

**THE USE OF TECHNOLOGY AND THE INTERNET IN THE ADAPTIVE
BUSINESS AND MARKETING STRATEGIES FOR THE SUSTAINABILITY OF
SMALL TO MEDIUM SIZED TRAVEL AGENCIES**

by

Phil Mentacos

BGS, Simon Fraser University, 1990

PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION

UNIVERSITY OF NORTHERN BRITISH COLUMBIA

April 2013

© Phil Mentacos, 2013

UNIVERSITY of NORTHERN
BRITISH COLUMBIA
LIBRARY
Prince George, B.C.

APPROVAL

Abstract

Technology and the Internet have brought on monumental changes in how we live, learn, communicate, shop and travel. Businesses that have been around for decades have evaporated as a result of the expansion and growth of the Internet.

In the travel and tourism industry, travel agencies are seen as middlemen, and it makes sense that efficiencies could be gained by removing them. The Internet has enabled the supplier to reach the consumer directly, and the consumer can go directly to the source. This notion has been brought up many times over the past ten to fifteen years, and yet travel agencies are still around.

Various studies show that there still exists value for agencies. Customer service, custom products, education and consultation are all resources and capabilities valued in travel agencies. If a travel agency can differentiate itself through its value proposition and value chain, provide custom products and services to its clients, align itself strategically with other industry players, and brand and market itself through carefully evaluated and selected channels, it will not only survive in the industry but can thrive as well.

Table of Contents

ABSTRACT	II
INTRODUCTION	1
THE TRAVEL AND CRUISE INDUSTRIES	2
<i>Growth in Travel over the Years</i>	2
<i>The Cruise Travel Industry</i>	3
<i>Challenges Doing Business in General</i>	4
<i>Influence of Technology and the Distribution System</i>	5
CRUISE EXPERTS TRAVEL LIMITED	6
<i>Company Origin and Structure</i>	6
<i>CET Business Strategy</i>	6
<i>Marketing Approach</i>	7
<i>Influence of Technology</i>	8
LITERATURE REVIEW	9
TRAVEL AGENCY BUSINESS STRATEGY: TRADITIONAL AND ONLINE	9
<i>Value of travel agencies</i>	9
<i>Business Strategy</i>	9
<i>Travel products become commodities</i>	10
<i>Intermediation, Disintermediation</i>	12
<i>De-commoditization, Differentiation and Hyper differentiation</i>	12
BRANDING AND MARKETING	14
<i>Advertising Analytics</i>	14
<i>Mobile Advertising</i>	15
<i>Social Media Marketing</i>	16
<i>Online (Electronic) Marketing</i>	17
IS THE TRAVEL AGENCY MODEL SUSTAINABLE?	21
<i>Travel agencies</i>	21
<i>Alliances, Franchises, Consortia, Cooperatives</i>	23
<i>Home based agents</i>	24
METHODOLOGY	26
DISCUSSION	27
CET BUSINESS STRATEGY	27
<i>Value of the CET travel agency</i>	27
<i>Business Strategy</i>	28
<i>Commoditization, Intermediation, Differentiation</i>	32
BRANDING AND MARKETING	34
<i>Analytics</i>	34
<i>Mobile Advertising</i>	35
<i>Social Media Marketing</i>	36
<i>Internet marketing</i>	37
<i>Signature Travel Network</i>	39

CONCLUSION	40
APPENDIX 1 – CRUISE EXPERTS TRAVEL LTD. WEBSITES.....	43
APPENDIX 2 – ONLINE AD REVENUES AND GROWTH IN ONLINE US	44
APPENDIX 3 – TRAVEL INDUSTRY PLAYERS.....	45
APPENDIX 4 – CET WEBSITE TRAFFIC ANALYTICS.....	46
APPENDIX 5 – CET SOCIAL MEDIA TRAFFIC ANALYTICS	47
APPENDIX 6 – CET TOWS ANALYSIS	48
REFERENCES.....	49

Introduction

Depending on the source, the value travel agencies and travel agents bring to the consumer will diminish significantly over time, or they will continue to play an important and impactful role in travel marketing and sales. There are those who predict a bleak future for travel agents as consumers continue to become more technology-savvy and self-confident in managing their own travel bookings (Travel shops will die out, 2004). Further, the Internet has now brought the consumer in direct contact with the supplier, who is more than happy to bypass an intermediary and sell its product or service directly to the consumer.

New competition enabled by technology and the Internet presents a challenging and uncertain operating environment to agencies and agents (Hatton, 2004). Nonetheless, travel agencies are still around, and are evolving to operate in an ever-changing and ever-automated market. Where consumers look to technology (the Internet and self-service) for the best price, the travel agency appears to rank higher as the distribution channel offering the best service (TNS, 2011). The Internet has proven to be an extremely important business technology, but it won't necessarily render "traditional" rules of business and competition obsolete (Porter, 2001).

This paper is based on a case study on Cruise Experts Travel Limited (CET), a medium-sized cruise-only travel agency in Vancouver. The study explores the travel agency model over the past several years and assess its ability to survive (and thrive) in the midst of incredible advancements and changes in technology. Of particular focus is how cruise travel agencies (and CET) have adapted their business and marketing strategies to remain competitive and profitable. Findings on the travel industry are presented and summarized from academic sources, industry reports, journals, periodicals and news articles. Relevant CET qualitative and quantitative data will be assessed and compared to industry findings.

The Travel and Cruise Industries

Growth in Travel over the Years

Travel and tourism have been steadily growing over the years. The World Tourism Organization reports in its 2012 Highlights edition a steady and consistent increase in global tourism (UNWTO, 2012). As shown in Figure 1, international tourism has more than doubled over the past 20 years.



Figure 1: Global Tourism growth 1990-2011. Source UNWTO

Further, UNWTO's Tourism Towards 2030 further projects an average of 3.3% growth per year from 2010 to 2030. For 2013, tourism potential looks best in Asia and the Pacific, followed by Africa, the America's, Europe and the Middle East (World Tourism Organization UNWTO, 2013).

Figure 2 shows the growth of Canadian travelers over the years. A new study reports that cruising is the fastest growing segment in the Canadian travel market (Parkinson, 2010). Cruises appeal to the

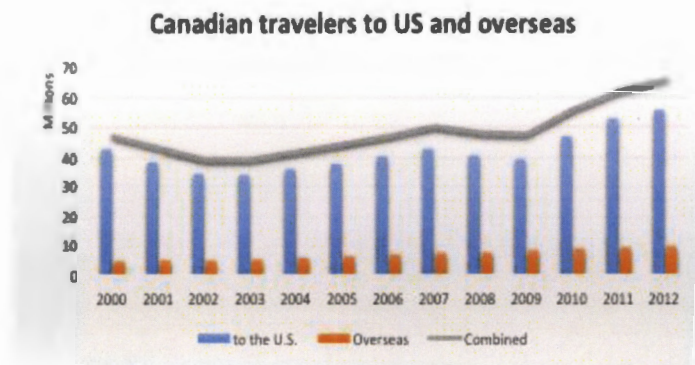


Figure 2: Canadian travelers. Source Statistics Canada.

Canadian's appetite for both a bargain as well as all-inclusive vacation options. During the recession of 2008-2009, cruising by Canadians went up 5% and 9% respectively. Blaine Lambert, co-owner of CET says, "Cruise prices fell by up to 50% when U.S. demand slipped during the recession. This created new value as Canadians love a deal!"

As shown in Figure 3, Americans have curbed their traveling over the past few years as a result of the economic recession (Office of Travel and Tourism, 2011). Yet while overall international travel has eased, cruise

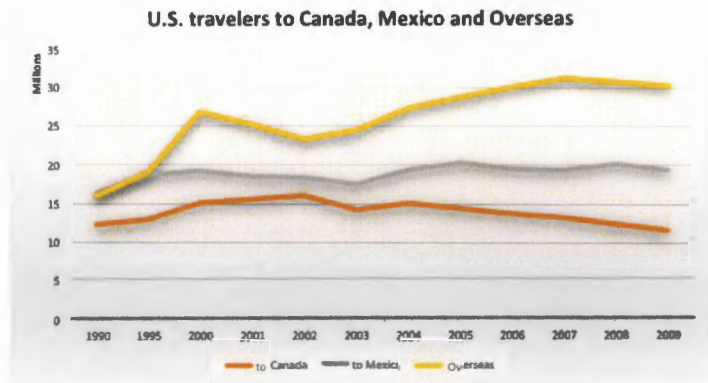


Figure 3: U.S. travelers. Source US Department of

lines are reporting impressive passenger growth (CLIA, 2013). Cruise lines continue to make headlines with continuous product enhancements and new ship launches. Cruise Lines International Association (CLIA) represents the majority of the cruise lines that cater to North America and Europe. In their latest report, they note that cruise lines introduced 12 new ships in 2011 and 14 new ships in 2012 – and they are not stopping. Over \$10 billion in investments for 6 new ships in 2013, 4 new ships in 2014 and 2 more in 2015. Americans rate cruising very high as a vacation option due to its perceived value. With the industry’s trajectory in going “global”, new geographic markets are tapped and new travelers “come on board”.

The Cruise Travel Industry

The cruise travel industry generated close to \$100 billion in economic impact and more than 750,000 jobs worldwide in 2011 (CLIA, 2013). It has shown amazing innovation in its product and service offering. Consumers can choose from mass-market budget options to luxury brands. Destination options and combinations are plenty, and continue to expand. The cruise experience has evolved to provide the complete gamut range of travel experiences: from small ships that provide an intimate, yacht-like river sailing experience, to ships so large that they become a fully self-contained resort out in the open sea. On board, it’s all about décor, food,

activities and entertainment – the envelope continues to be pushed here too. Surfing, rock-climbing and zip-lining are some of the recent activities for thrill-seekers. A wide range of personal development classes and activities include cooking, crafts, computer skills, dance, art history, wine tasting and glass blowing.

In a 2011 market study conducted by TNS Research for Cruise Lines International Association (CLIA), of ten types of vacations measured (i.e. visiting family/friends, road trips, all-inclusive resorts), only cruising

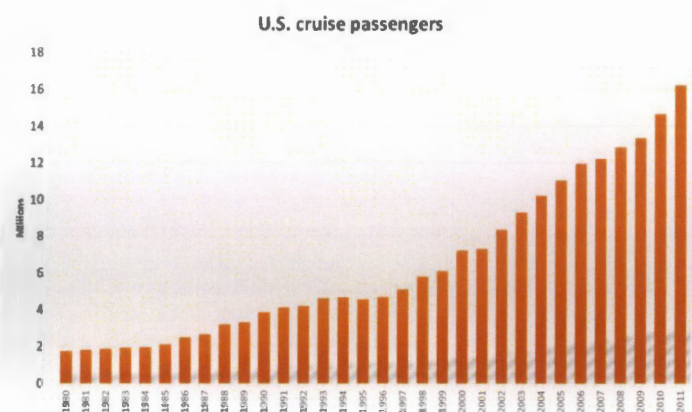


Figure 4: US cruise passenger. Source

posted a gain over the last few years (TNS, 2011). Figure 4 shows the cruise industry’s impressive growth over the period 1980-2011. Lambert says, “Cruising represents incredible value to consumers and it is getting more affordable when compared to other vacation options like land resorts”.

