The Norwegian Travel Industry
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The Norwegian Travel Industry

Introduction

The travel industry is one of the largest and most expanding industries in the world. This is mainly caused by an increase in the interaction between different countries, and the development of commerce and investments across frontiers. The fact that we experience a larger degree of social and cultural bonding between people in different nations, a considerable increase in prosperity, and a growing financial freedom around the world, contribute to the development of the travel industry as well.

The travelers demand composite products, which are usually made up of various products and services from different enterprises. The components that constitute the total products are, among other things, determined by the purpose of the journey and other requests and desires that travelers may have. Food and beverages, overnight accommodation and transport, are some of the obvious ingredients that constitute a journey.

The travel industry is not a plain concept in an economic and commercial context. It is rather used as a generic term that describes those industries where considerable parts of the production are intended for travelers. It includes:

- Overnight accommodation: Hotel, camping, etc.
- Service: Restaurant, bar, canteen and catering.
- Transport: Bus, taxi, metro, airplane, domestic and international ferries, cruise.
- Arrangement: Travel agency, tour operator, car rental agency.
- Adventure: Amusement park, circus, sports, entertainment, leisure activities, etc.

Worldwide, $3.6 trillion was spent on travel in 1996. By 2006, the WTTC (World Travel and Tourism Council) estimates that expenditure on travel will have risen to $7.1 trillion, nearly doubling within 10 years. In 1999, travel and tourism generated, directly and indirectly, across the global economy: 11% of GDP, 200 million jobs, and 8% of total employment. Further, WTTC expects 5.5 million new jobs per year until 2010.

In Norway, estimates indicate that the travel industry had a gross product of NOK 47.2 billion in 1998, which means that the industry’s contribution to the gross national product (GNP) was approximately 4.3 percent. Within the industry, it is the transport services that make the largest contribution to the GNP, with NOK 18.2 billion in 1998, but it is the arrangement enterprises that have experienced the largest growth in gross product between 1990 and 1998. The service businesses went through a decrease in gross product in the middle of the nineties, but the tendency has inverted, and the course of development has been positive since 1996. The gross product of the overnight accommodation services has been on a stable level of NOK 6 billion in the nineties. The figure below indicates how the gross product is dispersed among the different services in the industry.
Both business travelers and holidaymakers are included in the traveler group. It is worth noting that a major part of the services related to this particular industry, are delivered to other people than travelers. The figure below indicates the sales to the travelers in relation to the total production (100 %) of the travel industry in 1995, included sale to foreign travelers in Norway (export).
It is common to make a distinction between business and tourist markets. The focus of this report will mainly be on the parts of the travel industry that are perceived to be of fundamental importance to business travelers, that is arrangement, transport and overnight accommodation. This means that we will give lower priority to leisure activities, and mainly focus on air transport, overnight accommodation (in hotels), and car rental. Because of this business perspective, we will consider certain valuable supplementary services in relation to journeys of this kind as well (e.g. insurance and payment arrangements.)

**Overnight accommodation**

Our focus on the business sector of the travel industry, imply that we concentrate on the hotel part of the overnight accommodation service. The hotel business has experienced a considerably increase in overnight stops, but the growth of the lodging trade is weaker through the nineties than before.

Integration and alliance building, particularly establishment of larger business chains, characterize the development of the hotel services in Norway. These chains gain competitive advantage by focusing on brand image building, and various efforts in order to increase customer loyalty. The size of the chains can enhance the possibilities for an increase in bargaining power relative to travel agencies and tour operators, and boost the chances for settlement of cooperation agreements with transport and arrangement companies in order to offer composite products.

**Transport**

Domestic and international air transport mainly consists of regular services and charter traffic; the former is of primary interest in this report. SAS, Widerøe’s Flyveselskap and Braathens are the leading airlines in Norway, but more than 40 airlines operate between Norway and foreign countries.

Today the business travelers are the most important customers to the airlines, but the introduction of more and larger discounts on airline tickets has resulted in an increase in leisure traffic.

**Arrangement**

Refinement and distribution in the travel industry are taken care of by companies and participants within procurement, information, marketing, product development and sales. The industry consists of a commercial part and a group of companies that don’t have profit as their main target.

The travel agencies and the tour operators have a dominating position in the former part of the industry. Because of our focus on business travels, we will concentrate on the travel agencies, and by that omit the tour operators that are mainly involved in leisure travels.
There has been an extensive structural change among Norwegian travel agencies, which is mainly caused by merging and acquisition. A few enterprises have a dominating marked share, and the numbers of agencies that operate only in Norway are decreasing. Some of the major participants are associated with large international enterprises. Even though the travel agencies have maintained their importance as a sales channel, they are under considerable strain. The travel agencies’ position in proportion to large suppliers, e.g. hotel chains and large airlines, are weakened. Traditionally, the suppliers have had a weak negotiating position, but the situation is now reversing because of owner concentration and chain building. We are also experiencing a shift in power, from distributors to customers.

