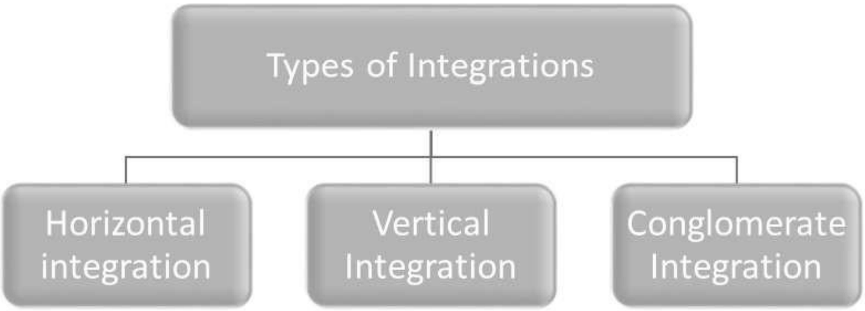
TOURISM INTEGRATION

Integration is a way to respond to challenges from domestic and foreign rivals. With this, there may be common ownership between firms or firms that have contractual links with each other by various intermediate arrangements among various positions such as management contracts or franchising.

Three types of integration occur between firms:



Horizontal Integration

Horizontal integration occurs when a company expands through an acquisition or merger with another company at the same stage of the same industry. In Horizontal Integration in tourism, a business offering one travel product merges or acquires another that offers a similar travel product or service. Here the strategy is pursued by the company to strengthen its position in the industry. The purpose of horizontal integration is to grow the company in size, increase product differentiation, achieve economies of scale, reduce competition, or access new markets. When many firms pursue this strategy in the same industry, it leads to industry consolidation. For example, First Choice travel agencies and Holiday Hypermarkets are retail travel agents, on the same level of buying chain. One advantage to the First-Choice group of owning these two travel agent companies is that it can increase its market share by having two types of outlets in the same city. Another example of Horizontal Integration took place in the year 2002 when the airline easyJet purchased the airline Go from British Airways, although in this case the two companies now trade as one under the easyJet banner.

Horizontal Integration

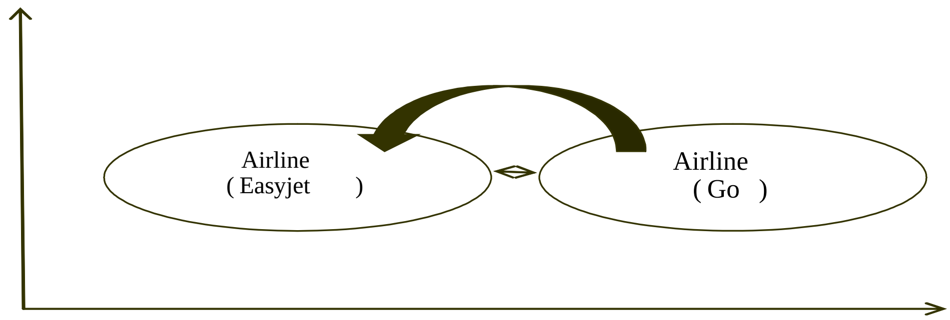


Figure: horizontal integration in the tourism sector

Advantages of Horizontal Integration:

1. **Reduced cost:** the combined companies reduce costs per sale by producing more products and services and rationalizing business functions such as reservations, human resources, or marketing. Their enhanced size may increase their bargaining power with suppliers.
2. **Increased diversification:** the combined companies can provide different services under the same roof.
3. **Increased market dominance:** the large company has more dominance over suppliers, distributors, and customers.
4. **Increased market share in less time:** A rapid increase in market share by the acquisition of an existing successful company achieves benefits more quickly than setting up a new one.
5. **Reduced competition:** The result of industry consolidation is fewer companies operating in the industry and less intense competition.

Disadvantages of Horizontal Integration

1. **Legal consequence:** Horizontal Integration can lead to a monopoly, which is highly discouraged by many governments due to lack of competition.

2. **Reduced flexibility:** Large organizations are harder to manage and these are less flexible in introducing innovations to the market.

