
Chapter 8

Distributing the offer

Chapter Objectives

After working through this chapter, you should be able to:

- Understand the role of distribution in hospitality markets
- Explain the function of travel and tourism intermediaries from a hospitality perspective
- Understand how computer reservation systems (CRS), global distribution systems (GDS) and Internet technology impact on the hospitality distribution network
- Evaluate channel relationships between principals and intermediaries.

Introduction

In this chapter we will explain the channel options available to hospitality operators, define the role of intermediaries, and review how technology is changing hospitality and tourism distribution systems.

The concept of a distribution channel is relatively simple, but in practice can be extremely complicated, especially for large organizations. The role of distribution is to help customers find information about products and to make purchasing easy. Intermediaries, for example travel agents and tour operators, help customers to choose hospitality and travel products. They are normally paid by charging a commission to the hotel that receives the booking. Since hospitality products are perishable, it is crucial to generate advance bookings. Major hotel companies with thousands of bedrooms to fill in hundreds of locations need to use a wide range of distribution channels to reach all their potential customers. The relationship between channel players is complex, especially if a hospitality organization becomes dependent upon high volume sales generated by intermediaries.

You will obviously be aware of the information communications technology (ICT) revolution, with the growth of the Internet and the development of powerful computerized systems. This revolution is changing the mechanics and tools of the distribution channel. However, the principles of distribution remain the same, regardless of the technology.

Channels of distribution

When we discuss the theory of distribution, we describe airlines, hospitality organizations, car hire firms and leisure attractions as principals. These principals can be distributed via a number of different channels (see Figure 8.1), some of which are described below. *Principals provide the core product, which customers consume. Without principals there is no product. However, principals, especially in leisure travel markets, need intermediaries to package a combination of travel products and sell the total package to consumers.*

Channel 1: Direct-to-customer

In the first channel, hospitality organizations and customers communicate directly with no intermediaries. This is called direct marketing. Principals use a combination of direct distribution methods, primarily online reservations, and marketing communications activity to reach potential customers. Direct marketing is particularly effective when targeting repeat customers. Since there are no intermediaries taking a commission, this channel can be the most cost-effective for principals.

Channel 2: Referral network

Branded hotel and restaurant chains, whether corporate-owned, franchised or members of voluntary associations, use each individual retail outlet to market the other properties in the chain. No intermediaries are involved and, providing customers are satisfied with the hospitality offer, the 'referral network' is another

Channel	Distribution system		Number of intermediaries
1. Direct marketing	Hospitality unit	→ Customer	0
2. Referral network	Individual hospitality unit	→ Branded outlets and C.R.S → Customer	0
3. Retail networks	Individual hospitality units	→ Travel agent → Customer	1
4. Wholesale network	Individual hospitality unit	→ Tour operator → Customer	1
5. Wholesale network with travel agent as retailer	Individual hospitality unit	→ Tour operator → Travel agent → Customer	2

Figure 8.1 Sample of hospitality and tourism distribution channels

cost-effective distribution channel. Hospitality chains provide brochure racks, often close to reception, and place hotel directories, which describe other hotels in the group, in the bedrooms. Customers can book directly for themselves, or at reception desks, via the hotel chain's computerized reservation system (CRS).

Channel 3: Travel agent as intermediary

In tourism distribution, travel agents perform the role of a retailer stocking a range of hospitality and travel products. Information about principals' products and prices is stored in databases and manual directories, and is provided via brochures. The travel agent advises customers on all aspects of travel. Agents make bookings, collect payments, provide tickets and accommodation vouchers, and over time develop a close relationship with regular customers. The travel agent works on the customers' behalf, and will take up customer complaints with the principals. In leisure and most business markets, the travel agent does not charge the customer for this service; instead, the principal pays the travel agent commission.

Channel 4: Tour operator as intermediary

Tour operators are wholesalers in the travel and tourism industry. A tour operator negotiates bulk allocations of seats from charter airlines and bulk accommodation from hotels, and then develops a packaged product, which is marketed to consumers directly. The tour operator does not charge principals a commission; instead

it agrees discounted prices with the different principals involved, and makes a profit by charging the customer an inclusive price for the package holiday.

Channel 5: Tour operator and travel agent as intermediaries

This channel is similar to channel 4, with one major exception: tour operators often use travel agents to promote their all-inclusive travel products. In this situation, the tour operator has to pay the travel agent a commission for any bookings. If there are more intermediaries in a channel there can be a problem for the principals, because each intermediary needs to make a profit for the service provided. This means that there are greater pressures on the principal to keep prices low.

Benefits and disadvantages of distribution channels

From a hospitality perspective, the benefits of distribution channels include:

- More effective demand management for perishable products
- Convenient global/local access points for customers away from the hospitality location
- The provision of relevant information and guidance to potential customers by knowledgeable travel experts
- The bundling of hospitality products into combined travel packages
- An advance reservation and payments system
- The opportunity to work with specialist intermediaries who understand the dynamics of their own markets.

The disadvantages for hospitality organizations using intermediaries include:

- The loss of margin paid to agents through commission
- The loss of margin caused by charging tour operators low accommodation rates for volume business
- The loss of control of a key element in the marketing mix (the distribution channel), which can lead to an unhealthy dependence upon intermediaries (for example, large travel agency chains will not allow principals to promote their own products at point-of-sale)
- Intermediaries can be closer to the end user, taking 'ownership of the customer' away from the hospitality organization.

Activity 8.1

Think about booking a package holiday in a hotel in a foreign country.

- List all the organizations, intermediaries, principals and any others who might be involved in making, paying and delivering the packaged travel product.
- Note what each organization provides in the delivery of the holiday.

Intermediaries

The structure of the travel and tourism industry is continually evolving. In Europe, change drivers include the deregulation of air travel and the growth of Internet technologies, which can deliver economies of scale and cost savings to the larger tourism organizations. Whilst the vast majority of intermediaries are small, independent bodies, major international companies have emerged, which dominate the package holiday market.

Intermediaries can be categorized under the following broad headings:

- Travel agent
- Tour operator
- Conference and meeting planner
- Corporate business travel agent
- Incentive travel house
- Representative agent
- Internet web portal and virtual travel agent.

Small-scale intermediaries normally focus on a specific leisure or business sector, whilst the large-scale organizations provide both leisure and business services. Table 8.1 provides current examples of intermediaries operating in specific sectors. We will discuss each category in more detail from a hospitality perspective.

