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A New Revenue Management Framework for Hong Kong Travel Agencies

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Abstract

Today's highly unpredictable and competitive global environment has had profound effects on the travel industry. Higher operational costs and reduced profit margins have caused many Hong Kong travel agencies go out of business altogether, the profit margins of Hong Kong travel agencies are shrinking. As this sector shares many features with traditional revenue management (RM) users such as the airline and hotel industries, travel agencies have the potential to enhance revenue by incorporating RM techniques into their businesses. Most travel agencies sell product on behalf of suppliers, and do not own or control their inventories. The adoption of RM techniques could optimize the financial health of travel agencies by freeing them from dependence on commissions. This study presents a RM framework formulated specifically for travel agents. It provides a deterministic model for the business operations of travel agencies.

Keywords: revenue management, travel agencies, revenue optimization, Hong Kong

1. Introduction

Revenue Management (RM) is used in industries with perishable inventories, fixed capacities, a high fixed and low-variable cost structure, variable demands, and a segmentable market (Berman, 2005; Kimes, 1989). Industries that have successfully adopted revenue management include airlines and hotels. Many service industries with similar features including restaurants, heritage sites, tourist attractions, ski resorts, golf clubs, and cruise lines have begun to adopt these techniques (Kimes, Chase, Lee, & Ngonzi, 1998; Garrod, Fyall, & Leask, 2002; Kimes & Wirtz, 2003). Research indicates that these industries have many of the same business characteristics as traditional revenue management industries, and thus have the potential to incorporate revenue management practices.

However, travel agencies have unique business characteristics; in particular, they do not own or control their inventories. Most travel agencies sell product on behalf of suppliers and this lack of inventory control has positive and negative features. Some of the positive features are increased service capacity, as they are not limited to one supplier, and more flexibility in how they sell tourism products. The negative features are a passive position, and physical constraints caused by the availability of products or the decisions of suppliers. Travel agencies provide services of fixed duration; therefore, their business is usually predictable. Previous studies (Anderson & Marcus, 2007; Anderson & Xie, 2009) show that RM can help travel agencies use room-risk agreements to manage their packages and resell bundled vacations. However, RM is a comprehensive concept, and such a narrow focus ignores the other needs of travel agencies and could lead to ineffective implementation.

Large travel agencies manage two types of contracts: one carries no financial loss if the agency does not sell rooms (non-risk room agreement) and the other involves prepaid rooms (full-risk room agreement). The non-risk room agreements (without prepaid rooms) offer a much lower risk than their full-risk counterparts (with prepaid rooms). Non-risk rooms are available for purchase at a contracted rate and carry no financial obligation, as they are not blocked and are subject to prior sales. Full-risk rooms block a set of rooms, according to an agreement, at a specified price upon arrival. Travel agencies are financially responsible for the full-risk rooms regardless of the packages they sell.

This study develops a holistic framework for implementing RM in travel agencies, with the aim of optimizing profits. Previous studies (Anderson & Marcus, 2007; Anderson & Xie, 2009) focus on capacity management, whereas this study will relate the RM framework to the operational strategies of travel agencies.

2. Literature Review

2.1 Hong Kong Travel Agencies

Based on previous studies that used data from travel agents, it can be concluded that travel agencies have to constantly adapt themselves to various market conditions in order to be able to compete with their strong competitors in this industry. (Riasi & Pourmiri, 2015) Travel agents are distinct from other business sector because they sell various tourism products on behalf of suppliers. Travel agencies provide labour-intensive clerical activities on behalf of airlines, such as ticket processing and fare provision (Lubbe, 2005), and because they do not carry stock they bear little financial risk. Travel agencies do not purchase products or services, but act on behalf of consumers and receive commissions on sales from their suppliers (i.e., from the principals on whose behalf they act as agents).

Travel intermediaries in the tourism industry have far greater power to influence and direct consumer demand than their counterparts in other industries (Sharpley, 2004). The current shrinking margins and limited profits of travel agencies are attributed to zero commissions from airlines or other suppliers, low profit margins, and downward price trends.

