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# FUNDAMENTALS OF TRAVEL AGENCY AND TOUR OPERA- TION BUSINESS

Travel industry has grown at a great pace with the changing consumption patterns across the globe. The role of intermediaries in this industry has been vital in bridging the gap between demand and supply and tourists and destinations. More importantly, travel agents and tour operators play a major role in distribution of tourism services. This chapter aims to facilitate learners in understanding the basics of travel agency and tour operations with comprehensive inputs on concepts, types, differences between travel agency and tour operators and also the interrelationship between them.



## OBJECTIVES

After studying this lesson, you will be able to:

- define the meaning of travel agency and tour operation;
- discuss the concept of retailing and wholesaling;
- identify the types of travel agents and tour operators and
- differentiate between a travel agency and tour operators.

## 20.1 MEANING OF TRAVEL AGENCY AND TOUR OPERATION

Both travel agency and tour operators, are intermediaries who bring together clients and principal service providers and strengthen the selling and buying process in travel industry. Conceptually they are different from each other. Hence, it is important to have the conceptual understanding of these two.

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A Travel Agency is a business which makes arrangements for peoples' holidays and journeys by booking their tickets, hotel accommodation or providing allied facilities to them.

#### 20.1.1 Travel Agency

Travel agency is an organised service provider in the travel industry. It means a travel agent is responsible for organising travel. It provides a link to the suppliers of services with the tourists. It acts as a retail store for both suppliers and clients. It plays the role of an active connector for delivery of end service. Thus a travel agent can be considered to be a useful intermediary (retailer) as he has accumulated knowledge expertise and contacts with providers (wholesaler) of services. Look at the following example to demonstrate business of a travel agency:

Mr. Pinto wants to go on a holiday trip to Goa. He visits a travel agency for his travel requirements. He seeks the services of this travel agency for consultancy, booking his air tickets, booking a hotel room and a car for local sightseeing in Goa. The travel agency meets all his requirements by booking air tickets, hotel and transport etc. Though it looks as if the travel agent is only providing services to the tourist, but actually he is also serving the airline, hotel, car rentals etc. In this case the travel agency has provided business to the supplier as well as service to the tourist.



#### Do you know

Thomas Cook was the first organised travel agent in the world and he also invested in travel business. He commenced business in the United Kingdom in 1841. The people boarding the train at Leicester station for Lough Barough thought that they were only going on a good day out. For the majority of the 570 people it was a day to relax. Little did they know that they were taking part in history, as part of Thomas Cook's first excursion in 1841.

In the year 1880, within a short period of ten years it became customary for a larger social group to spend holidays away from home. In 1851, Cook was offered a great opportunity of conducting excursion trains. He transported 16,500 people to and from Crystal Palace. He started organising circular tour to the continent.

In the year 1880, his son, John Mason Cook came to India and established his office in Bombay (now Mumbai) and then in Calcutta (now Kolkata). Taking advantage of nineteenth century advances in transport technology and hotel business, he started his India operation in 1881.

Nothing had happened like it before firstly in England and later in India. Today we take organised travel for granted but Cook's approach was revolutionary. He went to Liverpool before the trip and checked hotel accommodations and restaurants to ensure that his 350 excursionists had the best possible service. The inclusive tour, in which everything is paid for in advance was also a creation of Cook as well as the Circular Note, the forerunner of the traveller's cheque which he created in 1873.

Today it is one of the world's leading leisure travel groups with sales of £ 9.8 billion, 23.6 million customers, 31,000 employees, a fleet of 94 aircraft, a network of over 3,400 and a number of hotels and resort properties. The Group operates under six geographical segments in 22 countries, and is number one or two in all its core markets.



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In the present world, with the growing competition in the travel industry, travel agencies are also selling their own tour packages apart from the packages of tour operators.



### INTEXT QUESTIONS 20.1

1. What is meant by a travel agency?
2. Why are travel agencies and tour operations called intermediates?

### 20.2 TYPES OF TRAVEL AGENCIES

There are two types of travel agencies viz., retail travel agency and wholesale travel agency.