Travel agents

Bricks-and-mortar travel agents are involved in booking individual and group travel for both business and leisure markets. Travel agents primarily rely on computer systems to make bookings, either directly to the hotel chain or through tour operators. Agents are dependent upon hotels paying commission, and obviously

Table 8.1 Examples of Intermediaries

<i>Intermediary</i>	<i>Specialist sector</i>
Leisure travel agent	Thomas Cook, Going Places, Lunn Poly, Flight Centre, STA Travel
Corporate/business travel agent	American Express, Carlson Wagon Lits, Traveforce, Corporate Traveler
Tour operator	Club 18–30, Saga, Kiwi Experience, Kuoni, Ski World
Conference/meetings organizer	Banks Sadler, BI Worldwide, Concept Meetings and Incentive Travel
Incentive travel house	P&MM Travel, Universal Conference and Incentive Travel, World Event Management
Representative agent	Utell
Internet web portal and virtual travel agent	Travelocity, Expedia, lastminute.com, laterooms.com

prefer prompt payment. The lowest hotel commission paid is 8 percent and the norm is 10 percent, with certain hotels paying up to 30 percent commission on specific products available during the low season. Hotel groups use the following tactics to target travel agents:

- Advertising in the travel trade press – e.g. the *Travel Trade Gazette* in the UK
- Hotel newsletters and direct mail promotions
- Sales visits to head office and individual retail outlets
- Incentive promotions, with rewards for the most successful staff
- Familiarization trips to the group's hotels (although the effectiveness of 'fam' visits by travel agent staff is debatable).

The sales team of the hotel chain negotiates with the head office of the retail travel agent chain on a regular basis. They review sales figures, discuss customers' complaints and guest satisfaction surveys, and negotiate commission rates and the racking of brochures on shelves. Individual hotels rarely target travel agents, since their product offer is too narrow and localized to be of interest.

Tour operators

Tour operators devise inclusive holidays, combining the travel and accommodation elements with varying degrees of food, beverage, activities, entertainment and sightseeing. Some tour operators specialize in particular products (ski packages) or destinations (South-East Asia); others offer a wide range of tours. Tour operators generally work on volume sales, offering attractive, all-inclusive prices to generate high sales, with low margins. This formula implies a high break-even point, which makes tour operators financially vulnerable. Hotels wanting to target tour operators must be prepared to offer low rates, and accept that the additional spend in the bar and other areas can be low. To protect themselves hospitality operators need to transact business with tour operators who are covered by recognized trade indemnity policies, and make sure they are paid on a regular basis.

A driver and/or tour guide/tour leader/rep acts as a representative for the tour operator throughout the holiday, and plays a key role in supporting the relationship between tour customers and the hotel. Much tour operator business is booked into hotels for a set number of nights – five, seven, ten or fourteen nights are popular blocks – to coincide with working consumers' holiday patterns. However, the senior citizens' market can book for months during the low season in large holiday hotels. Another option is booking on a series basis. An example of a series schedule is a weekly coach tour of Scotland, departing every Saturday with approximately 40 customers, on an agreed itinerary staying at the same hotels each day of the week for a sixteen-week season. This type of group travel appeals to older people.

Marketing insight

Competitor Research in the Tour Group Market

The enterprising manager of one Welsh resort hotel, the Deganwy Castle near Conwy, decided to target coach business. The manager visited the car parks of competitor hotels, took the names and addresses of the coach companies from the coaches, personally contacted the coach companies/tour operators, and negotiated a number of successful contracts for the next year.

Conference and meeting planners

These specialist agencies provide venue search and selection services and expert advice in event management. The meeting planner does not normally charge the client a venue-finding fee; instead, the venue will pay the meeting planner a commission on the business booked. Meeting planners justify their role by:

- Providing impartial advice as to the suitability of the venue
- Negotiating the contract between the client and the venue
- Ensuring that the venue delivers what the organizer is looking for.

Meeting planners adopt a professional approach to the business, especially since their customers can be high-spend, frequent users. They will often personally inspect alternative venues, and develop considerable expertise about the conference and meetings market. All the major hotel groups regard conference and meeting agencies as a priority target market.

Corporate or business travel agents

Business travel agents focus on service quality, in addition to price, in dealings with corporate customers. They arrange air travel and car hire as well as hotel bookings. The globalization of business has increased the demand for corporate travel, but at the same time the cost of traveling and staying in hotels has become a significant cost item. An American Express survey revealed that travel-for-business is the third highest item of controllable costs for companies.

Whilst smaller business travel agents still rely on commission payments, the largest have reinvented themselves to provide their clients with cost-effective travel advice. These business travel agents are not interested in collecting commission from hotels; instead, they charge their clients a management fee for providing a travel management service – just like any other professional organization charges for a service. Business travel agents are keenly interested in negotiating competitive rates with the hotels that their clients want to use, to demonstrate that they are delivering better value to their clients.

Incentive travel houses

Companies often use travel as a reward to motivate customers, dealers, distributors, salespeople, staff and managers. This concept has developed into a major sub-sector of the tourism business, and is called 'incentive travel'. The demand for incentive travel has increased dramatically during the past twenty years, and specialist incentive houses have developed expertise in this market. To be a successful motivator and 'incentivize' the target audience, the reward mechanism should be highly desirable, often foreign, frequently unusual and especially exotic. This specialized market is not suitable for all hotels; however, exclusive hotels in idyllic locations can seriously target the incentive travel market.

Incentive houses carefully check the facilities and quality of service of hotels in appropriate destinations. Since the promoters of incentive schemes are always looking for unusual themes, quality venues can help incentive travel houses by packaging distinctive, interesting programs that are suitable for well-traveled, sophisticated consumers. Some incentive packages involve large numbers of winners all traveling

in one party at the same time; others are designed for couples, and can be booked on an individual basis as and when it suits the winners.

Representative agents

Representative agents are another type of intermediary who link hotels, travel agencies and customers. These are independent companies with their own sales teams. The largest representative agency in the world is Utell, which books millions of room nights each year into the hotels they represent. Utell connects 5000 hotels, including many of the leading brands and independents, to 450,000 reservation terminals in travel agencies everywhere using the Global Distribution System (GDS). Utell also has its own sales force, which negotiates competitive rates for corporate clients and provides incentives to travel agents to book via Utell.

Virtual travel agents

Virtual travel agents are travel agents who only take bookings on the world-wide web. Unlike high street bricks-and-mortar travel agents, a virtual travel agent does not have any travel shops for customers to visit; all transactions are conducted on the Internet (see Case study 8.1). Major corporations own some of the largest virtual travel agents. Expedia is owned by Microsoft and Travelocity is owned by Sabre, one of the four Global Distribution System companies.

Case study

8.1 Lastminute.com

Lastminute.com is Europe's leading online retailer selling a wide range of travel and hospitality products. The concept is based on principals, such as hotels and restaurants, discounting inventory to fill rooms and seats at the last minute. Lastminute.com has over seven million subscribers in Europe, Australia/New Zealand, South Africa and Japan, who receive weekly newsletters about last minute offers. There is both an on-line and an automated telephone booking system.

