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## **The Emergence of Online Distribution Channels in Hospitality Industry: Comparison of Supplier's Perspective and Buyer's Perspective**

Yang Huo

Utah Valley University  
800 West University Parkway  
Orem, Utah USA 84003  
01-801-863-8070

### **ABSTRACT**

This article explores a comprehensive approach to explore, discuss, and determine the channel of distribution systems, Internet, with respect to the hospitality industry's distribution intermediaries. The article concludes by comparing some of the important current trends in the online distribution channels by comparing the supplier's perspective and buyer's perspective.

**Keywords:** Disintermediation, Hospitality industry, Internet, Intermediaries, Mobile device, Online distribution channels.

### **INTRODUCTION**

The advancement of business applications through the mobile device with desktops, laptops, and smartphones has triggered the customers to search for information on travel decision-making process. In 2016, global online travel sales totaled 564.87 billion U.S. dollars. This figure is projected to grow by 33.8% to 755.94 billion U.S. dollars in 2019 and in 2015, U.S. mobile travel sales amounted to 52.08 billion U.S. dollars and are set to reach almost 95 billion U.S. dollars in 2019 (Statista, 2016). In addition, thirty-one percent of leisure travelers say they've booked travel on a smartphone, while 53% of business travelers say the same (Google/Ipsos MediaCT, 2015).

With the increasing number of Internet users and the great incursion of the Internet into the daily life of people, the hospitality professionals have noted the prevalence of online booking/shopping significantly in the context of capturing revenue more effectively and efficiently. Therefore, mega hotels and hotel chains have utilized the Internet and website as a direct channel to sell their hotel rooms to their customers.

Some researchers have expressed their concern over the uncertain future of traditional intermediaries such as using a global distribution system (Inversini & Masiero, 2014; Hills & Cairncross, 2011; Del Chiappa, 2013; Leung, Scchuuckert, & Young, 2013; Law, Leung, & Fong, 2015). In addition, some scholars have even posited that the growing influence of these online technologies has resulted in a strong pressure toward disintermediation such as indirect marketing channel of distribution through a travel agent. The channel of distribution is considered as a place which is one of Ps of marketing strategies, product, price, and promotion. Although numerous research efforts have been made to describe trends of a reservation system in the context of an evolution of technological advancement and in the views of practitioners, these works have been conducted prior to the emergence and prevalence of mobile technologies.

Since 2015, the fast adoption of mobile technologies has significantly affected a hotel reservation and augmented the patterns of tourism consumption. Mobile technologies offer another avenue for tourism suppliers to promote, distribute and connect with their consumers directly (Morosan, 2014), thus, the reliance of traditional travel agencies as an intermediary on distribution is further diminished. Owing to the dramatic change in the distribution landscape, a reexamination of the perception of practitioners toward disintermediation and intermediation is greatly needed.

As mentioned earlier, this study extends the previous research effort and reexamines several issues about disintermediation in tourism and hospitality from the perspectives of practitioners. Therefore, the objective of this research is to describe the evolution of channel of distribution. In addition, the primary objective is to determine how the hospitality industry has augmented its conventional distribution practices in the context of emerging intermediaries to cope with the volatile customer's demand in order to maximize a revenue management as well as a return on investment. In order to fulfil the primary objective, the scope this study is limited to the hospitality industry and frequent individual traveler (FIT) who uses the indirect booking channel of distribution although the increased usage in third party intermediaries as a channel of distribution in the group and meeting segments is recognized, it is not discussed in this study.

This article is organized as follows: The next section is a literature review on related issues. Section 3 highlights the methodology. The researchers present their findings and discuss them in Sections 4 and 5. Finally, Section 6 presents the conclusion.

## LITERATURE REVIEW

Thakran & Verma (2013) discussed a comprehensive approach to summarize the four digital eras in the travel and tourism space since 1960s. The four eras discussed were characterized as GDS (global distribution systems), Internet, SoLoMo, and Hybrid periods. Key components of each era were discussed with respect to the hospitality industry's distribution intermediaries. They further proposed some of the important upcoming trends in the online distribution channels for the hospitality industry (see Table 1).