#### Retail Travel Agency

A retail travel agency acts like any other retailer selling tourist products directly to the tourists on behalf of the supplier and gets commission for selling. Commission is the main source of its revenues. A two way selling method is also practised which is on commission and mark-up price. A marked-up price

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refers to marking-up of the cost of the tour and selling it on a higher price. The difference between retail price and the wholesale cost is known as mark-up price.

A retail travel agency is defined as ‘a business that performs the following functions: quotes fares, rates, makes reservations, arranges travel tickets and accommodation, arranges travel insurance, foreign currency, documents and accepts payments.’

The role of retail agencies has become even more crucial as most principal service suppliers get their products promoted, pushed and sold through retailers in order to have a better market reach.

### Wholesale Travel Agency

A wholesale travel agency, unlike retail agency, assembles various components of services to form packages. Later, it depends on retailers to market and sell its products to the tourists. It may also directly sell to the customers through its own retail outlets. It buys service components in bulk from different suppliers, designs, packages and sells or resells these components. Wholesale travel agency specialises in designing and selling package tours.

It generates revenues through volume discounts from principal services providers such as hotels, airlines, railways, car rentals, ground handlers etc.

A wholesaler doesn't earn on commissions but through discounts on bulk reservations from primary or principal suppliers. There is always an element of market risk as it blocks seats in airlines, or rooms in hotels in bulk and might make partial advance payments.

Other than the regular services, it also renders services like consultancy, travel documents processing, currency exchanges etc. for its clients.



### ACTIVITY 20.1

Study the profile of one retail and one wholesale travel agency and find out their services and differences in them.



## INTEXT QUESTIONS 20.2

1. Mention the two major types of travel agencies?
2. What is meant by a retail travel agency?
3. What is mark-up price?
4. What is a wholesale travel agency?

## 20.3 TOUR OPERATORS

A tour operator buys (or owns in some cases) a high volume of travel services across carriers, accommodation and services. These services are then assembled into packages for purchase by the consumer. The packages are sold via travel agents (independent or owned) or through the phone and internet.

Given the scale at which tour operators buy, and the volume of their business, it is extremely unlikely to be an option for a start-up company.

A tour operator is, hence, an organisation, firm or company who buys travel components from different service providers, combines them into tour packages and gives them its own price tag and then sells either on its own directly to clients or through other intermediaries such as retailers. Unlike wholesale travel agent, here the tour operator is wholly responsible for delivering and performing the services specified in a given tour package. In most cases, they have certain services of their own such as hotels, cars, coaches, currency exchanges etc. Tour operators cater to a large market and have a range of package tours for different segments. Thus, tour operators are recognised as manufacturers of package tour holidays.

### 20.3.1 Types of Tour Operators

Tour operators can be classified on the basis of nature of tour, business and their area of operation of package tours. This helps in understanding the difference of meaning and function of each category. Thus, the classification includes inbound, outbound, domestic and ground operator.

**Inbound Tour Operators:** Inbound tour operators are those operators who handle inbound foreign tourists in the host country, provide them various



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services on their arrival and departure such as transfer, accommodation, transportation, sightseeing, entertainment, currency, insurance services etc. They are also called as incoming tour operators as they specifically operate for handling incoming foreign tourists or guests.

For example, a group from France comes to India and it is handled by XYZ Travels in India for all their travel requirements mentioned in tour package. Here XYZ Travels is an inbound tour operator.

Inbound tour operators design and make tour packages individually or in collaboration with foreign tour operators. The packages may be marketed directly or through intermediaries. In fact, inbound tour operators are the ‘image builders’ of a country as they convert all touristic resources of a nation into a saleable commodity.

They also contribute valuable foreign exchange earnings to the economy of host country. Recognising the vital role played by inbound tour operators in the healthy growth and promotion of tourism, governments are encouraging them by giving financial and tax concessions.

**Outbound Tour Operators:** They operate package tours to foreign countries/overseas from a host country. These operators are specialised in promoting and designing multi-national tours. The outbound tour operator sells a package tour to an individual or a group of people of his own country to another country or a number of countries for a specific pre-decided period and destinations.