Horizontal and vertical integration

Today's major travel organizations have evolved first by taking over or merging with competitors in the same sector (horizontal integration), and then by taking over or merging with principals and/or intermediaries in different sectors of the travel industry (vertical integration).

Figure 8.2 provides a diagram demonstrating how a major player takes over or merges with competitors in the hotel sector, using Hilton Hotels as an example of horizontal integration. Hilton's rapid expansion in the UK was based on the acquisition of competitor hotel chains like Stakis. Their international expansion included the purchase of the Scandinavian hotel chain Scandic. The acquired hotels are carefully

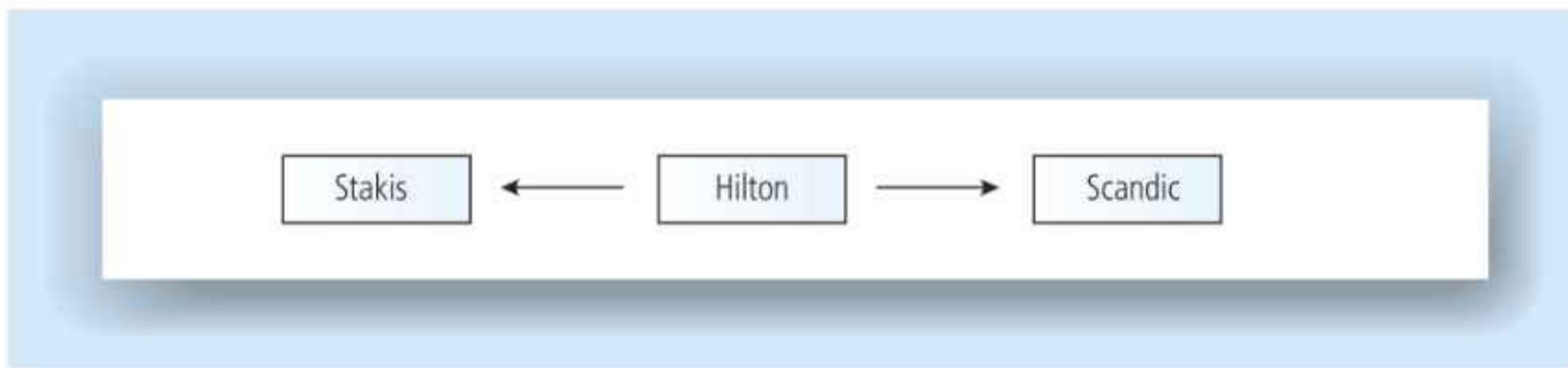


Figure 8.2 Horizontal integration

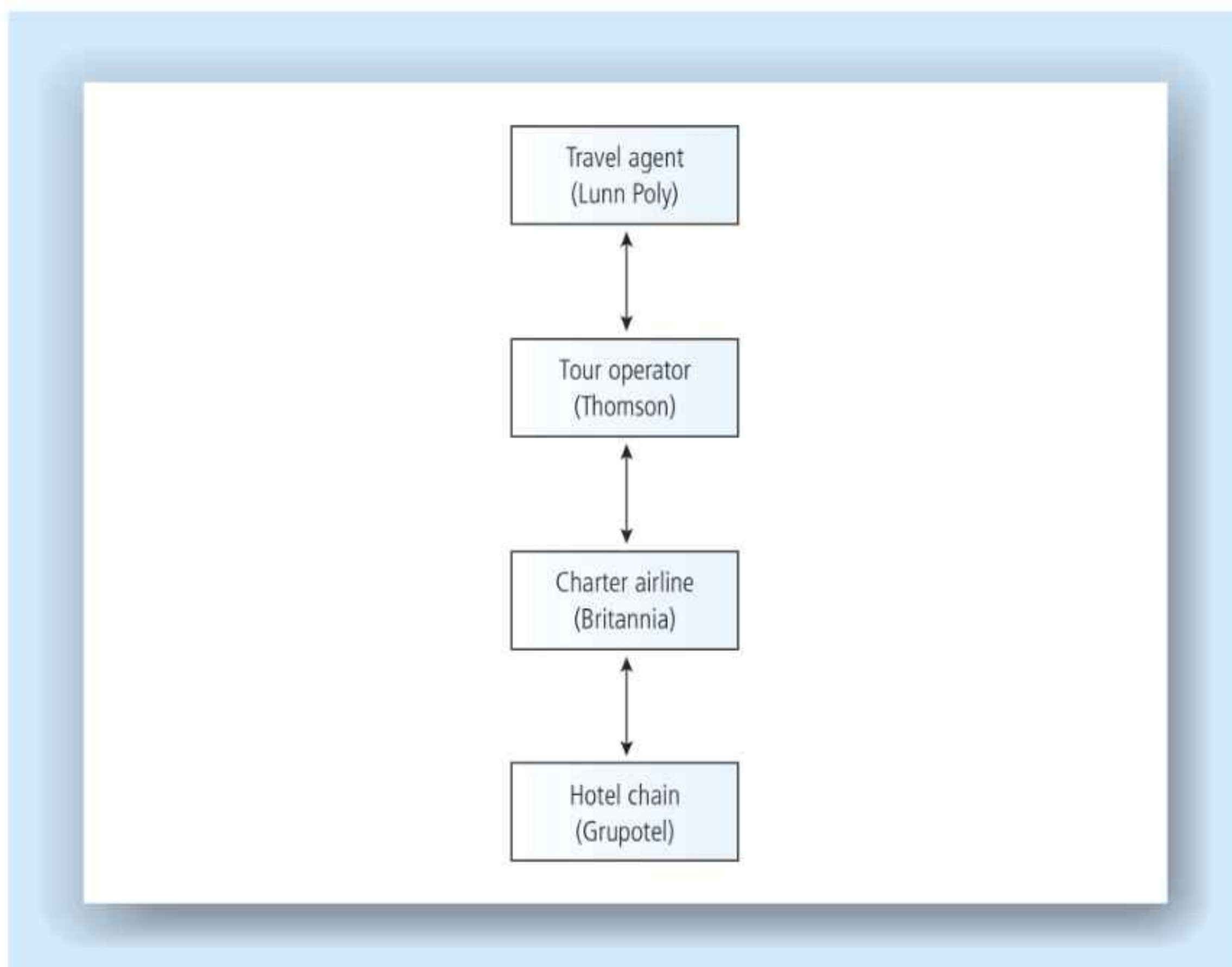


Figure 8.3 Vertical integration

evaluated to see whether their property profile fits with the requirements of the Hilton brand standards. Hotels that conform to brand standards are re-badged as Hilton Hotels; hotels that do not are sold.