New technology and tourism – The Internet

After broadcasting for 38 years, radio had about 50 million listeners, while television needed 13 years to reach that kind of an audience. The Internet really did not become publicly accessible until 1993, and six years later there where 150 million users world wide. There are more than 1 billion Internet-sites on the web today.

In Europe, there are about 50 million households with Internet-access. This represents approximately 13% of the population, but barely 10% of these used Internet to purchase goods and/or services; i.e. 1,2% of households with Internet-connection. In 2002, it is expected to be more than 140 million Europeans on the net, and about 25% of them will use Internet for commercial purposes. The number of buyers on the Internet is expected to reach 8,5% in the year 2002; against 1,2% today (Source: IDC-estimate; http://www.idc.com/idc7/data/global/content).

Internet is one component of the ongoing digital revolution that will change the fight for customers in the traveling industry. Others are technological innovations in the mobile phones-market, digital television and wideband Internet through cable-TV. Of course, other types of electronic networks, like EDI, Extranet and other LAN-technologies are important as well. However, the Internet is expected be the most influential of these technologies when it comes to buying travel related products. Different analysis agencies predict that the traveling industry will become the largest industry on the net. The results of an analysis carried out by European Information Technology Observatory (EITO) are shown below:

<table>
<thead>
<tr>
<th>Product</th>
<th>1997</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism</td>
<td>9%</td>
<td>34%</td>
</tr>
<tr>
<td>Software</td>
<td>13%</td>
<td>10%</td>
</tr>
<tr>
<td>Books</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>Insurance</td>
<td>1%</td>
<td>9%</td>
</tr>
<tr>
<td>Music</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>Clothes</td>
<td>18%</td>
<td>7%</td>
</tr>
<tr>
<td>Hardware</td>
<td>9%</td>
<td>6%</td>
</tr>
<tr>
<td>Others</td>
<td>28%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Table 1: Anticipated development of online distribution of various products.
Datamonitor, one of Europe’s leading IT-analysts, predicted in 1998 the following potential of online tourism trade in Europe:

- Tourism constituted 7% of online trade in 1998
- Tourism will constitute 35% of online trade within 2002
- In the period between 1998 – 2002, online trade will increase by approx. 5000%

Within the same study, Datamonitor estimated the following distribution percentage of different product groups:

- Personal flights 44%
- Business flights 22%
- Personal hotel 15%
- Business hotel 10%
- Charter tourism 8-10%

**The high online potential within the traveling industry**

The potential of the Internet is highest in sectors where there are a lot of agents/third parties involved, and where the transactions do not involve physical products. These attributes are exactly the defining characteristics of products in the traveling sector. Products with high information content can be bought without having to be physically distributed to the customer. The paper ticket is on its way out, and E-tickets are taking its place. In the USA today, more than 50% of the airlines customers book their flights with E-tickets. Other important aspects are:

- The profiles on the most frequent travelers also match the profiles of Internet users. In other words, the marketing medium is well suited in getting consumers attention.
- The price on hotel-rooms, flights etc. change quite rapidly. Through the use of Internet, the producers are able to distribute their products as “last minute offers”, and thereby increasing their load factor. Also, due to rapidly changing prices on these products, it is not very cost-effective to use fixed price-lists.
- Using traditional distribution channels, the distribution costs per ticket is about 20 – 25%. Using Internet as a tool, the costs represent a fraction.
- The trend is moving in the direction from group tourism towards traveling alone. Adventure travels are getting more and more popular, and fewer choose package tours. Through the Internet, the traveler gets a much more powerful and dynamic tool in planning his or her vacation. This makes it easy to plan the travel-route and choose between different options.

There are quite a few different opinions and prognoses of turnover with regards to the traveling industry and use of Internet. The optimistic ones predict that 20 – 30% of all bookings will take place via the Internet within 3 - 5 years. Although, many product providers experience that the development in turnover is expanding slower than assumed.
In 2000, online distribution of traveling products amounted to approximately $660 billion. Forrester Research estimates the following development in online turnover, within the traveling industry in the USA, in the period 1998 – 2003 as shown below:

<table>
<thead>
<tr>
<th>Product</th>
<th>1998</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air-plane tickets</td>
<td>52%</td>
<td>36%</td>
</tr>
<tr>
<td>Hotels</td>
<td>36%</td>
<td>34%</td>
</tr>
<tr>
<td>Package tours</td>
<td>6%</td>
<td>16%</td>
</tr>
<tr>
<td>Car-rental</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Cruise</td>
<td>-</td>
<td>8%</td>
</tr>
</tbody>
</table>

In Norway, there are 1.8 million people with Internet-access, which is 28% of all Norwegian households. This implies an increase of 200 000 households in the past 18 months. A number that puts Norway among the “best” in the world, together with USA and the other Scandinavian countries. However, surveys show that Norwegians/Scandinavians purchase less on the Internet than for instance Germans (Source: Norsk Gallup, Interact 5/99).