The outbound tour operator arranges travel documents, transportation to a central point where the tour starts and contracts with inbound tour operators/ground operators to provide accommodation, transportation, local sightseeing and other services as needed throughout the tour.

Generally, these operators work in liaison with the inbound tour operators/ground operators and offer services involving meeting inbound tour group at the airport, transferring the tour group from the airport to the arranged place of accommodation in town hotel, arranging/organising local sightseeing that may be a single day or multi days tour of the home state, region or area. These may be in the form of business or leisure oriented tours.

For example, a group of tourists want to visit Singapore. They buy a tour package from XYZ India. This tour operator does all the travel document processing for the group and sends the group to Singapore and takes care of all the needs till the tour is completed. Here, XYZ India is an outbound tour operator.

**Domestic Tour Operator:** Domestic tourism in India is scaling up enormously. Domestic market has witnessed attractive growth rates as large players in the travel industry are aggressively entering and promoting this market. Leading tour operators usually focus on the international market where margins are higher but now, in addition, they are floating new packages to create a niche in this segment to tap the vast potential in the domestic market.

Generally, domestic tour operators operate within the boundary of home country and cater to the diverse needs of individuals and group travelers. They promote tour packages both through their own outlets and other retail travel agents. In fact, they are contributing to the cause of national integration and balanced regional economic growth.

For example, a group of tourists from Chennai wants to visit Amarnath as part of pilgrimage. They buy a pilgrimage package tour from Southern Travels. This operator organises the complete tour for these Chennai tourists. Here in this case Southern Travels is a domestic tour operator who operates within the boundaries of the country for the visitors of the same country.

**Ground Handlers/Operators:** Ground operator is also referred to as, ‘reception operator’, ‘destination management companies’, ‘reception operator or ‘handling agencies’. These operators are generally expected to provide ‘land arrangements’ at a particular destination. Thus, a ground operator who provides the services required by large tour companies where they do not have a local branch/office or are not dealing at the source with the principal suppliers such as hoteliers, transport operators, car rentals, entertainment organisations and so forth.

The reception operator secures, coordinates, supervises and handles accounts/payments of all services related to the tour in his region/area. His services are invaluable for an efficient and successful operation of inclusive group as well as foreign independent tours.



### ACTIVITY 20.2

Visit a travel agency or tour operator’s office/counter in your locality and find out what type of services they provide. Identify their type, mode of operation and relate it to your understanding of the a travel agency/ tour operator.



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### INTEXT QUESTIONS 20.3

1. Who is a tour operator?
2. Mention the different types of tour operators?
3. What is the difference between inbound and outbound tour operators?
4. Who is a domestic tour operator?
5. List some of the ground services.

### 20.4 DIFFERENCE BETWEEN TOUR OPERATOR, RETAIL AND WHOLESALE TRAVEL AGENCY

#### Tour Operator

- Is a wholesaler
- Is a principal agent or foreign travel agent
- Creates its own new products, designs new tour packages as it has its own resources
- Amends the tour itinerary and programme
- Prepares delightful and value added tour itinerary
- Is located in mega cities
- Arranges International transfer from hotel to airport and vice-versa
- Plans adequate excursion tours
- Has foreign currency exchange facilities
- Generate new ideas and attractions in the package
- Is more inclined to perform ground handling services
- Offers variety of travel programmes/services
- His size of business, operational area and multi-service capacity is high

#### Retail Travel Agency

- Works as a retailer and sells package tours on behalf of the wholesaler
- Is an intermediary between tour operators and tourists
- Follows tour itinerary
- Plans sightseeing tours and excursion tours, airport transfer, check in and check-out time in the hotel



- Acts as a local agent to confirm and reconfirm the services
- Works on commission from principal suppliers

### Wholesale Travel Agency

- Does not sell package tours directly to clients
- Makes bulk purchase of services and assembles them to sell as package tours
- Is less inclined to perform ground services
- May deal with one specialised component of a travel product
- Size of business, operational area is limited and multi-service capacity is low

It is a difficult task in the present industry scenario to identify an individual operator with a single category of operations. They act as retail agents, wholesalers, tour operators, specialty channelers and also as general sales agents. Thus the scope of modern travel agency activities is difficult to limit and confine to one unit of classification. This is very well visible in the operations of most travel companies in the country today. Yet differentiation helps in understanding the fundamental characteristics of the categorisation.