**Table 1. Evolution of Digital Eras for Distribution System in Hospitality Industry**

Source: Adopted & Revised from Thakran & Verma (2013)

**Generation 1:** Global Distribution System (GDSs Era (1960 – 1995): Intermediation Stage: Indirect marketing through travel agent such as OpenHotel

**Generation 2:** Internet Era (1996 – 2000): Disintermediation Introduction Stage: Direct marketing through WWW by hospitality supplier – Holidex central system (Holiday Inn) & third-party Intermediation Stage: Expedia, booking.com, Hotels.com, Travelocity

**Generation 3:** Social Location & Mobile (SoLoMo) Era (2001 – 2012): Disintermediation Mature Stage:

Intermediation & Direct marketing through social media by supplier such as TripAdvisor, Facebook

Customer Engagement Technology (CET) era: integration of GPS and mobile-device

**Generation 4:** Hybrid Era (2013 & Forward) – multi-tasking

apps for hotel website & internet based online travel intermediaries simultaneously

## **2.1 Scope of four digital eras**

### ***2.1.1. Global Distribution System (GDS) Era***

During the global distribution system (GDS) era in the 1960s an industry relied on the telephone, FAX, and even post mail for room reservations. In this era, travel agents played as major indirect marketing channel of distribution to sell a room for the hotels and to book a hotel for customers. GDSs significantly increased the reach of individual hotels, airlines, and car rental and cruise firms across borders and boosted the global travel and tourism industry. In this era, travel agencies grew all across the world, and by 2008, nearly half a million travel agents sold travel products worldwide (Thakran & Verma, 2013). As hotels became dependent on travel agencies as a major source of hotel booking the transaction costs for using intermediaries within the distribution system were relatively taking a higher portion of reducing a return on investment. In addition, the hotels did not collect and retrieve a customer information such as demographics and psychographics in return which could be used for determination of motivational factors staying at their hotels. A customer did not have a chance to compare the rate given and quoted by a travel agent. Therefore, GDS era is called as a renaissance period of offline travel agencies and tour operators.

### ***2.1.1. Internet Era***

The growth of world wide web (WWW), so called as internet era in 1990s impacted the online channel of distribution significantly. The web-based reservation system positively impacted on the hotel reservation channel by erasing the geographical boundaries between the chain hotels and independently owned and operation hotels as the internet could able to create its own reservation system and could provide information such as amenities, photos, and directions, etc. The customers could search the multiple reservation systems and compare the price, amenities, as well as product information and they started control the reservation flow and input booking and buying experiences to the hotel suppliers. Therefore, the chain hotels and independent hotels could overcome from controls of the intermediaries such as travel agents and wholesalers. This transaction triggers transition from intermediation to disintermediation of channels of distribution in the hotel industry.

However, the launch of search engines, such as Google in 1994 and Yahoo in 1998, brought a new form of intermediation. A new kind of intermediation (web-based intermediation) is becoming increasingly popular, and some travel agents are transforming their businesses to e-commerce agents, creating re-intermediation (Thakran & Verma, 2013). As the internet gained popularity, by 2001, many third-party websites had entered the distribution space. This opened another door for marketing the product to end users, but also had another effect. The growth of third-party intermediaries such as Expedia and Travelocity across the globe once again kept the suppliers heavily dependent on the distribution channel intermediaries (Del Chiappa, 2013). The Internet has fostered the growth of many new distribution channels and the merging of transaction and interaction-based sites (Inversini & Masiero, 2014).

