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## Electronic Channels of Distribution: Challenges and Solutions for Hotel Operators

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# Electronic Channels of Distribution: Challenges and Solutions for Hotel Operators

## **Abstract**

This paper addresses the issues of hotel operators identifying effective means of allocating rooms through various electronic channels of distribution. Relying upon the theory of coercive isomorphism, a think tank was constructed to identify and define electronic channels of distribution currently being utilized in the hotel industry. Through two full-day focus groups consisting of key hotel executives and industry practitioners, distribution channels were identified as were challenges and solutions associated with each.

## **Keywords**

Hotel, Lodging, Information Technology, Travel Industry

# Electronic Channels of Distribution: Challenges and Solutions for Hotel Operators

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*This paper addresses the issues of hotel operators identifying effective means of allocating rooms through various electronic channels of distribution. Relying upon the theory of coercive isomorphism, a think tank was constructed to identify and define electronic channels of distribution currently being utilized in the hotel industry. Through two full-day focus groups consisting of key hotel executives and industry practitioners, distribution channels were identified as were challenges and solutions associated with each.*

## Introduction

In today's global competitive environment, hotel revenue managers need to deal with various methods of distributing their room inventory, including Internet-only rates, distressed room inventory web sites (such as Priceline and Hotwire) and an increasing number of room consolidators or agencies, e.g., Hotels.com, Expedia.com, etc. To achieve their goal of distributing their rooms more effectively requires knowledge and selection of a variety of distribution channels. One challenge is determining the combinations of distribution channels and relative number of hotel rooms to be offered for sale through each channel (O'Connor and Frew, 2004).

The hotel's channel management strategy is the key in determining the outlets for rooms inventory. Hotel revenue managers know that the cost of selling a room through one channel, such as a consolidator, is different from the cost of selling through the front desk, the hotel's website, or through a third party Internet site. The ability to manage and selectively use a multitude of channels is the new focus of hotel managers who now concentrate on how to best select and work with third party intermediaries and channels instead of attempting to eliminate them (Brewer, 2005).

It was this importance of channel management strategy that was at the center of discussions for two focus groups conducted by researchers at the University of Nevada, Las Vegas (UNLV). At these focus group sessions, hoteliers had expressed difficulties in keeping control of their inventory and rates (Brewer, 2005). The focus groups were conducted over a period of nine months and were exploratory in nature. The purpose of the focus groups was twofold: (a) to define the distribution channels and (b) to identify in order of importance, the issues and challenges in electronic hotel room distribution. In addition, the focus group participants identified and discussed the real world barriers and challenges to electronic room distribution and made recommendations of how to overcome each barrier. The research was conducted using focus groups and the data were analyzed using content analysis (Miles and Huberman, 1994) and Yin's (1994) case study methodology.

## Literature Review

### The Evolution of Channel Distribution Strategy

In the last few years, the hotel industry has evolved rapidly in terms of determining and defining inventory and rate management for rooms inventory. In the early 1990's, hoteliers felt that the right approach was to use the rack rate as their basis for determining rate parity (Brewer, Christodoulidou, and Rothenberger, 2005). Based on the rack rate, hotels were able to calculate corporate rates, government rates, and membership rates (e.g., AAA or AARP). In addition, some hotels were offering a large part of their inventory to wholesalers at a pre-negotiated discount (Brewer, Christodoulidou, and Rothenberger, 2005).

But as the Internet evolved, new strategies emerged. Burns (2002) identified that for hoteliers, the goal was to find the "Holy Grail" of rates, which involved a single image of the inventory. The single image inventory referred to managing identical rates and identical availability of these rates throughout all the distribution channels. These distribution channels would have included the Central Reservation Offices (CRO), the Global Distribution Systems (GDS), the Web, and even the hotels' front desk. This turned out to be a difficult task.

