

## **Advancement of the Internet in Egypt and its Effect in Tourism Firms**

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### **Abstract**

**Purpose:** The purpose of this study was to investigate the implications of internet advances and the competitive strategies adopted by travel agencies in Cairo City.

**Methodology:** The study used a conceptual framework and Diffusion of Innovation Theory in order to relate theory to practice. A mixed approach was used, which incorporated survey design, analytical design and concurrent transformative strategy. The research used census to include all the Egyptian Travel Agents Association (ETTA) in Cairo and purposive approach to select the respondents.

**Findings:** The results of the study established that travel agencies in Cairo are mainly family and independent businesses.

**Conclusion:** The study concluded that there exists a relationship between the internet advances and the strategies adopted by the Travel Agencies, the perceived internet benefits and the strategies adopted.

**Recommendation:** The study recommends the government of Egypt to provide the necessary enabling environment to enhance travel agencies adopt the dynamic ICT advances and the best strategies in the global value chain.

**Keywords:** *Business model, telecommunication, ICT, tourism firm, internet distribution system.*

## 1.0 INTRODUCTION

Research into the travel agency sector has mainly focused on the need for travel agents to adopt strategies and embrace technology that will enable them to cope with the ever-changing technological environment (Buhalis & Costa, 2006; Livil, 2008). While such studies have been on going in the developed countries, not much has been done in most of the developing countries. Considerable research on how travel agencies (TAs) are adopting Information and communication technologies (ICTs) has, been done in Europe, New Zealand and Egypt. In particular, a study that was carried out in Auckland, New Zealand among travel agencies focused on the perceptions, adoption and impacts of ICTs. The results indicated that the main survival strategies adopted by the travel agents were customer and niche market orientation but little is argued about sustainable strategies (Garkavenko & Milne, 2009).

ICT has proved to be a very dynamic field which affects travel agencies in diverse ways since the 1950s. The major advances of ICTs in the travel industry include computer reservation systems (CRS) which were initially started in 1950s by the airline industry. The first CRS was organized by a partnership between American airlines and International Business Machine (IBM), this system is now known as Sabre (Zhou, 2004). CRS was known as an in-house reservation system was then transformed to GDS (Global Distribution Systems). The sector became highly concentrated and was eventually dominated by four large, global operators which were able to operate internationally via a closely-knit network of agreements with local operators (Pederson, 2005). The four were Amadeus, Galileo, Sabre and Worldspan. Today, all these GDSs have set up their own booking engines, which are also known as the online travel agencies. Further, the GDSs have advanced into internet distribution system (IDS) that facilitates purchase of travel products online (Conyette, 2015)

The use of internet emerged in the 1990s with broad effects from one country to another (Zhou, 2004). The internet changed the market structures, shaping the entire tourism value chain. In an effort to cope and sustain business, the existing intermediaries have taken the ICT as an integral component to ensure sustainability (Egger & Buhalis, 2008). In particular, the internet has turned into a useful medium which has created business opportunities for travel e-intermediaries. Moreover, companies have reinvented themselves online (Middleton, Fyall, Morgan & Ranchhod, 2009). The tourism industry is also embracing mobile technologies with the use of devices such as hand-held computers, mobile telephones and personal digital assistance which uses the internet technology (Cohen, 2010).

The advances of internet have shaped the travel agencies business practice fundamentally, causing various strategic responses. The overarching aim for many travel agencies in the wake of new and rapidly changing ICT is to transform their businesses appropriately for gaining a more competitive. The airline, hotels, car rental chains and tour operators are increasingly encouraging clients to make booking directly through the use of their own sales outlets, mobile telephony and the internet (O'Conner, 2008). The main reason for such changes is to cut on their distribution cost, which is an integral aspect of strategic approach.

The internet innovations have altered the traditional intermediary role travel agencies played in distributing tourism products and services. New form of internet technology has brought dramatic shift to travel agencies' business whereby the booking process is gradually phased out as

commercial transactions are increasingly channeled through appropriate websites (Davidson & Rogers, 2006). According to Papatheodorou (2006) and Buhalis and Costa (2006), only players that can add value will be able to survive in the long run as intermediation is rapidly replaced by e- business models, and that is why the current study attempted to investigate the response of travel agencies to the internet developments. With the increasing pressure, internet has brought strategic measures into the service providers. Measures like the introduction of zero-commission policy (no percentage payment given to TAs on airline sale) by airlines is being replaced by service fee. This has better assurance for ticket sale and is a strategic approach towards cutting the distribution costs.