New Media Science/Synergy Rf did a study revealing Norwegian Internet habits, based on a selection of 815 respondents. Some of the results are listed below:

- 86% had searched for products and/or services which they where interested in buying
- 47% had bought something, and 22% of these had done impulse purchases based on net-ads
- 21% had carried out a purchase in a physical store, based on their Internet-search
- 88% of the Internet shoppers where satisfied with the result, and
- 28% of the respondents answered that they spent less time watching TV after they started using the Internet

Source: Analysen 2/99

Software and computer games were the most popular products at the time of the study. However, concert-, theatre- and cinema-tickets, airplane tickets, music and books toped the list of things that the respondents where likely to buy on the net in the future.

Another user-study, done by SAS (Scandinavian Airline Systems), show that every third Norwegian uses Internet to plan personal travels and holidays. The study also shows that about 4% of the travelers have booked journeys on the net.

The referred studies tell us that there is a considerable interest among travelers to explore and use the Internet in their planning and buying of travel related products. They tell us nothing about the direction the market will move, but it is clear that the consumers see the advantages. Therefore, it is assumed that the growth of e-commerce in the traveling industry, as well as for a lot of other industries, depend on how fast the industry itself are able to develop user-friendly and noticeable web-sites, both on a macro and micro level.
Value Chain Description

This stage focuses on describing the characteristics and dynamics of the value chain in the travel industry. More specifically, we will identify and describe the roles and activities of different actors in the value chain of composite business travels.

The objective of this section is to present the value chain in such detail that it is possible to gain insight in the characteristics of the different tiers and the relations pertaining to each tier, the marketplaces in which products and services are exchanged, and the intermediaries that operate in the relevant marketplaces. This description will be accomplished with a view to business travels.

Relevant actors

There are many potential actors involved in travel products. The value chain of a specific business travel depends on the needs and wishes of the traveler, and thus varies. The figure below identifies five central components of the traditional distribution of travel products, which are fundamental to business travels as well.

![Figure 3: Traditional distribution of travel products](image-url)
In addition to the actors that are included in distribution of travel products on the physical marketplace, there are some new actors that have appeared as a consequence of extensive technological development. The portal is such a new actor in the travel industry. This Internet-based intermediary owns the customers connection to the world. It is common to differentiate between horizontal and vertical portals, where the former provides general information, and the latter is a domain specific information supplier. In addition to this, new on-line channels characterized by a lack of geographic entrance barriers, have allowed a flood of new global actors into the travel agent’s marketplace:

- Controllers of distribution: offer a primary service, and attract users to their website because of the information and services it provides (e.g. horizontal portals as AOL.com, Yahoo.com, TV2.no, SOL.no, and vertical portals as TravelMarket.no, TravelMart.no).
- Travel distributors: businesses that already have a strong foothold in travel distribution (e.g. Travelocity, TravelWeb and Travellink).
- Microsoft: a software brand, which has established itself as a portal into the world of computing.
- Existing travel companies: e.g. travel agencies that offer reservations via the Internet.
- External opportunists: companies that have seen the opportunities and have started new on-line travel ventures.

![Figure 4: Distribution in the travel industry](image-url)
Description of the value chain components

Travel agents:

The most central intermediary in the travel industry is the travel agency. The role of the travel agencies is primarily to offer travel services to customers on behalf of the content suppliers. The content suppliers can be hotels, car rental agencies, airlines, etc, or it can be tour operators that offer composite products. An agent may also offer travel-related services such as insurance or foreign exchange. For providing these services, the travel agent is rewarded by transaction charges from the customers and commissions from the content suppliers. Typically, commissions amounts to 10 percent of the selling price, but this is normally 1 or 2 percent less for airline tickets, hotel bookings and rail travels. Insurance will usually generate commissions of around 30 percent, and car hire can on occasions make considerably more than the basic 10 percent.

It is suggested that the agent’s main concern should be the choice of location to ensure ready availability of the content suppliers products in the market place. The agent has access to the content suppliers stock through the reservation system and here efficiency is important. Instant availability permits the agents to share the booking process with the customer to reinforce the buying decision. This approach to the role of the travel agent likens the agent to a “filling station” for travel.

