

The Effects of Distribution Channels on the Selling Prices of Hotels in Time of Crisis

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Abstract—Distribution channels play significant role for hotels. Direct and indirect selling options of hotel rooms have been increased especially with the help of new technologies, i.e. hotel's own web sites and online booking sites. Although these options emerged as tools for diversifying the distribution channels, vast number of hotels -mostly resort hotels- is still heavily dependent upon international tour operators when selling their products. On the other hand, hotel sector is so vulnerable against crises. Economic, political or any other crisis can affect hotels very badly and so it is critical to have the right balance of distribution channel to avoid the adverse impacts of a crisis. In this study, it is aimed to search the impacts of a general crisis on the selling prices of hotels which have different weights of distribution channels. The study was done in Turkey where various crises occurred in 2015 and 2016 which had great negative impacts on Turkish tourism and led enormous occupancy rate and selling price reductions. 112 upscale resort hotel in Antalya, which is the most popular tourism destination of Turkey, joined to the research. According to the results, hotels with high dependency to international tour operators are more forced to reduce their room prices in crisis time compared to the ones which use their own web sites more. It was also found that the decline in room prices is limited for hotels which are working with national tour operators and travel agencies in crisis time.

Keywords—Marketing channels, crisis, hotel, international tour operators, online travel agencies.

I. INTRODUCTION

HOTELS use different channels in order to sell their products, i.e. through their own web sites, traditional tour operators or online travel sites, the weights of which may vary from hotel to hotel. Although traditional distribution channel members, like tour operators, still play great role in tourism value chain, information and communication technologies are dramatically changing the situation [1]-[3]. On the other hand, tourism industry is so vulnerable against the crises. Especially, political crises can be more harmful on the image of a destination [4] which makes difficult for the businesses in the destination, like hotels, to cope with even for the ones that have crisis management plans. The ways hotels sell their products at these times becomes critical to decrease the negative impacts of crises. Hence, it is of critical importance to achieve the right balance of distribution channels in time of crisis. It seems a gap in the literature that no study attempted to search the impact of the weights of distribution mix on the

selling prices of hotels in general crises times, i.e. political crisis. The aim of this study is to search whether hotels are affected differently or not from general crisis, and if so, to investigate the effects of different distribution channels on the level of price reductions made by the hotel compared to previous normal year.

II. THEORETICAL BACKGROUND

Tourism distribution channels are seen as a tool to enable potential tourists to make, confirm and pay for reservations as well as to provide information [5]. In fact, as World Tourism Organization [6] stated “in tourism, the position of the distribution sector is much stronger: trade intermediaries (travel agents and tour operators of course, but also charter brokers, reservation systems and other travel distribution specialists) have a far greater power to influence and to direct demand than their counterparts in other industries do. Since they do, in fact, control demand, they also have increased bargaining power in their relations with suppliers of tourist services and are in a position to influence their pricing, their product policies and their promotional activities”.

Since the leading tour operators organize the largest tourist movements from the most significant markets to tourist destinations, they are accepted as the rulers of the demand. Moreover, they have the power to shape the destination image [7]. This is the result of many small and medium sized tourism supplier's restricted capabilities. Due to their weaknesses, hotels mostly depend on tour operators in order to make themselves heard by the demand and to be visible in their most generating markets [5]. World Tourism Organization also assumed that, tour operators hold about 25% of the total international tourism market [6]. Thus, for many destinations, the key to success depends on the tour operators' decisions of including them in their programs.

Tour operators' attitude in time of crisis is primarily affected by the type of the crisis, its dimensions, its presumed length, its consequences in the destination, whether the tour operator has any business interests in the destination and the governmental decisions of the tourist sending countries [7]. For instance, a study concerning the marketing practices of hotels during economic crisis in Mauritius showed that Mauritian hotels are mainly distributed through tour operators with a ratio of 63% while 15% of sales are realized through the hotel website and 12% of tourists are walk in clients [8]. They emphasized that this practice is not affected by the economic crisis. Conversely, due to the terrorist attacks happened in Turkey between 1992 and 1998, even though the major European tour operators did not stop their operations,

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safety concerns decreased the tourism demand dramatically. TUI had 10% of decrease in the number of their customers while the second largest German tour operator, NUR had 14%. Since the safety issues remained, TUI had a 47% of decrease in their sales in 1993-1994. Afterwards, when terrorist attacks reoccurred, 11.1% fewer German passengers preferred Turkey as a holiday destination [7]. On the other hand, due to hotels' dependence on tour operators, problems and conflicts may occur. For instance, [7] stated that dependency of hotels on tour operators are mostly related to financial issues such as tour operators' overdue payments, empty hotel rooms generated by tour operators' deviation from pre-arranged tourist numbers and loss of money due to tour operator's bankruptcy etc. Furthermore, obligation of letting someone else to sell their products, the reality of tour operators' power to direct the demand to alternative establishments or destinations and their inability to change this system were found to be annoying for hoteliers. Similarly, Buhalis [5] conducted a study among the Mediterranean resorts to explore the conflicts on the distribution channel between hoteliers and tour operators in Greece. He demonstrated that hotels mostly have conflicts with tour operators due to "the profit margin they are allowed to gain, the occupancy and coverage of contracts, as well as the financial security of their co-operation".

