

The Emergence of Hybrid Online Distribution Channels in Travel, Tourism and Hospitality

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The only constant in life is change

—Ἡράκλειτος (Herakleitos; Heraclitus) of Ephesus (535 BC-475 BC)

plus ça change, plus c'est la même chose (the more things change, the more they stay the same)

—Jean-Baptiste Alphonse Karr (1808-1980) and Lyrics by Bon Jovi (2011)

Abstract

This article takes a comprehensive approach to summarize the four digital eras in the travel and tourism space since 1960s. The four eras discussed can be characterized as GDS (global distribution systems), Internet, SoLoMo, and Hybrid periods. Key components of each era are discussed in this paper with respect to the hospitality industry's distribution intermediaries. The article concludes by listing some of the important upcoming trends in the online distribution channels for the hospitality industry.

Keywords

online distribution channels, global distribution systems, social media, SoLoMo, hybrid channels

The centuries-old tradition of innkeeping has changed dramatically over the years—not in terms of the basic transaction of a room for the night, but in terms of how that room is sold. Along the way, the travel and tourism industry has become one of the world's largest service industries. According to the World Travel and Tourism Council (WTTC) 2012 report, the travel and tourism industry contributed 9 percent of global GDP, which accounted for over US\$6 trillion and 255 million jobs in 2011. Over the next ten years, this industry is expected to grow by an average of 4 percent annually, taking it to 10 percent of global GDP, over US\$10 trillion, and one in every ten jobs on the planet.

The introductory quotes cited earlier about the constancy of change perfectly fit the evolving digital marketing space within the travel and tourism industry. On one hand, advancements in the digital space have opened new ways of effectively marketing to the consumers, but on the other hand, these advancements have made travel and tourism management a complex task. To provide perspective on how the hospitality industry has reached its current situation, this paper takes a comprehensive approach to summarize the four digital eras in the travel and tourism space since the 1960s. Each era discussed in this paper has seen a

change in a particular aspect of travel and tourism marketing, especially in relation to the hospitality industry's distribution intermediaries (see Exhibit 1).

Global Distribution System (GDS) Era—The Intermediation Stage

The GDS era in the 1960s was the first major step in the development of digital distribution channels for an industry that was relying on the telephone, teletype, and even mail for room reservations. In this era, flights and hotels rooms were sold in real time via travel agents. 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 (see Exhibit 2).

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Exhibit 1: Digital Eras in Travel in Tourism Industry.



But the above advancement significantly increased competition among hospitality firms and also added “middle men” or intermediaries within the distribution system. To increase their market share, hotels, airlines, and other suppliers of hospitality products increasingly became dependent on travel agencies and paid relatively heavy transaction fees on each reservation, although they did not get customer information in return. The balance of power shifted away from the suppliers to the distribution channel intermediaries.

In this arrangement, the hospitality guest was not the firms’ customer as much as the agents themselves were. Due to the layout of the color-coded GDS computer screen, the chains’ focus was not on customer information and details, but on offering the lowest rate and maintaining their relationship with the travel agency. The higher the commissions paid by the supplier, the better the sales figures looked. Therefore, large international chains like Hilton and Marriott used this platform to generate bookings by using their strong brand name and the financial resources to stay on the top of the GDS screen, whereas smaller chains and independent hotels lost market share and struggled for years to find a cost-effective alternative to market their product.

Internet Era—Disintermediation Enters the Picture

After over four decades of GDS rule, growth of the worldwide web in 1990s changed the online distribution game. The internet era offered the first cost-effective tool for direct

marketing by travel and hospitality suppliers. The web helped to erase the differences in the geographical reach between the global brands and the small or local independent hotel chains and airlines. The intermediation game started changing as suppliers started investing in brand websites and booking engines rather than depending as heavily on the GDSs and travel agents.