An alternative view argues that the acquisition of product knowledge and the assumption of the risks involved in assessing the extent and nature of demand is the job of the travel agent. The agent should thus take on the role of a travel counselor to give the public impartial advice, and should seek to generate business in the local market area.

Today, travel agencies handle approximately 70-80 percent of the business journeys that involve air travel, and 20-30 percent of the hotel reservations related to business journeys. The challenge that travel agencies are facing is that when the profit margins are decreasing, the agencies have to leave a part of the reservation to the travelers, while at the same time make sure that the quality is adequate. Also, they have to invent appropriate price mechanisms considering the uncertainty regarding travelers’ willingness to pay for systems where they carry out most of the job themselves.

The travel agencies share of business travels will to some extent decrease, and reservation requires will be sent directly to the content suppliers. It is difficult to estimate the extensiveness and time scale of these changes, but a Norwegian report (Statusanalyse: Internett i Norsk næringsliv, 1999) presents the following scenario:

<table>
<thead>
<tr>
<th>Distribution form</th>
<th>Now</th>
<th>In the future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel agencies</td>
<td>70-80 %</td>
<td>approx. 40 %</td>
</tr>
<tr>
<td>Direct sales</td>
<td>20 %</td>
<td>approx. 40 %</td>
</tr>
<tr>
<td>Internet</td>
<td>1-3 %</td>
<td>approx. 15-20 %</td>
</tr>
</tbody>
</table>

Table 2: Expected distribution of Norwegian business travels.
**GDSs (Global Distribution Systems):**

An enormous growth in air travel in the seventies created a need for distribution systems that would allow travel agents to make airline bookings direct into the airline computer reservation systems. This resulted in the development of the GDSs, which changed the way journeys are bought and sold around the world. Today, distribution of travel services, especially reservation of airline tickets, is mainly accomplished via GDSs. A GDS can be defined as “a computer distribution system for displaying available services, affecting bookings, and ticketing by tourism producers – airlines or otherwise – on an international scale”. There are four major GDSs: Amadeus, Galileo, Sabre and Worldspan. Amadeus is the largest, and hold the dominating position in Norway. It was founded in 1987 by Air France, Iberia, SAS and Lufthansa, with the intention of offering an effective and neutral distribution channel to the market. Today, Amadeus exists in 121 countries, and has a market share close to 30%. Amadeus consists of a central database, Amadeus Central System, which supports information seeking, reservation, pricing and travel administration. Amadeus is distributed and promoted locally through National Marketing Companies (NMC), and the name “Amadeus” is used in most countries. The exceptions are Germany (uses the name START) and the Scandinavian countries (SMART).

In recent times the GDSs have been seeking to diversify and extend their business offering in three areas: by product, by improved front-end technology and by changing the nature of the business they conduct.

- **Product diversification:**

  Because of the captive audience of travel agents that the GDSs created, a natural diversification was to extend the type of product that could be sold via their systems. In spite of some initial problems regarding extension of the technological systems, all the GDSs now successfully distribute hotel accommodation and car rental. However, the GDSs infrastructure cannot easily accommodate the diverse nature of the non-air products.

- **Technology extension:**

  The established method of access has been via a dumb terminal in command-line mode. This required and still requires a high level of operator training. However, front-end diversification has seen the introduction of Windows-based technology. In addition, some GDSs have developed Internet-based booking tools that enable business travelers to make bookings directly from their PCs. These are then queued by the GDS to the business traveler’s preferred agent for administration and ticketing.

- **Business extension:**

  The GDSs have recognized that in order to survive they must be involved in the new online travel market, and thus extend their business to become online travel agents.
Switch-systems:

During the 1980s, as a natural extension to the airline business, GDSs started to link up with the major hotel CRS systems. But the GDSs were custom-made to handle airline ticket reservations, and the hotel reservation systems where not accustomed to the GDSs. Thus, the static data stored on the GDSs resulted in confirmation problems while the value chain steadily increased in size. Agents did not have direct access to the hotels’ systems, and where exasperated by time differences, disparate communication standards and a lack of uniformity. However, in recent years the GDSs are extended in a way that it is possible to include hotel booking, car rental and other related services through these systems. This is made possible by so-called “switch” systems, which are able to connect the reservation systems to the hotels in a way that make the hotels available through the GDSs.