Today, the airlines are adopting disintermediation (by passing of TAs) as a major driver towards change in an endeavor to link themselves directly to their customers (Doganis, 2006). The introduction of e-ticketing, commission caps and cuts and increased use of the ICTs by the airlines are major changes intended to substitute travel intermediaries with digital technology, hence reducing the distribution cost (Frew, 2004; Page, 2009). Advances in the internet have affected the travel and tourism industry, particularly in the area of automation and networking of distribution channels. The most radical change brought by ICTs is ‘disintermediation’, whereby tourism service providers are striving to sell their products directly to clients (Garkanenko & Milne, 2009; Wang, Li, Duan, Yan, Hi & Yang, 2007). Despite the disintermediation threats, most travel agencies are still thriving in their businesses, making this research critical to establish the nature of the competitive strategies they are using. While generally travel agencies all over the world are managing to adopt various strategies, very little is known in specific countries and urban settings. Travel agencies have continued to endure the ICTs challenges through restructuring and reorganization of their businesses (Zhou, 2004).

Lubbe (2005) pointed out that strategies that are being adopted by South African travel agencies include; consolidation of travel companies through franchising, consortiums, and restructuring of their revenue model, that is, from commission base to service fee base, increased use of technology and transformation of their business into niche markets. In Egypt, Galileo Egypt recently joined the web forces and developed a booking engine known as ‘Going Safari’ (Galileo Egypt, 2008). However, there has been little academic research on the travel agency sector focusing on how travel agencies are responding to the internet advances. The travel agencies’ response to internet innovations in Cairo remains an understudied issue and is important for this research, with a view to establishing how they are responding to internet innovations as well as how government policy facilitates the TA sector within the ICT area.

### **1.1 Statement of the Problem**

This research focused on travel agencies’ response to internet within two critical issues. First, although there has been ICT advancement and particularly the internet for sourcing and information dissemination, booking, financial transactions and marketing among travel agencies, there are very limited studies in Egypt indicating the extent to which the TAs utilize and the competitive strategies adopted by them. The implications of the internet innovation upon travel agencies business remain understudied, making it hard to understand the industry’s trends, competitiveness and repercussions within the Egyptian context. Second, internet has triggered diverse response among the travel agencies without corresponding research to delineate competitive strategies adopted. Analyzing how travel copes with the internet innovations remains challenging due to unsystematic research, thereby creating incoherence. The general objective of

the study was to investigate the advancement of the internet in Egypt and its effects in tourism firms.

## **2.0 LITERATURE REVIEW**

### **2.1 Theoretical Review**

#### **2.1.1 Diffusion of Innovation Theory**

This research was informed by Diffusion of Innovations Theory (DOI), which is an important basis for travel agencies to explain how they cope with internet innovations and the competitive strategies adopted in order to remain relevant. Diffusion of Innovations Theory explains that innovation tends to move sequentially starting with slow penetration, followed by fast-paced adoption and eventually slows down once more. According to Rodger (1999), diffusion of innovations comprises a “broad social psychological and sociological” theory which describes the adoption patterns of innovations, and gives basis to predict “whether and how a new invention will be successful.” This theory is useful to explain the “potential application to information technology ideas, artifacts and techniques.” The DOI shows a logical process through which various technological innovations evolve, which includes knowledge, persuasion, decision, implementation and confirmation.

### **2.2 Empirical Review**

TAs have been in existence for over 170 years now, started in 1841 by Thomas Cook in UK as a booking agent by arranging a one-day rail excursion in England (Lubbe, 2000; Bhatia, 2012). In the next over half a century time up to 1900, Thomas industrial initiatives shaped into vibrant enterprise in Europe, operating train excursions, sales agencies, travelers’ cheques and guiding tours. Like other sectors of the economy, sporadic interruptions by World War one and two affected the business. By mid 1950s, about 100 years since the TAs began, the business started the air chartered based inclusive holiday packages. This expanded to organized and mass tourism with the introduction of jet aircraft services. The growth of air travel in 1960s led the TAs to expand into general travel and tours on mass scale and smaller group travel (Lubbe, 2000; Seaton & Bennet 1996). By the end of twentieth century, the TAs experienced increased flexibility in holiday due to changes in consumer demand.