The change was rapid. Here is an observation written in 1999:

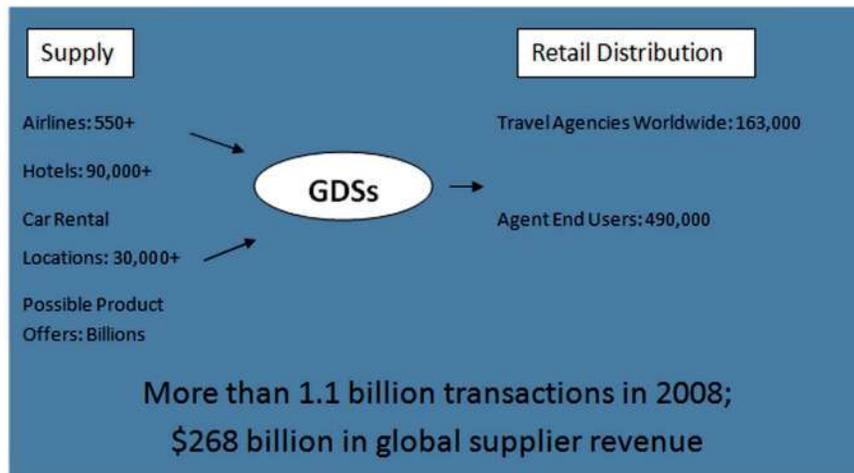
With the larger chains leading the way, most companies (90 percent) have a web site on the internet and, unlike GDSs, these websites provide product information and detailed pictures of hotel properties. However, only 39 percent report that they take reservations on a real-time basis. (Cline and Warner 1999)

Just two years later, this assessment was written in 2001:

Sixty-four percent report their websites support the processing of reservations. (Cline and Warner 2001)

Those two quotes show how the distribution landscape started to move away from intermediation (GDSs) toward disintermediation (brand websites and booking engines). However, the launch of search engines, such as Google in 1994 and Yahoo in 1998, brought a new form of intermediation. 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

Exhibit 2:
The Role and Value of GDS in Travel Distribution.



Source: Adapted from PhoCusWright (2010).

intermediaries such as Expedia and Travelocity across the globe once again kept the suppliers heavily dependent on the distribution channel intermediaries. Furthermore, while the growth started driving up the profits of online travel agencies, hotel operators started experiencing a loss of control over the pricing of rooms and a potential transfer of pricing authority to third-party internet-based companies. The popularity of such services stemmed from consumers' desire to obtain the lowest rate within their desired market segment, coupled with the price transparency on the internet. Therefore, there was extreme desire on part of the hotel industry to develop a viable approach for offering a best-rate guarantee. These trends in the evaluation of electronic distribution were summarized by Carroll and Siguaw (2003).

The pricing phenomenon drew the interest of industry practitioners and researchers. Researchers and industry roundtables conducted at the Cornell Center for Hospitality Research identified several interesting aspects of online distribution of hospitality products. For example, Canina, Enz, Lomanno, and their coauthors, in a series of journal articles and managerial reports, analyzed the interplay of pricing strategies and financial performance of hotels in the United States and abroad. These reports demonstrated that discounting prices to gain market share and occupancy often does not lead to higher profitability within the context of the newly emerging distribution channels (see, for example, Canina, Enz, and Lomanno 2004; Enz and Canina 2006). In another report, Thompson and Failmezger (2005) compared the hotel room rates and their availability across many different online distribution channels to understand why customers shop around. One answer to this situation was the

hotel industry's implementation of guaranteed low prices on their corporate websites.

In another related series of reports, Kimes and her coauthors studied the impact of different types of revenue management strategies within the distribution channels. The continued growth of online distribution intermediaries also made implementation of hotel loyalty programs difficult.

Another answer to the web's price transparency is bundling rooms into service packages. To offer competitive insights for the hospitality industry, and to take advantage of the online distribution channels, Carroll, Kwortnik, and Rose (2007) offered many suggestions for travel bundling and packaging. Verma (2007) suggested the use of a sophisticated customer choice modeling approach as a tool for hotels to identify customer preferences for price, quality, and other service attributes, and suggested that operators use tradeoff-based decision-support tools to make pricing and service offering decisions. Verma et al. (2007) further demonstrated that customers' choice of hotels may be dependent on their ability to adapt new technologies, measured by the Technology Readiness Index, which once was related to individuals' demographics, but has become less so over time.

More recently, Anderson (2008) has extensively studied the role of pricing within the evolving opaque distribution channel (e.g., Priceline, Hotwire), where some attributes of the suppliers are hidden from the customers during the booking transaction. Considering both opaque and transparent channels, Anderson's oft-cited reports on the "billboard effect" showed that hotels overall gain incremental revenue by posting their rooms on multiple distribution channels (Anderson, 2009; 2011).