In 1998, 15 major hotel companies established The Hotel Industry Switch Company (THISCO), and built a common user interface (UltraSwitch) between their systems and the GDSs. Today, THISCO is renamed Pegasus Systems Inc., and connects more than 50 000 hotels with the main GDSs, including Galileo’s “Inside Availability”, Worldspan’s “Hotel Select”, SABRE’s “Direct Connect Availability” and Amadeus’ “Complete Access Plus”.

The most common switch systems are Pegasus, WizCom, Worldsres, and HotelBank. Today, Scandinavian hotel chains and individual hotels cooperate with three of the switches:

The following services are offered by **Pegasus Systems**:

- TravelWeb.com is Pegasus’ website. Customers can make reservations on this site without passing through the GDSs. Users of the TravelWeb can seek hotels based on travel target, chain preference, price, etc.
- Pegasus Online Distribution Service. Pegasus’ Internet based reservation system is used by 60 percent of the most visited travel websites in the world, e.g. Preview Travel and Microsoft Expedia.
- Pegasus Commission Processing. Pegasus collects and pays provisions from hotels to travel agencies. Thus, the hotels and travel agencies save money because of reduced bank charges.

**Wizcom** is the next largest of the switch systems. The central reservation system Supranational, where RICA is a member, cooperates with Wizcom. Wizcom doesn’t have it’s own website for hotel reservations, but cooperate with the large Internet actors Worldres and Leisure Planet.

**HotelBank** is a central booking system for hotel chains and individual hotels, developed in Scandinavia by Nordic Team in 1985. In 1995, the international hotel system provider Micro Fidelio bought the system. HotelBank is connected to the four large GDSs (Amadeus, Galileo, Sabre and Worldspan). Most of the leading hotel chains in Norway have chosen HotelBank as their central reservation system.

It is estimated that 21 percent of the hotel reservations in the world where made by travel agencies in 1997, but only about 50 percent of these reservations where made through GDSs.
Figure 5: International distribution of hotel services (Statusanalyse: Internett i Norsk næringsliv, 1999)
Technological impacts on travel services distribution

The major advances in electronic travel distribution are the deskilling of the reservation process and increased reach to consumers. As a result of this extensive technological development, we are witnessing a change in distribution channels from the physical marketplace – distribution via traditional channels – to the electronic marketplace (e.g. Internet). Internet is well suited for direct distribution from content suppliers (e.g. airlines, hotels, car rental agencies) to consumers, which implies comprehensive structural changes in distribution of travel services. The growing number of consumers that connect directly to content suppliers will result in travel companies adopting the strategies of one-to-one relationship marketing.

The advance in distribution technology just described will cause the marketplace to polarize. The losers will be intermediaries that don’t grow to become global players or are not small enough to adopt strategies of niche marketing. Of those intermediaries that are currently in the middle ground, there will be few survivors. The suppliers in the industry are already placing intermediaries under pressure. Airlines have adopted commission capping, which illustrate that the content suppliers are clear winners; not only can they reap the benefits of worldwide distribution via the global players, they can now cost-effectively sell their products and services directly to the consumers.

Among on-line actors in the travel market, we also see a development towards a more realistic and moderate view with regards to negotiating contracts, developing Internet strategies and building relations using Internet as medium. Through interviews with some of the leading on-line travel agencies in Norway, it has become clear that thoughts on how to succeed in the virtual marketplace have changed within the last 12 – 18 months. The “new economy” is no longer seen as something that will totally change the way of doing business, thus leading to a development where these on-line companies go “back to basic”. Recognizing the fact that in order to survive, it is still as important to negotiate critical contracts with suppliers and customers, actually being able to add some value in the market value chain, and having a fundamentally solid economic foundation. The Internet is thus seen more as an efficient tool of communication and interface towards consumers, rather than a fundamentally new way of doing business.
Case Study Presentation: Berg Hansen Reisebureau AS.

Background information

Berg Hansen Reisebureau AS (BH) is the parent company in a full service travel agency corporate group. It includes activity in the travel agency chain Berg-Hansen, operating in the professional market, and the leisure chain Informa. Because of our focus on the business market, only the former part of the group is included in the case study.

BH’s vision is to have the most committed co-workers, and to alter the industry by being the most offensive consultants and advisers in the professional market for traveling. Their business idea is to attend customers’ travel investments in the most appropriate ways through active counseling, mediation and management of travel services. BH regards them selves as a cost effective distributor, while at the same time trying to create and add value for their customers.

By virtue of being a specialist in the professional market for travel services, BH offers a total product. In other words a product that exists of a whole range of different elements, acknowledging the customers needs both before, during and after their trips.