In the past, hotels revenue managers allocated their sleeping room inventory and assigned their rates based on forecasted demand using yield management techniques. Some elements that were taken into consideration for calculating a rate were local competition, variable cost of rooms, and the demand for guest services in other revenue generating divisions (Norman & Mayer, 1997). However, as the methods of booking changed from the consumer side, it was challenging to determine effective forecasting

and change rates appropriately. In addition, each channel negotiated separately for price and room availability. Clearly, the more channels used, the more complex the issues.

Middleton and Clarke (2001) predicted that no single distribution channel would dominate the hospitality market in the future. Hence, hotels would need to use a variety of channels to achieve their goal of distributing their rooms more effectively. Many hotels use high cost channels in order to achieve high occupancies, so they must be very careful about the number of high cost channels they select. For example, if a hotel has an average occupancy rate of over 90%, the revenue managers would probably not choose to use high cost channels to fill the hotel's rooms; they would rather save inventory for last minute walk-ins when they are able to charge a premium for the rooms (Brewer, Christodoulidou, and Rothenberger, 2005).

Others hotel revenue managers would choose to use a third party auction site to sell their last minute availability. In this way, they may increase occupancy at the cost of offering a lower rate. The ability to manage and selectively use a multitude of channels is a priority for hotel revenue managers. Revenue managers now focus on how to carefully select the channels they work with instead of trying to ignore them or eliminate them (Brewer, 2005). This way of thinking through electronic channel management is reinventing the inventory management philosophy.

The Internet and e-mail can be some of the lowest cost distribution methods available. As a result of this, the presence of Internet-only rates has risen to the occasion. Whitford (2000) suggested that a strong website marketing strategy can be inexpensive and can increase a hotel property's competitiveness in a relatively short time. Cline (2001) stated that web enabling sales and marketing tools should include the following elements: virtual property tours, loyalty programs, sales force automation, guest history, revenue management, and campaign management.

To maximize web marketing, hotels and other related parties in the hospitality industry need to gather more and more information about customers in order to improve the service experience and further enhance online marketing and sales efforts in terms of promotions, offers, and last minute sales (Carroll & Siguaw, 2003). Many hotels, and especially hotel chains, offer a best-rate guarantee if the reservation is made directly through their own website (Lomanno, 2003). Others might subscribe to the rate-parity philosophy, which tries to always offer the same rate, regardless of booking methods.

Such rate strategies introduce complex issues, including how many rooms to offer at the Internet-only rate, what booking restrictions should be in place, which website needs to offer a particular rate and how frequently. In addition, there is the decision to be made as to whether or not the hotel will give out this Internet-only rate if someone calls the front desk and requests to book at that rate. Will the hotels still give the Internet rate to the individual calling or should they lose the customer for that transaction to remain loyal to their principle of offering Internet-only rates only through the web?

Another popular distribution channel is through the use of consolidators. Consolidators can be either web-based or the traditional mode with an 800 number and/or a brick-and-mortar store. Consolidators need to make a minimum nightly room commitment to the hotel and can receive considerable discounted prices from the published rack rate. In the early 1990s, consolidators were very dependent on toll-free telephone numbers for generating revenue (Blum, 1997). While the Internet was constantly evolving, more bookings were moving to online agencies that were inexpensive to operate and were more customer-interactive (Dunn, 2003). While consolidators still exist, most of them utilize a combination of on-line and traditional sales models.

Vialle (1995) defined Global Distribution Systems (GDS) as a technology system used to display services, bookings, and ticketing in tourism globally. GDS and Central Reservation Systems (CRS) are still used by travel agents to book hotel rooms and airline seats. These are the channels traditionally available to travel agents. Travel agents also use custom made websites and toll-free numbers to assist them with their bookings.

There is some discussion in the industry on whether GDS and CRS systems will maintain their popularity in the future. According to Michael Foliot, senior vice president of Galileo International, the GDSs are the dinosaurs of reservation systems and just like the dinosaurs, they would be around for a long time (Emmer, Tauck, Wilkinson, & Moore, 2003). GDS systems in the hotel industry have raised the bar for competitiveness by providing access to more markets, creating new sources of revenue and overall enhancing the booking process (Connolly & Moore, 1995).