Exhibit 3:
Web Traffic at Google.Com and Facebook.Com.



Source: Experian Hitwise (the United States). Created March 15, 2010, © 1998-2010 Hitwise Pty. Ltd.

In 2008, both the economic recession and the tremendous increase in the number of internet users also supported the growth of the travel sale sites, also commonly known as the flash sales sites or deal sites. These sites are group buying sites that offer highly discounted deals, up to 52 percent on average, according to a 2011 PhocusWright report. Further to these deep discounts offered on the published rates, the merchants also charge a commission of up to 50 percent on the deals. As the price sensitivity of consumers reached its highest point in 2008, so did the cost of marketing for the suppliers.

As a consequence of the deep discounts offered on the flash sale sites along with the regular commissions paid to online travel agents (OTAs), suppliers' profit margins significantly decreased globally. Over the time, the direct-booking websites (i.e., "hotelbrand.com") lost business to the OTA.

SoLoMo Era—Disintermediation Matures

Most recently, the trend toward intermediation has again been disrupted by new technology. With these digital advancements, a new category of technology has emerged, 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 and Connolly 2012).

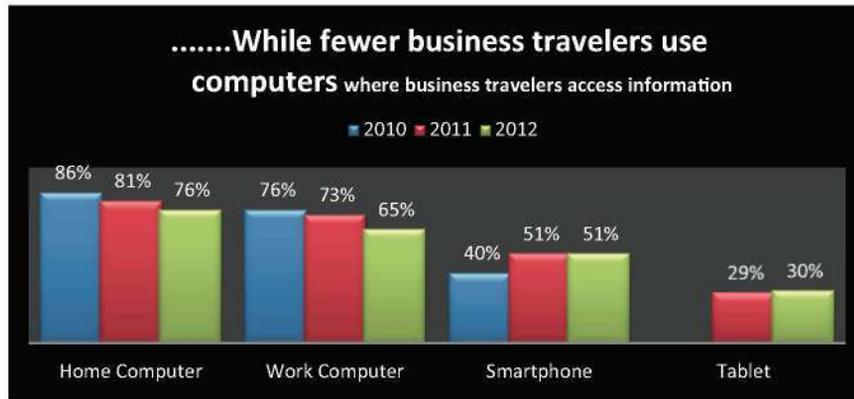
Social

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.

Social media traffic is astonishingly heavy. By one estimate three years ago, on each day, more than three million photos were uploaded to Flickr, there were five million tweets, and a million new blog entries were posted on Twitter and other blog sites (Bodnar 2010). Traffic has only increased since then. In 2008, TripAdvisor also became the world's largest travel community with twenty million traveler reviews and opinions listed in six languages, up from fifteen million in April 2007, and six million in 2005.

In March 2010, Facebook crossed Google in the market share of U.S. visits and had 500 million active users, along with an additional 700 thousand new members every day (Exhibit 3). Finally, in November 2012, Facebook achieved the target of 1 billion users, and today it is testing the market toward charging users for sending messages to celebrities and nonfriends. All the above trends clearly indicate that online reviews and social media networking over the years

Exhibit 4:
Usage of Different Types of Computing Devices.



Source: Google Think 2012

have gained importance. Many academic research studies have also highlighted the strong impact of the social media reviews on travelers' buying decisions. McCarthy, Stock, and Verma (2010) demonstrated that customers use a variety of online sources when searching for information about hotels online. Therefore, suppliers, first, must be present on these social channels; second, should maintain a strong online reputation by actively responding to the online reviews; and last, must keep the customers engaged by posting fresh content on these social sites.

An internet-based survey of marketing executives, drawn from the TravelCom 2011 conference and Cornell Center for Hospitality Research database, found a wide range of expenditures on online marketing, as well as considerable diversity in organizational structures (Verma and McGill 2011). Nearly three-quarters of the respondents reported spending less than \$10,000 on mobile media in 2010, and about two-thirds spent less than \$10,000 on all social media marketing. About 80 percent of the marketers said that they produced Twitter campaigns and social promotions in-house, but such functions as search engine optimization and pay-per-click advertising are largely outsourced. Accommodation firms are more likely to outsource all social media functions, including pay-per-call, Twitter campaigns, and pay-per-click management. Destination marketers, on the other hand, generally handle more functions in-house. Two-thirds of the entire sample said the 2010 e-commerce budgets had increased with respect to 2009. Sixty percent of accommodation marketers anticipated a further increase in 2011, and 71 percent of the destination marketers said their 2011 budgets would increase.