Challenges Doing Business in General

The travel industry has had its share of challenges over time as well. Political unrest, economic restraint, natural disasters and others have either disrupted, canceled or discouraged travel plans. In the cruise sector, recent events which affected travel decisions include the Carnival Triumph losing its power and floating in the Gulf of Mexico, the sinking of the Costa Concordia, and the pirate threat on Seabourn’s smaller ship Spirit off the coast of Somalia (Cline, 2013). Such incidents bring momentary concern however interest and faith in cruising continues (Cohen, 2012). Lambert says, “Whenever we have a ship incident, like the Concordia

tragedy, we find it immediately impacts our first time cruiser business. The seasoned cruiser knows this is an isolated incident and that cruising is safe and is therefore less likely to change their plans”.

Influence of Technology and the Distribution System

There have been numerous studies on how technology and the Internet have affected the travel industry. Travel agencies appear to be the perfect middleman to remove from the supply chain. As online engagement continues to grow and expand, travel suppliers are keen to capture the consumer directly. Consumers in turn, more than ever, have direct and immediate access to travel products and services. Disintermediation of the travel agency and travel agent seems a natural evolution. Nonetheless, other studies tell a different story: it's about getting creative on how to use technology in the travel agency model; about evolving business strategy; about strategic alliances and partnerships; and about differentiation and specialization. Indeed, the industry continues to shift, and both views of the travel agency model surviving or not have been proven.

Technology and the Internet have placed a great deal of control in the hands of all players in the supply chain, bringing new efficiencies for all. The travel products distribution system today is different than what it was a few years ago, and continues to change. Many technological factors and influences have been attributed to how business has affected the travel industry. And these influences are often conflicting: agencies need profits to survive yet suppliers keep cutting commissions; agencies want to offer services to travelers yet travelers want to manage themselves; and consumers demand lower prices yet shareholders demand higher returns. New technologies and procedures will continue to affect the travel distribution system, as well as the players within, and their ability to evolve, thrive and survive.

Cruise Experts Travel Limited

Company Origin and Structure

CET began as Cruise Holidays of Vancouver in 1989, part of the first cruise-only franchise in North America, Cruise Holidays, established in 1985. It was a small operation of 2-3 travel specialists focusing on generating business from purchased prospective lists and then sending out promotional mail-outs

and faxes. The current owner

purchased the business in 1995, and

the second owner came on board in

2000. It was then that the company

set its focus on the Internet and began

its aggressive growth and business

development. As shown in Figure 5, the company has grown from a team of 3 in 2000 to an

agency operation of 30 people in 2013. This includes agents, marketing and accounting

personnel, reception and administrative staff, co-ordinators and a manager. The two equal

owners are the president and chief operating officer. Operations are run from a 5,000 square foot

office in a primarily residential area of Vancouver's west side seven days a week.

CET Business Strategy

CET's primary customer is the American traveler. Four websites represent CET and market the travel products and services; the home pages of these are shown in Appendix 1. The websites are designed to offer rich, relevant content and invite potential clients to inquire further by completing a quote request and/or calling in. Agents at the office receive the quotes and

CET Employee growth

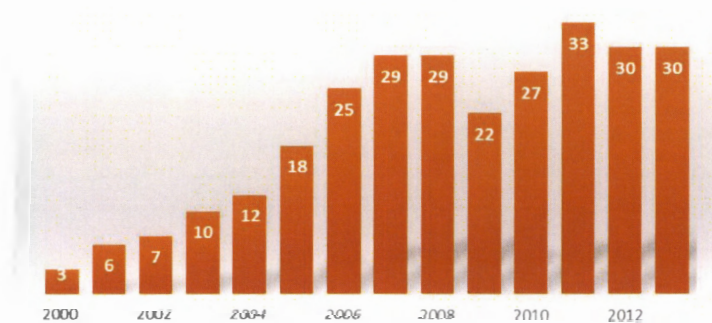


Figure 5: CET Employee Growth. Source: CET

respond by telephone and email within a very short time to answer questions and service the travel bookings.

From the beginning, CET decided on focused cost leadership and focused differentiation strategies. They worked with only a few suppliers, two “brands” (one contemporary and the other premium) and specialized on the Alaska cruise destination. This was a deliberate strategy to achieve high niche sales and reach top account status with preferred suppliers. CET was then able to negotiate favourable terms on commission and price structures, gain access to senior management for problem resolutions, and seek agreements that were more tailored to CET’s business model. Additionally, to increase their revenue yields, they focused on selling cruise tours, which are land package add-ons either around the origin city before the cruise, or around the destination city after the cruise. Somewhat of a first-mover advantage for a cruise reseller, CET became one of the largest cruise tour sellers in North America.

Marketing Approach

To summarize the marketing approach over CET’s growth period, the product-oriented marketing mix the “four P’s” and the consumer-oriented marketing mix, the “four C’s, are applied (Messinger, 1995). The discussion on how technology has been affecting these over the years will be covered later in the paper. The following table provides a preliminary assessment:

Product	<ul style="list-style-type: none">• Travel specialization in cruises and Alaska specifically• Differentiation through value-add, customization and service expertise
Price	<ul style="list-style-type: none">• Set prices to match or better those found elsewhere.• Value-adds make overall cost to consumer lower.
Promotion	<ul style="list-style-type: none">• Via internet, direct mail, client-agent relationships, social media, YouTube• Blitz campaign strategy over “wave season”
Place	<ul style="list-style-type: none">• Via e-mail, direct mail, dedicated agents

Consumer	<ul style="list-style-type: none"> • Multi-generational families, early 40's and older, affinity groups and "soft adventurers" • Primarily from the U.S. and English-speaking countries
Competition	<ul style="list-style-type: none"> • Differentiate by being select destination specialists, know all ships, ports of call, all activities onboard and on shore • Value-adds make overall cost to consumer lower.
Company	<ul style="list-style-type: none"> • Preferred relationships with suppliers • Employee training and engagement to develop a knowledgeable, driven team • Geographic location supports "product specialist" label • Strong advocates of maximizing technology benefits – example is 20% of the team is home-based
Community	<ul style="list-style-type: none"> • Baby-boomers getting older, they have more money and are starting to cruise more • Easy vacation for those with busy lives (i.e. families) • Product evolution targets broader market segment and their needs/desires – younger, single, corporate and affinity • Product meets consumer demands on value and travel safety

Influence of Technology

CET exists because of the Internet. While they have a bricks and mortar office with receptionists, waiting areas and client meeting rooms, their business is almost all Internet-driven, and comes primarily from the U.S. The office is more of a call centre and administrative hub.

E-mail revolutionized CET's marketing efforts. CET was able to get product offers to the market almost immediately. The cost was negligible. Voice over Internet Protocol (VOIP) technology realized cost savings in local and long distance telephone communications. VOIP, coupled with a sophisticated customer relationship management (CRM) system accessible over the Internet enabled CET to offer full time home based positions. This opened up a whole new potential market for prospective employees. The use of CRM's also made the booking process more efficient, and allowed email and direct mail to be more targeted and effective.

Literature Review

Travel agency business strategy: traditional and online

Value of travel agencies

Travel agencies have served an important role to consumers over the years, providing information, guidance, advice, knowledge and expertise to arrange, sell and service travel. They have played the role of effective intermediary between suppliers and customers. Still today, the value of travel agencies is appreciated. A couple of suppliers were quoted as saying:

“Travel agents are the most significant force in travel marketing” (Oberle, 2011)

“Who wouldn’t want 100,000 people out there selling your product?” (Rice, Cruise execs tout agents' value during Travel Weekly panel, 2012)

Nevertheless, the industry landscape continues to evolve: the consumer profile has become more varied and complex, and technology keeps manifesting new channels, new tools and new processes. It continues to tempt the inquiry on a business model that seems to have stood the test of time, and of technology, and the Internet.

Business Strategy

The Internet has had a strong and pervasive impact on how business is designed and executed in this industry (Chakravarthi & Gopal, 2012).

Whether travel agencies can maximize the opportunities presented by technology and its advancements will determine their degree of success in sustainable competitive performance. In Michael Porter’s insightful analysis on the impact of technology in business strategy, he cautions that technology and the Internet can provide skillful options in a business’s value chain, but could never serve as a complete business strategy in themselves (Porter, 2001). When the

influence of the Internet is applied to Porter's five forces model, some benefits are realized. Supplier power increases as they gain direct access to customers and the Internet expands the geographic market so it is more accessible to suppliers and travel agents. However Porter points out that more threats and challenges are introduced as well, and more than offset the benefits: increased bargaining power for consumers, reduced barriers to entry with reduced need for staff, more competition as the market expands, and increased rivalry as a result of Internet transparency. The impact of these forces can be destructive. From the business cost perspective, fixed costs of technology replace variable costs of individual transactions, and so businesses resort to competitive pricing that eats away at their profits. Indeed, the very technology benefits that are supposed to make doing business easier, more efficient and cost-effective are the same ones that diminish a business's ability to realize the expected profits.

To think that the Internet is destructive to the strategy and operations of a business is misguided. The Internet can serve as a complement to a business's traditional activities and ways of competing in the marketplace.

Operationally, the Internet's benefits have leveled the playing field for businesses, so a distinctive business strategy takes on even greater importance. The fundamental goals of any business's strategy still stand, and the use of technology can a) ensure the delivery of a unique value proposition; b) establish activities that make up a distinctive value chain; c) be willing and able to tailor activities that support each other; and d) stay on the strategic course (Porter, 2001).

Travel products become commodities

When travel products such as airline tickets and cruise vacations become commodities, the only thing that matters to the consumer is the lowest price – it doesn't matter who sells it to them. This is known as the commoditization effect (Granados, Kauffman, Lai, & Lin, 2011).

Online travel agencies¹ (OTA), offline travel agencies, and even the travel product suppliers themselves are all players in the game to capture and win the consumer, and the profits that come with the sales.

The commoditization effect has affected the travel pricing model for some time, and has intensified with more and more of the industry players expanding their use of technology and the Internet. It is possible to communicate and access information online 24/7. Geography and time restrictions are removed. The travel consumer can reach out for information, advice, knowledge and expertise anytime they want – and everyone online is making it easier for them. 80% of the travel agency population studied by a major U.S. travel association last year have websites, up 60% from 1999 (ASTA Research Group, 2012). Automated travel booking sites offer an indiscriminate selection of products, and the ability for the consumer to self-service their entire research, selection, purchase and payment process. Suppliers also have websites promoting their products directly. Suppliers continue their efforts to bypass the travel agencies and OTA's by promoting their products directly and providing consumers with informative and easy-to-use online booking websites. The onset of "travel meta search engines" are also affecting the distribution landscape and are working in favour of the supplier, and large OTA's², shifting traffic away from agencies (Christodoulidou, Connolly, & Brewer, 2010).

¹ We are familiar with OTA's and know them as Expedia and Travelocity. While we may connect these more with air and hotel, they do offer cruises as well. From CET's perspective however, they don't seem to put much effort in the marketing of that segment.

² Examples include Kayak, Expedia, Cruise.com, Travelocity, and Priceline.

Intermediation, Disintermediation

In a broader sense, the existence of the intermediary (i.e. middleman) is part of a cycle where they enter the supply chain, are forced out when they no longer bring value to the suppliers and buyers, re-enter and are again pushed out. Disintermediation, re-intermediation and re-disintermediation are the terms used to identify the phases of this cycle (Granados, Kauffman, Lai, & Lin, 2011). The travel agency sector has in no time been entirely wiped out, but travel agencies and OTA's have come, gone and come again. As discussed, lack of strategy and profitability will shut down an agency. Internet-based technologies can bridge the gap between sellers and buyers, making an agency redundant (Chakravarthi & Gopal, 2012). New entrants (and existing agencies), who are responsive to the evolution of the industry's structure and the prevalence of technology and the Internet, will stand a chance. How they do that is discussed next.