## Theoretical Framework

Institutional theory, and in particular, coercive isomorphism, served as underlying theoretical frameworks for this study. Coercive isomorphism is external pressure exerted on organizations to adopt structures, techniques, or behaviors similar to other organizations (Scott, 1987). In this instance, hotels may use electronic channels not because it fits with their strategy but rather due to external pressure in trying to mimic or benchmark competitors (Pringle, 1985) in order to attain corporate success. Scott (1987) argues that in institutional theory, companies need to decide which external parties they can work with. There are often costs as well as gains associated with such choices.

Organizations may have to modify their structures and/or activities in various ways to acquire and maintain the support of external agents; and, at a minimum, they must provide information and access to the representatives of these bodies. Scott (1987) captures the essence of why hotels need to establish a relationship with some of the travel Internet sites. There are often costs and benefits to be considered from going through a relationship, such as between hotels and Internet travel sites. In essence, hotels may have to modify their corporate policies in order to achieve the contractual agreements necessary for this to work.

According to Remenyi and Sherwood-Smith (1999), evaluation is a process where one looks at the value added by specific circumstances. Perhaps that is why there were so many diverse views and opinions on this issue during the focus group discussion. In addition, Middleton and Clarke (2001) stated that it is a big challenge to evaluate electronic channels because of the pace with which electronic channels are evolving.

## Methodology

### Study Setting

The focus groups were conducted in the form of one day sessions that were nine months apart at the University of Nevada, Las Vegas (UNLV) William F. Harrah College of Hotel Administration and at a hotel in Washington, DC. The duration of each meeting was a full day of participation with expert industry practitioners from the United States and Canada. These experts consisted of hotel operators, vendors of electronic distribution channels, and hospitality technology consultants. The breakdown of each focus group in participation numbers is displayed in Table 1.

Table 1:

<b>Industry</b>	<b>January</b>	<b>September</b>
Hotel Operators	25	20
Vendors	25	15
Consultants	4	4

Each focus group divided the participants into three breakout groups, each group consisting of a balance of operators, vendors, and consultants. A general session introduced participants to the focus group format and their assignment to one of the breakout groups. Groups then convened in separate breakout rooms to proceed with their sessions throughout the day. The meetings focused on channel management issues from the hotel's perspective.

### Focus Group Procedure

In Session I, each group identified and defined channels of distribution and then prioritized them based on the difficulties that hotels had in managing them. In Session II, all the groups met in a general session. In this session, the groups consolidated the distribution channels and the challenges associated with each channel. The groups then reached consensus by voting to prioritize the consolidated challenges by placing one or more of 5 stickers given to them in an associated space next to a challenge. Participants could place any number of stickers on any particular challenge that they felt represented a significant problem.

In Session II each group was provided with the top ten challenges identified in Session I. Participants first identified ideal solutions to each challenge and then prioritized them. A general session was then held to form a general prioritized list of solutions following the same consolidation and voting procedure as done in Session I.

Session III allowed for each group to identify the real world barriers to the top ten solutions identified in Session Two. Each group then separately discussed how to overcome them.

## Results

### January Focus Group

#### Session I

When examining the list of channels, it appeared that some groups chose to define distribution channels in more detail, such as Internet distribution sites and corporate websites, while others used more general terms such as Internet and website. Hence, the language used to describe the channels appeared to be the main point of discussion.

Each group spent a considerable amount of time defining the terms they used to describe the channels. Terms such as “opaque” and “transparent” were used to describe how clear the view was from the consumer’s side as to who was selling the product. For instance, an “opaque” site would be a site where the consumer does not know what property they are booking whereas a “transparent” site would be a site that clearly delineates the properties offering rooms matching the consumers’ inquiry. Sites like Priceline and others could be selling rooms from wholesalers or other third party vendors as well as directly for a property. Other groups identified multiple “merchant models” where the rooms were sold by a provider such as Sabre, Travelocity, Orbitz, and Expedia.