BH is a member of Carlson Wagonlit Travel, which is the world largest travel agency with more than 3000 members in 141 countries. In addition, BH has a number of subsidiaries in which it has 100% ownership:

- Berg-Hansen Reisebureau Oslo AS*
- Berg-Hansen Reisebureau Stavanger AS*
- Berg-Hansen Reisebureau Telemark AS
- Berg-Hansen Reisebureau Ålesund AS
- Berg-Hansen Bygg AS, with the subsidiary Ditt Eiendomsselskap AS
- Berg-Hansen Reisebureau Bergen AS*, with the subsidiary Horizont Travel AS
- Informa Feriesenter AS
- Ditt Reisebyrå AS

BH doesn’t have any subsidiaries or departments abroad. The figures regarding number of employees and revenue the last three years, have been quite stable, with a small decrease for year 2000:

<table>
<thead>
<tr>
<th>Employees</th>
<th>Net income</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000: 430 (2\textsuperscript{nd} int.)</td>
<td>2000: 27.8 (2\textsuperscript{nd} int.)</td>
<td>2000: 1,849 (2\textsuperscript{nd} int.)</td>
</tr>
</tbody>
</table>

**Markets and Structure**

BH’s relations upstream (suppliers) and downstream (customers) are quite complex, and do not fit very well within the frames of a traditional value chain logic. BH defines some of their customers as “large-scale consumers”, which in turn leads to a different approach to this segment. An example of such a customer is Statoil.

Upstream, BH cooperates with SMART\(^1\) on different services related to booking via Internet. Through a search-engine, the customers get access to 480 airlines, 50 000 hotel, and 60 car-rental agencies.

There have been, and still are, some structural movement in the travel industry market, much because of the implementation of new technology within and across firm boundaries. However, there are only a few major actors in the market where BH competes. Thus, major competitors rarely enter or exit the market. This applies to the content suppliers group as well. Merges and acquisitions within the Norwegian business-travel market (e.g. NSB Reisebyrå and Flyspesialisten are acquisitioned by VIA) through the last few years, have led to the following picture, where there are now three major actors:

- **Via** adv. 30% market share
- **Bennet** adv. 19% market share
- **Berg-Hansen** adv. 19% market share

The remaining part of the market share is hold by content suppliers (30 – 35%), and their share is expected to increase.

In addition to changes among already establishes actors, new ones have emerged as a consequence of technological opportunities, mainly brought about by the Internet (e.g. Travis). Their ability to capture market shares has so fare been insignificant, and according to Villadsen (CEO in BH), it will remain so. He claims that many of these “newcomers” operate as specific agents or portals, and has no real “product” in the sense of airline-tickets, hotel-rooms etc. They mediate/transmit all value added transactions to actors like BH upper left

\(^1\) SMART is a supplier of electronic travel services; information services, ticket reservation, and payment.
box, figure 6), and are therefore dependent on their rivals to survive. In this sense, these new actors add no real value to the products, beyond what established actors do.

![Diagram of travel reservation methods]

**Figure 6: Electronic travel reservation in Berg Hansen.**

Considering how already established actors position themselves, and the amount of know-how these actors hold, BH thinks that new players will have a hard time taking any significant share of the travel market; at least regarding the professional part of it.

As stated earlier, specific features of the travel industry marked makes it difficult to analyze by applying traditional value chain logic. One of these features is that the content suppliers, which BH is dependent on, are BH’s largest competitors (notice that content suppliers holds 30 – 35% of this market). As new online technologies generate enhanced possibilities regarding direct distribution of travel services from content suppliers to customers, this competitive situation are likely to increase in importance. Thus, the extent to which major content suppliers succeed with this strategy, are likely to have extensive impacts on the market structure in the travel industry.

Together with the content suppliers, the GDSs have a very important and powerful role. BH cooperates with Amadeus, which holds about 95% of the Norwegian market. According to Villadsen, profit margins are slim, and **volume** becomes important to earning potential. The GDSs have huge transaction volumes, and are therefore in a very strong position. In addition, they have the means, opportunities, and willpower to act innovative. According to BH, **Innovation** and volume are the most important factors for success in the travel industry.
Business profile of the firm

BH’s product is built around a travel order, which in turn is expanded to include a wide range of complementary services. An example of such a service is “Din Side”. This is a customer-oriented web site, meant to accommodate all questions the customer may have regarding his or her own trips. Through this web site, customers have access to their customer service on a 24-hour basis. As BH’s core product is a travel order, other service providers and producers have to take care of other parts (e.g. insurance products) of a composite product or service.

BH is reluctant to profit on bookings where the customer runs through all the transactions him/herself. It is interesting to know, that 1 of 3 calls to the BH call-center has different concerns than the order itself. This implies that BH’s largest income potential lies in offering complementary services, where innovation and volume are critical aspects. Earlier, BH and other travel agencies focused on getting customers to buy the most expensive tickets, but this have changed. Now BH has to “play on the same team” as their customers. An example of such change in consumer focus is the way BH helps their customers signing contractual agreements with content suppliers.