Unlimited discount products and downward price trends also contribute to shrinking margins. The economic recession, too many players, and price transparency all increase competition. Price transparency in particular places downward pressure on air fares, as smart consumers can find lower fares and ascertain the airlines' opportunity costs (Granados, Gupta, & Kauffmann, 2003). As a result, travel agencies are forced to mark down their prices to compete with their suppliers.

Many travel agencies have closed in recent years due to ineffective business strategies, and existing medium-to-small travel agencies face a difficult financial situation (Hong Kong Tourism Commission, 2011), due to the uncertain economic environment and the loss of their middleman position. To address these problems, travel agencies could use RM to improve their profits and thus avoid a decline in tax revenue for the government and the creation of higher unemployment.

2.2 The Origins and Development of RM

2.2.1 Non-Traditional Revenue Management Industries

The airline industry is considered the birthplace of RM. After deregulation in the late 1970's, airline competition increased and the airlines tried to operate their fleets as efficiently as possible. Today, firms use RM to increase their competitive advantage and their revenues. In the airline industry, RM maximizes revenue by ensuring that the right seat is sold to the right customer at the right price (Kimes, 1989).

Over the last decade, an increasing number of companies in various industries have recognized the potential of RM to enhance profitability (Kimes & Wirtz, 2003). RM practices have been successful in industries with perishable inventories, fixed capacities, a high fixed and low variable cost structure, variable demands, and segmented markets (Kimes, 1989). Previous studies have shown that several non-traditional RM industries that share the characteristics of RM industries, such as restaurants (Kimes et al., 1998), heritage and visitor attractions (Garrod et al., 2002), ski resorts (Perdue, 2002), golf clubs (Kimes & Wirtz, 2003a), cruise industries (Hoseanson, 1998), casinos (Norman & Mayer, 1997), and theme parks (Heo & Lee, 2009), have the potential to incorporate RM practices into their operations. These non-RM industries must adapt RM practices to their individual characteristics to ensure that the implementation is successful (Heo & Lee, 2009). Barth (2002) suggested using contribution-based yield statistics to monitor the performance of price and capacity decisions in the context of private club management. Heo & Lee (2009) recommended that theme parks implement RM practices such as limiting their capacities and more rigorous reservation systems. Many different studies have focused on RM in various industries, but this is the first to consider how travel agencies in Hong Kong could use RM to enhance their business operations.

2.2.2 Executing Revenue Management for Travel Agencies

(a) Revenue per available tour product (RevPATP)

With the right RM strategies, travel agencies can optimize the revenue management of each product. RM systems can provide accurate assessments of past booking patterns and current conditions, which will help travel professionals to sell the right product to the right customer at the right price, thereby maximizing revenue.

Travel practitioners need identify the most desirable guests for their tourism products. This can be determined by observing who provides the highest overall revenue when purchasing tourism products. Too often, travel agencies provide unlimited discounts and accept too many lower-paying guests, which decreases profitability.

Travel agencies can calculate a performance metric by determining the customer revenue per a tourism product in different periods. Focusing on "revenue per available tour product" (RevPATP) maximizes the profit made from each product. The key factors in determining tour product revenue are the average expenditure per customer and the occupancy of a pre-fixed group size in the tour product.

Travel agencies would benefit from understanding the relationship between the average expenditure for a tour product and that for a group tour. Travel agencies seldom combine the information from the customer average expenditure and the seat availability of each tour product or offering. RevPATP is a better indicator of the revenue generating power of each tour product than the total number of customers served, and thus it gives a clearer idea of the selling performance of the travel agencies. RevPATP measures the rate at which revenue is generated and captures the trade-off between expenditures and seat availability in a tour product or offering. For instance, if the average expenditure per customer decreases as the number of customers on a tour product or group increases, then the travel agency achieves a lower or similar RevPATP for a large group as for a small group. Conversely, if a travel agency increases customers' average expenditures (i.e., increases regular brochure pricing to price-elastic or price-insensitive customers), it can maintain a similar RevPATP with a slightly lower headcount. The rest of the seats can then be offered at various prices to capture price-inelastic or price-sensitive customers (i.e., early bird or special discount pricing). The pricing strategies may vary according to the time or day of the reservation.