#### Session II

Following Session I, there was a general session where all the groups came together to consolidate the lists of challenges using the procedures described above. The content analysis identified that losing control of the distribution channels was an important issue to all three groups: hotel operators, hotel vendors, and hospitality consultants. Other major concerns were: non proprietary real time connectivity (i.e., rates may change by the time the customer input his or her method of payment from the time they reserved the room), rate erosion, and rate parity. The top ten, those receiving 10 or more “votes,” (Table 2) were then used as the beginning point for Session III.

**Table 2:**

**Top Ten Channel Challenges for the January Focus Group**

Rank	Top Challenges
1.	Consolidated / non proprietary real time connectivity
2.	Uncontrolled distribution channels
3.	Rate erosion / ADR
4.	Rate parity
5.	Brand erosion
6.	Cannibalization; rate brand, inventory
7.	Channel conversion
8.	Forecasting
9.	Cost of distribution
10.	Customer service

#### Session III

Session III began by providing each group with the top ten challenges identified in the general session. The groups were then asked to identify solutions to these challenges. This first look at solutions was to be done without constraints, i.e., in a “perfect world.” Therefore questions of cost, or technical feasibility were ignored. Table 3 lists the solutions generated. It appeared that central inventory and rate management, compliance standards, and yield management had received more than half of the total votes, identifying them as the most important items.

**Table 3:**

**Top Ten Channel Perfect World Solutions for the January Focus Group**

Rank	Top Solutions
1.	Central inventory and rate management
2.	Dynamic online travel agency compliance – standards
3.	Dynamic Yield– fencing

4.	Control by supplier (hotel)including distribution & allocation
5.	E/commerce regulations – full disclosure (contractual)
6.	Total data collection & access to all data including source
7.	Single image inventory
8.	Centralized Operations
9.	Customer segmentation
10.	Education and business process integration

## September Focus Group

### Session I

The September sessions were held in Washington, DC because the participants of the first meeting felt that representation of east coast hotels was not adequate. While the questions were the same, the results were varied. The key terms that were important to all groups were wholesale, GDS, Internet partner, third party and Internet direct. While in the January session, the terms that were discussed were primarily focused on the consumer side, the participants in the September session were focusing on the supply side. This dialogue about GDS systems, wholesale, and partnerships centered on transactions, fees, and supplier relationships rather than the consumers view.

### Session II

Following Session I, there was a general session where all the groups came together to consolidate the lists of challenges using the procedures described in the January meeting. It appeared that control of the market place, images, and rate consistency, were viewed as the most important issues. Knowledge of technology was also central to many of the participants. After they prioritized the lists, the three groups came together compiling a master list of issues and challenges. Ten issues/challenges were identified with regard to electronic distribution channels. The same consensus technique was used to create this list as was used in the previous meeting. The important issues identified were control of rate, education of staff, and customer ownership/loyalty which together received more than half of the votes (Table 4).

**Table 4:**

**Top Ten Channel Challenges for the September Focus Group**

Rank	Top Challenges
1.	Control of rate
2.	Education of staff
3.	Customer ownership/loyalty
4.	Interface (Hotel ↔ Channel)
5.	Control of hotel image
6.	Measure return on investment
7.	Control of inventory
8.	Controlling cost
9.	Display bias
10.	Privacy

### Session III

In Session III, the participants looked for solutions to the issues they had previously identified. The groups thought that controlling room rates might be achieved by maintaining rate parity, using point rewards, insuring best price, providing value, maintaining the accuracy of information on the websites, and timeliness of the transaction. Regarding staff, tools that would help with the management and evaluation of channels, and training were listed as potential solutions. Customer loyalty could be achieved by using

the enablers described above. Rewards, best rate guarantee, and value added features were believed to be key factors in customer retention. All of these catalysts were thought to be important in maximizing return on investment (ROI). The solutions generated are summarized in table 5.