Vertical Integration

Vertical integration refers to the merging of companies that operate at different levels of the stages of production in the same sector. This integration may involve common ownership of firms that supply different forms of tourism supply. It may involve a holiday company (the main company) that owns some or all the links down the buying chain (for example airlines, accommodation, tour operators, and travel agencies). In the UK and Spain, for example, joint ownership of travel agents, tour operators, and charter airlines has been common. A few airlines such as British Airways and the German Lufthansa have had equity holdings in hotels in some countries.

Vertical Integration can be described as forward or backward. Forward or downstream integration occurs when the original company integrates with a company that operates at a large stage of production, for example, an airline integrates with a tour operator or a tour operator integrates with a travel agency.

Backward or upstream integration occurs when the original company integrates with another company that operates at an early stage of production, For example, a travel agency integrates with a tour operator, or a tour operator with an airline and sometimes hotel lines and cruise lines.

The below figure illustrates the vertical integration of Thomson Travel with Lunn Poly, Thomson Tours, Britannia Airways, and Grupotel. Vertical Integration of Thomson Travel

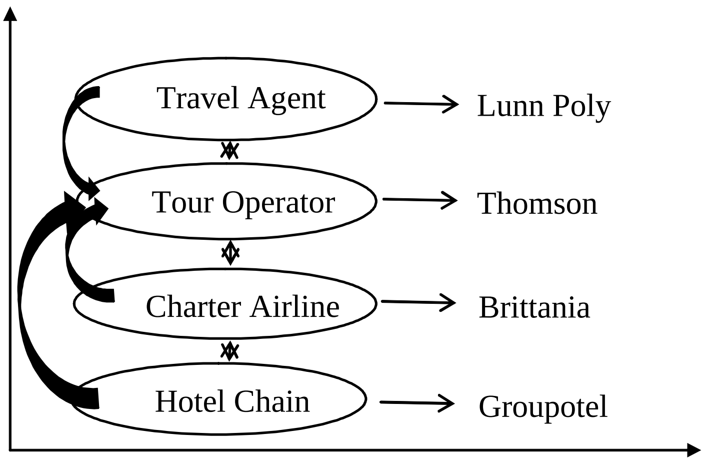


Figure: an example of vertical integration of Thompson Travel

Advantages of Vertical Integration:

1. **Lower cost:** Vertical integration eliminates market transaction costs. Forward integration provides a secure source of buyers for all or parts of the company's capacity and may reduce the cost by reducing marketing efforts which might have an impact on pricing too.
2. **Improved Quality of Supply**: Vertical integration provides control over supply and pricing and helps in maintaining the consistent quality of product and standard of service throughout the tourist's travel experience.
3. **Control over competitor's access to the product:** backward integration secures the supply of the product, perhaps at a more attractive price than competitors which may lead to availability of the product at lower prices for the customer as compared to their competitors.
4. **Greater market share**: A company may have a big market share due to vertical integration as different form of tourism supply is hold by a single company. As Thomas Cook, a tour operator originally forward integrated by establishing a travel agency brand and backward integrated by establishing an airline hold the market share of three of the businesses.
5. **Competitive Advantage:** Vertical integration provides a competitive advantage over rivals who are not vertically integrated, possibly pushing them out of the market or creating barriers for the entry of new entrants.

Disadvantages of Vertical Integration:

1. **Dominating the market:** a vertical integrated company try to sell the destinations that are more profitable and clientele have less choice.
2. **Unfair advantages in negotiations:** vertical integrated company try to get unfair advantage in negotiations with suppliers and distributors. This company is allowed credit agreements whereas the independents have to pay cash for transactions.
3. **Control distribution- control price:** it means customer may have to pay inflated price i.e. duopoly.
4. **Closing of small businesses:** Integration is a means growth, enabling a company to increase its market share and simultaneously reduce the level of competition it faces by forcing less efficient companies out of business.

Conglomerate Integration

Conglomerate integration occurs when a firm takes over another firm in a completely different industry. The motive for such activity may include first a desire to spread risks. Second, growth prospects in a particular industry may be poor. For example, Time Warner is the world's leading media and entertainment company, whose business includes filmed entertainment, interactive services, television networks, cable systems, publishing and music.