De-commoditization, Differentiation and Hyper differentiation

De-commoditization is an action or series of actions taken by a company to restore its ability to differentiate its products or services. Some airlines are perfect examples of this. While buying an airline ticket from A to B can be purchased from many sources and serviced by many carriers, airlines such as Allegiant have enabled their customers to literally customize an airline ticket to their needs and desires by offering a la carte selling. All components of the travel ticket are broken out, priced and available for purchase as needed. These include base ticket, seat selection, carry-on bag, check-in bag, and priority boarding. Characteristics of variation, customization and modification bring back the ability to differentiate a product from the rest (Granados, Kauffman, Lai, & Lin, 2011).

Differentiation are product/service features and characteristics that are unique and provide a more custom value proposition. Suppliers, OTA's and agencies are all trying to distinguish themselves. The challenge for the many is how to do this in what might be considered a crowded market. Breaking up an airline ticket to its component parts (in itself an atypical approach until recently) brings differentiation. This differentiation of airline tickets from different airlines also lessens the consumer's ability to find perfect substitutes.³

Consider the consultation with a travel agent as another example. A recent survey notes that online cruise bookings that involve no human interaction in the process has been sitting steady at around 9% over the last few years (Funk, 2012). In a 2007 report, 50% of consumers who booked travel online found the experience stressful; another research firm noted 70% of young buyers felt overwhelmed with the online booking process. Unless travel providers ensure a degree of "humanization" in their use of technology, they may miss at least a certain portion of the market. OTA's and suppliers have not typically been able to provide the degree of customer service that travel agencies have been known for. Where OTA's have been the go-to online destination for all travel products, some OTA's now specialize to focus the consumer's attention and cater to their particular needs (iCruise.com, SmartCruiser.com). Cruise suppliers differentiate themselves by the unique characteristics of their ships, destination itineraries and services onboard.

Hyper differentiation is the ultimate ability of a firm to provide anything that any customer would want (Granados, Kauffman, Lai, & Lin, 2011). This is the custom-tailored,

³ The a la carte approach with airline tickets offers additional strategic benefits to complement differentiation: consumers can achieve higher utility; a la carte tailors products to improve consumer fit; a business can better assess consumer preferences, and with more accuracy; and the final product price is tied to the value the consumer is seeking.

individualized product that has the potential to reduce the importance of price as a key determinant of a client's selection amongst alternatives.

Whatever the differentiating business tactic is explored, Porter reminds us that it is the configuration of a tailored value chain – a series of activities needed to produce and deliver a product or service – that enables a company to offer unique value (Porter, 2001).

Branding and Marketing

Advertising Analytics

We're living in a media saturated world. Today's consumer can be reached on their mobile device, tablet, computer, TV, billboards, bus stops, the radio, elevators, hotels, ATM's and more. The impact each of these might have towards an ultimate purchase decision can no longer be looked at independently. It is the interaction and impact across media and sales channels that should be measured to determine where the best marketing mix lies for a particular business and its products/services. To do this, there is a great deal more data to sift through and analyze, and a lot more variables and combinations to consider.

Marketing strategies must evolve to take advantage of the enormous amount of information that are amassed, and their timeliness. The traditional strategy in looking at, and planning for, business marketing, has been to measure and analyze sales data collected in the recent (and hopefully not too distant) past. This is referred to as Analytics 1.0 (Nichols, 2013), and is said to be outdated and ineffective. Analytics 2.0 considers many business drivers around market conditions, marketing actions and competitive tactics. It then conducts predictive analysis to measure elasticity of each of these to help determine what would happen as a result of a specific course of action. Finally, the marketing activities pursued are looked at together and

not independently as has traditionally been the case, as there is a definite impact and relationship across marketing channels such as social media, e-mail, TV, paid search, Twitter, etc. (Nichols, 2013). Analytics 2.0 thus sifts through enormous amounts of current data in real time and is able to apply a great many number of variables against the data. Current marketing strategies are quickly assessed, and any needed changes to advertising approaches are made almost immediately.

Mobile Advertising

Mobile travel bookings have started out slow over the last few years, but a new report just released says that mobile travel bookings in the U.S. will have tripled from 2012 to 2014 (PhoCusWright, 2013).

The general consensus on mobile ads however is that they don't work (Gupta, 2013). The screen is too small, people find them annoying and the size of a mobile device ad lends itself to the "fat finger" effect. Further, half the time mobile device users are looking for entertainment and relaxation (Rayport, 2013). U.S. advertising on mobile devices currently accounts for 1% of the ad dollars, or about \$2.3 billion in 2012, but is expected to increase to near \$11 billion by 2016. Until advertisers (and mobile device users) find more effective ways to make mobile ads work, useful apps are currently the way to go. A recent success story is UK-based Tesco in South Korea. They splashed life-size posters of grocery store items on shelves on walls in train stations, along with scan codes for each item. Then they released an app to enable mobile users to do their shopping (and arrange for delivery) while they wait for their transportation. Revenues for Tesco increased 130% and the app has been downloaded more than a million times.

Social Media Marketing

The social media landscape can be described as a boiling cauldron – it is growing and expanding so rapidly that it makes it difficult to determine an order or hierarchy. Consumers have seized the opportunities to enhance their social lives and promote communications and sharing with family and friends. Organizationally, businesses have been slower to take on these technologies, yet are rapidly realizing their potential value (Andzulis, Panagopoulos, & Rapp, 2012). Research is still limited on the role of social media in the sales process and sales management practices.

In theory, the more online real estate a business occupies, the more visibility and web traffic they can get which can translate to more sales opportunities. The current belief is that the main threat to travel agents is “inaction” when no initiative is taken to use the free marketing opportunities available (Oberle, 2011).

Historically, social media marketing has been a try-and-see effort, gambling in the unknown without much background or reference to any proven ROI, or ways to measure it (Rodgers, 2013). As social media is more about engagement and collaboration, the traditional set of metrics do not apply. Indeed, it will continue to be a dynamic, agile process within businesses, as they figure out where and how their social media efforts should be applied.

The number of social media channels has exploded, and despite the lack of empirical measures on success and effective channel combinations, companies are expected to increase their investment further this year. One survey estimates 62% of businesses will increase their involvement in social media, with larger monetary investments. Consequently, there will be increased scrutiny in measuring the return on those investments. To help with this, Social Media Management Systems (SMMS) have come along. Well known vendors like Abode as well as

some niche providers such as Conversocial look to help businesses engage more systematically with consumers through the various social channels, analyze activities and measure results.

The collaborative try-and-see efforts of a study group of travel agencies recently shared some broad strategies on using social media in the travel industry (Oberle, 2011):

- Do something with it, rather than nothing
- Even though the tools are free, there's an opportunity cost in time invested
- Social media requires regular participation
- Strategic phrasing is critical for any business success
- Customize and specialize
- Use AIDA concept: gain Attention, capture Interest, create Desire, encourage Action
- Ask and tell, rather than sell
- Post pictures to generate engagement
- Use Hootsuite.com as a social media management portal

Online (Electronic) Marketing

Online, or electronic, marketing has exploded since it first began in 1994. Billions of dollars are being spent on e-marketing, and it is expected to continue to go up as more devices such as mobile phones and televisions come online and people spend more time on them. Internet advertising revenues up to the third quarter of 2012 added up to \$9.26 billion (Interactive Advertising Bureau, 2012). Marketing professionals will continue to shift their focus

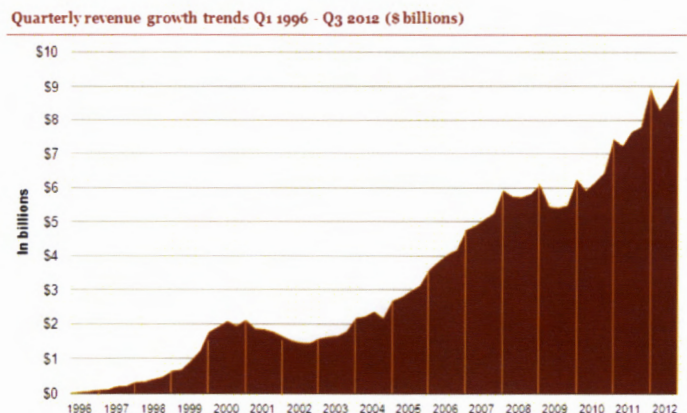


Figure 6: Online ad revenue growth. Source: IAB

away from traditional media to digital channels (eMarketer, 2013). The chart in Figure 6 shows the incredible growth of Internet marketing over the years.

It might be more accurate to speak of electronic (or online) marketing as opposed to Internet marketing, so as to distinguish between the different types:

- Search engine optimization: the conscious design and population of content within a website to increase the visibility of a website in the natural or organic search results of search engines like Google, Yahoo and Bing. On a periodic basis, Google will scan an entire website ranking its pages on complex algorithms that assess the originality, quantity and relevancy of each website page;
- Display (banner) advertising: static or dynamic image banners that are often seen on third-party websites;
- Search engine marketing (SEM, pay per click): paid inclusion into the search results. The largest SEM vendors are Google Adwords and Bing Ads (Microsoft & Yahoo). These tools act like an online auction site where the higher you bid per click the higher you will rank. The top spot goes to the highest bidder. In recent years Adwords has added a quality index that weighs bid price and quality of the ad. Ad quality is based on ad text relevancy to the linked landing page content;
- Mobile (smartphones and tablets);
- E-mail: the broadcast of promotional material to a company's client base or prospective clients who have an email address. This tool has developed and become much more targeted when managed within a CRM; and
- Social media (Dehkordi, Rezvani, Rahman, Fouladivanda, Nahid, & Jouya, 2012): the latest area of internet marketing. It is the use of tools like Facebook, Twitter and Pinterest to communicate with and engage existing and potential customers.

Companies that use Internet marketing follow one of two business models:

- Lead-based websites like those of CET where the website is designed to generate leads that are then passed onto call centre staff who work with the prospect to convert to a sale; or
- Full blown e-commerce websites where the consumer can research and purchase the product and service without any human interaction.

Online advertising revenue is generated in three ways.

- CPM or Cost Per Mille (Thousand Impressions). This method charges the advertiser for the number of times their ad is displayed or viewed;
- CPC or Cost Per Click. This method used by Adwords charges an advertiser everytime someone click on the company's ad; or
- CPA or Cost per Acquisition. This is where the advertiser is paid only once a sale has occurred.

It has become almost standard practice today to consider and set up a website to support a business's marketing strategy. Interestingly enough though, the current figures sit at around 55%-70% of businesses as having websites. The larger the business, the more likely it is to have a website. The mobile arena has exploded faster than businesses are able to figure out how to harness its potential. E-mail marketing is considered cost-effective, customizable and has shown results. Social media marketing is a vast arena of multiple channels that continues to grow and evolve quickly as well; businesses are diligently testing and evaluating these platforms, and looking for ways to capture the return on this investment. They have difficulties measuring success and results, but recognize that they need to be active in this channel.