**Table 5:**

**Top Ten Channel Perfect World Solutions for September Focus Group**

Rank	Top Solutions
1.	Rate parity
2.	Best price guarantee
3.	Maintaining accuracy
4.	Channel strategies
5.	Education/training programs
6.	Providing value
7.	Timeliness
8.	Reward system
9.	Regain rate control
10.	Communication from channels

### **Discussion**

Connolly and Olsen (2000) suggest that "...information technology is the single greatest force affecting change in the hospitality industry" (p.23). The focus groups that were conducted approached the same topics from different perspectives. The challenges that all groups had in common were as follows: Rate parity, uncontrolled distribution channels, control of inventory, and customer service and loyalty. Each of these challenges is discussed below:

#### **Rate Parity**

Rate parity refers to consistently maintaining the same rates across distribution channels. This is the main reason why properties want to offer the best rate guarantee (Green, 2006). In this manner, consumers do not need to look everywhere on the internet for a lower rate. Currently, there is not a channel or a website that consistently offers the lowest price. Although many websites advertise best rate guarantee, this is often not the case. This may be due to ineffective technology systems that make it challenging for the rate to be accurately reflected in a transaction. This drives the consumers to spend endless hours searching and comparing sites in the hope of finding the best rate (Brewer, Christodoulidou, and Rothenberger, 2005).

#### **Control of Distribution Channels**

According to Green (2006), legacy technology causes inconsistency of data between channels until the information is properly directed to the potential customer. The author also states that distribution costs can sometimes be as high as 25% of hotel revenues. Unfortunately, it is infrequent that a property can sell the entire inventory directly at the rack rate and hence various distribution channels are needed to direct and re-direct inventory. Finally, the author recommends that suppliers invest in distribution related technology by determining the distribution costs in developing the distribution strategy.

In a study by Hsieh, Ingram, Wanglee, Warburton, and Weizmann (2006), seamlessness between (a) customer and organization and (b) cost to gain the booking were identified as two of the key issues in the challenges with distribution channels. They also predicted third party Internet sites as one of the most beneficial distribution channels over the next five years.

#### **Control of Inventory**

Another interesting finding of this study is that control of inventory can be quite challenging. This finding is consistent with existing studies. Green (2006) states that "...some in hospitality dream of a day when there are...single image inventories" (p.27). In addition hotels have begun to employ greater control of their inventory by analyzing how the inventory is distributed and at what rates the sales occur.

According to PhoCusWright (2002), it was estimated that in 2005 the bookings made over a hotel's site would be 53% vs. an OTA (Online Travel Agency) at 47%. Inventory control was identified as one of the key challenges with distribution channels (Hsieh, Ingram, Wanglee, Warburton, and Weizmann, 2006).

### **Customer Service and Loyalty**

Loyalty has become a popular issue with OTAs as meta sites, such as TravelAxe, provide consumers with an affinity program that rewards them with points every time they book travel accommodations through the referral system; these rewards can be exchanged for merchandise or free hotel nights. This provides consumers with more flexibility and options to accumulate awards that can be redeemed in any number of properties instead of being tied up to a particular's hotel's program. Connolly and Olsen (2000) state that this "...net effect is further erosion of customer allegiance to any particular...hotel company...provider" (p.31). Suppliers are worried that the loyalty shifts over to the online travel agency instead of the hotel property or the hotel chain.

One of the strategies that hotel suppliers have used to maintain loyalty and to encourage direct bookings with the property is not to allow any frequent stay points to be posted to the guests accounts if they made their reservation through a third party (Green, 2006). This author also recommends that the property should take care of its customers regardless of the channel they have used to experience the property; their actual experience will influence their decision to visit again.

To overcome these challenges, the focus groups suggested that hotels concentrate their efforts on central inventory and rate management, single image inventory, and improve customer relationship management (CRM). These potential solutions are discussed next.

### **Inventory and Rate Management**

Hotels are becoming more creative in their attempts to control inventory and rate management. For example, hotel chains are administrating who has access to their low-price inventories and are busy upgrading their own websites (Carroll & Siguaw, 2003). The authors also state that to "...maintain price control, properties and the chains that operate them must structure rates effectively, apply terms and conditions to avoid dilution and arbitrage, monitor competitiveness, and manage rate accuracy and availability" (p.46).