To use price as an RM tool, tour managers must think beyond discounts and develop methods for offering options, such as different room types (harbor view or suites), airport transfers, or optional tours with additional items offered through suggestive selling. The goal is to achieve revenue optimization and increase customers' spending. Eventually, once seats are sold out, the travel agency can reduce the number of risk rooms or seats (pre-paid rooms or airline seats) provided by the suppliers. They can extend the service capacity offered by the suppliers to increase profits.

As travel agencies provide special pricing structures, they can leverage the market's complexity by providing unique pricing and selling high-yield products. Travel agencies can design unique products, such as customized private group tours or charter services, and offer special pricing to the right customers. They can also separate their products into two disciplines. For group or regular tour offerings, RevPATP can be used to achieve profit maximization. To sell air packages (including tickets, hotel room, etc.), they can bundle more products, which reduces the number of risk rooms or seats and extends their service capacity.

(b) Understanding the demand periods

Once travel agencies understand their RevPATP patterns, they can develop strategies for dealing with high- and low-RevPATP periods. During low RevPATP periods, tour managers can either try to attract more customers by suggestive selling of tourism products that increase customer expenditures (i.e., additional costs for upgrading the room, extending the duration of the stay, or purchasing additional tours). During high-RevPATP periods, tour managers can offer limited discount products or charge premium prices for high-yield tourism products. They should also use a non-refund policy or ask for full payment to guarantee seats to prevent no-shows and last-minute cancellations.

Tour managers should identify their operation's RevPATP period. To maximize success during the highest RevPATP periods, the Chinese New Year and Christmas holidays, managers should consider requiring customers to use a credit card to make full payment on reservations. They can also restrict transfer dates and use inventory control to extend the service capacity of suppliers. Using risk (guaranteed full payment to suppliers, agreeing to pay for unsold products) and non-risk rooms (non-guaranteed room from suppliers, contract rates for suppliers, without the obligation to pay for unsold product) from their suppliers to stimulate demand generates more choice and product range during high RevPATP periods. In low RevPATP periods, such as before and after the Christmas and Chinese New Year holidays, special or discount prices can be offered to customers (i.e., retirees).

3. The Need for RM in Travel Agencies

Agencies should make better use of time, pricing, and product management to achieve the best returns. Therefore, it is necessary to identify the strategic levers they can use, as outlined in the following sections.

3.1 Managing Strategic Leverage

To use RM successfully, organizations must understand time-varied demand and must sort their different tourism products into rate tiers. Therefore, time, pricing, and product are the crucial factors for travel agencies using RM.

3.1.1 Time

If demand varies, travel agencies can benefit from carefully controlling capacity when demand is high and loosening control when it is low. They can use different reservation systems (such as those that align reservation time slots with price banding) to control capacity. Customers usually make reservations in advance, so agencies can use their reservation systems to exploit different seasonal price bands. They can also carefully control capacity across different time periods. If they can predetermine the precise conditions for early purchase discounts with reference to particular events at a destination, airline schedules and services, and predictable demands, they can generate better revenues by selling holiday packages customized to these features. They can also reduce arrival uncertainty by insisting on full payment, imposing restrictions on last-minute changes, and offering internal promotions. Travel agencies can also impose high penalties for rescheduling. They should make use of different levels of demand to maximize profits during high RevPATP periods by using only limited discounts and promoting expensive products, whereas during low RevPATP periods they should focus on promotional items and try to add value to the products.

3.1.2 Price

The prices of hospitality and tourism products affect demand (Relihan, 1989), and therefore revenue and profits. There are two elements of pricing for travel agencies: the market side (demand) and the company side (supply). On the market side, customers' ability and willingness to buy a product are based on the perceived value of the purchase, the purchase price, and the resulting opportunity cost. The willingness or ability of the customers' is reflected in the volume of sales achieved.

Travel agencies serve a varied clientele and it is possible that every operation has a different mix of consumers. Accordingly, it is important to recognize that consumers fall into different target market categories. Consider an operation that deals with a mixture of business and leisure customers who travel in low seasons with special discounts and in peak seasons at high prices. Pricing decisions then become critical if the business is to cater to both price-sensitive and price-insensitive consumers. Although the dynamic-price relationship is useful in determining an organization's revenue-generating potential, it still needs to be combined with supply issues.