Larger organizations enjoy economies of scale, which contribute to improved profit margins. Examples include:

- The ability to negotiate better terms with suppliers, through bulk purchasing
- The opportunity to leverage higher brand awareness and drive volume sales, by owning more retail outlets and spending more on marketing communications
- The opportunity to expand operations more efficiently and quickly, by gaining access to capital markets
- The development of managerial economies of experience.

Eventually, expansion-minded travel organizations will seek to acquire both customers and suppliers in their own distribution channel. Figure 8.3 illustrates a conventional

vertical distribution channel with Lunn Poly, Thomson Tours, Britannia Airways and Grupotel, which all became part of a major British travel company – Thomson Travel. The emergence of Thomson Travel was based upon both horizontal integration and vertical integration.

Ultimately Preussag, a German company with industrial interests, shifted its focus to travel and acquired German, British and French tourism companies like TUI, Hapag-Lloyd and Thomson Travel to form a new and significant European travel organization. At the time of writing the company is called TUI, and it owns 3700 travel agencies, 81 tour operators, 88 aircraft flown by their airlines, 32 inbound agencies, and 285 hotels with approximately 150,000 bedrooms in over 70 countries (see Figure 8.4).

Emergent leisure travel conglomerates retain the best brands in all sectors and effectively control, by ownership, all of the players in their vertical distribution

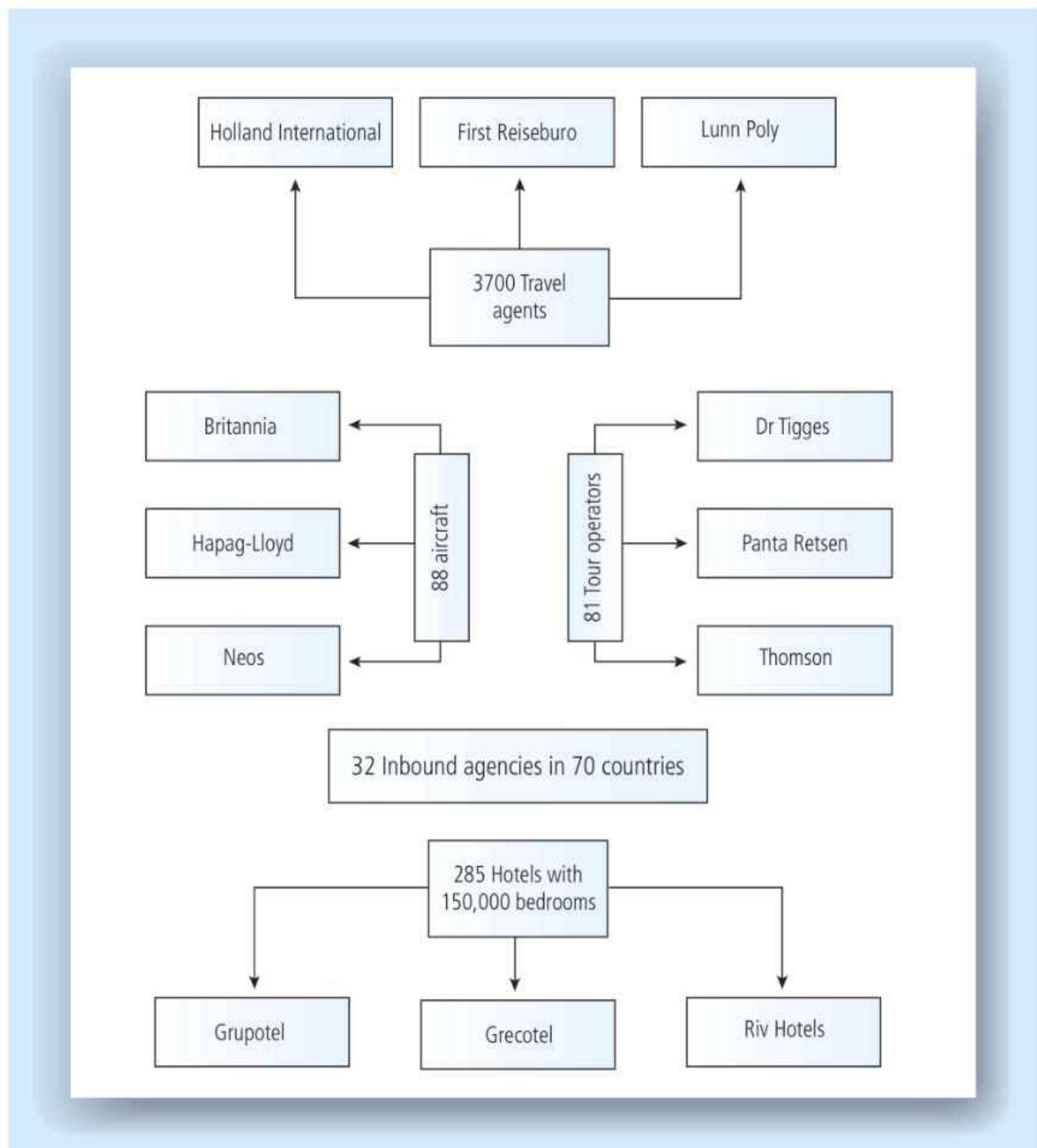


Figure 8.4 A vertically integrated marketing channel – the World of TUI (source: www.tui.com)

channel. The advantages of a VIMC for the company include:

- Coordination of all operational and marketing activity across all channel members
- Improved communication between channel members
- Reduction of channel conflict between the channel members, who are all working for the same company
- Cost savings through economies of scale
- Potentially superior customer service
- The opportunity to respond quickly to changes in the PESTE environment.

The main disadvantage for a dominant travel conglomerate is the threat from regulatory authorities (for example, the EU Commission and the UK Mergers and Monopolies Commission) over possible monopoly concerns and the lack of consumer choice. For customers, there are potential benefits in terms of a better coordinated holiday experience; however, there is a major concern about 'switch-selling' by travel agents. Since the travel conglomerates own a range of travel agents, tour operators, charter airlines and hotel operations, customers do not always realize this common ownership. *Travel agents can clearly influence the choice of holiday and push their own parent company's travel products, which inhibits competition and may not be in the best interests of the customer. Whilst this is an ethical issue for travel agents, it is interesting to note from a hospitality perspective that conglomerates like TUI have become major owner-operators of hotels in the Mediterranean.*

Global distribution systems and CRS

A global distribution system is a network of large-scale computer reservation systems, which link principals to intermediaries anywhere in the world. Global distribution systems (GDS) are described as 'global travel supermarkets', and provide travel agents with rapid search, booking and confirmation facilities for airline, hotel and car-hire products. In hospitality, GDS are dependent upon modern hotel computer reservation systems (CRS), which provide full details of properties, locations, room types, availability, prices and booking conditions.