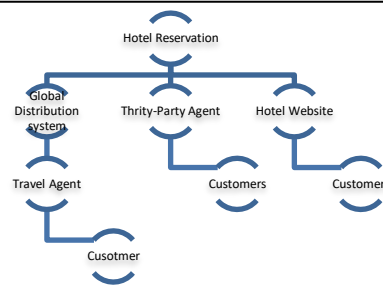
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### **2.1.2 SoLoMo Era – Disintermediation Maturity Stage**

In early 2000s the advancement of digital technology known as customer engagement technology (CET), which includes a wide variety of “SoLoMo” applications (that is, social, location, and mobile-based applications) to simplify the booking process for the customers (Kim & Connolly, 2012). Chettmann (2013) explains SoLoMo, short for Social-Local-Mobile, refers to a more mobile-centric version of the addition of local entries to search engine results. SoLoMo emerged as a result of the growing popularity of smartphones which has WiFi connectivity. Therefore, web browsing capabilities through the GPS integration with mobile devices provide greater local precision to search engine results than what's available via a PC. The beginning of the SoLoMo era was marked by the growth and popularity of the social and travel community sites such as TripAdvisor, Facebook, and MySpace. As the decade of the 2000s became the 2010s, social media became the buzzword in the industry, and travel community sites such as TripAdvisor dramatically shifted the traditional one-way supplier-to-consumer communication to an open consumer-to-consumer communication. The word-of mouth revolution changed the way consumers collaborated and shared information with each other (Thakran & Verma, 2013). The customer in SoLoMo era has completely different expectations from the customers in the GDS or the internet era. The SoLoMo customers want easy access to information and appropriate messages customized to their needs and they are able to be much more spontaneous in their actions, and they are often occupying two different stages of the booking process at the same time (Thakran & Verma, 2013; Chettmann, 2013).

### **2.1.4 Hybrid Era**

Thakran & Verma (2013) claimed that the travel industry is slowly moving back toward the disintermediation phase and have entered into a hybrid era since the customers are increasingly depending on online search using multiple screens and multi-tasking at different times of the day when they search for the supplier information. A multitasking operating system is one that allows more than one program or app to run on it simultaneously (Unuth, 2017). The customers are visiting more than four websites provided by OTAs and hotels before making the final purchase decision (see Figure 1). The hotels need to consider a booking determining factor as 80% hotel loyalty members would like to book outside of preferred hotels if they found better prices (Google/Phocuswright, 2015) through a multitasking or multi-apps simultaneously which provides a point of access (POS) to the hotel reservation system. Therefore, the hotels recognize the cross-device usage and identify the best pathway to augment their marketing strategy. For example, La Quinta implemented a solution that combined audience targeting, data-driven attribution, and Smart Bidding to identify which customers were most likely to book reservations (Think with Google, 2017).



**Figure 1: How Customers Search and Choose Hotels**

**Source: Green and Lomanno (2012)**

## **METHODOLOGY**

### **3.1 Sample**

This research is to determine the impact of a flow of mobile based reservation systems to hotels and their survivability and their strategies in maintaining existing or acquiring more customers, and expanding new services by observing them from the customers' perspective. For this purpose, researchers conducted a survey on customers to find their preference and tendency toward mobile hotel reservation systems. The research sampling method that used in this study was random sampling as it will obtain a more scientific result to represent the entirety of the population. The sample sizes were selected from a general population and the survey questionnaires measuring their preference and tendency toward the travel and hotel booking/reservation were distributed and collected between 2017 and 2018.

### **3.2 Data Analysis**

The 320 randomly selected respondents' data gathered from the survey were processed and analyzed using Statistical Package for the Social Sciences (SPSS version 22.0). The cross-tabulation was performed to analyze the data quantitatively in the context of the relationship between demographic of respondents and their perspective toward mobile hotel reservation system.

## **RESULTS AND DISCUSSIONS**

Table 3 shows the summary of the demographic data of the respondents. The following is the demographic data from the 320 respondents (customers) to the survey.

More than half, 55%, of respondents are female and 45% are male. Most of them (75%) are aged 20 to 40, 21% are older than 40, and only 4% are below 20 years old. 39% of them employed, 33% are students, 17% are retirees, and 11% are housewives (see Table 3).