On the company side, when the supply is reduced during the high season, the products become scarcer and hence command higher prices. However, when the supply increases it is difficult to command higher prices. A tour manager must understand the conditions under which the supply is reduced, and there is a critical demand for hotel rooms and airline seats, and when it increases, in which case it is important to negotiate more special offers from suppliers.

3.1.3 Product

As travel agencies lack ownership of the tourism products they sell, they need to understand how much gross profit they can make from their suppliers' tourism products, or the percentage of incentives or commissions they can expect to receive from their suppliers. Agencies with varied contract agreements from different suppliers should know the difference between high popularity, high profit margin and low popularity, and low profit margin products.

Travel agencies must also consider each product's contribution margin, rather than the total revenue. Travel agencies have two types of contracts with suppliers: one carries no financial risk (non-risk contracts) and the other carries a financial risk (full-risk contracts). Full-risk contracts are typically offered by suppliers at a low rate, but require travel agencies to put down a large deposit and guarantee seats or rooms. Travel agencies then set competitive rates for these products and add their mark-up across a package or group tour. Non-risk contracts are based on signed agreements from the travel agencies and they offer special pricing according to different seasonality periods. In non-risk contracts, travel agents depend on the commissions or incentives offered by the suppliers.

Full-risk contracts usually have high profit margins. The rebates for high commissions from suppliers in non-risk contracts are the main concern of travel agencies. This is the most commonly used criterion for assessing effective cost control. For example, from a traditional perspective, if a hotel room has low rates for a travel agency in a full-risk contract, the agency should aim to sell all of the full-risk rooms to reduce the perishable inventory and financial loss. Full-risk contract room rates provide a higher profit margin than non-risk contract agreements. Full-risk rates provide more room for mark-up and guarantee the room/seat inventory from the suppliers, whereas the commission rebates or incentives in non-risk contracts are pre-set and room/seat availability is determined by the suppliers.

A professional manager should begin by evaluating the popularity (sales volume) and contribution margin of each tourism product. All of the items can then be categorized into five basic types (see Figure 1)—superstar, stars, workhorses, puzzlers, and dogs—based on whether they have high- or low-volume sales and/or generate high or low gross profits. A tour manager can increase the total gross profit and the bottom line profitability of a travel agency by changing the product items (such as using different hotels or airlines). For the five basic approaches, discussion as follows:

• Superstar products: high popularity, high-margin product (full-risk contract, high gross profit; added value and unique features)

• Star products: high-popularity, high-margin products (full-risk contract, high gross profit)

• Workhorse products: high-popularity, low-margin products (non-risk contract, low gross profit)

• Puzzler products: low-popularity, high-margin products (can be full- or non-risk contract, high gross profit)

• Dog products: low-popularity, low margin products (non-risk contract, low gross profit)

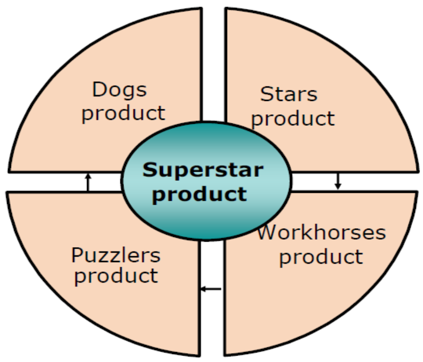

Figure 1. Five basic types of products for travel agencies include stars product, dogs product, puzzlers product and workhorse product

During high demand, where there are more customers, travel agencies can increase profits by focusing on star products. If there is an excess of demand, e.g., all the rooms have been sold from the full-risk contract, then they should consider selling more puzzler products.

Star products are highly popular and boost contribution margins. Superstar products do the same, but require that good networks of selected suppliers are in place to provide added value and exclusivity to products (i.e., guaranteed upgrade special room status or additional services provided to the customer).