Automation and integration are keywords describing BH’s business strategy. For example, they have direct lines (EDI) to Statoil’s SAP system, which is invoiced by approx. NOK 500 000 000 each year. In this way, Statoil lower their travel related administrative costs. At the same time, this cooperation works as a lock-in strategy; it would by costly for Statoil to enter into a partnership with other travel agencies due to investments in network technology.

More generally, BH has cooperational agreements with customers which function as guidelines and regulations for prices and services offered. Further, these agreements work as tools that help carrying through travel policies, which systemizes business travels and lay the foundation for reduced travel costs.

BH has tight connections with their associated company “PLUS reiser”, which is a conference-, congress- and convention organizer. “PLUS reiser” is a member of ICCA (International Congress and Convention Association), thus giving BH access to the international congress market. BH is a member of Carson Wagonlit Travel, which is the world’s largest travel agency chain. This partnership gives BH a strengthened bargaining position facing airlines, hotels and other subcontractors. It is important for BH to appear and operate as an objective agent in its relation with content suppliers, and their wish to promote and sell particular products. BH also cooperates with SMART on an online booking-service.
Technology profile of the firm

Electronic networks:

Internally, BH uses a 10 MB integrated Windows NT network between its departments, which communicates by using Internet technologies/protocols (TCP/IP). None of BH’s different departments or offices possesses their own technological equipment. All purchases are made at the central office, and then hired out to local departments. In this way, processes for standardization, renewal, and development are done in a much more efficient way. At the same time, advantages of scale are obtained when technological equipment is bought. BH is planning to start using a central server and thin clients, and thereby simplify and coordinate the process of updating the systems.

In order to both simplify and provide cost effective handling of travel order processes, BH offers EDI solutions to large corporate customers (e.g. the Statoil-solution mentioned before). This technology supports streamlining of the most important business processes, like ordering, invoicing, payment and delivery. BH’s invoicing-system, called M3, is developed in cooperation with BH’s largest customers and experts in the travel industry. M3 makes sure that specific requests of different customers, regarding the appearance and frequency of the invoice, as well as it references, are handled according to existing agreements and contracts.

BH also offers Extranet solutions, represented as customer specific web sites. The larger customers have their own URL, and the on-logging process determines the interface and contents of the web sites. In addition, they offer a range of different electronic booking solutions:

- Email: The customer can negotiate demands and wishes in free text.
- Web Travel Order: Users fill in text in fixed columns.
- Internet: The customers can go through an online booking process of flights, hotels and/or cars. Thus, BH uses Internet as a sale- and distribution channel.
- Extranet: Works like the Internet-solution. BH has the opportunity to customize services according to the clients’ travel policies.

The use of new technology to support electronic transactions has made it possible to realize new ways of communicating with customers. BH captures information about their customers through electronic transactions, which in next instance form the basis for different marketing strategies. Via BH’s web site, users can:

- Order tickets.
- Gather information about available flights and prices.
- Get in touch with BH.
- Find information about the services and products BH offers.
- Find information and news from BH’s suppliers.
- Check foreign exchange quotations.
- Find city maps and airport information.
- Check weather forecasts for the travel target of current interest.
These services, together with the development of new marketing strategies towards one-to-one marketing, Villadsen think it is fictitious to distinguish between B to B, and B to C electronic commerce. New technology makes it possible to build one-to-one relations with the customers regardless of whether these customers are business companies or private individuals. This kind of individualization of institutions is a prioritized area in BH, which calls these customers “industrial customers”. The motive is not to sell complementary products, but to strengthen the relationship between BH and each individual customer.

Information generated through electronic transactions with customers (also call-centers), is stored with the intention of future analysis of manpower issues, together with frequent and proactive follow-ups of different quality standards. Through cooperation and dialogs, BH has developed tools capable of working out strategies for “correct” service and individual adaptation.

BH has not developed any strategy for online buying from their suppliers, thus BH’s Internet focus is first and foremost directed towards their customers.

Interview Response

Motivation

By becoming the leading online travel agency in the business market, BH hopes to capture market shares, and at the same time direct their customers towards self-service applications. Customers become their own travel advisers, and BH’s strategy for e-business is accomplished through the automation of transaction processes, such as ticketing, invoicing and managing documents. According to BH, the most comprehensive effects brought about by information technology and Internet, is the automation of both internal and external processes.