In a survey by Helsel and Cullen (2005) 43 % of the hotels participating in the survey promised the best-rate guarantee on their web site; however, only 25% of these hotels fulfilled their promise.. If the hotel properties carry through their promise of the best-rate guarantee, then they will derive a great benefit from working with travel search sites that are unbiased in their search for results (Helsel & Cullen, 2005). In addition, the authors state that even though the hotel properties want to offer the best-rate guarantee, they would need to build the customer's confidence that they can actually do it. Finally, these authors in their "Nirvana" white paper suggest that for hotel properties to be successful in rate management, they need to implement congruent pricing. Congruent pricing in Helsen and Cullen (2005) is defined as "Maximizing RevPAR and ADR through optimal market segment mix management and distribution channel management via intelligent pricing strategies per segment".

### **Customer Relationship Management (CRM)**

Customer Relationship Management appeared to be a very important issue among the participants as a potential solution to the challenges discussed. O'Connor and Frew (2002) view the Internet "...as the ultimate node before the customer". Carroll and Siguaw (2003) found that "electronic operators can, with users' permission, be more intimate in communications, transactions, and information gathering than has formerly been the case". The authors also stated that travel intermediaries can utilize customer preference data in order to recommend to their customers customized packages that can potentially lead to bookings and increase the look-to-book ratios.

If a hotel property wants to control and have a direct relationship with the customer, then it needs to have a strong partnership and outstanding rate parity (Helsel & Cullen, 2005) in order to own that relationship. This will depend on how the hotel chooses to communicate with the customer once the customer is at the website, how customer information is collected, and how customers experience their hotel stay once they are at the property (Helsel & Cullen, 2005). Finally, the authors state that the customers will book with the party's website that the customers feel they have the most confidence in.

## Conclusion

The study has important industry implications. When new challenges are presented to an industry, it is useful for the different stakeholders to come together to describe, define, and discuss the issues. This helps for those tasked with the responsibility of managing the challenges and solutions. Additionally, the very rich discussion in which the participants were involved helped them frame their particular environment relative to the overall situation. Small chains, large resorts, privately owned properties, vendors and consultants shared the challenges, discussed them, and prioritized solutions to the overall challenges.

The focus groups attempted to predict the “global” picture of what would be important in the future. In addition, the participants stated that there was a need to educate the travel and hospitality industry for the information technology benefits of standards and technology. Moreover, this exploratory research identified challenges and potential solutions in the hotel distribution channels. Industry practitioners and academic scholars need to constantly investigate these critical issues for effective and efficient management of the hospitality distribution channels. It should also be noted that such issues may evolve over time. With the advancement of new information technology and marketing applications, innovative approaches may emerge in the future. What is seen as an issue today may not be a concern for tomorrow.

The present study calls for continued efforts in this stream of research. Even though in Bai, Buxton, Sammons, and Shoemaker (2006) “Limitations of focus groups are they produce qualitative responses that may not be generalized and limited to the number of participants questioned” (p.11), such focus group approaches should be conducted regularly to reflect the most current status of issues of interest. Future research should also examine the importance of distribution channels from the consumer’s perspective. While managing hotel distribution channels is purely a business operation, consumer’s opinions must be valued because the choice of a distribution channel should reflect the needs and wants of hotel guests.

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## Corrections

This article originally appeared in the Fall, 2006 issue (Volume 24, Number 2) of the *FIU Hospitality and Tourism Review*. At that time the lead author's name, Natasa Christodoulidou, Ph.D., was inadvertently not listed as the lead author in the Table of Contents or on the front page of the article.

In the Spring 2007 issue (Volume 25, Number 1) of the *FIU Hospitality and Tourism Review* a correction appeared which credited Dr. Christodoulidou as the lead author of an article titled "Perceptions of the Beach Users: A Case of the Coastal Areas of North Cyprus Towards Establishment of a 'Carrying Capacity'".

Dr. Christodoulidou was never at any time involved in the research or writing of that article and should not have been listed as the lead author.

This article reappears here with the correct listing of authors.

The Editor deeply regrets these errors and any issues or concerns created by them.