Superstar items should be featured and easily found by customers. Agencies should also create positive word of mouth. A special tour product that is developed and sold in high RevPATP seasons is a value added item from a customer's perspective. Furthermore, travel agencies should not provide discounts during peak demand periods. The aim of RM during low RevPATP is to promote demand, as the service capacity is higher than the number of customers. Therefore, travel agencies can provide discounts or early bird systems to attract price-sensitive customers during these periods. A special tour product that combines workhorse and puzzler products can be priced lower to attract more customers or to increase the RevPATP by enhancing the revenue per customer during low RevPATP periods.

Another crucial contribution of this research is the development of RM strategies for travel agents. There are two RM strategies that will help travel agencies to maximize profits and gain competitive advantages. Based on this measure and the findings of this study, travel agencies can implement the following strategies to maximize profit.

• Focus on defining and measuring RevPATP to maximize the profit opportunities of each product.

• Understand RevPATP patterns and develop strategies for dealing with high- and low-RevPATP periods. In high-demand periods, travel agents should maximize RevPATP, offer limited discounts, and develop high-yield products. In low-demand periods, they should maximize capacity, offer more discounts, and direct sales personnel to focus on enhancing the revenue per customer.

Defining and measuring RevPATP allow agencies to maximize the profit opportunities of each tourism product.

The key factors in determining tour product revenue are average expenditure per customer in a group and the occupancy level of pre-set group sizes within the overall product. To manage seat availability, RevPATP is a better indicator of the revenue generated by each product and the sales performance of the travel agency than the total number of customers. RevPATP indicates the rate at which revenue is generated, and captures the trade-off between expenditure and seat availability for each product or offering. For instance, if the average expenditure per customer decreases as the number of customers signing up for a tour product or group increase, a travel agency will achieve lower or identical RevPATP from larger number of customers. Conversely, if an agency can increase the average expenditure per customer, it can maintain a similar RevPATP with a slightly lower headcount. This leaves more seats, which can then be offered at various prices to capture price-inelastic or price-sensitive customers. Pricing strategies may vary according to the time of a reservation or the number of days booked, but once travel agencies understand their RevPATP patterns, they can develop strategies for dealing with their high- and low-RevPATP periods.

When the supply of tourism products is reduced during high seasons, travel agencies can maximize the profits by designing high-yield products that maximize RevPATP and increase customer spending. Implementing non-refund policies or full advance payment to guarantee a seat can help prevent no shows and last-minute cancellations. It is also possible to restrict the changes customers can make to their departure day and to implement a cancellation policy. However, when RevPATP is low, tour managers can either attract more price-sensitive customers by increasing the number of purchases, or up-sell to increase expenditures (such as extending the duration of stays or selling optional tours).

3.2 A New RM Framework for Travel Agencies

Figure 2 summarizes the suggested framework for the implementation of RM in travel agencies. The implementation strategies can be broken down into three phases: input, process, and output.