The call-center is BH’s most important channel of order bookings. BH doesn’t believe that this will change, and assumes that the call center’s position as the leading reservation channel will remain in the future. However, Villadsen believes that about 20% of all customers, who are connected to BH through contractual agreements, will make use of BH’s fully integrated Internet solution. Today, more than one thousand (1000) customers check their travels at BH’s web site each day. Though future challenges are great, especially within the area of marketing, BH believes that their strategy regarding implementation of a fully integrated e-business solution enables them to accommodate these challenges. Through their systems, BH is able to accumulate information and thus increase their knowledge about their customers. This knowledge will in turn be used as a basis for new marketing strategies, as customization and one-to-one marketing becomes more and more important. Partly due to this commitment in implementing a fully integrated e-business solution, BH is increasing their marketing budgets.

BH is not willing to make a separation between “online” and “offline” divisions, but continue to develop their vertical integration solution. However, BH experiences difficulties in finding the right balance between tradition on one side, and a new and perhaps more innovative image on the other. This is problematic as innovativeness may be a key success factor in the “new economy”.
In the future, BH’s core product (travel order) will be available free of charge. Technology has resulted in the development of complementary services, which will constitute BH’s income in the future. Hence, there are great challenges and opportunities in differentiating on price and product. The ability to act innovative and differentiate within the areas of price-, product- and marketing-strategies, will be important success-factors for BH (see figure 7).

![Differentiation Diagram]

Figure 7: Importance of efficiency and differentiation for success.

Despite an increase of new actors as a consequence of Internet and e-business technology, BH doesn’t perceive these newcomers as threatening to their position in the market. BH expects the majority of these new actors to disappear quite fast as a consequence of not being able to capture a big enough market share. According to BH, those who manage to survive will be bought up by already strong and established competitors. However, some of the newcomers will probably survive by employing a highly specific market focus, and thus operate in niche markets. On this basis, there is a strong believe that the current value chain structure in the travel industry, will remain stable in the years to come. However, stability is a relative concept, and it is more or less impossible to predict how the value chain situation in the travel industry will be in the future.
Obstacles and advantages

Internal factors:

The costs related to technological investments are very high, which is seen as a restraining factor in utilizing the potential of e-commerce. In addition, technology also requires specialized knowledge, but BH does not see this as a problem.

BH’s fully integrated e-business solution has lead to an increase in the number of skills each employee must possess. Thus, the need for both skill acquisition and maintenance has augmented. Before BH realized this strategy, a lot of the company’s expertise left because of more interesting job-opportunities elsewhere (e.g. in dot-com companies). By vertically integrating transaction- and business processes, their are now able to keep expertise in-house.

Legal/privacy issues – Through the creation of profiles etc., BH’s customers will register personal information, and thereby accept the terms of use for this information. This means that legal issues related to such use, are getting less complex, and that those who have a special license for using this kind of information, will lose some of their competitive advantage. BH is one of these license owners, but do not see this as a problem.

Public factors:

BH holds the opinion that the government should be an adviser or organizer, and not focus on regulative aspects of e-business markets. Nor should it be concerned with active participation in e-commerce as such; e.g. establishing travelling portals.

Strategic factors:

The establishment of “Din Side” is supposed to simplify customer tasks, and increase control over the product they are buying. Together with one-to-one marketing and customization of services, this is likely to increase loyalty and trust among BH’s customers, which again will make it more difficult for the customers to end existing business-relations to BH.

Finally, an important promotive factor for making e-business a priority area, is the faith BH’s management has in the opportunities of new technology. In BH, being able to carry out their e-strategy as a vertically integrated company is given high priority.

Impacts

The most important impacts of electronic commerce on business functions related to transaction processes, where the automation of all service processes, and the reduction of administrative costs. BH has cut their administrative costs by 20 man-labor years, due to automation processes.
Regarding general business processes, electronic commerce innovations have lead to the development of *complementary* services, which in the future will represent the larger part of BH’s income. The customers will carry out most of the tasks related to ordering BH’s core product. BH states that they will not charge their customers for services, where they are handling all the transactions themselves. This in turn leads to a more extensive differentiation strategy on price, product and marketing.

The value chain impacts of electronic commerce are moderate. However, quite a few new actors, which specialize on specific parts of travel services, operate in the market as a consequence of the opportunities Internet brings. But according to Villadsen, the industry’s value chain structure will not undergo any major changes. The market will stabilize.

BH has gained a lot of new customers over the last year or so, and their annual turnover has increased. This development occurred after BH’s investments in technology, and after the implementation of their e-business strategy. Still, it is impossible to say if these factors are the actual cause of these effects. It is difficult to separate the effects of e-business from the effects of other factors.