A new study from the Interactive Agency Bureau, whose memberships include the companies responsible for 86% of online advertising in the U.S., reveals some remarkable statistics on the investment in online advertising (Interactive Corporate Bureau, 2013). Online marketing revenues for these big players increased 15% from 2011 to 2012. Eight percent of these revenues came from the travel industry (see Appendix 2 for a distribution of ad revenues by major industry). It is predicted that a 15% increase in online advertising revenues will continue for a couple more years, then come down to 8% for the next two years following (Interactive Corporate Bureau, 2013). The study also draws attention to a disconnect between mobile use and mobile ad spending, indicating that consumers have jumped on the mobile

bandwagon far quicker than businesses can assess the value of and determine a respective online marketing strategy. Fifteen percent of all web traffic is now mobile; mobile traffic has doubled since last year!

Online marketing has evolved from being a one-sided channel of information relay; it is about conversations (Landry, Ude, & Vollmer, 2010). The Internet is an extremely effective medium to interact and engage with consumers who are no longer passive. Consumer involvement is a relevant consideration in stimulating online engagement and purchasing behaviour (Kamarulzaman, 2007). Standard ways to do this in travel includes audio, video and 3-D pictures. Additionally, retailers can set up incentive programs involving reward points, e-vouchers and membership arrangements. Some evolving approaches in consumer engagement is noted with Disney's online presence; it enables kids to explore virtual worlds that show off their theme parks. Oceania Cruises has a virtual ship available in the virtual world Second Life. An avatar can apply to work there or go on a cruise if they can "pay" for it.

E-marketing can be simple and inexpensive to set up, and it does make a business accessible to the world. However e-marketing is evolving, and the arenas of engagement expanding, and changing. Strategic analysis, investment considerations, channel-mix selection and return on investment mean that simple and inexpensive will not be a realistic perspective moving forward. It is also widely said that e-marketing will not be enough, and may not be the best option. Marketing approaches should involve multiple channels both online and offline.

Is the travel agency model sustainable?

Travel agencies

The travel industry has been one of the largest and fastest to grow and expand online (Kamarulzaman, 2007). The electronic distribution of travel information, availability and pricing has greatly expanded people's options of where to reserve and complete their purchases. Not long ago, most reservations required a travel agent to complete, yet more of these are now being done online directly by the consumer. OTA's and travel agencies are up against continuously evolving levels of competition and must make it an ongoing effort to assess the effectiveness of their websites, their online presence, and their customer relationship management (Ku & Fan, 2009).

There are three key merchants looking to capture the business of travel sales: a travel agency (several variants), an online travel agency (OTA) and the supplier. Many travel agencies have a web presence, but not all of them; also, an agent completes a booking that is made through a travel agency. An online travel agency provides a "one-stop shop" of services, and enables the consumer to complete the booking themselves. Expedia is one example. The supplier is the true provider of a product or service: an airline or cruise line for example. Most suppliers have websites, as well as automated booking. See Appendix 3 for a map that shows the various travel services providers available to the consumer.

If a travel agency chooses to have a website, it needs careful design and execution; there are too many options available to expect that consumers will spend much time browsing, let alone notice. The design of a website from a marketing perspective was discussed earlier in the *Online Marketing* section. From a consumer's perspective, a travel agency's website quality can be broken out into many characteristics but the overarching three are information, system and

service (Chang, Chen, Hsu, & Kuo, 2012). Information should be comprehensive and useful; the website itself should be user-friendly and easy to navigate; and the overall service experience should be satisfying to the customer's overall evaluation and judgement. Ultimately, the effectiveness of these characteristics, and in turn the success of a website, are determined by the perceptions of the customer. Convenience is not considered a main factor.

Consumers are more knowledgeable and many like to manage their own arrangements. One analyst describes the shift that travel marketers have taken to move the travel experience more online, placing all information and tools into the consumer's hands for extraordinary precision in travel planning (Walters, 2006). Extending this further, automatically triggered market intelligence systems follow up and tailor add-on offerings based on the customer's specific booking and itinerary which are sent via email, phone or in person during travel.

Direct supplier websites are gaining in market share of online bookings; by 2014 they will capture 66% of online bookings (King, 2012). The broad selection and automated booking process offered by OTA's have also taken a great share. In the cruise line sector, OTA's will control 59% of Internet sales by 2014. Suppliers and OTA's are in a battle for the online travel market. Travel agencies (and their websites) rely on their people to facilitate and complete bookings, and so typically do not have self-booking and self-paying capabilities on their websites. As such, they are missing out on the savvy independent consumers who want to take care of the bookings themselves. The increase in direct bookings with suppliers and OTA's strongly point to the need for travel agency websites to include automated booking as well.

The trend towards self-management of travel arrangements is not limited to the leisure traveler. Many corporate travelers have chosen to manage their own bookings online. American Express announced it will cut 4,500 jobs from its workforce, primarily in travel (TravelWeek.ca,

2013). In a recent report, 23% of an association's 18,000 agency members closed between 2007 and 2011 (Funk, 2012). Figure 7 reflects a decrease in both agencies and agents on a broader scale. This analysis led to the prediction that for

the cruise industry, sales volumes would go down as more travel bookings would be done by the traveler directly through suppliers and OTA's.

To counter and respond to these influences, travel agencies are, and will continue to be, in a state of transformation. There are signs of optimism: customer service, consultation, differentiation, a unique value proposition and a distinctive value chain. Agencies must be willing and able to assess their position amidst the profound evolution in the online and offline travel market, and evolve their capabilities and continue to operate, be competitive and profitable.

Alliances, Franchises, Consortia, Cooperatives

As competition has increased between suppliers, OTA's and travel agencies, so has cooperation and alliances, particularly online. Finding synergies in cross-promoting and cross-selling provides consumers with richer information and one-stop travel shopping. Like all suppliers, Carnival Cruises are continuously trying to capture the business directly and bypass the travel agents, however they just introduced a new agent learning management system to empower travel agents with flexible and customized learning options, along with a redeemable credit program (Travelweek.ca, 2013). At times, agencies have teamed up with former arch

Census Trend for Locations & Employees

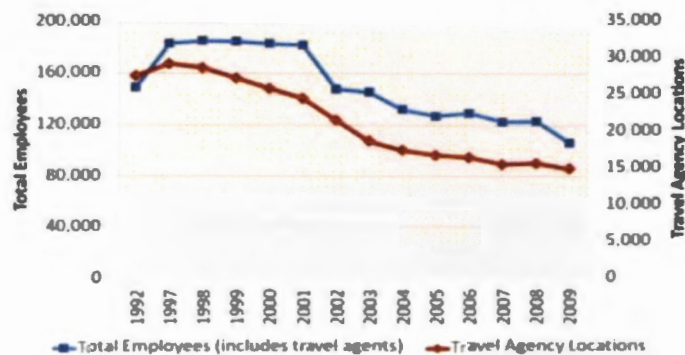


Figure 7: Travel agency and agent numbers. Source:

competitors to form powerhouses with strong negotiating abilities with suppliers (Terrero, A Consolidating Industry, 2013). The Thomas Cook mega merger with MyTravel in 2007 is one example.

When a travel agency becomes part of a franchise, joins a consortium or cooperative, it can add significantly to its list of resources and capabilities. Why work alone when being part of a group can provide more bargaining power with suppliers, and in turn better commissions. And while commissions are a key reason for joining, franchises and consortia nowadays do a lot more for their members. Agencies and agents can benefit from one-to-one marketing with customers through sophisticated e-mail marketing and data mining initiatives, education and training (Terrero, A Consolidating Industry, 2013). With advancements in technology and an intense overall competitive environment, these organizations are doing more and more to service their agency members, making them more efficient in their operations, and hence more profitable. This also benefits both consumers and suppliers along the way.

Home based agents

Technology and information access have enabled businesses to separate time and work from location (Fonner & Stache, 2012). Further, the latest abilities for teleworkers to connect to the company network and use company technology helps both employee and employer establish and measure the transition into and out of work and home roles. Productivity gains, efficiencies, cost and time savings are all good reasons to consider the work from home model. Some travel agencies have some (or all) of their full-time and part-time employees working from home. These home-based employees have access to education and support from their employers, if the appropriate technology and systems are in place. This saves on office rent, and can attract some

highly-skilled agents who no longer wish to commute. Client calls can be transferred to an at-home agent as easily as it can to one in the office.

As shown in Figure 8, the home-based agency model increased over 300% in the seven-year period from 2003 to 2010. Retail locations have dropped 27%

	2003 % Share	2004 % Share	2005 % Share	2006 % Share	2007 % Share	2008 % Share	2009 % Share	2010 % Share	% Change 03/10
Home-based Agency	7%	9%	12%	14%	18%	29%	30%	30%	312%
Retail Location Agency (Open to walk-ins)	63%	61%	60%	58%	55%	44%	45%	46%	-27%
Office Location Agency	23%	25%	24%	26%	25%	25%	23%	22%	-6%
Other	6%	5%	4%	2%	2%	2%	2%	2%	-74%

Figure 8: Home-based agency growth. Source: ASTA

in the same period. This has been as a result of bricks and mortar agencies shutting down and their owners taking their operation home. As technology advancements remove barriers to entry, direct-from-home start-up agencies come into the industry as well. As independent contractors, home-based agencies and agents work with a bigger travel provider who provides education and administrative support for a fee, and commissions are shared between contractor and agency.

Methodology

This project is an exploratory case study on Cruise Experts Travel Ltd (CET), a medium-sized cruise-only travel agency that has experienced growth and success as a result of advancements in technology and the Internet. The analysis looks at CET's application of technology and Internet solutions to achieve their business strategy and objectives. The case study considers industry findings and examines how and why they are or are not consistent with CET's overall approach and performance as a travel agency.

The study takes both a quantitative and qualitative approach to analyze and assess primarily the North American travel industry and specifically the American cruise-only travel segment to examine the travel agency model, and its sustainability. Particular focus is placed on business strategy and positioning, as well as branding and marketing efforts.

Secondary data sources are used to collect information on how the travel industry has evolved over the last few years, and how technology and the Internet have impacted it. Because technology and Internet advances happen so quickly, data sources used are limited primarily to information made available within five years of this project report writing. Scholarly articles, journal articles, industry association survey summaries, travel journal trend analyses and travel market research and statistical reports are used to examine and measure technology and Internet impact on travel agencies.

While no formal interviews were conducted, CET's Chief Financial Officer, Blaine Lambert, shares a few comments on how technology and the Internet have impacted CET in the last ten years, how industry trends affect them, and whether their future strategies are sustainable.

Discussion

CET Business Strategy

Value of the CET travel agency

The *traditional* travel agency model will not survive in today's environment. CET has taken on a hybrid approach in its structure and strategy, which suggests they can benefit from the better of more than one approach. They are more than a bricks and mortar agency, and yet not an e-commerce business. Business is generated online, via their content-rich websites, then handled and completed by a travel agent. CET's travel sites do not enable customers to complete their own bookings online. CET recognizes that they are losing out on the technology-savvy independent traveler who is comfortable doing their research and completing the booking themselves. In order to continue their competitive efforts, they will need to provide this option soon. While traditional agencies have websites, many don't have their own booking engine, as this is relatively complex and expensive functionality to adopt. Even CET acknowledges that a CET online booking engine should have been in operation more than a year ago. Should they develop and implement this soon, they can benefit from further differentiation and gain additional competitive advantage, at least among the travel agency group.

The CET resources and capabilities make for a dynamic agency model. The physical office provides a hub for standardized operations and administration. It's more a call center, and does not rely on walk-in traffic or local business, though they are fully set up for that when needed. Some CET staff work from home, some from the office. This employee workplace option opens CET to a broader pool of talent. Supplier relationships are strengthened via regular face-to-face meetings that are well accommodated in their well-designed and well-presented

office space. Their media room with two-way cameras allow interactive meetings with call centres and home-based staff.