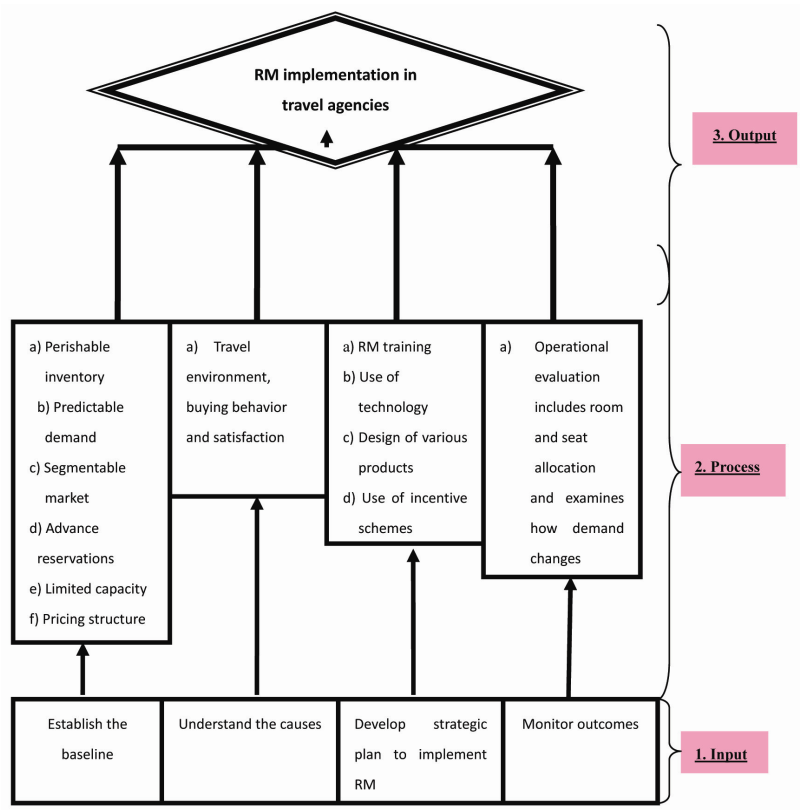

Figure 2. *A new RM framework for travel agencies*

3.2.1 Input

To implement RM, travel agencies must implement the following operations: (1) establish the baseline, (2) understand the causes, (3) develop a strategic plan to implement RM, and (4) monitor the outcomes. Ignoring any one of these issues will lead to failure.

3.2.2 Process

The first step of the process is to establish a baseline. According to Kimes (1989), travel agencies must respond to the following issues.

a. Perishable inventory

Travel professionals should identify the reasons why lack of demand results in the underachievement of revenue potential. This may be due to factors such as last-minute cancellation policies, restrictions on changing departure days, or the imposition of partial penalties, non-refundable payments, etc. Travel agencies can minimize unsold inventory by setting internal policies for dealing with overbooking or internal promotions. Staff members can also use up-selling to increase profits. For inventory control, during periods of high demand, agencies should balance risk or non-risk rooms to reduce perishable inventory. During periods of low demand, they can review their capacity control by limiting the use of risk rooms, offer more promotions, or provide internal promotions.

b. Predictable demand

Professional travel managers need to compile all of the relevant information, such as desirable time periods and likely service durations, for their customers. Detailed arrival and information patterns are vital, and tracking customer arrival patterns requires an effective computerized or manual reservation system. Other factors also need to be considered, such as weather, events at a destination, competitors' activities, airline schedules and services, limitations in supplier capacity, customer behavior, etc. Agencies must use all of this information to forecast the low- or high-RevPATP periods for their operation. They can also identify competitors and different demand sources (for example, by consulting government information). Travel professionals must constantly monitor the external factors affecting demand and use this information to create different products.

c. Segmentable market

Travel agencies can identify their customer base using detailed segmentation and should develop managerial awareness of the changing needs and expectations of their customers. It is important to estimate price elasticity and demand per market segment; that is, the spending profile, duration, and the cost of supporting each segment. Management must also be responsive to changing market conditions; for example they could offer luxury tour products during high-demand periods and at special seasons. Accurate historical demand analysis enables segmentation to be combined with reliable forecasting methods. In addition to using the traditional customer base to segment the markets, agencies can use reservation time slots to further segment the different markets according to pricing approaches. Customers should be segmented into profiles based on spending, with pricing approaches that aim for the optimal mix of guests.

d. Advance reservations

Advance purchases are largely confined to intermediary sales channels. Travel agencies can connect their online reservation system to their RM system. Booking pattern histories and customer databases can likewise be maintained to help predict demand, and tour managers can use incentives to promote "early bird" purchasing. Promotional methods can also stimulate advance reservations to reduce capacity.

e. Limited capacity

Orkin (1998) highlights the strategies that should be used to set capacity levels in high and low demand markets. Travel agencies should set their capacity levels to align with periods of high and low RevPATP. When RevPATP is high, they can create high-yield products, whereas periods of low RevPATP require special promotional as incentives. The application of pricing and physical capacity management increases flexibility. In terms of physical capacity management, travel agencies can optimize their inventory by balancing different contract agreements (such as full- and non-risk room agreements). Maintaining strong networks with different suppliers gives agencies an advantage in selling their products. Agencies also need to continually review their resources and the capacity of their suppliers (for example, using a charter service during high demand) or to adjust their resource allocation. If suppliers are fully booked during the high season, agencies should switch to carriers of the same standards or to a similar category of hotel rooms. To create customer flexibility, agencies can also turn away low-profit customers during periods of high demand or try to divert them from peak to off-peak seasons. In low seasons, they can offer complementary services as an incentive to encourage reservations.

f. Pricing structure

Travel agencies should adopt time-based pricing, in which the price depends on when the service is provided or the commodity delivered. Such pricing should be based on expected or observed changes in the supply and demand balance over a certain period. Differential pricing varies the prices customers pay according to their demand characteristics, rather than using mark-up pricing.