Cheung and Lam (2009) in their study, “How Travel Agency survives in the e-Business world?” Pointed out that TAs have evolved into three phases known as intermediation, disintermediation and reintermediation. Intermediation is whereby the TAs acts as middlemen between tourism service providers and the customers. In this phase, the traditional TAs dominates the market. Disintermediation is the second phase whereby the TAs are by passed by the service providers and face competition by the online TAs. Finally, reintermediation is whereby the TAs reposition and re-define their role in the distribution chain.

The ICTs and the travel industry are inseparable. The travel industry has used ICTs ever since. The airline industry was the pioneer in the adoption of ICTs in the travel industry. The American Airlines in collaboration with the International Business Machines (IBM) developed the first airline computer reservation system in 1953 which was known as SABRE (Zhou, 2004). The CRSs installed terminals in travel agencies to assist remote printing of travel documents such as tickets, boarding passes, itinerary and invoices. But, due to an increasing demand by travel agencies to

access a number of carriers from a single terminal and information on value added products at a destination, CRSs were then developed into Global Distribution Systems (GDS) (Buhalis, 2004). The GDS led to important innovations such as electronic ticketing, e-commerce, graphic seat selection, lowest fare search and ability for TA and travelers to view public, negotiated, consolidator and web fares (Bidgoli, 2004).

In the early 1990s, GDSs became travel supermarkets, offering information and reservation capabilities for entire range of travel products (Buhalis, 2004). Strategic alliances, consolidations, mergers and interrelationships between CRSs resulted into four major GDS-Sabre, Worldspan, Amadeus, and Galileo (Karcher, 1996; Pender, 2001). In 2004, mergers and acquisitions took place and a number of on-line travel groups emerged, such as, Expedia, Travelocity, Priceline, Lastminute, Orbitz and Opodo (Buhalis & Costa, 2006). These online travel agencies are either owned or operated using the GDS systems. The advancement of the internet technology occurred in the late 1990s. The internet is perceived as a threat as well as an opportunity for the TAs (Stabler, Papatheodorous & Sinclair, 2010). The success of CRS and GDS paved way for the internet (Bidgoli, 2004). Other ICTs that have emerged include; mobile technologies and call centres (Middleton et al., 2009) and travel portal.

Researchers such as Buhalis and Law (2008) and Ip, Rosanna and Law (2010) noted that the development of computer reservation systems (CRSs) in the 1970s, global distribution systems (GDSs) in the late 1980s, and the internet in the 1990s not only generated a new paradigm-shift, but also changed operational practices in the industries. The internet has led to development of brand websites, booking engines, and online TAs. Further developments include cybermediaries, customer engagement technology (CET), social media and travel community sites (Rensburg, 2014). The web 1.0 was mainly controlled by tourism service providers, however, web technology (Web 2.0) is more inclusive (ibid). New strategies such as customer relationship management (CRM) have evolved which deals with attracting, retention and extensions of customers with the support of technology (Almunawar, Anshari & Susanto, 2012).

In a study on strategies used the Australian brick and mortar TAs by Kayani, Grath and Larsen (2015) asserted that the brick & Mortar TAs differentiated themselves from internet TAs by offering competitive pricing, services that overcome complexity in travel planning, one-stop-shop, niche markets and traditional payments option. Ku, Yang and Huang (2012) in their study on “partnership choice: Adaption of strategic collaboration between travel agencies”, identified customer competence, attachment relationship and targeting different levels of customers through collaboration as the major trend between distribution and TA’s strategy. A study by Oladimeji, Olofin and Raji (2014) investigating the benefits of information and communication technologies (ICTs) on practices of enterprises noted that the main competitive strategies adopted by enterprises including differentiating products offered to customers and establishing long term relationships with them, nonetheless, there was no well-defined strategy for ICT use and adoption.

Limited research has been done to delineate the competitive oriented strategies, making it hard to establish whether or not the travel agencies can stand the ICT changes in the market. The online travel agencies tend to use both horizontal and vertical integration to expand their market share and market coverage as well as to compete with both online and offline intermediaries. The vertical integration is used to expand value chains and proposition through a comprehensive portfolio of

both intermediaries and tourism suppliers (Papatheodorous, 2006). A study by Bédard (2005) in Canada revealed a successful transformation of a small independent travel agency.