As a response to the risks, tour operators may not include the destination in their programs, stop their operations to certain resorts, decrease the destination's capacities or take precautions to keep their customers safe [7]. Thus, in time of crisis, distribution channels play a vital role for the survival of hotels. To survive under tough circumstances, many hotels have attempted to build their own websites and enable their customers to book rooms online at a cheaper rate instead of paying commissions to travel agents [10]. Accordingly, some studies emphasized the importance of hotel websites as a savior distribution tool. For instance, the results of Kang et al. [11] demonstrated that three distribution channels, namely, direct calls to the hotel, central reservation systems (CRS), and hotel's own website have shown relatively high scores for profitability and survivability of hotels. Similarly, Naidoo et al. [8] found that the internet and tour operators are the most effective distribution channels in times of economic crisis. They also showed that the other distribution channels such as travel agents, walk-in sales and sales representative plays an important role in effectively distributing the tourism products.

III. METHODOLOGY

In this research, quantitative method was used. Data were collected with questionnaires which has five parts. As an ongoing study, we used the data of two parts for this research. In the first part, the hotel managers were asked to give percentage change for their room rates, occupancy rates, costs, and number of employees comparing to previous year's figures. They were asked to give the percentage change whether it is a decrease or increase. In this study, only the room rates are taken. In the second part they are required to give percentages of distribution channel. The options are;

hotels' own web sites, international tour operators, national tour operators and travel agencies, online travel sites, and other. 112 upscale hotels in Antalya, which is one of the most popular tourism destinations of Mediterranean, accepted to join the study but only 43 questionnaires were usable because of the missing values. Regression analysis was used to see the impacts of weights of different distribution channels on the level of room price reductions in the time of crisis.

IV. RESULTS

Descriptive statistics can be seen on Table I. Average mean of selling price decrease expected by the hotel managers due to the crisis is nearly 22%. This reduction rate on prices seems very high. Most of the hotel managers stated in private conversations that it will take several years to recover these price reductions to come back the pre-crisis price level. Hotels use mainly international and national tour operators when they are selling their products, 33% and 30% respectively. Weight of hotel website in the distribution channel only accounts for 12% in average and 15% for online travel sites. Others, for instance congress planners or businesses, have a 10% share in the distribution channel.

TABLE I
DESCRIPTIVE STATISTICS

| | Mean | Std. Deviation | N |
|---------------------------------------|-------|----------------|----|
| Decrease %....:Aver.Selling Price | 21,81 | 9,261 | 43 |
| "a) Hotel's web site | 12,16 | 6,629 | 43 |
| "b) International tour op. | 33,05 | 17,704 | 43 |
| "c) National tour op./travel agencies | 30,58 | 15,117 | 43 |
| "d) Online travel sites | 15,42 | 12,327 | 43 |
| "e) Other | 10,93 | 7,938 | 43 |

Stepwise linear regression was used to search the impacts of different distribution channels on the room price reduction rate of hotels in crisis times. Three models were attained significantly producing .328, .406 and .482 R^2 values (Tables II and III). The finding shows that Model 3 produces much higher R^2 values meaning that it can be used as a reference to explain the relationship between room price decrease rate and distribution channel members in crisis time.

TABLE II
REGRESSION MODEL SUMMARY

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .572 ^a | .328 | .311 | 7,686 |
| 2 | .637 ^b | .406 | .376 | 7,317 |
| 3 | .694 ^c | .482 | .442 | 6,918 |

a. Predictors: (Constant), "international tour operators"; b. Predictors: (Constant), "international tour operators, and hotel's web site" c. Predictors: (Constant), "international tour operators, hotel's web site, and national tour operators and travel agencies"

International tour operator goes in as first variable to the model followed by hotel's web site and national tour operators/travel agencies. In Model 1, international tour operators explain the room price reduction 32.8% by itself with a B value of .299 (.000).