Development of GDS and CRS

The origins of electronic distribution stemmed from the airlines' internal inventory systems developed in the 1950s and 1960s. The airline companies recognized that the installation of booking terminals in travel agents, with instant access, real-time availability, prices and reservations, would give their customers a better service. The system was cost-effective and efficient, and gradually more and more bookings for the airlines were sourced through travel agents. In the late 1970s airlines further developed their systems, increasing the capacity of the network. In 1976 SABRE established the first GDS, followed by Amadeus, Galileo and later Worldspan (see Figure 8.5). However, the high cost of developing and operating these systems, which had excess capacity, meant that the airlines encouraged travel agents to cross-sell complementary

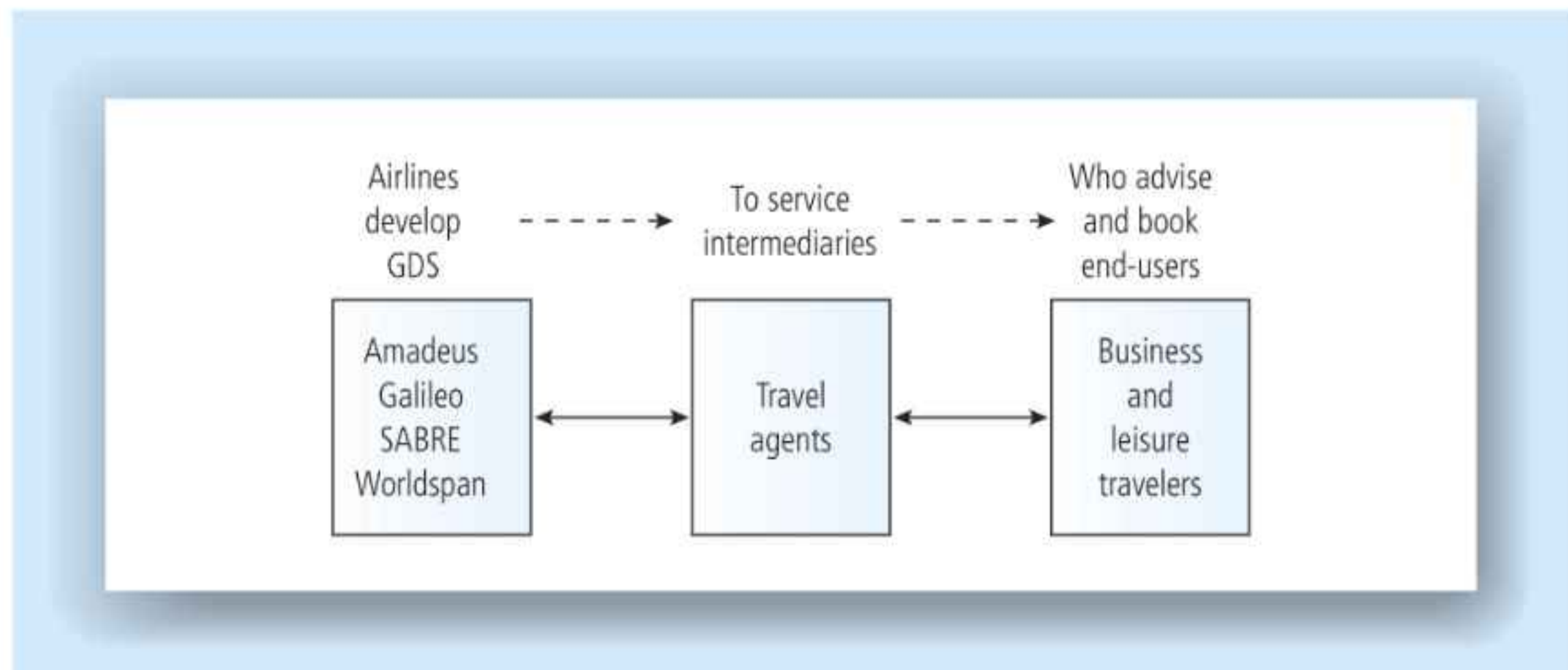


Figure 8.5 The growth of GDS

travel products, and in particular hotels and car hire. These GDS, founded by airline partnerships, are now independent corporations, with connections throughout the world; Galileo has 40,000 installations in travel agents on every continent.

Accommodation products are core complementary products to travel. Originally, hotels recognized the advantages of distributing their product and price details through the GDS because of the opportunities to increase volume sales via travel agents. However, there were technological problems caused by the inherent differences between airline and hospitality products. An airline seat is a relatively simple, homogenous product, whilst most hotels offer a heterogeneous product with a wide range of room types, a more complex rate structure and different property characteristics. The data architecture of the airline system was not compatible with the needs of the hotel chains, so hotel chains developed their own CRS systems with enhanced capabilities, which were suitable for internal company reservations. To resolve the problem of connecting several different hotel companies' CRS to the four GDS, the leading hotel brands worked together to develop a 'universal switch' mechanism. The switch enables each hotel CRS to connect with each of the GDS using a single interface. This enables all the travel agent intermediaries who are linked into the GDS to book hotels in seconds. There are two switch companies, called THISCO and WIZCOM (see Figure 8.6).

We have already mentioned the problems of compatibility between different databases. From a GDS reservations perspective, these problems are increased if there is a time lag between updating the hotel unit's reservations from their Property Management System (PMS) to the hotel chain's CRS, or between updating the hotel chain CRS and the GDS (see Figure 8.7).

The concept of single image inventory, which simply means that all the different computer systems 'see' the same reservations inventory in real time, is designed to overcome this problem (see Figure 8.8). However, this solution is not easy to implement unless all the IT systems are connected seamlessly (see Case study 8.2). Seamless connectivity enables *all* the screens in the travel agents, the hotel chains telesales reservations center, and the individual hotel PMS to search, book and confirm reservations *in real time*.