Business Strategy

Cruise suppliers are few and large. Yet distribution is fragmented, especially within the cruise market. CET's business strategy has been to develop a distinctive value chain and diversify through vertical integration of some of their primary activities. Their preferred supplier strategy was to limit the suppliers they dealt with and funnel sales into those so as to make CET the suppliers' largest regional account. As sales grew, they added additional suppliers and grew them to top account status.

Top account status provided benefits and opportunities to being competitive and profitable. Contract negotiations enabled a tailored agreement for CET's business model. Customizable features included pricing, marketing support, commission structures, problem resolution and access to senior management.

The literature underscores the value of consultation and client care for travelers seeking it. Good travel agencies can outperform OTA's and suppliers in this capability. CET supports strong customer relationship management. They have internal mechanisms that enable their travel agents to develop their unique client relationships. Each client is assigned to an agent who builds rapport, qualifies the client's needs and interests, and then delivers and services accordingly. Other value-adds in the client relationship that CET supports include making clients aware of what they don't know they might need/want; helping them find better pricing, in essence serving the functions of a broker; and coming to their rescue if they have any problems. Monthly one-on-one coaching and ongoing agent development, bi-weekly staff meetings and reward incentives help ensure the delivery service quality CET champions.

Figure 9 shows CET's performance in the last 5 years, as measured by the potential customers (i.e. leads) who make contact via one of their four websites, and then make a booking. They have seen growth though the last two years show a

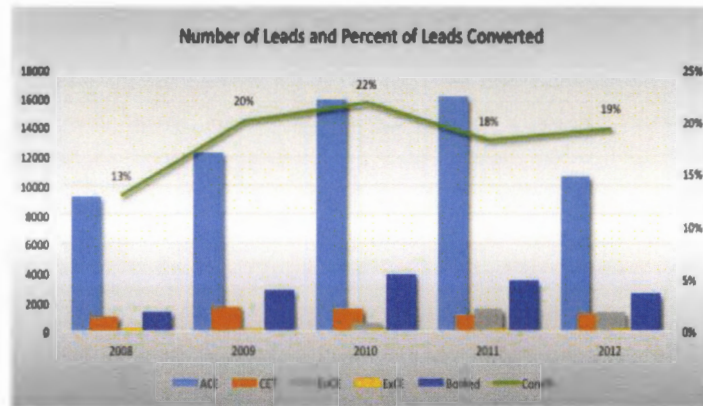


Figure 9: CET leads and percent converted. Source: CET

decline in bookings and a decline in leads. Lambert attributes this to the various challenges affecting the industry recently including the sinking of the Concordia and economic restraint. While there were fewer leads in 2012, conversion rate went up. This is due to a well-trained team that has become better at managing and converting the leads they get. Yet those leads come at a price. Marketing costs end up being higher per lead generated. Further, the Google Penguin update impacted CET's ranking in the search arena. The Penguin update involved a change in Google's search algorithms to provide better ranking to those websites deemed to have the *authority* on a product or service. This resulted in suppliers ranking higher in consumer search results than CET and travel agencies in general. While many who fit the bill of being an *authority* welcomed this, many websites, and in turn the respective businesses, were hit hard and experienced enormous monetary losses in lost business and revenue. CET's technical team quickly evaluated and refined their websites' structures to address the algorithm change, yet they are still only an intermediary and not a true *authority*. The quality, quantity and originality of their website information is a key strategy that continues to gain them a degree of priority and relevance. The Penguin update also illustrates how technology can spin on a dime and bring on unexpected new challenges – and opportunities – that need to be responded to almost as fast as

they appear. While CET's intention is to continue and be responsive, industry forces beyond their control can and will continue to impact and test their ability to remain competitive.

Initially CET avoided any potential distraction or intimidation by other the online travel agencies, not a strategy the business analyst would recommend. Now they do competitive analysis through price comparisons continuously, as a result of the commoditization of the travel product. It's so much easier for the consumer to make comparisons, so CET must be able to gauge itself and its position across the industry.

Business analysts question how a traditional travel agency can survive when commissions are eroding rapidly, and prices are forced down due to increased competition. When a travel agency gives rebates, they give away part of their (eroding) commission. They do this to offer better pricing and to compete. Rebating has become an industry norm to gain business, though it continuously eats away at the profits. Some agencies rebate as much as 4/5 of their commission. Online agencies are better positioned to do this as their cost structure is lower and support staff are more clerical than travel professional. This practice does not build any loyalty with the consumer, and makes switching from one travel provider to another easy. To counter this, CET maximizes the relationship with suppliers and uses customizable features to differentiate their product with value-adds such as free dinners or excursions and onboard credit.

Figures 10 and 11 show some

financial ratios on how CET has been performing the last seven years. Their current ratios have

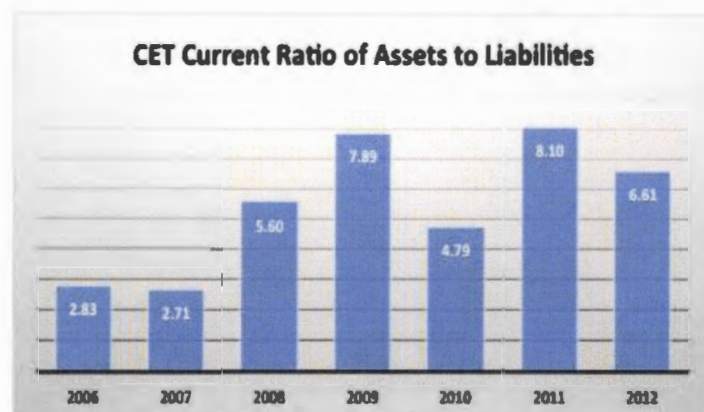


Figure 10: Current ratio of assets to liabilities. Source:

them in a strong position to manage their debts. The CET profit margin reveals a recent downward trend, which can be attributed to a number of factors for CET: continued employee growth, product discounting, economic restraint, and higher marketing expenses. Another external factor that has negatively impacted CET is the foreign exchange rate. As most CET business is U.S. based, the strong U.S. dollar up until a few years ago provided CET with a surplus to their profits. A stronger Canadian dollar does not work in CET's favour.

CET did such a good job branding themselves as Alaska specialists that their clients would not think of them for other travel.

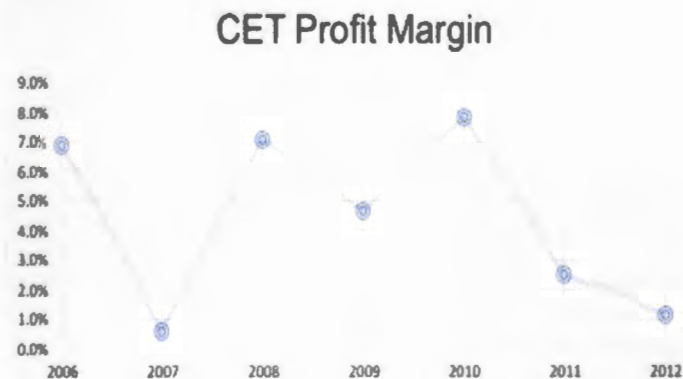


Figure 11: CET profit margin. Source: CET

To change that, they have changed how they talk about themselves, and brand the company rather than the website. It has helped. Also, they passively recommend other destinations through e-mail broadcasts. Additionally, through their “call-out” program, they reach out to their prior Alaska passengers and recommend other destinations.

Vertical integration involves some distinctive activities CET has taken on. These differentiators and hyper differentiators are discussed in more detail in a later section, so only a summary is presented here. CET has developed their own supply of complementary products/services, and have set up departments to promote, sell and manage these. Such products involve unique resources and capabilities, and garner higher yields. The ability for agencies to develop both these products and the ability to manage them is not easy.

Commoditization, Intermediation, Differentiation

CET was aware of the commoditization effect from the start. Hence the strategy to become top account. They were able to benefit from key account pricing that was 5-10% in their favour. At times, this was even better pricing than booking through a supplier. This advantage ended when a new industry agreement established what was called the “fair price policy”. CET then focused on its ability to purchase *group inventory* that provides better pricing and a competitive advantage over most agencies.

Travel agencies have their own version of the *Ten Commandments* of being a great intermediary for a consumer to go to. The extent to which they measure up to those qualities will vary. CET commits to the following to establish themselves as valuable in the eyes of their clients:

- True expertise in their products/services
- Specialization in the cruise travel sector, with a further specialization in the Alaska market
- Convenience through all inclusive service with one representative
- Act as an independent broker and recommend a wide range of travel options through many suppliers that would best fit a client

CET sells a lot, and they do so because they are Internet-based, with four travel websites, and as a result they are important to cruise suppliers. CET ranks somewhere in the top 100 of around 14,000 agencies currently in North America with cruise suppliers. Top producer benefits, specialization, and custom products are what CET considers their key differentiators. The custom products CET creates include what are called cruise tours and custom excursions. The cruise tour

product is a bit more complex to manage as an add-on. There's more to know, and more details to manage. As a result, many agents will shy away from them. The custom excursion product can give the customer better value and a better quality experience. It is unique in the travel agency model to have their own shore excursion department. CET has also developed their own cruise tour products, and has hired a local company to manage logistics (i.e. guides, busses, trains). Their unique offering represents their recommended best way to see Alaska. It's not the cheapest, nor a luxury experience, but it is great value considering what is included. CET has done well with these over the last couple of years; this year is posing more of a challenge as they have more custom product to sell yet the sales appear slower.

To further support their all-inclusive service, they have their own air travel department as well. Typically, with cruise only agencies, clients are left to manage their own flight details for their cruise vacation, and while many do, CET's commitment to full client care makes this service option available.

What CET is doing here with their unique value chain and product differentiation is moving in line with what analysts and the literature state is required as part of a sustainable business strategy. It has served them well during their period of growth the last 8 years, yet technology and the Internet continue to push enormous amounts of product and service to the consumer, and many are also looking to differentiate themselves accordingly.

Branding and Marketing

Analytics

All CET marketing initiatives revolve around the four travel sites. They include:

- Pay per click advertising on Google and Bing
- E-mail marketing out to clients and subscribers who have signed up for a newsletter
- Call-outs to follow up on the e-mail marketing and new offers
 - This is done up to twice a week. Their sophisticated CRM systems can measure that about 15% of e-mail marketing is looked at, and about 2% click through to web site.
- Direct mail (supplied / supported by cruise lines)
- Radio

CET measures marketing initiatives in two ways: by individual initiative (flyer mail-out) and campaign (multiple channels, one supplier and a specific period). Analyze sales generated to marketing costs incurred.

Internet marketing is expensive to generate leads. To make it efficient, CET shares this cost with the suppliers, which makes CET's marketing efforts viable. Internet spending would not be feasible at the level it is without the supplier support.

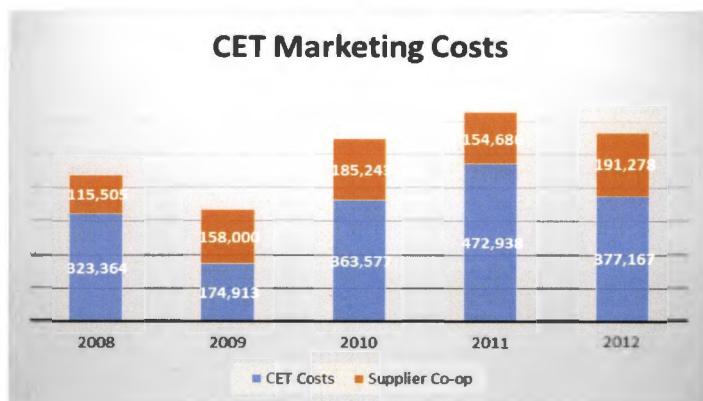


Figure 12: CET marketing costs. Source: CET

Figure 12 shows how marketing costs are shared between CET and suppliers.