In addition to establishing a baseline for their business, travel agency managers should understand the factors influencing their relationships with the travel environment and customer purchasing behavior. To do this, they need to examine the factors that affect tourists' choices (such as the exchange rates at a destination, travel trends or holiday events, airline schedules, etc.) and their customers' behavior and satisfaction. Understanding why customers select a particular holiday destination is critical to business success. Customers require information about the attributes of each product (such as airline or hotel room) to make a choice, so travel professionals should understand what drives customers' buying behavior. Likewise, practitioners must understand how the price paid by a customer is constrained by his or her budget and degree of interest and involvement. In other words, a larger family may prefer a group tour rather than an independent package, whereas the reverse may be true for young people and couples.

Travel agencies must develop a strategic plan for implementing and closely monitoring RM. The changes include effective RM training for staff members, optimal use of technology, and systems that provide the data for demand analysis. To enhance its competitive advantage, a travel agency should also periodically redesign products to cater to the changing needs of the market. Likewise, they can use incentive schemes to reward employees.

• RM training. The implementation of an RM system requires all of the travel agency's staff members to be familiar with the underlying philosophy and techniques of RM. Training is required in both operational techniques and conceptual understanding. Specialist training is also needed for staff members dealing directly with guest reservations and package sales. Managers should structure training programs so that they include a primary focus on human resources input.

• Use of technology**.** RM technology can be implemented manually, but success is dependent on the extensive accumulation, manipulation, and analysis of data. Using suitable IT can simplify the management task and improve cost effectiveness in terms of forecasting demand patterns or calculating the costs of the different RevPATP periods.

• Design of various products. Agencies should redesign their tourism products based on their analysis of demand, suppliers' offers, and the tourism environment.

• Use of incentive schemes. It is also necessary for travel agencies to reconsider the criteria on which they base their incentive schemes for staff members in departments such as sales, marketing, and reservations. Traditionally, staff members have been rewarded with a fixed commission based on the amount of sales they make. Rather than a standardized incentive scheme, a more realistic RM scheme for travel agencies would incorporate incentive points linked to the amount of sales generated in conditions of high, medium, and low demand. Such incentives can focus on increasing volume rather than profitability.

Agencies need to continue monitoring RM outcomes, such as evaluating room allocations and changes in demand. They should use this analysis to identify any additional factors determining demand.

• Operational evaluation of product allocation and demand changes. Travel agency management should revise room and seat allocations according to agreements with suppliers that are based on different demand predictions and balance the risk or non-risk rooms in such contracts or allotments. They should also consider adjusting their strategies for capacity control according to changes in demand, and monitor whether suppliers can provide sufficient capacity and competitive rates during both high and low seasons. Travel agencies can evaluate how demand changes and what factors drive these shifts, so that they can take immediate action where needed.

3.2.3 Output

This overall approach should result in the successful implementation of RM in a travel agency's operation. However, companies also need to develop a supportive structure and climate, and may also undergo cultural changes as a result of using RM.

4. Implications and Conclusions

Previous scholars have focused on the successful application of RM in the hospitality sectors includes hotels, restaurants, airlines or SPA services etc. They ignored the travel agency sector. However, given the competitive environment in Hong Kong, travel agencies must implement RM if they want to address their shrinking profits (Berman, 2005; Chiang et al., 2007; Cross, 1997; Kimes, 2000; Kimes & Singh, 2009; Marcus & Anderson, 2008; Noone & Mattila, 2009; Sun et al., 2011; Upchurch et al., 2002). This study develops RM implementation strategies for Hong Kong travel agencies. In particular, it helps travel agencies to maximize profits and gain competitive advantages. Its provide industry practitioners with valuable tools for facilitating the introduction of RM into their business. It extends the understanding of RM, its potential use in travel agencies, and creates a new framework that outlines the steps required to implement RM.

