only travel agencies will be able to keep the transaction costs at a minimal. Therefore, most corporate travelers shifted to EC-only travel agencies, and as a result, EC-only travel agencies got over 50% market shares [3].

Other than remaining in the current position, some of the EC-only travel agencies recognized the opportunities to earn higher profits by providing technological solutions for the traditional travel agencies, thus they disintermediated and changed their roles in the market. On the other hand, in order to avoid being pulled out from the market, traditional travel agencies begin to fight back, and regain their lost market shares from the new distribution channel on the Internet. This may give rise to the third phase - reintermediation.

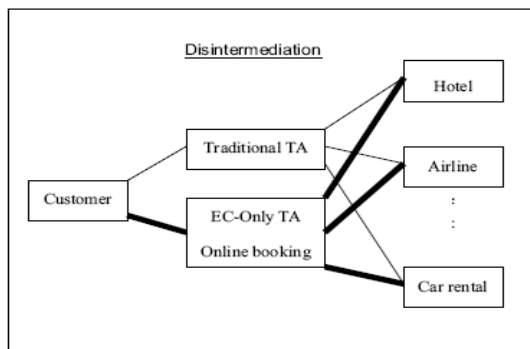


Fig 5. Disintermediation Phase

5.3 In Reintermediation Phase – Get Back the Market
5.3.1 Favorite Conditions for Traditional Travel Agencies

Traditional travel agencies have large potential to shift their focus rapidly to new Internet channel, and become EC-able travel agencies. Firstly, since many traditional travel agencies have already achieved economies of scale in the traditional market, this could be an advantage for them to leverage their reintermediation attempts. Secondly, traditional travel agencies often have significant co-specialized assets such as their expertise, reputation, customer base and relationships with suppliers etc. It is unlikely for EC-only travel agencies to acquire such co-specialized assets in a short period of time as they all need times to build up.

Moreover, most of the EC-only travel agencies have limited expertise, and they heavily rely on electronic commerce innovation that cannot be a source of sustained competitive advantage as it is easily to be imitated. Some of the EC-only travel agencies foresaw their shortcomings in the long run, they tended to become a technology provider for traditional travel agencies and suppliers, so that they can retain the benefits of its technological innovation, and not need to be disintermediated.

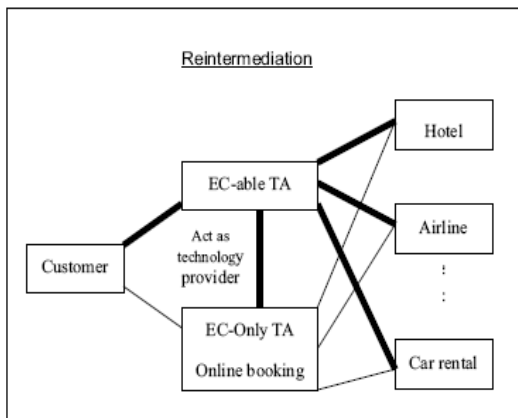


Fig 6 Reintermediation Phase

With these potential conditions, the remaining problem is that how traditional travel agencies implement an electronic commerce solution that can

achieve large installed base of users, so that the costs of transactions are competitive.

5.3.2 Internet Strategy

Traditional travel agencies should make investments relating to the online travel technologies to ensure their long-term strategic viability. It is justified for the investments as:

- a number of processes can be automated, and staff cost can be saved;
- it is the first step to the global market;
- it helps to avoid disintermediation;
- it helps to increase brand visibility.

Besides, since traditional travel agencies have created unique values on their significant co-specialized assets and provision of value-added services for customers, thus competitors or new entrants might not be able to follow these.

There are several approaches for traditional travel agencies to get on the Internet:

1. Alliance with technology provider – This is a one-stop solution for those traditional travel agencies without any experience in electronic commerce technology. All electronic commerce applications will be developed by one technology provider. This enables traditional travel agencies to acquire the most desirable IT assets, and then combine them with their own travel expertise assets for assuring the success of its online products.
2. Portfolio partnering - For some instance, one technology provider may not be able to suit the needs of a traditional travel agency, especially for those who have various range of products and business in global market. In this case, it is more flexible to have partnership with different technology providers to get all the advantages of their IT assets. Of course, the effort for integrating different electronic commerce applications into one proprietary interface should also take into account.
3. Develop electronic commerce technologies by themselves – Traditional travel agencies may invest to build their own electronic commerce technologies, and get patent on it. It is the most expensive solution but it is justified in some ways:
 - The IT strategy can align with agency's strategy;
 - Higher flexibility;
 - Do not need to rely on third-parties.

Rosenbluth International [10] is a successful example. It puts a lot of resources on electronic commerce innovation and development, and it now becomes the leader in the travel industry.

5.3.3 Critical Factors

For traditional travel agencies to decide for reintermediation, they should consider the following factors which may affect the outcome:

- Strategic uncertainty – in some cases, senior management of traditional travel agencies are not willing to commit new technology-enabled business model, as they think that it may not be suitable for their customer needs or not align with their agency's strategies.
- Short-term expectation Vs long-term result – traditional travel agencies should set a realistic timeline for the realization of benefits, and they should recognize that they will incur significant short-term costs to achieve them.
- Conversion process – while in the implementation phase of electronic commerce applications, traditional travel agencies should take into account the barriers that are likely to impact the conversion process, such as resources, knowledge and system usability [4].
- Individual resistance – individuals in traditional travel agencies may resist to acquire new IT skills as they have already recognized their own skills, education and functional positions in the agency.

6. Conclusion

Upon the introduction of Internet technology, travel industry is one of the industries which are strongly affected by electronic commerce. It is clear that IDR cycle exists in the travel industry. In the intermediate phase, traditional travel agencies dominate the market. However, as new EC-only travel agencies emerge in the market and build up their competitive abilities, traditional travel agencies lost over 50% market shares. This is the disintermediation phase.

Traditional travel agencies need to sustain their positions in the market by reintermediating and reinvigorating their business strategies in the emerging marketplace. Apart from securing the ownership of necessary co-specialized assets, traditional travel agencies have to acquire new electronic commerce technologies to reconfigure themselves to EC-able intermediaries to preserve the advantages that they have built. As proposed in this paper, traditional travel agencies can acquire electronic commerce technologies in different ways such as alliance with technology provider, portfolio partnering or develop electronic commerce technologies by themselves.

Turn to be EC-able is the direction for traditional travel agencies to survive and retain competitive power in the e-business era. In the conversion process, no matter which approaches they take, they have to clearly define their firms' electronic commerce strategies by carefully considering their favorable conditions and resistance factors.

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