Most critically, despite the tremendous potential of social media marketing, this study found a lack of commitment to sustain suppliers' social media marketing efforts due to the uncertainty about the return on investment.

However, a more recent ground breaking study by Anderson (2012) has addressed that uncertainty, by demonstrating a direct link between the online review scores and the return on investment. The report calculated that if a hotel increases its review scores by 1 point, then it can increase its average daily rate by 11.2 percent and still maintain the same occupancy or market share. Also, a 1 percent increase in hotels' online reputation also leads to an occupancy increase of up to 0.54 percent and up to a 1.42 percent increase in revenue per available room. Hence, social media in today's world is not a point of differentiation, but rather, it is a point of parity for the travel and tourism suppliers. It has become critical to maintain a strong presence on social channels along with maintaining consistency in the messages.

Recently, social networking has also been reported as the third most popular activity among mobile users. More than three-fourths of travelers turn to social networks to find some type of shopping-related deal, and 30 percent specifically seek out travel-related deals (PhoCusWright 2012). This trend shows the increase in the smartphone users and represents another disruption in travel industry intermediation.

Mobile

The market globally has shown a steep shift from offline to online. One-third of the world's population is online. According to the internet usage statistics report by UN's telecommunications agency, by 2020, connected devices would outnumber connected individuals by a ratio of six devices to every person online. Overall, the market is moving from the first- to the third-generation experience and cutting out the "middle men."

The number of smartphone users continues to grow at such a fast pace that there are approximately six billion mobile subscribers globally—equal to 87 percent of the

world's population. As per the info graphics study by Digitalbuzz, mobile phones account for 8.49 percent of the global website hits. In the United States, 25 percent of the internet users are mobile only (Digitalbuzz Blog 2012).

The above trends in the mobile phone usage have further pushed the total spending via mobile devices. The seamless technology in mobile, called the near-field communication (NFC), through which mobile payments can be processed, is expected to rise \$50 billion by 2016, according to a forecast from A. T. Kearney (2013). This means that mobile marketing has also become a popular tool for travel suppliers to reach their customers on the go and has also given birth to the local marketing trend, in which promotions are context sensitive according to the user's location. In addition, many travel suppliers have already taken the advantage of SMS marketing and QR code technology by investing in mobile websites.

Also according to research by Google in 2013, the number of desktop users has declined, but the number of tablet and mobile phone users has significantly grown (see Exhibit 4). Therefore, investing in a mobile, tablet website is also becoming critical for hospitality suppliers.

The customer in today's 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. Also the SoLoMo customers 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. For instance, a SoLoMo customer may be checking out of the hotel and posting the photos on social media along with looking at a friend's recent experience with an airline. Therefore, it essential for the suppliers to keep the customers engaged through social, local, and mobile channels for a long-term sustainable relationship.

The zone tolerance for searching information and booking a hotel room has reduced dramatically. If the mobile website of the hotel does not display the desired information within a few seconds, then the brand is highly likely to lose customers to its competitors. Therefore, investing the marketing dollar in internet and mobile marketing is becoming essential to retain customers and maintain loyalty (Exhibit 5).

Hybrid Era – Going Back to The Start

Year 2013 has been referred to by some industry experts as the year of three screens—computers, tablets, and smart-phones. We have entered into a hybrid era where the customers are increasingly depending on online search (Exhibit 6). To accomplish that search, they are using multiple screens at different times of the day as they search for the supplier information that they want. On average, they are visiting nearly two dozen websites before making the final

Exhibit 5:
How Customers Search and Choose Hotels Now.



Source: Green and Lomanno (2012).

purchase decision. On the other end, travel suppliers are investing in direct channels and trying to provide customized and high quality experience to the customer. In short, the travel industry is slowly moving back toward the disintermediation phase. Having said that, we must note that the existing intermediaries, including GDS-supported travel agents, OTAs, and search engines, remain an important part of the industry's distribution channels.