### 3.0 METHODOLOGY

The study used mixed method design that captured specifically the survey, analytical designs and concurrent transformative strategy. The study area was Cairo, the capital city of Egypt. The choice of this was based on its capacity to host most of the travel agencies that are licensed by the Ministry of Tourism and are members of The Egyptian Travel Agents Association (ETTA). The research instruments used in this study were questionnaires, semi-structured interviews and reading of documents. The questionnaires included both structured (closed-ended) and unstructured (open-ended) which were mainly used to collect detailed information on internet adoption.

### 4.0 DATA ANALYSIS, FINDINGS AND DISCUSSION

#### 4.1 Demographic Characteristics

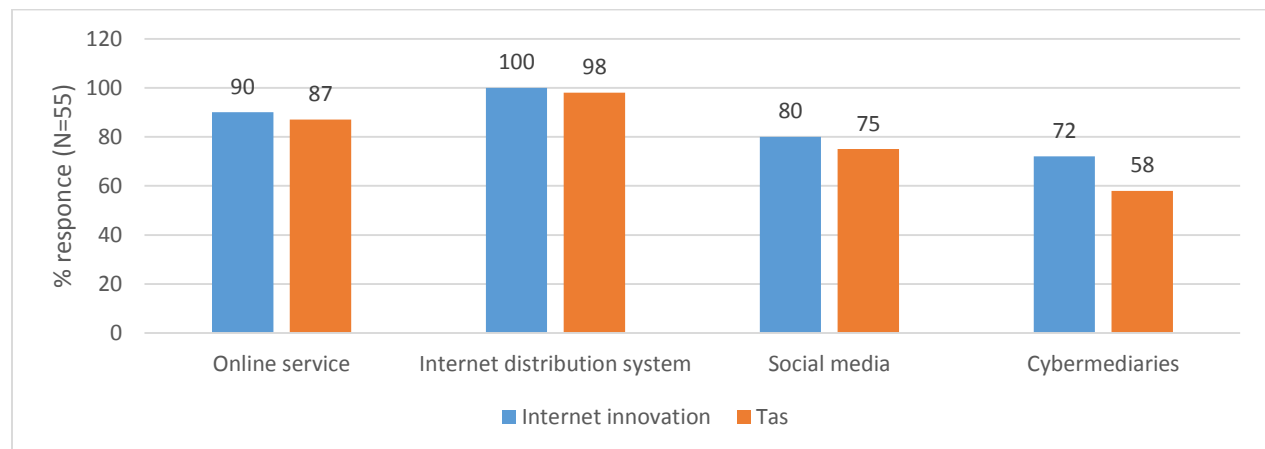
The study targeted all the 70 ETTA registered travel agencies (TAs) in Cairo. Out of the 70, a total number of 55 TAs participated in the study, giving a response rate of 78.6 %. The findings reflect that the sample is biased towards females. Out of these respondents, 47.3% were male and 52.7% were female. The travel agencies have been using the internet for a period ranging from less than five years to over fifteen years. 18 TAs (32.7%) have used ICT for over 15 years.

#### 4.2 Descriptive Analysis

##### 4.2.1 Extent of Adoption and use of Internet Advances

##### 4.2.1.1 The Extent of Adoption of Internet Advances

The extent of adoption of the internet advances was assessed by use of Diffusion of Innovation (DOI) theory. DOI theory provides a useful framework for analyzing the procedures used by the TAs in adoption of internet towards competitive strategies (Tarafder et al., 2010). According to the theory, there are various stages involved in technological innovations. The first stage is knowledge, whereby the adopter is exposed to the technological existence and gets familiar to its functionality. Both qualitative and quantitative data were used to analyze the extent of adoption by using technological innovations stages according to DOI theory.