CET analyzes its marketing and business efforts through Google Analytics as well as the Cooperative organization's powerful CRM tools, which capture specific lead activity based on source. See Appendix 4 for the 5-year activity on the following:

1. Website visits: as would be expected, CET puts a lot of money into driving traffic to their specialty site, Alaska Cruise Experts, and the numbers reflect that effort. CET started focusing on the European site over the last few years, as reflecting in the growing traffic. CET has not invested significant marketing dollars nor website content building on their Exotic product, hence the low traffic to that site.
2. Bounce rates: Bounce rate is a term used to measure the percentage of visitors who leave the website as soon as they land on it. One report indicates that a bounce rate of 65% is normal. CET's bounce rate averages 34% for their Alaska site and 42% for their European site. This indicates visitors are staying on the site and browsing.
3. Website visit durations: CET correlates the duration of site visits to content quality and timeliness. CET devotes substantial effort into entering useful, current information and visitors are taking the time to look.

Mobile Advertising

Google encouraged CET to try mobile text ads, which would display the CET phone number on a Google search. CET ran a small campaign yet saw no results. While CET websites have been optimized for tablet devices, they are not so for smartphones. Until that is done, CET will not be running mobile phone-specific advertising. CET recognizes that they are missing market share by not being smartphone present, and are planning to be mobile phone optimized by the summer of 2013. As for the literature's recommendation to pursue mobile apps for the smartphone, CET doesn't believe it will currently meet their needs as a medium-sized business

and they don't have the branding presence they feel is needed – they are not big enough. They do see themselves developing a mobile phone device app down the road, which will focus on enhancing customer service for their existing clientele as opposed to generating new business.

Social Media Marketing

CET is dabbling in social media similarly to how other businesses are doing – try a few things and see how it goes. As with many other businesses, CET is working to figure out what the secret formula might be. CET has three objectives with their social media strategy:

- Engage current clients to build rapport and encourage repeat business
- Attract new visitors to the CET travel sites
- Create content that will help with search engine optimization of their travel sites

CET has a social media coordinator who aims to achieve these objectives. They are engaging with several social media channels: Facebook, Twitter, LinkedIn, Pinterest, Instagram, YouTube, blogs, Google+, FourSquare, forums and some Twitter-blog mixes. They are also in partnership with a 3rd party well-known travel blogger who talks about their products. They offer online contests for free trips through some of these channels as well. Appendix 5 highlights a few analytics on their social media activity. Facebook is attracting visitors, and some are actually spending a little time on there. They have 28 YouTube videos featuring travel experiences, with the most viewed video attracting over 3000 views.

CET sees their social media engagement efforts as follows:

- A little engagement; not too much. Limited success in engaging current clients
- Up to now, there have been minimal results in generating new business, and measurement has been difficult

- The justification for social media comes from building content and showing engagement. Search algorithms weigh in social media involvement when ranking websites

Internet marketing

It is estimated that larger companies spend anywhere from 5% to 21% on their marketing efforts (Messinger, 1995). In the travel industry, over 80% of surveyed agencies spend between 0% and 10%; 13% spend between 11% and 20%

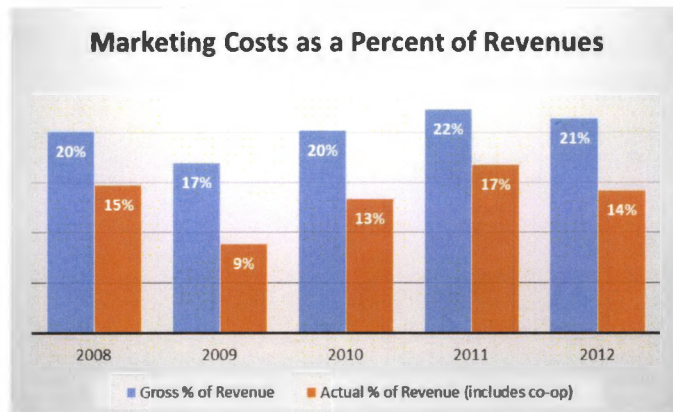


Figure 13: CET marketing costs as % of revenue. Source: CET

(ASTA, 2011). CET's gross percent of revenue towards marketing is around 20% (See Figure 13), but when the supplier support is factored in, it comes more in line with the industry norm. CET focuses on their Internet-based marketing efforts, which make up over 90% of their marketing budget.

CET's overall strategy of having niche or destination travel sites as opposed to all-encompassing travel sites is to increase relevance on search engines. For example, the Alaska cruise experts travel site is one of the most comprehensive sites dealing with Alaska on the web and that has helped CET rank high in natural⁴ web searches.

CET has designed their sites for search engine optimization (SEO) in that the layout of the sites are done to allow the search engine scan tool (spiders) to easily read the site. Secondly,

⁴ A natural search result (also called organic) is one that has not been paid for to show near or at the top of the list of results in a search tool.

CET places content strategically throughout the site that contains key words that people use when thinking about travel to Alaska. CET content is always changing and that ranks high in search optimization.

Search engine marketing (SEM) makes for CET's majority of the marketing budget. The ultimate strategy is to generate leads. CET wants to attract "quality" visitors to the travel sites at the lowest cost. A quality visitor is one who is seriously looking to purchase travel. SEM is therefore meticulously designed to capture potential clients and take them exactly to the page that will provide them the most relevant information to their search criteria.

Display advertising is a display ad (which could also be animated) that displays on third party sites. CET has done testing on display advertising using Google's help and recommendations and found it was not effective in generating leads. CET says that Google indicated that it is good for branding, but CET believes that branding for a small to medium sized business is not an effective strategy – lead generation is what they are after.

E-mail marketing has evolved for CET. At first, everyone received the same e-mail. However, CET today has a sophisticated CRM system that allows capturing of client preferences, response to marketing activity, and travel history. As a result, e-mail marketing is sent with custom precision that generates more call and inquiries, which eventually translate to more business. Clients can further customize a detailed selection of their e-mail preferences, which also results in lower unsubscribe rates. When a client contacts CET, an agent can quickly pull up their profile and review all offers sent, and what offers have been reviewed. This enables the agent to be fully informed of the client's interests. The incredible marketing intelligence systems are a benefit of the travel Co-op that CET belongs to, and one of which attracted CET to the Co-op.

While CET has some good mechanisms in place for their marketing efforts, this marketing is not inexpensive. The fight to be seen first by the consumer, the “Penguin updates”, and the many different channels that consumers use to find their travel products puts pressure on CET to keep investing for that “visibility”, and that has more money going out, with no real guarantee that more money will come back in.

Signature Travel Network

In 2009, CET left a franchisor and joined a cooperative called Signature Travel. Unlike consortia, where members pay a membership fee, Signature is owned by its members. To join this organization, approval from their board is required. Signature considers size, innovation and business potential when considering new member agencies. What attracted CET to Signature was its marketing technology. For no cost to its members, CET has access to the intelligent marketing abilities, and has sought to take advantage of the support systems provided. Signature has always placed the highest priority on technology investment. As a result, Signature is known within the travel industry as one of the more low cost and effective marketers. CET made an effective strategic move to join Signature.

Conclusion

The viability of the traditional travel agency model continues to be in question. In fact, the travel agency's ability to survive has been examined and discussed for many years now. The common inquiry around these discussions is whether it serves any value, to this evolving industry, to have these intermediaries when technology and the Internet are making it easier for suppliers and consumers to connect with each other and transact. There are glimmers of optimism amidst the writings. Evolution and technology have proven that we cannot always foresee what creativity and new strategies and tools use will come around; and how the travel agency sector will be able to embrace and adopt them in its product and service offerings.

Common themes amongst the literature state that you have to be big, you have to be specialized or you have to be a custom consultant. You also have to know how to maximize the plethora of technology and Internet marketing channels and their complex interconnections to develop your brand and identity.

While technology and the Internet bring new benefits and efficiencies to a business such as a travel agency, fixed costs to maintain technology replace transaction-based variable costs, which can erode expected profitability.

Commoditization of travel products means that the Internet has made everything available to everyone at once. When everyone is selling the same thing, it results in painful discounting for a provider to capture a share of the market, as the only thing that matters to the consumer is the lowest price. To achieve a reasonable level of revenue, one must operate as cost-effectively as possible, with no frills, and minimal degrees of labour involvement. OTA's can operate in such an environment but agencies who tend to have higher labour costs cannot.

Many analysts see agencies as being in the line of fire for elimination as (unnecessary) intermediaries. If they're going to survive, they must look to how they will differentiate their product and their service. Fortunately, there is an appetite for both tailored products as well as consultative service. There exists a measureable segment of the travel population that can be categorized as mild to wild adventure seekers, and so look to find the more unusual, the more unique, and the more off the beaten path experiences. Additionally, it does not appear that the masses are ready to take on their travel plans on their own – not all of them, and not all the time.

While agencies may compete with the many travel providers that are out there, and the numbers have grown as a result of technology and the Internet, many travel providers lend support to the agencies. Suppliers still value all those representatives of their products, and so provide means and tools to help make them more effective. Travel associations offer membership with networking opportunities, consolidative bargaining power and marketing support.

CET believes it can survive based on its ability to be adaptable to the industry, technology and Internet influences that come its way. Indeed, over the past 10 years of its growth, it has demonstrated an ability to achieve that growth primarily as a result of technology and the Internet. Yet as this report has attempted to identify, there are a number of support mechanisms, industry influences, business strategies and innovative approaches that come into play as well. These mechanisms change, and demand flexibility and adaptability quickly. Appendix 6 shows CET's strategic outlook via a TOWS (strengths, opportunities, weaknesses, threats) matrix analysis. Areas of strategic focus for CET include further technology adoption and development, strengthening their differentiating position, and cost containment.

CET's hybrid agency model means they can have a local presence and cater to clientele face to face, manage meetings and administrative duties. They also function as a call centre and reach out to a global customer base via the Internet. Through their custom products and vertical integration they offer a unique value proposition, and hyper differentiation. The associations they work with, and the account status they maintain create a distinctive value chain that makes their business model more difficult to replicate.