**Table 3: Participant Demographic**

Category	Portion	
Gender	Female	55%
	Male	45%
Age	<20	4%
	20< <40	75%
	40<	21%
Occupation	Employed	39%
	Student	33%
	Retires	17%
	Housewife	11%

Table 4 shows the summary of usage of mobile device on travel and booking/reservation system by demographics. As expected, 97% of customers prefer to make their reservations online, either through web-based reservation systems or through apps offered by travel providers (online travel agent or hotels) since they think using the online travel agent (Online OTA) travel plan website is better than making reservations through travel agents (Offline OTA: GDS), as the former (or apps in some cases) is more convenient and faster. Given the high preference of direct reservations through web-based reservation systems or apps the threat of disintermediation of travel agents (Offline OTA: GDS) is real. However, both Online Travel agents and Offline Travel agents definitely must address this problem with proper strategies to avoid disintermediation. Especially GPS based offline travel agent have to find some opportunities to sustain their businesses providing more diverse and bundled product options in travel plan and package to maintain the existing market share in niche market through a value driven strategy (Google/Phocuswright 2015).

Table 4: Demographics with Mobile Usage & Reservation Sources

Category	Portion	Usage	Reservation Sources		
			Online	Offline	
Gender	Female	52%	77%	23%	
	Male	45%	75%	25%	
Age	<20	34%	89%	11%	
	20< <40		58%	76%	24%
	40<	8%	65%	35%	
Occupation	Employed	75%	67%	33%	
			Student	89%	93% 7%
	Retires	35%	25%	75%	
	Housewife	55%	75%	25%	

Table 5 shows the summary of usage of mobile device on travel and booking/reservation system. As expected, 97% of customers prefer to make their reservations online, either through web-based reservation systems or through apps offered by travel providers (online travel agent or hotels) since they think using the online travel agent (Online OTA) travel plan website is better than making reservations through travel agents (Offline OTA: GDS), as the former (or apps in some cases) is more convenient and faster. Given the high preference of direct reservations through web-based reservation systems or apps the threat of disintermediation of travel agents (Offline OTA: GDS) is real. However, both Online Travel agents and Offline Travel agents definitely must address this problem with proper strategies to avoid disintermediation. Especially GPS based offline travel agent have to find some opportunities to sustain their businesses providing more diverse and bundled product options in travel plan and package to maintain the existing market share in niche market through a value driven strategy (Google/Phocuswright 2015).

Table 4: Usage of Mobile Reservation/Booking System

Category	Sources	Portion
Trip Plan	Online OTA: Tripadvisor	33%
	Online OTA: Google Trip	33%

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	Online	
	OTA:Kayak	18%
	Other (Online	
	OTA)	15%
	Offline OTA:	3%
	GDS	
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Hotel Booking	<i>Hotel Website</i>	33%
	<i>Hotels.com</i>	28%
	<i>Tripadvisor</i>	21%
	<i>Airbnb</i>	11%
	<i>Others</i>	7%
Factors for Hotel Booking	<i>Price</i>	79%
	<i>Amenities</i>	11%
	<i>Location</i>	7%
	<i>Brand name</i>	2%
	<i>others</i>	1%
# of Apps Used	<i>1</i>	19%
	<i>2</i>	42%
	<i>3</i>	33%
	<i>4</i>	5%
Reasons to switch Apps	<i>Price Check</i>	75%
	<i>Lack of Info</i>	15%
	<i>Multi-tasking</i>	10%
	<i>Smartphone</i>	65%
Booking Device	<i>Tablet</i>	25%
	<i>Laptop</i>	8%
	<i>Desktop</i>	2%

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The most popular source of hotel booking, according to the respondents, is a hotel website (33%) followed by Hotels.com (28%) and Tripadvisor (21%). One interesting finding is that Airbnb is getting another popularity among respondents (11%). This result indicate that a hotel has developed its website to meet the customers' needs and wants. In addition, a hotel website needs to utilize the web to offer services such as price comparisons and/or service comparisons to help customers make decisions. There are many online travel agents that have successfully established connections with suppliers (airlines, hotels, etc.) and customers, expanding their services globally. Their systems can be accessed anytime, anywhere.