Travel agencies can incorporate revenue management practices into their operations, but cannot simply adopt the revenue management strategies used by airlines and hotels. The unique business characteristics of travel agencies, such as lack of ownership, flexibility of inventory control, and special pricing structure, mean that RM should be adopted step by step.

Revenue management involves selling the right tourism products to the right customers at the right price, for the right duration (Kimes, 1989). Travel agencies should keep in mind that the “right” choice is the one that attains the largest contribution possible for travel agencies while delivering the greatest value to the customers. Therefore, travel agencies must balance their use of revenue management strategies with the creation of value for their customers.

Few researchers have explored the potential for implementing RM in travel agencies. The literature review presented earlier highlighted the importance of RM systems and their successful adoption in many hospitality sectors, in addition to describing the development and implementation of different pricing practices (Kimes & Wirtz, 2003). However, there has been limited discussion of the RM challenges and opportunities faced by travel agencies as a particular business type.

4.1 Academic Contribution

From an academic perspective, this paper contributes to the development of a framework for implementing RM in travel agencies. The empirical investigation also presents an overview of current practice, demonstrating the existing strengths and opportunities for Hong Kong travel agencies. To be more specific, the study makes the following main academic contributions:

(1) It adds value to the literature by providing insight into the potential applicability of RM in travel agencies, and proposes that RM is suitable for such firms in the Hong Kong context. It also provides useful information and insights for practitioners to use in developing their knowledge in this area.

(2) It proposes a new measure for RM in travel agencies, revenue per available tour product (RevPATP), which is a better indicator of the revenue gathering performance of each tour product sold by an agency than simply measuring the total number of customers. This research highlights the importance of RM in travel agencies, creating an understanding of how it can be implemented. It also suggests how RevPATP can be used to determine tour product revenue according to the average expenditure per customer in a group, and the occupancy of pre-set group sizes within the product. Therefore, it helps to develop a better picture of the current state of research on the introduction and measurement of RM.

(3) In addition to time, price and product as crucial factors in managing strategic leverage, this study proposes that travel agencies begin by evaluating the popularity (sales volume) and contribution margin of each tourism product. This study identifies the five basic types of tourism products (superstar, star, workhorse, puzzler and dog products) based on whether they are high- or low-volume and high- or low-gross profits(Figure 1) . A tour manager can use these products to increase the total gross profit and the bottom-line profitability of the travel agencies by changing the product items (such as using different hotels or airlines). This study outlines the importance of ‘superstar’ products in creating customer awareness among travel agencies.

(4) It identifies the barriers to, and facilitators of, RM implementation. In a departure from previous studies, this research contributes a new framework (Figure 2) for RM implementation in travel agencies. Therefore, the next step is to generate additional useful research opportunities related to travel agencies for academic practitioners.

(5) RM has been implemented in many traditional and non-traditional industries, and the amount of academic activity in this area is increasing. However, much of the literature has merely looked at the hospitality industry from one side of the mirror, i.e., who benefits in hotel and airline industry management. However, the findings have shown that sufficient time management, human resources, RM knowledge, internal management, technology and sufficient capital are all crucial to successful RM implementation in travel agencies, as they are not limited to inventory control. A more comprehensive understanding of the basic rationale of RM is needed for its use in such business operations.

4.2 Practical Contribution

This study evaluates the specific development of RM implementation strategies for use in Hong Kong travel agencies. It generates findings with a wider focus, thus adding value for travel industry practitioners.

Accordingly, it has significant implications for Hong Kong travel agencies in particular, based on the following specific practical contributions:

(1) It increases knowledge of RM among the owners and staff members of travel agencies, which should increase acceptance of the value of RM and an understanding of how it works in other tourism sectors and businesses.

(2) It paves the way for agencies to maximise profits and gain competitive advantages. Conversely, if agencies do not properly identify the barriers to RM implementation, there is an increased risk of business failure, which detracts from the potential for enhanced competitive advantage in the tourism market.

(3) It gives industry practitioners valuable tools for facilitating the introduction of RM in their business. A practical framework sets out the steps required and the potential for use.

The analysis providing insights into how RM implementation can be improved by investigating travel agencies in Hong Kong, this paper has filled the gaps in the literature.

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