The Marriott Hotel Corporation has developed the technology to another level. It invested \$70 million in new information systems that include a sales force automation

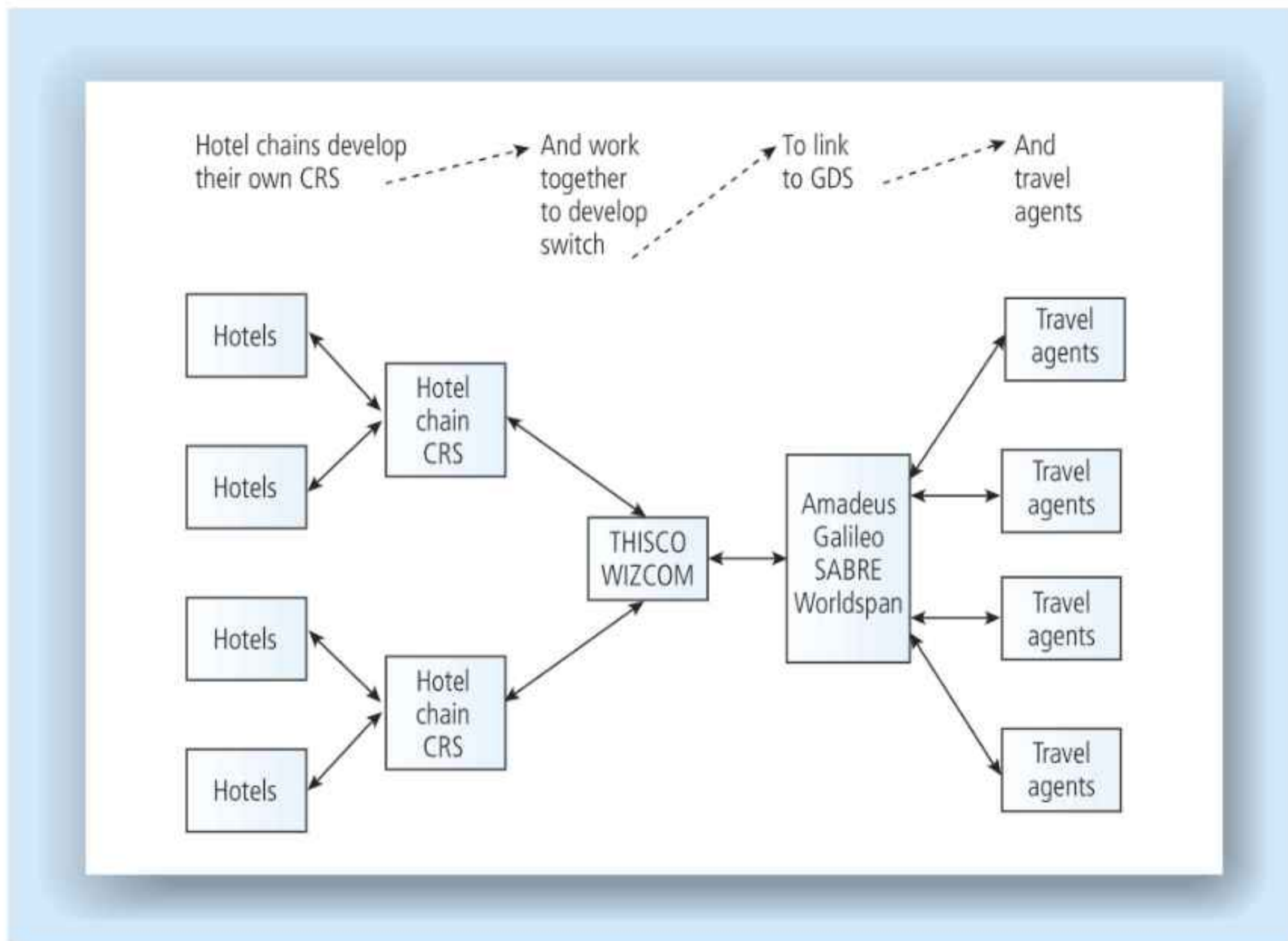


Figure 8.6 The development of switch companies

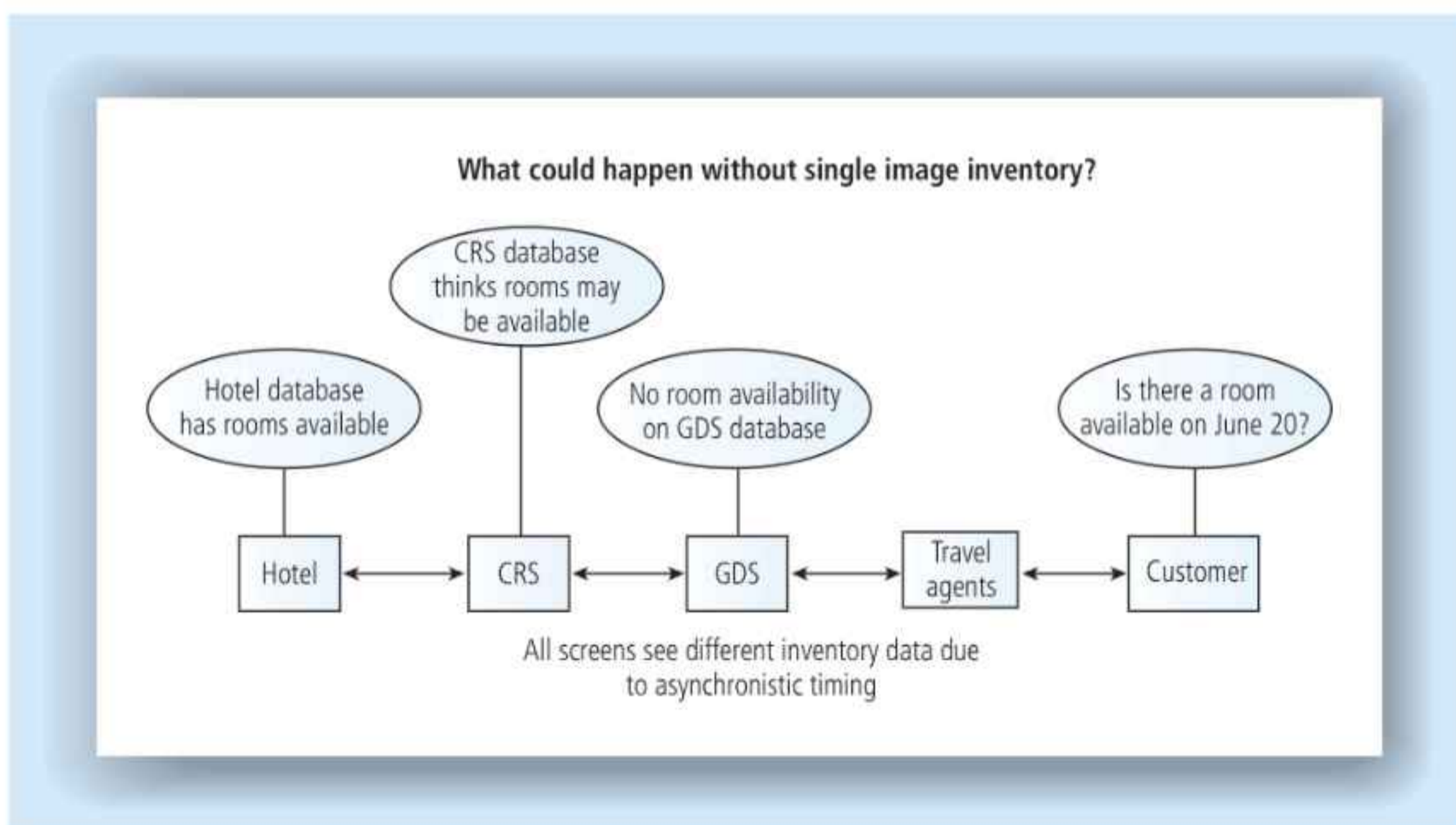


Figure 8.7 The problem with asynchronistic databases (source: Ian Mitchell and HEDNA)