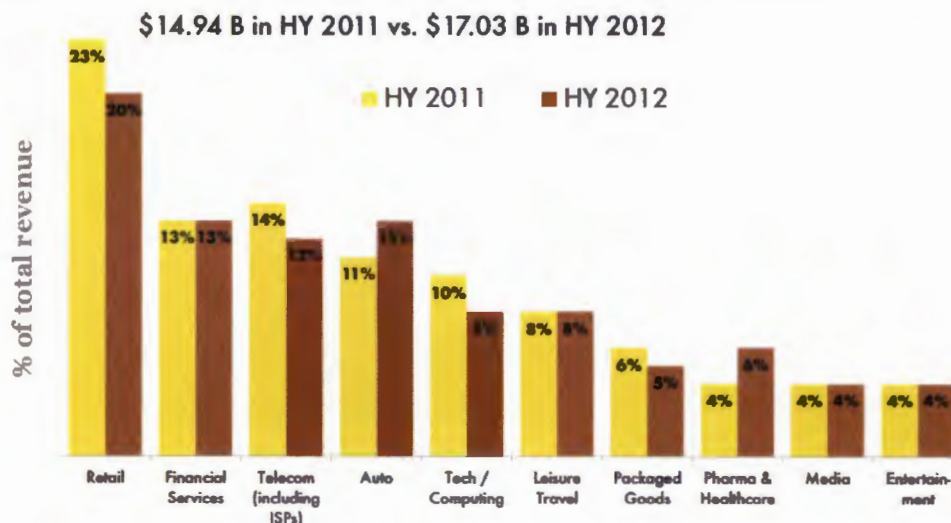
CET's financial performance has been strong, but has weakened somewhat the last couple of years. The fierce competitive environment is still out there, and CET must stay alert, and continue to adapt to the onslaught of new influences the Internet and technology bring.

Unsuccessful travel agencies fail for a number of reasons. Some are run by people who love to travel, and not by business people, and thus lack the business acumen needed for marketing plans and operating budgets. Other agencies experience revenue losses through the reduced cost of travel to consumers and the erosion of associated commissions. At the same time, the cost of doing business has increased as marketing and labour costs have escalated as well. The traditional travel agency will have difficulty surviving and that is why the industry continues to see consolidation and transformation.

Appendix 1 – Cruise Experts Travel Ltd. Websites

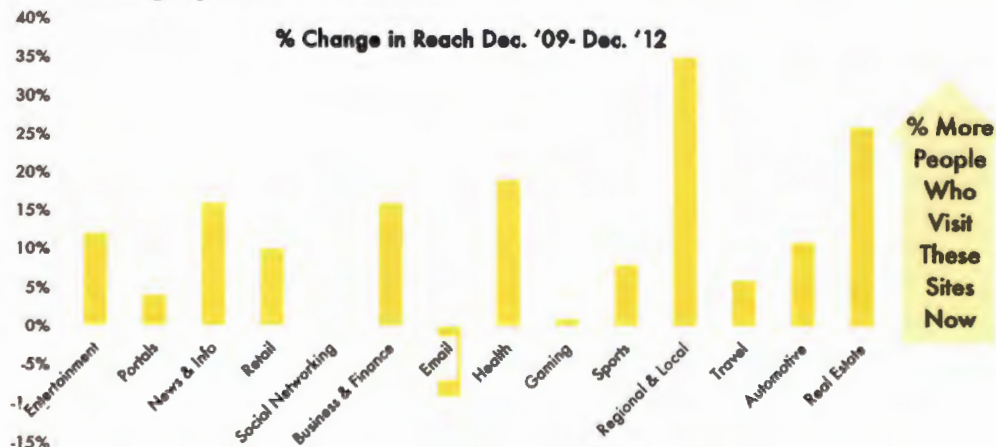


Internet Ad Revenues by Major Industry Category



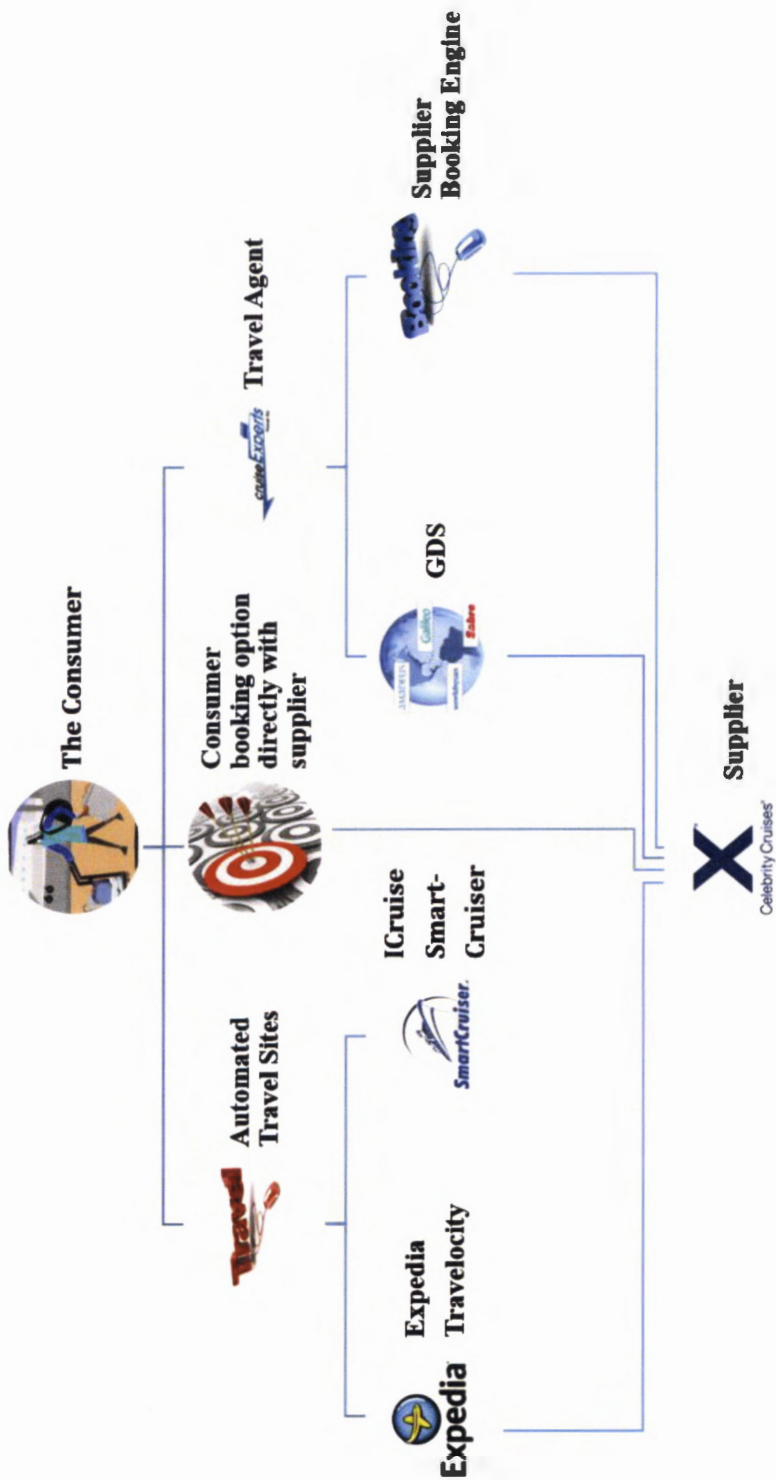
Digital Has Changed the Way We Live

- Percent Growth in Number of People Using Each Online Category Over Past 3 Years

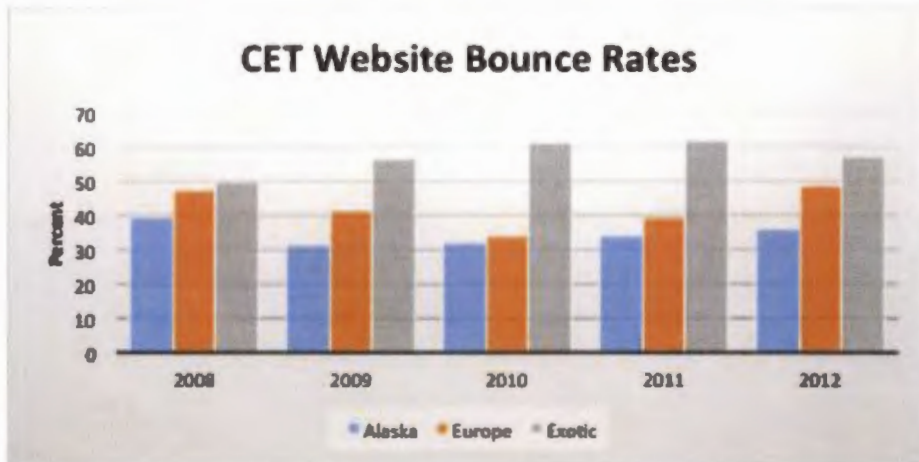


⁵ (Interactive Corporate Bureau, 2013)

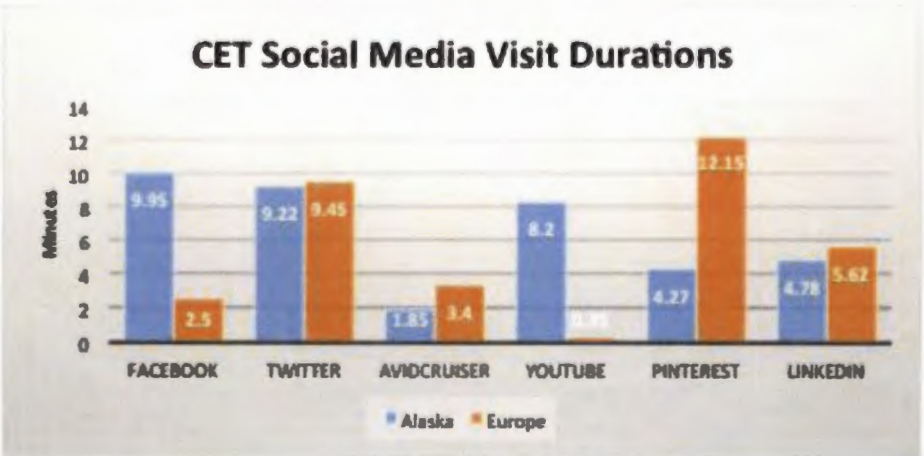
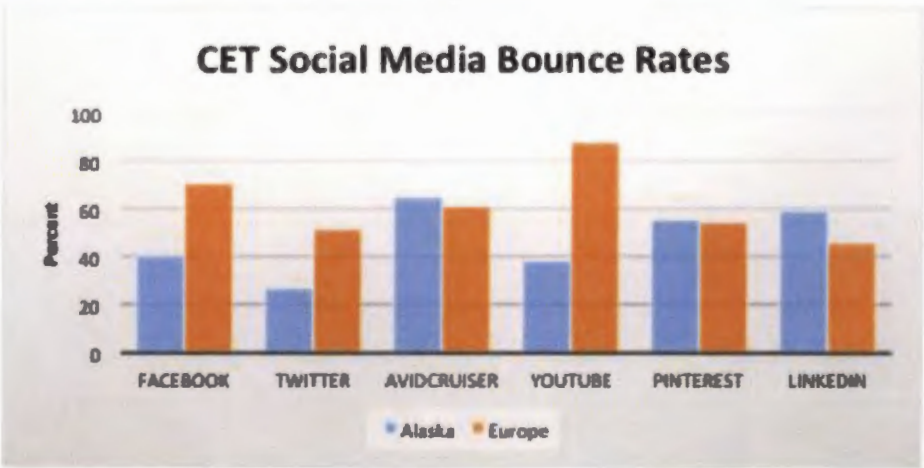
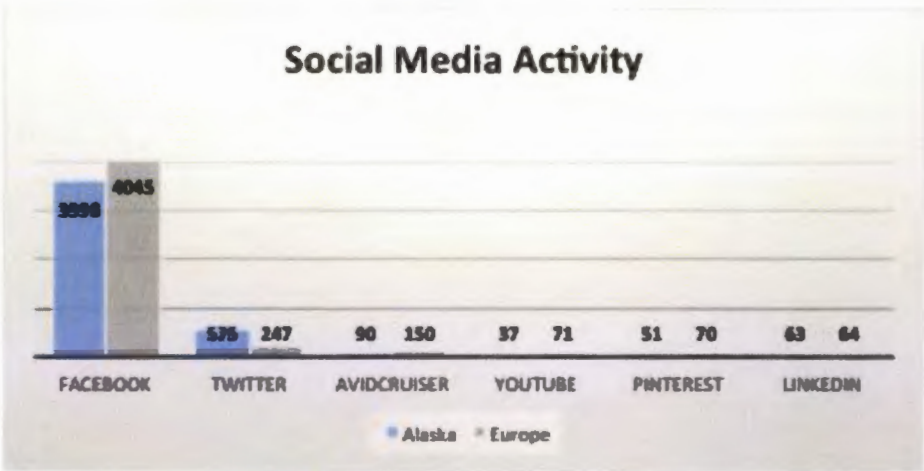
Appendix 3 – Travel Industry Players