**Figure 1: Internet innovation**



#### 4.2.1.2 How Internet Advances are used

This study identified the main ways in which the TAs use the internet. The findings indicate that 92.7% of the Travel Agencies use internet for communication, 87.3% use internet to conduct business transactions and 58.2% use internet for networking as shown in Table1. This is an indication that communications and business transactions are the most preferred uses of internet. Abou-Shouk et al. (2012) pointed out that the TAs used ICTs in diverse ways. In addition to communication and business transaction, they were also used for bidding for contracts, monitoring hits on the website. Patricia (2008) also states that they were used for marketing and promotion, partnering and integrating travel businesses with service providers. Cheng and Cho (2011) also noted that the internet advances are used for description, promotion, distribution, amalgamation, organization, and delivery of tourism products. The use of the internet innovation depends on relevance, the nature of business and activities to which it is applied.

**Table 1: Internet uses**

Categories	N	Percentage (%)
Communication	51	92.7
To conduct business transactions	48	87.3
Networking	32	58.2
Others	1	3.6

#### 4.2.2 Benefits of ICT to Travel Agencies

Based on research findings, ICT provides advantages to TAs with regard to communication, information processing, storage and access as shown in table 2.

**Table2: ICTs benefits**

ICT Impacts	N	Strongly Disagree	Disagree	Undecided	Agree	Strongly agree	Mean Score	SD
Enhances communication within the firm	55	0%	0%	1.8%	30.9%	67.3%	1.35	0.52
Enhances communication between firms	55	0%	0%	3.6%	40%	56.4%	1.47	0.57
Facilitates information, processing and storage.	55	0%	0%	1.8%	45.5%	52.7%	1.49	0.54
Facilitates access to information.	55	0%	0%	3.6%	29.1%	67.3%	1.36	0.56

#### 4.2.3 Challenges Experienced by Travel Agencies in Cairo

The respondents were asked to identify the major challenges they experienced in advent of internet innovation. Table 3 outlines the multiplicity of challenges experienced by TAs. According to the findings as shown in table 3, disintermediation with (90%) emerged in the study as the most outstanding challenge. There is an increasing trend where most clients are accessing services online such as flight booking online rather than directly through the TAs. The TAs studied admitted that, despite the importance of online booking as modern approach to business with cost- effective and convenient to client, it has drastically reduced business to travel agencies in Cairo. This concern conforms to various global studies which have cited a shift where, individual tourism service providers (e.g., airlines, tour wholesalers) sell products and services directly to clients, bypassing the TAs (Ibid, Cooper et al., 2008; Wang, 2007; Davidson & Rogers, 2006; Doganis, 2006; Sharpley, 2006; Buhalis, 2003)