database to link sales people with accommodation and meeting room availability in properties across *all* the Marriott hotel brands. If a customer wants to book a bedroom at the Marriott Marquis Hotel in Peachtree Center, Atlanta, and the hotel is full, the integrated sales system allows the salesperson to say 'sorry, the Marquis is filled up,

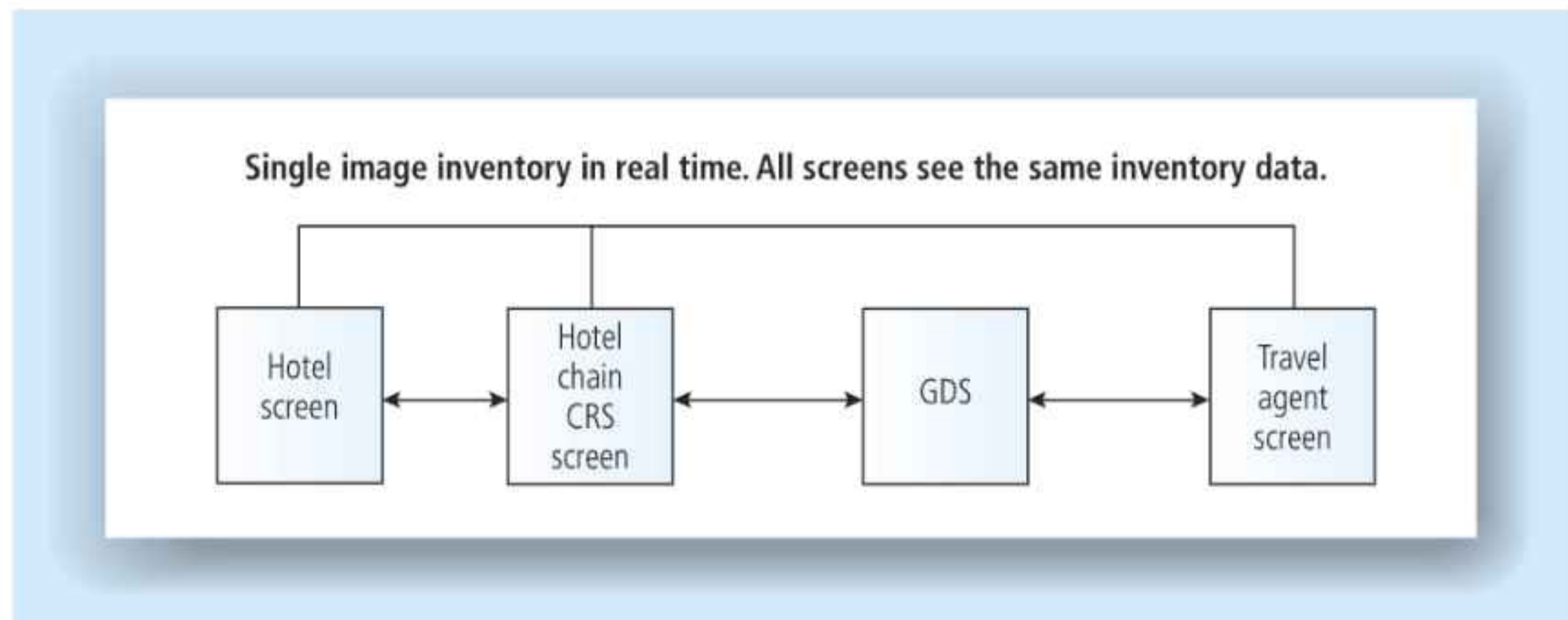


Figure 8.8 Single image inventory (source: Ian Mitchell and HEDNA)

but for the same rate we can get you into the Renaissance, which is two blocks away'. In one year, Marriott captured \$55 million in cross-chain sales as a result of the automation software system, and enhanced customer loyalty by providing an accommodation solution conveniently.

Case study

8.2 The hotel manager's view on controlling inventory: the problem with single image inventory

The Belmont House Hotel in Leicester, England, is a Best Western hotel with a PMS for reservations and a separate terminal that links to the Best Western CRS Lynx system, which connects to THISCO and on through the GDS to travel agents worldwide. The Belmont House Hotel provides a small allocation of rooms (less than 10 percent of stock) on free sale to the Lynx CRS, and manually transfers any bookings to its own PMS. The hotel management is reluctant to lose control of their reservations system. The reasons include the fear of losing the ability to manage the inventory and customer mix – for example, too many single-night bookings on a busy midweek night could prevent the hotel accepting more lucrative, higher yield, multiple bookings for several nights during the same week. There is also the issue of intermediaries reserving block bookings during high season periods at the lowest rates. Hotel managers are keen to retain control of their inventory, regardless of future developments in technology.

A more recent development, using modern distribution technology, is the Destination Management System, which helps destination tourism organizations to coordinate a wide variety of tourism products. This is especially useful for the smaller, independent operators. Some DMS are state supported, and they may become more important in the future.

The costs of distribution

Each organization involved in the GDS needs to cover its costs and make a profit. The organizations include the travel agent, GDS, switch company, hotel chain CRS, credit card company (since most reservations are confirmed using credit cards), and the hotel property. From a hotel property's perspective, all these charges are deducted from the rate charged to the customer who is actually staying in the hotel. Assuming a \$100 per night room rate, the total deductions can be as much as \$26.55 (Middleton, 2000), which only leaves \$73.45 for the hotel (although this does include an internal company charge of \$9 for the hotel chain's CRS).

It has been argued that distribution is the highest marketing cost for hotels. Principals have only recently tried to reduce travel agent commission costs – most notably the airlines in the USA, who capped commission payments to travel agents and managed to halve commission rates. However, few hotel companies have challenged the commission rates charged by travel agents, apart from some budget chains who are able to generate high occupancy without needing intermediaries and differential pricing. The high cost of distribution forces principals to investigate more cost-effective distribution channels, like the Internet.