### ACTIVITY 20.3

Visit any travel agency websites and note all the services offered by the company. Compare these services with the services being offered by another travel agency.



#### Do you know

### Online Travel Agency

OTA or Online Travel Agency is a typical travel agency resembling an offline travel agency in all its services but operations on the internet through a website connected to a global distribution system. There is an increasing demand for online services these days as the cyber population is increasing at a great scale. The OTAs apply the operational mechanisms of e-commerce and transact online with their customers.



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OTAs offer information, bookings of hotels, cars, reservation of seats in airlines, railways, ships and buses, sell package tours, customise tours, take enquiries etc. Transaction of payment is also done online using online payment modes such as credit/debit cards, internet banking etc.



#### INTEXT QUESTIONS 20.4

1. Who earns more revenues on commissions: a tour operator a wholesaler?
2. List any two differences between a tour operator and a retail travel agency.
3. Mention any two important features of a Wholesale Travel Agency.



#### WHAT YOU HAVE LEARNT

- There are two types of travel agencies viz., retail travel agency and wholesale travel agency.
- Both the travel agencies as well as tour operators act as intermediaries. They strengthen the buying and selling process in travel industry. Just as there are two types of travel agencies i.e. the Retail Travel Agency and Wholesale Travel Agency, the tour operators can also be classified into four categories. They are:
  - (i) Inbound Tour Operator (ii) Out bound Tour Operator (iii) Domestic Tour operator and (iv) Ground Handlers/operators.
- Tour operators can be classified on the basis of nature of tour, business and their area of operation of package tours. This helps in understanding the difference of meaning and function of each category. Thus, the classification includes inbound, outbound, domestic and ground operator.
- A tour operator buys (or owns in some cases) a high volume of travel services across carriers, accommodation and services.



#### TERMINAL EXERCISE

1. What is meant by a travel agency and a tour operator?
2. Who are inbound, outbound, domestic and ground operators? Explain with examples.

3. Differentiate between retail and wholesale travel agencies from the tour operators?
4. List out ground services and mention how they play an important role in travel industry.



### ANSWER TO INTEXT QUESTIONS



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#### 20.1

1. A travel agency sells packages of wholesaler and earns revenues through commission, acts like a retail store for travel services.
2. Both are called intermediaries because they bring together clients and provide principal services and strengthen the selling and buying process both for the customer as well as the hotels.

#### 20.2

1. A Wholesale Travel agency and a Retail Travel Agency.
2. It sells tourist products directly to the tourists.
3. The difference between retail price and the wholesale cost is known as mark-up price.
4. It buys service components in bulk from different suppliers, designs, packages, sells and resells them.

#### 20.3

1. A tour operator, is an organisation, firm or company who buys travel components from different service, providers them into tour packages and gives them its own price tag and then sells either on its own directly to clients or through other intermediaries such as retailers.
2. Domestic, inbound, outbound and ground operators.
3. An Inbound operator handles foreign tourist and outbound operator handles tourists going to foreign countries from a host country.
4. Operates within a host country and handles domestic tourists.

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5. Local transport, instructors, guides, events, car rentals, entertainment services etc.

#### 20.4

1. A retail travel agency earns more revenue on commission.

#### 2. **Tour Operator**

(i) It is a wholesaler

(ii) It creates its own products

(iii) It is located in mega cities

#### **Retail Travel Agency**

(i) It works as a retailer

(ii) It follows tour itinerary and acts as such as intermediary

(iii) It may be anywhere in small towns, sub-towns and cities.

3. (i) It does not sell package tours directly to clients.

(ii) It makes bulk purchase of services and assembles them to sell into packages.