Appendix 4 – CET Website Traffic Analytics



Appendix 5 – CET Social Media Traffic Analytics



Appendix 6 – CET TOWS Analysis

INTERNAL	STRENGTHS	WEAKNESSES
EXTERNAL	<ul style="list-style-type: none"> Large cruise seller in our market place. Top account with our suppliers. (Earn top commissions and access to senior supplier executives) Excellent reputation with suppliers for integrity & effective internet marketing. Small adaptable management and marketing team able to go to market quickly with opportunities and implement new business strategies quickly. Part of Co-op that leverages cumulative sales when negotiating with suppliers (better client pricing & travel amenities) Part of Co-op that allows access to sophisticated marketing technology (allow for effective targeted marketing) Specialist in cruising and specific destination markets Experts knowledge in Alaska & Cruising (over others) Economies of Scale in destination of Alaska (better prices & value adds for clients) Volumes in Alaska market allow for our own Shore Excursion Division (better value day time experiences) Volumes in Alaska allow us to offer own higher yield travel experiences 	<ul style="list-style-type: none"> Specialist in specific destination not always thought of for other destination Specialist in cruising missing out in clients other vacation activity (land based). No automated booking process with current travel websites Limited resources for website development (limited to part-time programmer). Delay in making website mobile friendly. Canadian based agency with mainly US customers (challenges with taking payments and fees levied by CC companies & continued recession in US). Supplier US based and pay in USD. Bottom line directly impacted by strength of Canadian dollar. Labour intensive sales and booking process that is challenged with lower yields now seen in industry
OPPORTUNITIES		
<ul style="list-style-type: none"> Growth in destinations other than Alaska Growth in non-cruise travel (land resorts) Launch of fully automated travel website (appeal to market missing out on) Development of Local and national market Development of group & affinity travel market Cross market travel related goods & services (luggage, books etc.) Co-op continues to generate leading edge technology available to members (travel apps/smart communications) 	<ul style="list-style-type: none"> Continue to invest strategically in website development of Europe and Exotic destination travel websites. Research and plan for a new automated travel website Slowly divert more marketing resources to local and Canadian markets Take advantage of new technology offered by Co-op Play a key role in future technology development by the Co-op (Get elected to Board so have more input) 	<ul style="list-style-type: none"> Setup US Satellite office to avoid currency issues with US clients and regulatory challenges with selling travel insurance. Continue to streamline and automate processes to reduce travel booking costs Develop a non-cruise travel division of the company to promote land packages to our existing cruise client base.
THREATS		
<ul style="list-style-type: none"> Consumers to greater degree are using mobile phones to research travel options (websites not mobile friendly) Weak US economy and unstable US political environment (low consumer confidence) Most aggressive competitors is our suppliers. Large US agencies with automated websites that offer back up to 2/3 of commission we earn New competitors entering industry all the time (Costco selling travel in Canada soon). Business vulnerable to national and international events (SARS, Volcanoes, EU instability/Greece), Arabic Spring, US Recession) Business susceptible to incidences with cruise ships and airlines. Other legal jurisdictions challenging our right to sell travel products to their residents (Other Canadian provinces and American states) 	<ul style="list-style-type: none"> Invest strategically in website development (mobile friendliness of websites) Invest great % of marketing dollars in local and Can national market Marketing needs to clearly differentiate us from supplier competitors based on service and value adds not offered by suppliers To combat lower commission on average cruise booking continue to focus on selling add on components of trips (hotel, transfers, shore excursions, travel insurance) Continue to focus on core competencies of superior customer service and advantages to booking all the vacation components Expand product line away with smaller ship sail experiences. Where possible operate legally in the jurisdiction (going through and completing registration process for Alberta, Saskatchewan, Manitoba and Ontario.) 	<ul style="list-style-type: none"> For core business continue to deliver good service and really reinforce relationships with clients Create a new division under its own brand that will minimize travel agent involvement and there offer a lower cost of fulfillment for booking travel and lower prices for consumers Continue to expand our own product lines that can not be shopped or compared based on price as only available through our agency

References

- ASTA Research Group. (2012). *2012 Supplier-Travel Agent Relationship*. Alexandria: American Society of Travel Agents.
- ASTA Research Group. (2012). *2012 Technology and Web Usage Report*. Alexandria: American Society of Travel Agents.
- Canada Tourism Commission. (2012). *Tourism Snapshot*. St Johns: Canada Tourism Commission.
- Chakravarthi, J., & Gopal, V. (2012). Comparison of Traditional and Online Travel Services: A Concept Note. *IUP Journal of Business Strategy*, 9(1), 45-58.
- Chang, K.-C., Chen, M.-C., Hsu, C.-L., & Kuo, N.-T. (2012). Integrating loss aversion into a technology acceptance model to assess the relationship between website quality and website user's behavioural intentions. *Total Quality Management*, 23(8), 913-930.
- Christodoulidou, N., Connolly, D. J., & Brewer, P. (2010). An examination of the transactional relationship between online travel agencies, travel meta sites, and suppliers. *International Journal of Contemporary Hospitality Management*, 22(7), 1048-1062.
- CLIA. (2013). *2012 Industry Update*. Arlington: Cruise Lines International Association.
- CLIA. (2013, January 10). *Issues & Facts*. Retrieved from Cruise Line International Association, Inc.: <http://www.cruising.org/regulatory/issues-facts>
- Cline, S. (2013, February 14). *The 8 Worst Cruise Ship Disasters*. Retrieved from US News: <http://www.usnews.com/news/articles/2013/02/14/the-eight-worst-cruise-ship-disasters>
- Cohen, B. (2012, January 17). *How the Costa Concordia Disaster Will Affect Cruising in General*. Retrieved from CN Traveler: <http://www.cntraveler.com/daily-traveler/2012/01/costa-concordia-and-cruising-faq>
- Dooley, G. (2008). Opinion: Innovation is What Keeps the Industry Thriving. *Travel Agent*, 332(8), 86.
- Funk, C. (2012, April 12). *The travel agent in metamorphosis*. Retrieved from Travel Weekly: <http://www.travelweekly.com/Charlie-Funk/The-travel-agent-in-metamorphosis/>
- Granados, N. F., Kauffman, R. J., Lai, H., & Lin, H.-C. (2011). Decommoditization, Resonance Marketing, and Information Technology: An Empirical Study of Air Travel Services amid Channel Conflict. *Journal of Management Information Systems*, 28(2), 39-74.
- Gupta, S. (2013, March 1). For Mobile Devices, Think Apps, Not Ads. *Harvard Business Review*, pp. 71-75.

- Hatton, M. (2004). Redefining the relationships - The future of travel agencies and the global agency contract in a changing distribution system. *Journal of Vacation Marketing*, 10(2), 101-108.
- Hochman, L. (2011). Leadership in Action. *Leadership Excellence*, 28(1), 15.
- Kamarulzaman, Y. (2007). Adoption of travel e-shopping in the UK. *International Journal of Retail & Distribution Management*, 35(9), 703-719.
- King, D. (2012). Suppliers widen online sales share. *Travel Weekly*, 71(47), 6.
- Ku, E. C., & Fan, Y. (2009). The Decision Making in Selecting Online Travel Agencies: An Application of Analytic Hierarchy Process. *Journal of Travel of & Tourism Marketing*, 26(5-6), 482-493.
- Nichols, W. (2013, March 1). Advertising Analytics 2.0. *Harvard Business Review*, pp. 60-68.
- Oberle, G. (2011). *Lessons from the Travel Blog Project*. Alexandria: American Society of Travel Agents.
- Office of Travel and Tourism. (2011). *International Travel 1990-2000*. Washington: U.S. Department of Commerce.
- Parkinson, B. (2010, July 12). *Travel*. Retrieved from MacLeans.ca: <http://www2.macleans.ca/category/life/travel/>
- Porter, M. (2001). Strategy and the Internet. *Harvard Business Review*, 79(3), 62-78.
- Rayport, J. F. (2013, March 1). Advertising's New Medium: Human Experience. *Harvard Business Review*, pp. 77-84.
- Rice, K. (2012, July 9). Cruise execs tout agents' value during Travel Weekly panel. *Travel Weekly*, 71(28), p. 21.
- Rice, K. (2013, January 10). *Preview 2013: Technology*. Retrieved from TRAVEL WEEKLY: <http://www.travelweekly.com/Travel-News/Travel-Technology/Preview-2013-Technology/>
- Standing, C., & Vasudavan, T. (2000). Industry transformation in e-commerce: Web diffusion in travel agencies. In S. Barnes, & B. Hunt, *E-Commerce and V-Business: Business Models for Global Success* (p. 314). Oxford: Butterworth-Heinemann.
- Terrero, R. (2013, February 7). *A Consolidating Industry*. Retrieved from Travel Agent Central: <http://www.travelagentcentral.com/consortia/consolidating-industry>
- Terrero, R. (2013). What's in Your Toolbox? *Travel Agent*, 341(9), 4.
- TNS. (2011). *2011 Cruise Market Profile Study*. Fort Lauderdale: Cruise Lines International Association.
- Travel shops will die out. (2004, July 16). *Travel Trade Gazette UK & Ireland*, p. 7.

- TravelWeek.ca. (2013, January 14). *American Express to cut 5,400 jobs, mainly in travel*. Retrieved from Travelweek.ca: <http://travelweek.ca/news/3-top-news/2545-american-express-to-cut-5400-jobs-mainly-in-travel>
- Travelweek.ca. (2013, February 11). *Carnival Cruise Lines launches enhanced travel agent learning management system*. Retrieved from travelweek.ca: <http://travelweek.ca/news/3-top-news/2541-carnival-cruise-lines-launches-enhanced-travel-agent-learning-management-system->
- Turner, A., & Peikin, D. (2013, February 4). *Cruise Industry Launches 'Cruise Forward'*. Retrieved from Cruise Lines International Association, Inc.: http://cruising.org/regulatory/news/press_releases/2013/02/cruise-industry-launches-cruise-forward
- UNWTO. (2012, Feb 12). *UNWTO Tourism Highlights, 2012 Edition*. Retrieved from UNWTO.org: <http://mkt.unwto.org/en/publication/unwto-tourism-highlights-2012-edition>
- Walters, J. (2006). Online natural home for travel marketing. *Precision Marketing*, 18(28), 9.
- World Tourism Organization UNWTO. (2013). *International tourism to continue robust growth in 2013*. Madrid: UNWTO Media Release.
- Young, S. J. (2012). Facebook as a Sales Tool. *Travel Agent*, 340(7), 28-29.
- Young, S. J. (2012). Tools of the Trade. *Travel Agent*, 339(13), 30-32.