The Internet and hospitality distribution

Since the GDS is a closed network, information is only available to the users – the principals and the intermediaries. End-user customers do not have access to the system. The emergence of the Internet now allows end-user customers direct access to principals' booking engines. This enables hotel companies to communicate with and sell directly to their customers. The advantages for accommodation providers include:

- The elimination of intermediaries' commission, the GDS booking fee, and switch costs
- The relatively limited capital investment needed to develop Internet websites, compared to the high cost of intermediary charges
- Control over the information content that is communicated to customers
- The opportunity to provide high quality contemporary information on the website directly to customers, for example virtual room tours
- A search, book and confirmation capability 24 hours a day, 7 days a week, 365 days a year
- Opportunities to sell distressed inventory cost effectively directly to the consumer without incurring intermediary costs.

Whilst the Internet is an open network, which anyone can access, an intranet is a closed network for people working within the company. Extranets, which utilize Internet technology, provide a dedicated link between suppliers and customers. Increasingly, hotel chains are enabling corporate account customers to access their website via a dedicated extranet link. This allows a hotel group to give key account clients the opportunity to book online using privately negotiated, confidential prices.

Effective Internet marketing

From an accommodation provider's perspective, effective Internet marketing is based upon an understanding of how search engines work, recognizing the importance of destination links, developing accessible and easy-to-use websites, developing effective booking engines, and the transparency of pricing. We will explore these issues in more detail now, and will discuss how the Internet is influencing channel relationships later.

Search engines

Numerous surveys confirm that Internet users depend upon search engines and directories when looking for information on the Internet. Search engines such as Google and AltaVista provide an indexed guide to websites. Directories or web catalogues such as Yahoo! provide a structured hierarchical listing of websites, grouped into categories such as business, entertainment and sport. To capture the widest possible Internet audience, a website needs to ensure that the domain name, destination, text copy, page titles, description tag and meta tags are designed to ensure that search engines and directories find the web pages. Optimizing easy accessibility for Internet searchers is clearly important for the hospitality brand.

Destination links

Hotel properties and other types of accommodation need to ensure that their Internet websites are linked to the destination, since most consumers use location as a primary search tool. Innovative hoteliers like David and Chris Grant, who own the Corisande Manor Hotel in Cornwall, England, launched their own website called 'cornwall-calling' in 1997. Consumers searching the web for information about tourism attractions in Cornwall are directed to the cornwall-calling website. Because of the website name and meta-tag descriptors, searchers also find details about the Corisande Manor Hotel. The home page of this website provides over 30 items of travel and tourist information about Cornwall, including details about the history, culture, attractions, sporting activities, the weather and travel directions. As a result of the hotel's successful website, Corisande Manor does not pay intermediaries commission, does not advertise and no longer produces a printed brochure. All telephone and postal enquiries are directed to the website for further information. David Grant has been so successful in developing his own website that he now designs websites for other hotels, including Pride of Britain.

Internet website design

Marketers need to understand how web users search websites. Hospitality websites should be user-friendly in terms of:

- Navigation (moving around the site)
- Visual design (which appeals to the target market)
- Range of language options (based upon country target markets)
- Secure easy-to-use booking technology (the number of clicks to book and type of information required)
- Easily accessible customer support.

Activity 8.2

- Log on to the following websites:
www.cornwall-calling.co.uk (The Corisande Manor Hotel, Cornwall)
www.ihgplc.com (The InterContinental Hotels Group)
www.ianschragerhotels.com (Ian Schrager Hotels)
- Compare and contrast the navigation, visual design, language options and booking processes of each website from a user's point of view.

Transparent pricing

Consumers searching hospitality and tourism Internet sites can easily compare the products offered and the published prices, making Internet prices transparent. The transparency of Internet prices presents hotels that are dependent upon tour operator and travel agent business with a dilemma. Consumers can and do compare prices listed on a hotel website with prices for the same hotel on the websites of intermediaries. The intermediaries' prices can be lower than those published by the hotel on its own website, and this can create confusion for consumers and a loss of revenue for the hotel company if consumers choose to book a lower, commissionable price via an intermediary. Holiday Inn Hotels has recognized this problem, and promises that customers will not find their hotels priced lower on an intermediaries' website.

Channel relationships and management

The Internet has changed channel relationships between some types of customers, principals and intermediaries, and this process is continuing to evolve. For hospitality providers, there is a constant imperative to drive down distribution costs. We have already discussed the high costs of intermediary commission, and the costs of GDS, which hospitality companies wish to reduce or eliminate. Hospitality companies see the Internet as a means of reducing distribution costs and enabling direct communication with consumers and customers. However, using the Internet for marketing applications is not without costs. There can be significant hardware, software and human resource costs attached to developing and operating a direct-to-customer distribution strategy. The process of cutting out the intermediary is called disintermediation, and accommodation providers clearly favor this approach. However, the role of the intermediary is well established; the major tour operators and travel agents organize travel and accommodation for millions of tourists every year. Intermediaries are obviously aware of the threat posed by the Internet, but they also embrace the Internet as a tool for communicating with their own customers.

Conclusion

Innovations in information communications technology continue to drive the development of distribution channels in hospitality and tourism. Depending upon the size of the business and the market segment targeted, accommodation providers need to use intermediaries to obtain advance bookings to generate occupancy, but the high cost of distribution forces hospitality companies to look for alternatives. The Internet has become an important tool in the tourism distribution channel, and helps hotels to reduce their distribution costs. However, travel agents and tour operators remain important intermediaries for most hotel brands and many hotels.

In this chapter, we have explained:

- The different channels of distribution in hospitality and tourism
- The benefits and disadvantages of distribution channels from a hospitality perspective
- The role of major travel and tourism intermediaries
- The expansion of companies using horizontal and vertical integration
- The role of the GDS in facilitating accommodation bookings
- The high costs of intermediary commissions and GDS charges for hotel companies
- The impact of the Internet on the hospitality and tourism distribution system.

Acknowledgements

The authors acknowledge the help of Ian Mitchell and Alex Paraskevas from the Department of Hospitality, Leisure and Tourism Management, Oxford Brookes University, in preparing this chapter.

Review questions

Now check your understanding by answering the following questions:

- 1 Discuss the role of distribution in the hospitality and tourism industry from a hotel company's perspective
- 2 Evaluate the relationship between hotel organizations and intermediaries
- 3 Discuss the similarities and differences between a GDS and the Internet from the perspective of:
 - the customer
 - the accommodation provider
 - the travel agent
- 4 How can a hotel be marketed effectively on the Internet?
- 5 Who, if anyone, owns the customer – the hotel where the customer stays, or the intermediary who makes the booking for the customer?

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