

# Growth potential

Organic expansion, mergers and acquisitions, and franchising have all played a part in achieving the economies of scale associated with larger-scale businesses. But what of language travel agencies? Do they conform to the rule or, in the agency business, is small beautiful? JANE VERNON SMITH investigates.

As Korean agent, Mansuk Bae, of KAMC points out, the language travel agency business requires that its practitioners give “individual care [in every] case” – offering detailed knowledge not only of partner schools but also of visa and entry requirements and cultural guidelines for various countries overseas. Some agents, therefore, do not consider expansion for fear of diluting the quality of their service.

The fact that anyone with a phone and a computer can start an agency from home also means that small businesses proliferate. Many businesses are happy to remain that way, while others have little choice, with economic factors dictating restraint, says Marcela Serra of Argentinean agency, Passport. Outside Argentina, many other outbound markets, such as those of Eastern Europe and China, are similarly hampered by economic factors.

But perhaps the biggest hindrance to agency expansion in many markets is the complicated visa issuing process, which can reject students for often negligible reasons. Magdalena Jugovic of Yugoslav language travel agents’ association, Yuta, believes that this is the case in her country; it is certainly also true in China, where even the holding of a passport is not taken for granted, let alone successful visa issuance for studies overseas.

Given the right conditions, however, the benefits of large-scale operation are numerous and include maximised market penetration, an

increased customer base and revenues, and significantly enhanced financial results, says UK-based Keith Ballam of STA Travel. As an organisation with over 300 wholly-owned branches in more than 70 countries, STA is one of the agency giants. Mainly supplying air travel products to its core market, language travel is an important ancillary product, particularly in Asia and Central Europe.

According to Ballam, STA has grown through a combination of opening new offices and the merger/acquisition of other student/youth travel businesses. Organic expansion has generally been preferred in the English-speaking world, while the company has benefited from partnerships and/or acquisitions in markets where language and culture could hinder market development from the outset.

One of those partnerships is with Russian agency chain, Star Travel. An independent company with 11 offices in Russia, it is also the majority owner of New Indochina Education & Travel, in Hanoi and Ho Chi Minh City. “Much of [our] expansion is driven by [the fact that we] offer work programmes,” says Star’s Spokesperson, Jan Passoff. “[Demand in] some cities has taken off, and others have not reached our expectations as yet.” Passoff believes this is as a result of the different levels of economic development in each city. However, expansion gives the company, and STA Travel, an enhanced reputation as a national player. The company is keen to continue its expansion by moving into other international markets – and China is a prime target.

While national expansion is relatively straightforward, international expansion is another matter. “It is much more difficult for a language travel agency to expand across international borders than for a language school,” argues Alfredo Spinola of the Brazilian language travel agents’ association, Belta. “Counselling a Brazilian must be quite different from counselling a Peruvian or a Colombian, as expectations and [demands] are different.” So, for most agencies, their own country will be their first expansion target.

If the agencies themselves don’t make a move, then language schools may take the plunge. A case in point is ECC, which owns a chain of 50 language schools in Thailand. In 1986, the company decided to expand into the agency sector. “We wanted to add value to our existing services,” explains Director of Business Development, Geoffrey Blyth. To date, the company offers agency services in two locations, but has found further development restricted by a difficulty in finding suitable counsellors. “I can find 100 teachers and 50 sales staff, but it is very hard to find a counsellor,” Blyth laments.

In a job in which “you give so much of yourself”, according to Pascal Carré of Languages & Travel in France and Belgium, it is likely that finding suitable staff is another obstruction to agency expansion. For those who do opt to expand, Carré has some words of warning: “Success [depends] solely on you,” he says. “Never underestimate the energy required to expand!”

## Expansion via sub-agents

One of the safest and cheapest means of expansion is the use of sub-agents. According to Magdalena Jugovic of the Yugoslav agents’ association, Yuta, most language travel agents in Yugoslavia opt for this solution.

As Alfredo Spinola, of Brazilian language travel agents’ association, Belta, points out, the benefit is that it offers a way of increasing both sales and reach without investing in the physical structure of the business. Such an arrangement may also provide the opportunity to offer a full package of travel and educational services, as highlighted by Fernando Zaragoza of Mexico’s Anglo-Mexican Cultural Institute. At the time of writing, his own agency was negotiating a strategic alliance with a major travel agency, while, in Brazil, says Spinola, many regular travel agencies buy educational products from Belta members.

Sub-agents may also be individuals working from home, as commonly seen in France, according to Pascal Carré of Languages & Travel. This is clearly not the perfect solution.

Paolo Barilari, of the Italian agents’ association, Ialca, stresses, “In our business, where a personal knowledge of the products... is so important, it is much better to deal directly with the clients.” Yet sub-agents are also common in Italy, as well as in countries with less healthy economies. “The ideal thing,” says Carré, “would be to develop a franchising system, but the margins in our sector are far too small to interest many investors.”

In China, the situation is coloured by strict regulations that, among other restrictions, forbid agencies – other than the four Ministry of Education agencies – to have several offices. According to Anthony Conway of China’s Hanyin Consultant Company, agents in a particular province or area are not permitted to cast their net outside its boundaries. “Some UK universities will not work with official agents with sub-agents,” he adds. Unofficially, however, it is well known that sub-agents form an important part of the Chinese market.