The major booking determining factor for the hotel booking is a price (79%), hotel amenities including service (11%) and location (7%). This result implies that a customer is willing to alter or switch the hotels if they found better prices. In addition, the respondents use more than two applications to search and compare the information among those of hotels and OTA. They also switch the applications on mobile devices to compare and verify the price and search more information on the hotel facilities and amenities and service plan such as a room rate plan to check whether a complimentary breakfast is offered or not. As the penetration of the Internet takes a higher portion of a hotel reservation and booking, the adoption and advancement of web-based reservation systems consequently recognizes. However, as a customer wants to utilize the modern and highly advanced technology which is called "high tech", more human based friendly service, which is called "high/human touch", to be offered by a hotel industry including live chat, friendliness, and courteous services, extensive knowledge of hotel information, and trust.

The most popular mobile device source for a hotel booking is a smartphone (65%). Another devices are tablet (25%), laptop (8%), and desktop (2%). The result also implies that the customers prefer to a smartphone since it is a more convenient and user friendly device. Similar to the research by Google in 2013, the portion of desktop users is small while the portion of tablet and mobile phone users relatively significantly larger, therefore, investing in a mobile, tablet website is also becoming critical for hospitality suppliers. Being able to a customer recognize a value with the latest mobile tools is key to attracting a prospective customer and retaining a current customer and building a value driven strategy (Google/Phocuswright, 2015).

## **CONCLUSIONS**

In summary, this study describes the evolution of a channel of distribution in a hotel reservation and booking and a field study measuring the customers' perception of a mobile device usage and factors impacting on decision to a hotel booking is performed. A hybrid era that integration of mobile devices and multi-tasking function is identified and confirmed as an emerging trend in the hotel distribution channel. In correspondence to the transition between the intermediation and disintermediation, the study results show that the adoption of the internet is high and many customers prefer to interact directly with the hotel travel service providers through the web or apps. In addition, the results of this study imply that the most successful hotel provides the consumer with the best experience, a fitting rate, and results that yield a profitable transaction. As a customer has a control key for the reservation and booking a hospitality professional has to adopt and build the ability to customize marketing strategies at the right time to their customer and merge with the technology guru is even more need to capture their market share and acclimate the revenue

management as well. Therefore, a hotel needs to aware not only a marketing strategy offered by OTAs but also that of other competitive hotels. The travel business environment has changed in conjunction with the advancement of technology and a customer's knowledge and role in the web-based reservation system.

It is interesting to find out how a hotel industry professional respond to the changing business environment that challenges their sustainability. The hotel professional must realize that a web reservation system through Offline OTA is weakened by shifting advantages to customers, especially individual customers. A proper web-based marketing strategy can secure their businesses and neutralize the threat of disintermediation from the availability of web-based reservation systems that let suppliers offer their products and services directly to customers and through more customers' engaged in the channel of distribution (Nathanel, 2017; Almunawar & Anshari, 2014).

As the scope of this study is limited to the frequent independent traveler/customer the result may not determine the necessity and its role of an intermediary (i.e., travel agent) because the travel agent's core business more relevant to a group and/or different tier market.

Further research is needed: 1) a greater depth of a supplier's perception on the channel of distribution may have been obtained by conducting a study comprising of a hotels and OTAs in the context of the transaction cost analysis since the major objective for any hotel is to minimize the costs of distribution while increasing yield by achieving the optimal channel mix and practicing smarter selling and merchandising and hotels are seeking revenue that delivers a sustainable profit stream; 2) the methodology could have also included surveying a focus group comprising a prospective group traveler who might have a different travel plan or agenda and have a difference value driven perspective in the context of decision pattern toward the searching information and booking procedures.

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