TABLE III
ANOVA RESULTS

| | Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|------------|----------------|----|-------------|------|-------------------|
| 1 | Regression | 1180,6 | 1 | 1180,6 | 19,9 | ,000 ^b |
| | Residual | 2421,8 | 41 | 59 | | |
| | Total | 3602,5 | 42 | | | |
| 2 | Regression | 1460,9 | 2 | 730,4 | 13,6 | ,000 ^c |
| | Residual | 2141,5 | 40 | 53,5 | | |
| | Total | 3602,5 | 42 | | | |
| 3 | Regression | 1736,1 | 3 | 578,7 | 12,0 | ,000 ^d |
| | Residual | 1866,4 | 39 | 47,8 | | |
| | Total | 3602,5 | 42 | | | |

Hotel's web site is added to the Model 2 besides to international tour operators. Here, B values are .239 (.001) and -.422 (.027) for international tour operators and hotel web sites respectively. This model explains the price reduction at a rate of 40.6%.

In Model 3, national tour operators and travel agencies take place in addition to two channel members of Model 2. B value of international tour operators is .157 (.040) in Model 3 which means that as the weight of international tour operators in the portfolio of distribution channel increases, decline in selling price of hotel is also increases. On the contrary, there are negative relationships between selling price decline rate and the weight of hotels own web sites and weight of national tour operators/agencies of distribution channel. B values are -.566 (.004) and -.193 (.021) respectively (Table IV).

TABLE IV
REGRESSION COEFFICIENTS

| Model | | Unstandardized Coefficients | | Standardized Coefficients | | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|-------|------|
| | | B | Std. Error | Beta | t | |
| 1 | (Constant) | 11,917 | 2,50 | | 4,75 | ,000 |
| | "b) | ,299 | ,06 | ,572 | 4,47 | ,000 |
| 2 | (Constant) | 19,046 | 3,92 | | 4,85 | ,000 |
| | "b) | ,239 | ,06 | ,457 | 3,46 | ,001 |
| | "a) | -,422 | ,18 | -,302 | -2,28 | ,027 |
| 3 | (Constant) | 29,437 | 5,70 | | 5,16 | ,000 |
| | "b) | ,157 | ,07 | ,299 | 2,12 | ,040 |
| | "a) | -,566 | ,18 | -,405 | -3,07 | ,004 |
| | "c) | -,193 | ,08 | -,315 | -2,39 | ,021 |

Dependent Variable: Decrease in Average Selling Price (%)

Independent Variables: a) International tour operator, b) Hotel's web site
c) National tour op./travel agencies

High negative relationship (B value of -.566) of hotel's web site usage with the decline rate of room price shows that hotels which invest in more to their own online reservation system are less likely to decrease their price in crises times. Similar comment can be made for the national tour operators and travel agencies. As the share of these companies in the hotels' distribution channel increases, decline in the room rate decreases (B value is -.193). On the other hand there is no significant relationship between online travel sites and the room price decline.

V. CONCLUSION

Hotels are using various channels with differing weights while selling their products to customers. It is not an easy task for the hotels to have the right balance of it but the ones who do it well benefit more especially in turbulence times, i.e. crisis times. It is aimed, therefore, in this study to search if there are differences for the selling price declines of similar hotels of which have varying marketing channel portfolio in crisis time. The findings revealed that as the rate of international tour operators increases in the portfolio of marketing channels of hotels, the rate of decline in selling price of such hotels increases. On the contrary, it was also found that as the rate of using hotel's own web based reservation system increases, the rate of decline in selling price decreases. Similarly, working more with national tour operators and travel agencies has also less negative impact on hotels in terms of selling prices in time of crisis. It is also found that online travel sites do not affect the price decline positively or negatively in crises times. As a reason for this, it could be said that hotels can easily change the prices with no cost, meaning that they feel more flexibility in their pricing strategy and there is no obligations as it does with the international tour operators.

To sum, being highly dependent on the international tour operators force the hotels to decrease their selling price more in time of crisis whereas using the hotel web sites for reservation and/or working with national tour operators and travel agencies have less damaging impacts on selling prices of the hotels in these times.

According to the results, it could be suggested that as the hotels diversify their marketing channels they will be affected less in crises times, i.e. economic or political crisis. Particularly decreasing the weight of international tour operator's share in their portfolio of marketing could give them more chance to resist the pressure on decreasing their prices in these times. The findings highlighted that especially hotels in resort destinations are still highly dependent on the international tour operators for selling their rooms. However, this dependency could have adverse effects for these hotels because the imbalanced power relationships force them to reduce their prices more when a crisis happens.

Findings of this study are parallel to some other studies, i.e. [11] which advices hotels to invest in more to their online reservation system which give them more flexibility in their pricing strategies. This study was done in a resort destination and by this nature of the study it is limited to a geographic area and hotel types. The findings are therefore not generable for whole hotel sector. It is recommended for the researchers to extend the scope to other destinations and hotel types. It is also recommended to search for the impacts of different type of crises, i.e. business wide crises.

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