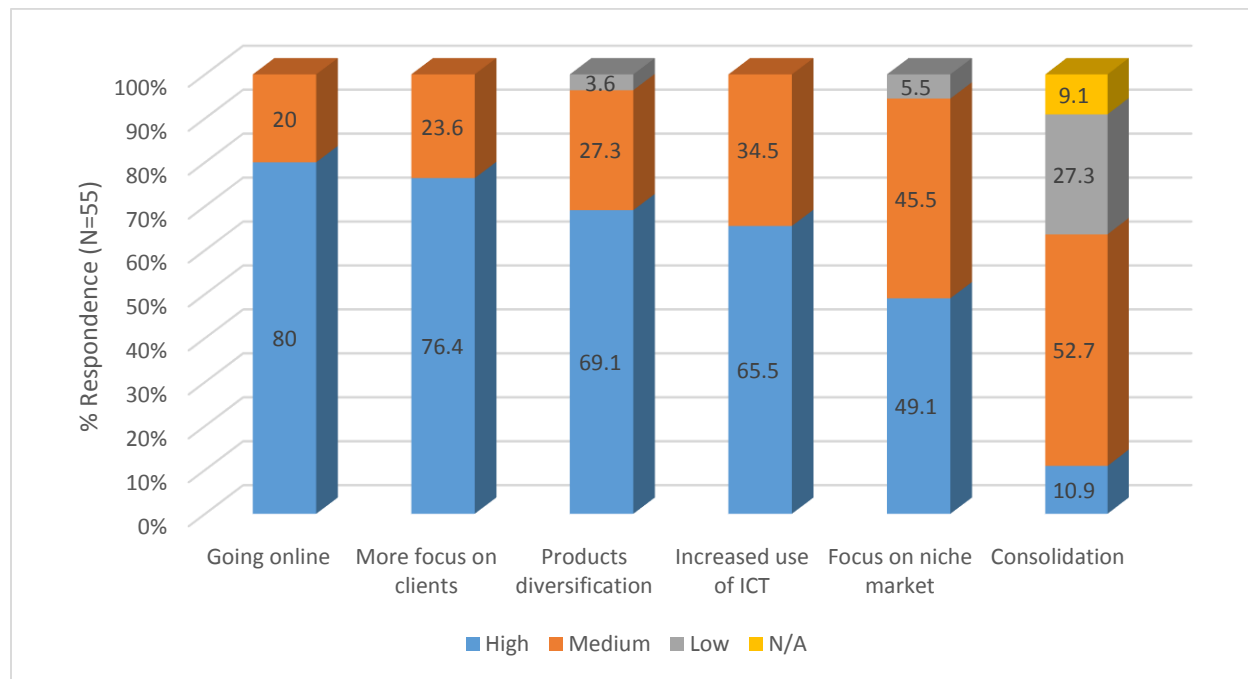
**Table 3: ICT challenges**

Challenges	Travel Agencies	Percentage %
Disintermediation	50	90
Lack of government support	32	58
Competition	43	78
Virtual travel agencies	32	58
Cost implications	47	80
Internet insecurity	33	60
Commission cuts and caps	42	76
Continuous training	31	56
Unskilled staff	36	65

#### 4.2.4 Competitive Strategies Adopted by Travel Agencies in Response to Internet Advances

The responses were based on closed and open-ended data. The following are the close-ended responses by the TAs in Cairo. Travel agencies have devised several ways of coping with the challenges brought about by the internet innovations as shown in figure 2.





**Figure 2: Strategies adopted by TAs**

### 4.3 Inferential Statistical Analysis

#### 4.3.1 Regression Analysis

The standardized regression estimates are provided in Table 4. Two factors (perceived internet benefits and internet developments and innovations) significantly, explained strategies adopted in response to internet advances ( $p$  value  $<0.001$ ). Perceived internet benefits therefore, influences the strategies adopted by TAs in response to internet advances. Similarly, internet developments and innovations influence strategies adopted by TAs in response to internet advances.

**Table 4: Regression weights**

	Estimate	S.E.	C.R.	P Label
Strategies <--- Innovation	0.111	0.113	0.981	0.0001
Strategies <--- Adopted	-0.079	0.053	-1.480	0.136
Strategies <--- Perceived Benefits	0.043	0.150	0.285	0.0001

## 5.0 CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Conclusion

The study divulged the following main conclusions: The TAs offers amalgamation of travel services and target clientele of different categories as a strategic business approach. They also use internet as modern mode of communication but still sustain relevant traditional modes including

fax, print media and face-to-face communication. Face-to-face is a friendly approach, while travel management and advising are becoming most essential service due to increased competition by online travel agencies. Communication, business transaction, market research and reservations are the main objectives of using the internet, in tandem with their core role of disseminating information and liaising with the service providers. Internet innovations are dynamic and always create a fresh knowledge gap, which demands high cost of investment in training and acquiring the innovation. The TAs have adopted and used different types of ICTs, however, they have not realized the full potential of the internet.

DOI theory gives a strategic approach to adoption of new innovations, however, the TAs in Cairo do not have a coherent approach to internet innovation adoption. The adoption is based on the needs and unique characteristics of each TA. Further, the TAs adopt the innovation based on the perceived benefits that accrue from them. They also face challenges in their business such as disintermediation, cost related, and competition, change of their revenue model by service providers and lack of government support.

## **5.2 Recommendations**

The study recommends to the government of Egypt through the Ministry of Commerce and Tourism to provide the necessary enabling environment through ICT capacity management, formulation of protective policies for online security and stakeholders' involvement in ICT policy formulation to the Travel Agencies to enable them adopt the dynamic ICT advances and adopt the best strategies in the global value chain. The government through the Ministry of Information and Communication Technologies need to address regulatory reforms to reduce the ICTs costs and develop standards and international frameworks for online services for internet use. Further, they need to facilitate internet service providers to increase the bandwidth at affordable rates. The private sector specifically ETTA should explore adequately how to engage government, and enhance information facilitation through market research and publicity and also monitor the technological trends.

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## **Conflict of Interest**

Authors declares no conflict of interest.

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