The key trends that have occurred in this year and are expected to grow in future are as follows:

Understanding HTML: Online search is becoming increasingly important, and investing in search engine marketing is the best way to directly reach the customers.

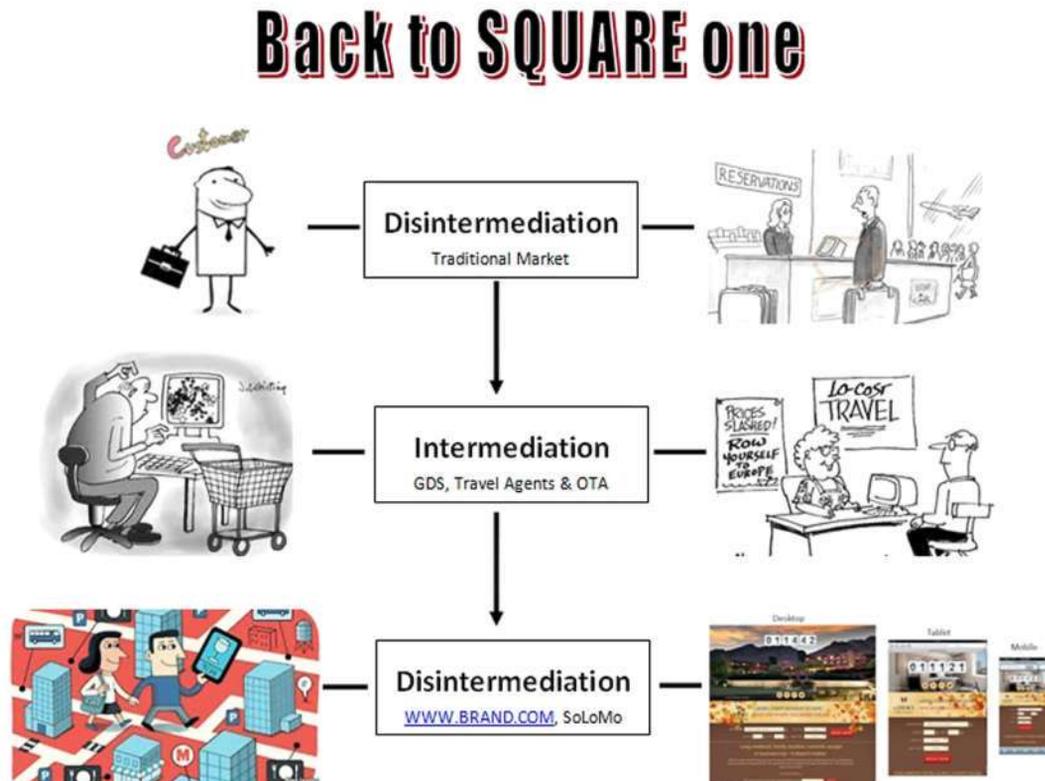
Liquid websites: Customers are using multiple devices for search, which means that suppliers have to focus on delivering a consistent brand experience across various devices.

Social is search, or search is social: Google is listing the Google+ reviews for hotels in its organic search, and Facebook is offering the "Facebook nearby" option as well as the Facebook graph search to show the most relevant results to the users.

New tech world: A number of new devices such as Google Goggles are entering the market place and are expected to change the distribution game once again by offering most relevant information at a go.

Exhibit 6:

Online Distribution—Going Back to the Start.



Note. GDS = global distribution system; OTA = online travel agent; SoLoMo = social-, location-, and mobile-based applications.

Authors' Note

This article is based on keynote and invited presentations by corresponding author at various conferences during the last two years including Cornell Customer Value Roundtable (India, January 2011); World Research Summit for Tourism and Hospitality (Hong Kong, December 2011); J.D. Power Service Excellence Summit (Orlando, March 2012); Ataway Exchange (Orlando, May 2012); Hotel Technology Next Generation Conference (Orlando, Feb 2013); Sustainable Hospitality Development Workshop and Conference (Valencia, Spain, March 2013); IESE Cornell Tourism Summit (Barcelona, Spain, May 2013).

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